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ENTRY MODE STRATEGY OF INDONESIA LAMP INDUSTRY IN ASIA MARKET

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ABSTRACT

Lamp industry in Indonesia has been stable over time in fulfilling domestic demand, whereas overseas market, due to the construction of new buildings or renovation, has larger demand unfulfilled from other country. The purpose of this research is to analyze the internal and external environment of the industry, provide recommendations of targeted market expansion with particular entry mode strategy to enter the selected country market. The method used is qualitative content analysis with data collection obtained through interviews with top management of lamp industry for entry mode selection, SWOT analysis and recommendation of strategies, as secondary data was used for selection of targeted country. The result is the lamp industry has its strength and big opportunity for market expansion, with Hong Kong as recommended target country, joint venture as recommended entry mode. The production is focused in Hong Kong and the industry is placed in the center of Hong Kong for market penetration strategies.

INTRODUCTION

The era of globalization caused many changes to the development of a country. The influence of globalization can be seen from changes in some aspects of life, such as politics, economy, social, culture and technology, either in Indonesia or other countries. Considering the impact of globalization, there will be a very rapid growth of interdependence and relationships between countries in the world of trade and finance (Lyman, 2000). It is well known that every country has different potentials in each aspect of life; human and natural resources, political condition of a country, social or culture.

In addition, technological progress in this century became one of the indicators of rapid globalization, so it is these differences that ultimately

make a country need another (Twarowska & Kakol, 2013). At one time, when it is not sure to produce a certain product, then the country still has a chance for the product itself by changing way of its production. It is proven that a country will need another country. It can be interpreted that this era of globalization in the end removes the barrier between countries, so there is no limit in various things which, of course, provides convenience in various aspects of life, such as free trade, for information. This ultimately makes easy for all business actors to expand the market to other countries based on an important decision. Therefore, business actors are demanded to increase their profit by selling products to other countries or commonly referred to as international trade. According to Nopirin (2011: 2) international trade helps explaining the direction and composition of trade among several countries and how they affect the economic structure of a country. International trade can provide benefits. Through international, business actors trade can create profits, A) Obtaining goods that cannot be produced in the country, B) The benefits of the demands can improve the efficiency of the use of production factors, C) Expanding the market of domestic industries, D) Using modern technology and increasing productivity. These profits can be created through the relationship between fellow companies in the same sector or different sector. The dependence of each company related to demand and product offerings of each company where each company experiences a gap in selling and importing goods in the trade. The impact of internationalization and globalization is the rapid development of trade among countries . However, in this study researchers will use the import movement of electrical equipment such as switches, fuses, lighthouses.

From the import on figure 1, it can be concluded that the impact of globalization and internationalization is significant for the trade between countries in one category of goods. It can be seen from the increase of import percentage in 2015. Percentage increase of imports of certain countries can be concluded that there are opportunities for industrial companies of various kinds of electrical equipment to enter the market outside Indonesia. The demand for electrical goods in overseas markets is very large due to various reasons, such as the construction of new buildings or renovation of old buildings.

Reviewing from the magnitude of these opportunities, then there is great opportunity to expand the market for lamp industry to foreign markets. Market competition of lamp industry is very tight in Indonesia. However, there are still advantages and potential strength for lamp in Indonesia domestic market. Foreseeing the condition of a mature company, strong production and financial capability can support Indonesia lamp industry to expand their market overseas as shown on figure 2 below.

Internationalization process is divided into five processes. They are decision to enter by analyzing firm capability, foreign market selection that points out criteria and country filter of targeted market, partner selection, factor affecting entry mode and entry mode selection (Costa, de Sousa & Soares, 2016). This research focuses on decision to enter by analyzing its strength and opportunity, foreign market selection by applying three-stage selection analysis and entry mode selection as its strategies in entering its market.

The main objectives of this research are to analyze the internal and

external environment of the industry, provide recommendations of targeted market expansion for Indonesia lamp industry with particular entry mode strategy to enter the selected country market.

LITERATURE REVIEW
Internationalization Process

Referring to Johanson & Vahlne Statement in Dhewanto, Rachmawati, Herliana & Lantu (2015), internationalization is a process of corporate engagement into the global market in stages. The definition indicates that the entry of companies into the international market occurs after they are in the domestic market, and then through a gradual process, they enter the overseas market. In this gradual process, companies are learning, especially in understanding the characteristics of the target market and understanding how to run a business in another country that has different regulations and environments (Kotler and Keller, 2009). In other research by Ruzzier, Hisrich & Antonic (2006), it suggests that internationalization is inspired by a resource-based vision, defining the concept as "a process to mobilize, build and develop a set of resources to engage in activities internationally".

