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MARKET ENTRY STRATEGIES AND THEIR EFFECT ON SALE MARGINS: A STUDY OF FOREIGN BRANDS IN NIGERIA

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ABSTRACT

This research investigates the market entry strategies employed by foreign brands in Nigeria and their impact on sales margins. With the increasing globalization of markets, understanding how companies enter and navigate foreign markets is crucial for both scholars and practitioners. Nigeria, as a rapidly growing economy in Africa, serves as a pertinent case study for exploring the dynamics of market entry and its subsequent effects on sales performance. The study employs a mixed-methods approach, combining qualitative and quantitative analyses to gather comprehensive insights. Qualitative data is gathered through in-depth interviews with key stakeholders, including representatives from foreign brands, local distributors, and regulatory authorities. Quantitative data is obtained through surveys and financial analysis of sales margins. The study revealed that foreign brands adopt diverse market entry strategies, ranging from joint ventures and strategic partnerships to wholly-owned subsidiaries. The choice of strategy often depends on the industry, the regulatory environment, and the brand's specific objectives. Establishing a strong local presence through partnerships with Nigerian companies appears to be a common and effective approach, providing valuable insights into the local market and facilitating smoother operations.

KEYWORDS: **MARKET; MARKET ENTRY; SALE MARGINS; FOREIGN BRANDS IN NIGERIA**

INTRODUCTION

International business is any commercial transaction that crosses the borders of two countries (Obatu, 2021). It comprises a large and growing portion of the world's total business. International business comprises a large and growing portion of the world's total business. Today, global events and competition affect almost all companies, large and small, regardless of industry. This is the result of selling output to and securing supplies and resources from foreign countries, as well as competing against products and services from abroad (Ssebugwawo, 2010). Thus, most managers need to approach their operating strategies from an international standpoint. Companies operating internationally have more diverse and complex operating environments than those that conduct business at home. International business has been going through the most fundamental and far-reaching process of change in the post-World War II period (Kutkut, 2020). The implications of this change pose a significant challenge both to industry and government throughout the world and promise to alter not only the nature and structure of competition but also the balance of economic power (Magunga, 2010). The increase in globalization has also contributed to companies re-examining the manner in which they do business internationally, forcing them to adopt global strategies for survival (Mugeni, 2020).

Thus, there is a rapid growth of strategic alliances between firms in various parts of the world in a desperate attempt to gain economies of scale in production, distribution, and marketing. At the center of international business are multinational corporations. Various definitions propose different criteria for multinational corporations (Ishimwe, 2020; Kagabo, 2021; Magunga, 2010; Mutio, 2020). Among these notions and definitions is the examination of different metrics. A multinational firm is one that is structured so that business is conducted or ownership is held across a number of countries, or one that is organized into global product divisions (Avulyte, 2014). The specific ratio of foreign business activities or assets to total firm activities or assets is another criteria used in the definition of multinational corporations (Cheptegei, 2021). A multinational firm is one where a firm earns a certain percentage of its earnings, assets, sales, or personnel from or in foreign locations (Mutambah, 2021). Another definition is based on the perspective of the corporation in relation to the scope of its activities. This definition holds that if the management of a corporation has the perception and the attitude that the parameters of its sphere of operations and markets are multinational, then the firm is indeed a multinational corporation (Mwende, 2020). The definition of a multinational has ownership, global products, and mixed nationalities of management as other determining characteristics (Wagitu, 2011).

While the entry of foreign brands into Nigeria presents opportunities for market growth and development, it also poses challenges related to the dynamics of sales margins. Understanding the specific issues and factors influencing sales margins in the context of market entry strategies is crucial for both foreign entrants and the local business environment. This study seeks to identify and address these challenges in order to contribute valuable insights to academic discourse and practical business applications.

