

**Devising a Framework for Mode of
Entry Decision for 1000LOOKZ**

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Comments by the Faculty

This paper presents the work carried out by Varun Sharma at 1000Lookz as part of his Summer Internship. 1000Lookz is a pioneer of Virtual Makeover Applications. The patent pending facial image processing technology developed by the company recognises the shape, features and skin tone of the face from the image uploaded by the user and presents insights regarding how a certain product, style or look would suit them. With a good product offering and reputed clients like LAKME, Schwarzkoph, Lenskart, Purminerals, Nykaa, Purple etc., the company has instituted its presence in India and is now endeavouring to enter the international market. The key decision regarding the internationalization process of firms is the choice of entry mode. The mode of entry lays down the form of operation through which the company enters the foreign market which could broadly be equity or non-equity based.

The primary objective of this study is to devise a framework for the mode of entry decisions. Adopting an exploratory methodology, the author has first enunciated the need to internationalize the company. Then using extant literature the author has explored various models for mode of entry decisions to check the feasibility of using them for 1000Lookz. Keeping into consideration the nature of the company, use of a contingency framework for mode of entry decisions developed by Subramaniam, V.K., has been proposed. Further as the company's current focus has been on Europe, the report reflects secondary market research that has been conducted to collect information regarding cosmetic market in Turkey, Czech Republic and Poland. The key suggestion that has emerged from the study is that 1000Lookz should focus on forming local alliances in non-equity form. Many other operational aspects have also been furnished like content marketing, social media marketing etc.

Although plethora of models and literature is available to explain the entry mode choice, selection of an optimal entry mode strategy is very crucial because it is very difficult to change or correct and has a long time impact on the company's international operations. Market entry mode strategies are influenced by both industry and country related factors and hence company has to consider these aspects for choosing the right mode. Although by Varun Sharma's work may not be tried - and - true, it gives fair account of specific aspects related to entry mode decisions.

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Devising a Framework for Mode of Entry Decision for 1000LOOKZ

Introduction

The decision making for mode of entry in international market is of crucial importance for companies. Factors such as severe domestic competition, lesser lead times for innovation and the high cost of new product development have led firms to consider entering new markets as a viable growth strategy. (Subramaniam, 2014).

Basic step for the firms to take after deciding to expand internationally is that it has to choose the foreign market it wants to operate in. The strategic needs and orientation of the firm helps in deciding the best country to operate in. The nature of business operation in a country would depend on the mode of entry chosen by the firms.

Participation in the international marketplace can be a very rewarding activity and can be the key to survival. But most firms fail to survive in global market mainly because of inability to cognize the risk associated with the unfamiliar business environment. This report focus on developing a model which can be used to make mode of entry decision in foreign countries easier for 1000Lookz.

About Company

VDime Innovative Works LLC is a software development company specializing in image processing technology. It was established in year 2008 by Mr. Vasan Sowriraja and is headquartered in Atlanta, GA, USA.

1000Lookz is a corporate name of VDime Innovative Works LLC. 1000Lookz is pioneer when it comes to virtual makeover technology, a patent pending facial image processing technology. 1000Lookz's Virtual Makeover Applications recognize the face shape, features, skin tone etc. automatically and have the potential to render cosmetics, hairstyles and glasses on user uploaded photos giving a futuristic and photo-realistic insight into how a certain product, style or look would suit them.

1000Lookz is the only company in Asia which offers virtual makeover technology. Worldwide 1000Lookz have very few competitors which offer virtual makeover technology solutions. Major competitors globally are ModiFace, Taaz, DailyMakeover.

1000Lookz's Competitive Advantages

- 1000Lookz is the 2nd player in the world for virtual makeover applications on iPhone and iPad, and the only player in the Indian market and APAC market.
- 1000Lookz specialize in processing human images with a high level of accuracy because of the neural network and artificial intelligence technology.

1000Lookz has following four products to offer,

- GLAM- Makeup Studio
- GLITZ- Jewellery Studio
- IRIS – Eyewear studio
- MIDAS- Hairstyle studio

1000LOOKZ reputed client list consists of LAKME, Schwarzkoph, Lenskart, Purminerals, Nykaa, Purple etc.

Focus of study

The study mainly focuses on

1. Understanding the need to internationalize
2. Developing a model for the mode of entry decision in with concentration on Europe).
3. Creating awareness about the product GLAM in European market.

Methodology

Any business decision taken without clear understanding of the objective behind it will increase the probability of failure. Especially in case of small firms like 1000Lookz where manager does not have enough resources and time to conduct the full-fledged market feasibility study and may not be able to take an optimal decision because of lack of information on all factors. In order to minimize the risk associated with the decision making and bringing in structure in decision making on entry mode following approach has been used.

1. A contingency model of mode of entry decision (Subramaniam, 2014) is used since it takes into consideration that small firms manager does not have enough resources and time to take optimal entry mode decision.
2. Secondary market research was conducted to collect information regarding cosmetic market in Turkey, Czech Republic and Poland.
3. Direct mailing was used to create awareness about the product GLAM in European market.