The internationalization process of the company has been examined in recent studies (Shrader, Oviatt & McDougall, 2000; Madsen and Servais, 1997; Criado, Josep & Knight, 2005). The main objective of the theory of internationalization is to evaluate how companies rapidly evolve into some markets outside their country as well as how they can benefit from increased demand, find cheaper, input and achieve managerial success (Kunday & Şengüler, 2015).

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Country Filter

According to Andersen and Buvik (2002), the best way to make structured state selection is to do an optimal search. The optimal search is searching, continuing to generate alternatives to search costs that exceed the value of additional information (screening process). Such screening processes should provide information about the costs and consequences of the variables. According to Andersen and Buvik (2002), the basis for state selection is politics, market size, cultural differences, macroeconomic factors, competition in target markets, and distribution channels in target markets.

Three-phase filter model is a three-stage country analysis model that based on systematic approach to select most attractive countries. This analysis model consists of pre-filter, indicating country attractiveness that is easy to import based on product needs, and filter 1 (a rough scan of the environment of the country using DESTEP/ a detailed market survey including customer demand, potential market size, level of competition, and marketing mix setup) (Leeman, 2015).

Entry Market Mode

Foreign market entry mode, according to Pan & Tse (2000), is divided into two models, namely non-equity mode which is divided into exports and contractual management, and equity mode which is divided into joint ventures and wholly owned subsidiary.

Exporting

A key element of export entry mode is that the company's products are produced outside the target country and then exported there. In this case, the core activity of a company is a service; international cargo transportation by truck. Therefore the export entry mode involves the mode to govern export agreements with potential customers.

Contract manufacturing (licensing and franchising)

Long-term non-equity agreements between international corporations and entities in foreign targeted countries that involve transfer of technology or human skills (Root, 1994). The contract mode entries vary from export mode, as they mainly transfer knowledge and skills, although they can also create export opportunities. Entry mode contracts include license / franchise, turnkey projects, R & D contracts, and co-marketing.

License / Franchise

Licensee refers to the business arrangements in which the manufacturer (licensor) of the product or company who owns proprietary rights to certain technologies, trademarks, and so forth, permits other groups or individuals to manufacture the product (or utilize any material) in exchange for royalty or other payments.

Turnkey Project

A turnkey project is done when a separate entity is responsible for establishing a plant or equipment and putting it into operation before handing the project back to the employer. This may include follow-up of contractual actions, such as testing, training, and logistical and operational support. This is often given to the best bidder in the procurement process. The disadvantage is the risk of losing unique technology and creating competitors from turnkey clients (Peng, 2006).

Joint Venture

Joint Venture occurs when the parties agree to create a new company together by contributing equity, so they share the advantages, disadvantages, and control of the company. The business can be used for a single project only, or for a sustainable business relationship. Joint ventures can be divided into three main forms
● Minority joint venture
● 50/50 Joint ventures
● Joint venture majority.

Joint ventures have many advantages. The parties share costs and risks and gain access to partner knowledge about the host country. On the other hand, local companies also benefit from technology, capital and management expertise. Losses can be difficult for these partnerships, especially when the background, goals and abilities are different. It is also difficult to achieve

justice and effective operational controls, because everything must be shared and negotiated (Peng, 2006).

Wholly Owned Subsidiary

A wholly owned subsidiary is an entry target of overseas market with 100% ownership. There are two main ways to set up WOS; Greenfield, and mergers / acquisitions.
• Greenfield. Greenfield refers to the construction of factories and offices from scratch, where WOS provides complete equity control and multinational management. This control leads to better protection of technology and knowledge.

• Merger / Acquisition. Mergers are usually the result of arrangements between companies of similar size, while acquisitions are unequal partnerships. The advantage of acquisition is fast entry speed and the same benefits as Greenfield's.