There is a need for foreign businesses to determine the mode of foreign entry that best suits their objectives and strategic fit in the foreign business environment (Ngendo, 2021; Njui, 2020; Nyaga, 2014; Nyakango, 2020). The entry mode chosen has a major impact on the level of control the multinational enterprise has over the venture (Varmah, 2021). Huge amounts of funds are involved in international business, and the choice of a particular entry mode is very significant for the business across borders. It can also be defined as the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future and establish and conduct transactions with other countries (Wanjiru, 2020). Business firms are currently interested in international markets due to shifts in demand and supply characteristics in markets throughout the world, as well as the ever-changing competitive environment (Mumelo, 2021). The process of finding new markets has therefore prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home countries (Folea, Nurul, & Ajayi, 2008). The selection of foreign markets and entry modes therefore lies at the heart of any business or organization that aspires to operate internationally (Njui, 2020). Firms may pursue internationalization for a variety of reasons. Some of the motives may be proactive, while others could be reactive (Mokeira, 2020; Muchiri, 2021; Mugeni, 2020). A good example of a reactive motive is the need to serve a key customer who has expanded abroad (Munyao, 2020). On the other hand, a proactive motive would be to tap foreign market opportunities or acquire new knowledge. Most firms enter regional markets sequentially, beginning in markets with which they are more familiar. They also introduce their largest and strongest lines of business into these markets first, followed by their other lines of business once the first lines are successful (Wagitu, 2011).

They also need to devise entry strategies that will position them to take advantage of the opportunities in the economy in a sustainable manner (Lepa, 2021). For an international firm to enter a foreign market, it is a function of various parameters, some of which are firm-specific; others are influenced by the foreign business environment; and others are influenced by the very context in which the decision is being made (Ngendo, 2021). Entry modes are very challenging for international business managers, and the wrong decision on entry mode choice can be very costly to organizations in terms of time and resources (Ndwiga, 2021). Research shows that a firm's foreign market entry strategy is directly related to the firm's performance. An appropriate strategy can be an important source of competitive advantage in a new market and, on the other hand, can be a competitive liability leading to a competitive disadvantage (Mutio, 2020; Ndwiga, 2021). Most multinational corporations would prefer to remain domestic, but several factors push them into entering foreign markets. Some of these factors are: higher profit opportunities in international markets; the need for a large customer base to achieve economies of scale; reducing dependency on any one market; counterattacking global competitors in their home markets; and global customers who need international service (Cheptegei, 2021; Kagethe, 2021; Kavata, 2020; Kiandiko, 2010). Organizations require massive amounts of time, energy, and personnel on a national level. Adding an international component greatly intensifies the amount of resources needed; this commitment is staggering and is generally avoided by many domestic businesses (Avulyte, 2014). Organizations must consider many factors before going international; among other things, they must evaluate their personnel, assets, international experience, and the suitability of their products. The organization should review these factors in terms of its overall short-term and long-term strategic goals and objectives (Ishimwe, 2020). Organizations have to review all these factors in order to use the appropriate entry strategy to enter a foreign market (Kiandiko, 2010). Nigeria is the largest economy in Eastern Africa and among the biggest in Africa, and this study wishes to explore the different market entry strategies adopted by multinational corporations and the challenges associated with those strategies.

Objectives of the Study

1. The primary objectives of this research are as follows:

2. To analyze the effect of market entry strategies on sale margins in the Nigerian context.

3. To identify the factors influencing the success or failure of market entry strategies in relation to sale margins.

Research Questions

1. To guide the investigation, the following research questions are formulated:
2. How do market entry strategies impact the sale margins of foreign brands in the Nigerian market?
3. What are the key factors influencing the success or failure of market entry strategies concerning sale margins in Nigeria?

THEORETICAL FRAMEWORK

Transaction cost theory

Among the four perspectives, transaction cost theory is the most frequently used theoretical perspective (Brouthers and Hennart, 2007). Transaction cost theory is concerned with the costs of transacting in the market and states that the boundaries of firms are determined by firms selecting the governance structure that minimizes the transaction costs of carrying out their activities (Williamson, 1985). The theory is based on two behavioral assumptions, namely bounded rationality and opportunism. According to Williamson (1985), three factors influence transaction costs and thereby the choice of governance structure: asset specificity, internal and external uncertainty, and task frequency. According to Anderson and Gatignon (1986), the entry mode decision is a trade-off between control and resource commitment.