Cosmetic Industry Overview

Global beauty industry is one of the growing industry with year on average CAGR of past 20 years as 4.5%. The beauty industry is one of the few industry which has managed to achieve stable and continuous growth. Even in difficult economic times such as recession it has done fairly better than other industries. The average growth in difficult economic conditions was 3% to 5.5% (Aleksandra Łopaciuk, 2014). The revenue generated by the global beauty industry in 2010 was about 382.3billion. (Aleksandra Łopaciuk, 2014).

Geographically the global beauty industry can be divided into dominating region whose share is bigger in global revenue and peripheral regions whose share is not so large in generating global revenue. North America, Latin America, Asia pacific and Europe form the part of dominating region because their share is larger in global revenue.

Another interesting trend to observe is the increased growth of cosmetic sales over the internet. In year 2010 more than 11 billion USD worth sales was carried through online transaction.

Growing competition and increasing product innovation has increase the ambiguity in consumer mind when they try to make purchase. So there is a huge gap in terms of giving customers option to try on the products virtually and taking action to purchase the product. The virtual makeover industry is born to reduce this gap. The virtual makeover application help in getting makeover on image of a person. It allows the person to try on different colour cosmetics on face.

As measured by the sales level colour cosmetics are the third largest cosmetic segment of the world. Along with the dynamic market growth there shares keep up steady at 12% to 13%. In Europe the cosmetic segment managed to achieve 8% market growth in economically turbulent year 2008. (Aleksandra Łopaciuk, 2014)

Activity 1: Model for the Mode of Entry Decision

In order to make the mode of entry decision, the contingency model of mode of entry decision involving five stages by V. Kumar and V. Subramaniam from their paper A Contingency Framework for the Mode of Entry Decision published in the year 1997 was adopted.

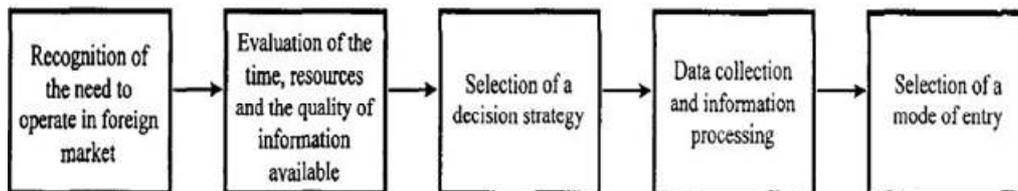


Figure 1 : Contingency Model Of Mode Of Entry Decision

Stage 1: Recognition of the Need to Operate in Foreign Market.

In this stage problem recognition was done and problem was defined as the gap between desired state and actual state. The need to operate in foreign market was basically identified by conducting detail interview with CEO and VP Marketing and Sales of 1000LOOKZ.

Following were the motivations behind need of operating in foreign market.

- a) Profit Advantage: Management perceived international sales as a potential source of higher profit margin. Management believed that profit earned due to difference in currency exchange rate can be used to develop more products which can be offered to industry.

b) Technological Advantage: At present there are only three competitors who offer virtual makeover applications worldwide. 1000Lookz's product in comparison to other product was a quality product since it uses Neural Networks and Artificial Intelligence to identify the following parameters in a 2D image-Human face existence, Number of human faces, Facial Co-ordinates, Skin Tone Identification.

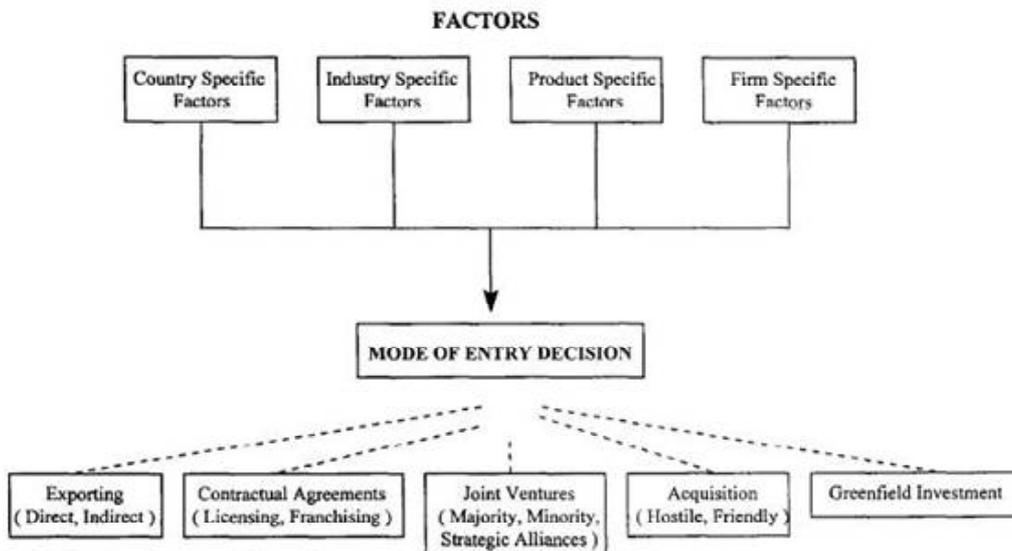
Stage 2: Evaluation of the Time Resources and the Quality of Information Available.