MATERIALS AND METHODS

Research design used is a qualitative method. According Afrizal (2014), research approach is the point of view used by researchers in conducting research to answer the research problem. Qualitative approach is a qualitative perspective, post-positivistic or naturalistic, in doing research which has one definite purpose. According to Creswell (2014), qualitative research aims to explore and understand the meaning of individuals or groups. The research process involves procedures and questions. Data is usually collected from participant state. Inductive data analysis is constructed from a specific theme to the general conclusion. Using this analysis, the researcher interprets the meaning of the data. The final written report has a flexible structure. Data collection methods used are interview with informants from 10 top management team of 10 lamp firms in Indonesia and analysis using Miles' and Huberman's (2007) approach combined with SWOT and Porter 5 Forces. Meanwhile Country Filter is using secondary data from Comtrade, Economic Freedom, Global edge and WFI.

The analysis of external market selection is conducted by considering various indicators that influence the continuity of corporate objectives in expanding outside markets. A) Pre-filter selection of external markets by measuring and considering factors, such as institutional, health, and primary education. B) Macro-filter selection of outside market by measuring and considering macroeconomic environment, technological readiness, economic freedom, C) Meso-filter selection of outside markets by measuring and considering market size, goods market efficiency, market growth.

Data analysis technique used in this research is interactive analysis. Data collection method used is collecting data in the research location by observation, interview, and documentation by determining data collection strategy that is considered appropriate and to determine the focus and deepen data in the next data collection process. Data reduction is the selection, focusing, abstraction, transformation of rough data in the direct field, and at the same time, forwarding data collection. Thus data reduction begins since the researcher focuses on the research area. Presentation of data is namely a series of information organization that allows research to be conducted.

Presentation of data is obtained by various types, networks, activities or tables. In drawing conclusions in data collection, researchers have to understand and to be responsive to object studied directly in the field by arranging a pattern.

Data validity test in qualitative research includes test credibility, transferability, dependability, and conformability (Sugiyono, 2014). The credibility of data of qualitative research results, among others, is ensured using informant validation and triangulation that validate all the interviews and concept on market entry of the lamp industry. Triangulation in testing this credibility is interpreted as checking data from various sources in various ways, and at various times. Thus, there is triangulation of sources, triangulation of data collection techniques, and time. The source triangulation used to test the credibility of the data is done by checking the data that has been obtained through several sources. Implementation is to use one method of collecting the same data and then ask the same questions to every resource. This is conducted to get a credible answer.

RESULTS AND DISCUSSIONS

Based on internal analysis from 10 informants of Indonesia Lamp Firms, SWOT has guaranteed product quality as most of big lamp producing companies, such as OSRAM and Philip Lightning, are outsourcing their production from the firm as well their average 2-year warranty and variety of bundling package with adjustable price based on its quantity. While using Porter five forces to analyze the opportunity, there is large demand of lamp as component of development or renovation of building and infrastructure within domestic market and foreign market. Based on this, the industry is still attractive to be entered and expand more to foreign country.

For country filter, basic filter before the three-stages filter applied is based on import quantity of foreign market based on Comtrade.un.org (2015) website by applying specific lamp product that is ProductHS Code: 853661 – Electrical lamp-holders for < 1.000 Volts. The top-three countries are Hong Kong, India, and Malaysia from 10 countries in Asia. After basic selection, this research applied three-stage selection using pre-filter, macro-filter and meso-filter. On country pre-filter selection as shown on table 2, based on its total score, five countries are selected. They are Hong Kong (18.7), Malaysia (16.7), South Korea (16.1), Japan (18.3) and Singapore (19.3). Also there are five countries removed; India, Thailand, China, Vietnam and Philippines. Second stage is macro filter, as visualized on table 3, which resulted in Hong Kong (18.7), South Korea (17.3) and Singapore (18.4) as selected country. In the last stage, Hong Kong (17.5) was selected as the target market form lamp expansion with highest total score. The final result, as shown in table 3, was also compared to International Growth of Construction with a highlight of Hong Kong as the highest growth percentage of all Asian countries on construction.