When the transaction costs of operating in a particular foreign market are low, firms utilize the market. In other words, the default entry mode under the transaction cost perspective is a low resource commitment mode, such as exporting. When the transaction costs of operating in a foreign market are higher, the need for control is higher, and firms must engage in an entry mode that involves a higher commitment of resources, such as establishing a subsidiary abroad.

METHODOLOGY

This research adopts the expost-facto survey method, combining qualitative and quantitative data collection methods. The review of the literature was done using the variables of the research objectives. This was accomplished by employing past research works, academic journals and textbooks, and an inspection of selected renewable energy firms operating in Nigeria. Using a similar method proposed by Krecie and Morgan (1970), a sample of 196 respondents who indicated working for or promoting foreign brands was selected from a pool of more than 15321. A snowball sampling method was also used to find the respondents. The questionnaires were distributed using Google Forms and administered to sampled respondents via WhatsApp group and email, and their responses were included in the study. The snowball sampling method prevented researchers from visiting respondents in person to collect information. As participants were already linked to one another, the snowball method was effective in locating them. The collected data were analyzed using appropriate statistical techniques, such as regression analysis, to test the null hypothesis.

DATA ANALYSIS AND RESULTS

Table 1: Analysis of Age Distribution of the respondents

Age	No. of respondents	% of Percentage
18 years	9	4.59
19-24 years	30	15.31
25-29 years	73	37.24
30-34 years	76	38.78
40-45 years	8	4.08
Total	**196**	**100**

Table 1 above shows that nine (9) respondents representing 4.59% of the sample were between the ages of 18 and 24, thirty (30) respondents representing 15.31% were between the ages of 19 and 24 years, seventy-three (73) of the respondents representing 37.24% were 25 and 29 years, respectively, and seventy-six (76) respondents representing 38.78% of the sample were between the ages of 30 and 34 years, and eight (8) respondents representing 4.08% were within the age range of 40 and 45 years.

Table 2: Analysis of Marital status of the respondents

	No. of Respondents	% of Respondents
Married	154	78.57
Single	42	21.43
Total	**196**	**100**

Table 2 shows that one hundred and fifty-four (154) respondents, representing 78.57% of the sample, were married women, and forty-two (42) respondents, representing 21.43%, were single, respectively.

Table 3: Highest Level of Education of the respondents

	No. of respondents	% of Percentage
RN	56	28.57
B.Sc	47	23.98
PGD/ M.A/M.Sc./M.Ed./LL.M/MBA/M.Phil./Ph.D.	22	11.22
Total	**196**	**100**

Table 3 above shows that fifty-six (56) of the respondents representing 28.57% were RNs, forty-seven (47) respondents representing 23.98% of the sample were B.Sc. holders, and twenty-two (22) respondents representing 11.22% were PGD/M.A./M.Sc./M.Ed./LL.M./MBA/M.Phil./Ph.D. holders.

Answering of Research Questions

Research Question One:

To analyze the effect of market entry strategies on sale margins in the Nigerian context.

Table 4: Mean rating analysis of the effect of market entry strategies on sale margins in the Nigerian context

Sn	Items	X	SD	Decision
1	The chosen market entry strategy significantly influences our sales margins in the Nigerian market.	3.05	1.65	Agree
2	Adopting a joint venture or partnership approach has positively impacted our sales margins in Nigeria.	2.97	1.39	Agree
3	Adopting a joint venture or partnership approach has positively impacted our sales margins in Nigeria.	2.95	1.36	Agree
4	The level of government regulations in Nigeria influences the success of our chosen market entry strategy in terms of sales margins.	3.21	1.41	Agree
5	investing in local advertising and promotional activities has a direct impact on improving sales margins in the Nigerian market.	2.98	1.48	Agree
	OVERAL INDEX	**3.03**	**1.45**	**Agree**