In this stage after identifying the need for entering the foreign market following questions were considered in order to make decision more precise.

- a) What factors that affect the mode of entry have to be considered?
- b) Where can information on these factor be obtained from?
- c) How much is it going to cost to get the information?

Stage 3: Selection of Decision Strategy

Following factors were considered while analysing different market entry strategies country specific factors, Industry specific factors, product specific factors and firm specific factors.



Stage 4: Data Selection and Information Processing

This stage includes collecting data and processing it in order to understand which mode of entry is best suited. Secondary market research methodology was used to collect information regarding cosmetic market in Turkey, Poland and Czech Republic.

Stage 5: Selection of Mode of Entry

The final stage of the model included the decision-making in terms of mode of entry selection for doing business in foreign market. Based on the objective of the 1000Lookz and the resources available with them, combination of mode of entry strategies was suggested.

Activity 2: Direct Email Marketing Campaign

The secondary activity of the project was related to direct marketing. The 1000Lookz team decided to use B2B direct mail marketing strategy because it is cost effective as compared to other traditional methods suggested in secondary market research. Direct mailing helped 1000Lookz to create awareness about their product offerings and analyze the response and eliminate the low prospects.

Targets were classified into following categories in European cosmetic market.

- a) Cosmetic manufacturers,
- b) Online retailers who sell colour cosmetics of different brands
- c) e-commerce companies which sold colour cosmetics of different brands
- d) Digital Publishers who focused on beauty industries
- e) Cosmetic Brands who sold their products online
- f) Beauty bloggers

Suggestions

1. Based on secondary market research conducted in three European countries namely Poland, Czech Republic and Turkey it was recommended to 1000Lookz that they should focus on forming local alliance.
2. It was also suggested that, Local alliance should be formed in non- equity form so that it would help 1000Lookz to conduct day to day business in efficient way. (Antonio Majocchi, 2014)
3. It was emphasised that, alliances with experienced intermediaries act as an important strategy to expand in foreign market. Experienced intermediaries such as, export management companies have a strong distribution network and relevant contact in market which assures that the products and services are presented to right target customers.
4. Company can also form alliance with local distributors and resellers in countries where they want to expand their business. Since in most European market like Turkey, Poland and Czech Republic references are given more importance when doing business with companies from outside their countries. Distributors and resellers reduce the time involved in building trust and contact with the desired companies in B2B business.

5. It was gathered that the decision-making process in European countries of context is very slow. It usually takes several meetings and many rounds of negotiations before the deal is closed. This means that success in these countries is difficult without in-country presence, whether that presence is agent, distributor or reseller.
6. 1000Lookz need to look into different sources for generating revenues like selling their products to Original Equipment Manufacturers (OEM) and Original Device Manufacturers (ODM) which can be bundled with their main products. This will definitely assure the wide reach of 1000Lookz products.
7. 1000Lookz should focus on B2B Content marketing. It should focus on documented content strategy. 66% B2B marketers who have documented content strategy are far more likely to consider themselves effective. (Content Marketing Institute and Marketing Profs., 2014)
8. B2B content marketing can fulfil 1000Lookz's organisational goal of Brand awareness, lead generation, lead management/nurturing, sales, customer acquisitions etc. According to a report published in Content Marketing Institute and Marketing Profs, 2014, 82% of B2B marketers have cited brand awareness as their top goal for last four years.
9. Leading social media website LinkedIn should be used to create the brand awareness since LinkedIn is the largest social networking site where 250 million users are registered of which approximately 50% of them are potential decision makers in B2B buying context.

Conclusion

Companies keep changing their strategies regularly in today's world as strategies keep on changing because of the ever-changing consumer need, competition from the industry and need to evolve in order to sustain in market. Decision of entering European market is part of that strategy of 1000Lookz which the company believes will help them to reach the huge cosmetic market which is unserved and will also help them generate cash flow in foreign currency which is essential for executing different strategies which will drive the company towards its global vision.

This project basically helped the company to understand the cosmetic market in three European countries: Poland, Czech Republic and Turkey in detail. Based on which 1000Lookz can decide upon the entry strategies in these countries. Key to success in European market is to have a local alliance in the country where you want to expand so that the lengthy time-consuming process of business deals closure is reduced. It also assures the quick acceptance of business community in European countries.

Business to business marketing is a crucial aspect on which 1000Lookz has to pay strong emphasis. Being a new company, resources allocated for marketing are very limited. So all marketing strategies revolve around the cost-effective strategies through which maximum impact could be created in market.

One way to achieve maximum reach to B2B customers is by focusing on online Content marketing strategy which is discussed in detail in the recommendation part of the report. 1000Lookz brand

can achieve a better recall in customers, distributors, resellers and end-users mind by executing the recommended strategies which would strengthen their image in market and would bring more clients resulting in business growth.

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