Filter Entry Mode. After finally electing a country that has the potential to be market expansion by Indonesia lamp industry, the next thing to do is to determine the right entry mode for the product of Indonesia lamp industry, for example lamp house can be marketed appropriately in Hong Kong. In this analysis, there will be comparison of entry modes; export, contract management, joint venture, wholly owned subsidiary (Charles, 2007). Some

important indicators are considered to choose the right entry mode. Some of these indicators are cost, cultural influence, commitment and risk as a whole (Peng, 2006). Based on the interview result of the informant present in table 5, this study ranked out every indicator and summed all of rank with result of joint venture as the most recommended by the informants. From the data, it can be concluded that the best entry mode that allows the expansion into the Hong Kong market is a joint venture. It is because the parties share the costs and risks so that the overall risk is small and this, it gains access to partner knowledge about the host country. Also, local companies benefit from technology, capital and management expertise. (Peng, 2006). There are some considerations of joint venture strategies that need to be applied. That is firms that agree on joint venture agreements are advised to have approximately the same overall scale (Stewart & Maughn, 2011). Distribution of ownership in joint venture companies is recommended as a 50% -50% partner company, because both partners can bear the risks and costs together (Charles, 2007). It is recommended that both companies emphasize and apply the value of evolution and flexibility so that the cooperation agreement can run for long periods of time. (Stewart & Maughn, 2011).

To validate the interview process, triangulation of each informant was done. The country filter and entry mode which sum up with all interview were validated between sources, as shown on table 3.

Table 5 reflects that the lowest total rank is the proper entry mode for entering Hong Kong market. Each indicator represents the rank decision criteria; A represents Cost, B represents cultural influence, C represents commitment, and D represents overall risk.

On entry strategies after selection on entry mode, there are four types of strategy applied for each division. They are marketing, operation, financial and human resource strategy. On marketing strategy, the strategy applied is the marketing mix (4P) - Product: products sold must have distinct advantages and innovations from similar products sold in the Hong Kong market - Price: the price set for the product must be affordable and not too expensive because the price factor is the main factor that becomes the consideration in Hong Kong (Trade Portal, 2016) - Place: the means of place used to sell the suggested products are close to the city center of Hong Kong because in the city center, there is the potential of the consumer to know the brand and make a purchase. - Promotion: recommendation for promotion is to make discounts on sales or discounts on products sold in a certain period of time.

On operation strategy, production should be done in Hong Kong, in order to not pay expensive shipping fee so that the selling price to the consumer remains affordable. In addition, it reduces the risk of damage that occurs during long distance shipments. If production is done in Indonesia, the risk of damage during delivery is greater. It will not be problem if the company has its own freight transport to the distribution of goods to consumers so it does not take long for delivery and does not require large shipping costs.

On human resource strategy, it is crucial to recruit employees who are able to master the main spoken language in Hong Kong. The company can also create a training program for readying employees to face the challenges and problems that may occur especially in joint venture cooperation undertaken.

On financial strategy, cash inflow: the profits and income earned by the company is used to maximize the company's performance and profitable investment. Cash outflow: from the overall expenditure of the firm, it is suggested to minimize unnecessary expenditures and the expenditures made are advised to focus on the effective potential future divisions of the company.

CONCLUSIONS

Based on the results of qualitative research with interview that has been implemented in Lamp Industry in Indonesia regarding to company's internal and external environment, country filter, and entry mode filter, it can be drawn some conclusions, as follows:

Company's mature condition, production capability and strong financial support lamp industry in Indonesia to expand overseas market, indicate the internal environment of lamp industry in Indonesia is good enough. Meanwhile, the attractiveness of the industry is in the middle position because in this industry, there are several manufacturers that compete in the local market. However, lamp industry in Indonesia is able to compete in the market well because of its advantages, especially considering the absence of potential for replacement products to date. In addition, it has relationships with many suppliers which mean that suppliers cannot raise prices unilaterally. Competition with competitor firm is still competing in a healthy manner as well.

As a company is capable to produce products with good quality, it can be said that the product has the ability to compete in foreign markets. In this research, three-stage of country filter analysis by Leeman (2015) has been used to analyze; Pre-filter, macro-filter, and meso-filter. From the analysis, the best state for market expansion by Indonesia Lamp Industry is Hong Kong. Aside from the basis of the three-stage of screening, it is also obtained a clear and reasonable reason for the expansion to the market in Hong Kong.

After seeing that there is a great opportunity to enter the Hong Kong market, there has also been an entry mode filter that intends to filter the mode of entry into the country. After screening of multiple incoming modes, the joint venture becomes one of the best because it has lower risk which is supported by the research of Stewart & Maughn (2011). This data is obtained from questionnaires distributed to five informants from lamp industry in Indonesia.

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