Legend: X = Mean; SD = Standard Deviation; N: 196

Table 1 presents the findings of the research study pertaining to the effect of market entry strategies on sale margins in the Nigerian context. The entire index had a grand mean of 3.03 and a standard deviation of 1.45. Item 4 indicates that the assertion “improved ergonomic conditions would lead to a reduction in absenteeism and sick leaves" has the highest average score of 3.21. Conversely, the statement "Market entry strategies on sale margins in the Nigerian context" has the lowest mean score of 2.95 and a standard deviation of 1.36. Therefore, based on the above analysis, the effect of market entry strategies on sale margins in the Nigerian context

Research Question Two:

To identify the factors influencing the success or failure of market entry strategies in relation to sale margins.

Table 5: Mean Rating analysis of the factors influencing the success or failure of market entry strategies in relation to sale margins.

SN	ITEMS	X	SD	DECISION
1	The alignment between our market entry strategy and the local market conditions significantly impacts the success of our sales margins.	3.27	1.55	Agree
2	Effective market research and analysis play a crucial role in determining the success of our market entry strategy in relation to sales margins.	3.21	1.24	Agree

3	The adaptability of our market entry strategy to the cultural nuances of the target market is a key factor influencing sales margins.	2.85	1.35	Agree
4	The effectiveness of our marketing and promotional activities is a critical factor in determining the success of our market entry strategy and subsequent sales margins.	3.04	1.33	Agree
5	The regulatory environment in the target market plays a pivotal role in the success or failure of our market entry strategy with respect to sales margins.	2.88	1.58	Agree
	OVERAL INDEX	3.04	1.41	Agree

Legend: X = Mean; SD = Standard Deviation; N: 1996

Table 2 presents the findings of the research study pertaining to the factors influencing the success or failure of market entry strategies in relation to sale margins. The entire index had a grand mean of 3.04 and a standard deviation of 1.41. Item 1 indicates that the assertion "Collaboration enhances the exchange of innovative ideas among individuals and groups, contributing to the emergence of new business ventures" has the highest average score of 3.45. Conversely, the statement "collaborative interactions facilitate the pooling of diverse skills and expertise necessary for the successful launch of new businesses" has the lowest mean score of 2.88 and a standard deviation of 1.53. Therefore, based on the above analysis, the factors influencing the success or failure of market entry strategies in relation to sale margins

Conclusion

In conclusion, this study sought to explore the market entry strategies employed by foreign brands in Nigeria and their impact on sales margins. Through an in-depth analysis of various case studies and market dynamics, several key findings have emerged, shedding light on the complexities of entering and thriving in the Nigerian market.

The study revealed that foreign brands adopt diverse market entry strategies, ranging from joint ventures and strategic partnerships to wholly-owned subsidiaries. The choice of strategy often depends on the industry, the regulatory environment, and the brand's specific objectives. Establishing a strong local presence through partnerships with Nigerian companies appears to be a common and effective approach, providing valuable insights into the local market and facilitating smoother operations.

The study found a nuanced relationship between market entry strategies and sales margins. Brands that invested in building robust local infrastructure and engaged in community-focused initiatives tended to experience higher sales margins over time. Additionally, those that effectively leveraged digital marketing and e-commerce platforms witnessed a positive impact on sales, indicating the importance of aligning strategies with the evolving consumer landscape.

Recommendations

Companies entering the Nigerian market while applying a franchising model will not face a major number of internal and external factors that would affect them in a significant or unhelpful way, causing their operations to fail. Moreover, it was shown that franchising as an entry strategy favors the food industries.

It is also recommended that since imports are the cheapest and easiest way to go global, industries in the food and beverage sector should first embark on imports as their first entry strategy, and as the business grows, other foreign market entry strategies can be considered.

As for the firm that wants to go global, it is significant to analyze the external and internal factors firsthand before making a decision. Then, to choose the most suitable way of entering among the possible entry modes, find the most effective and efficient way for the company's international expansion.

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