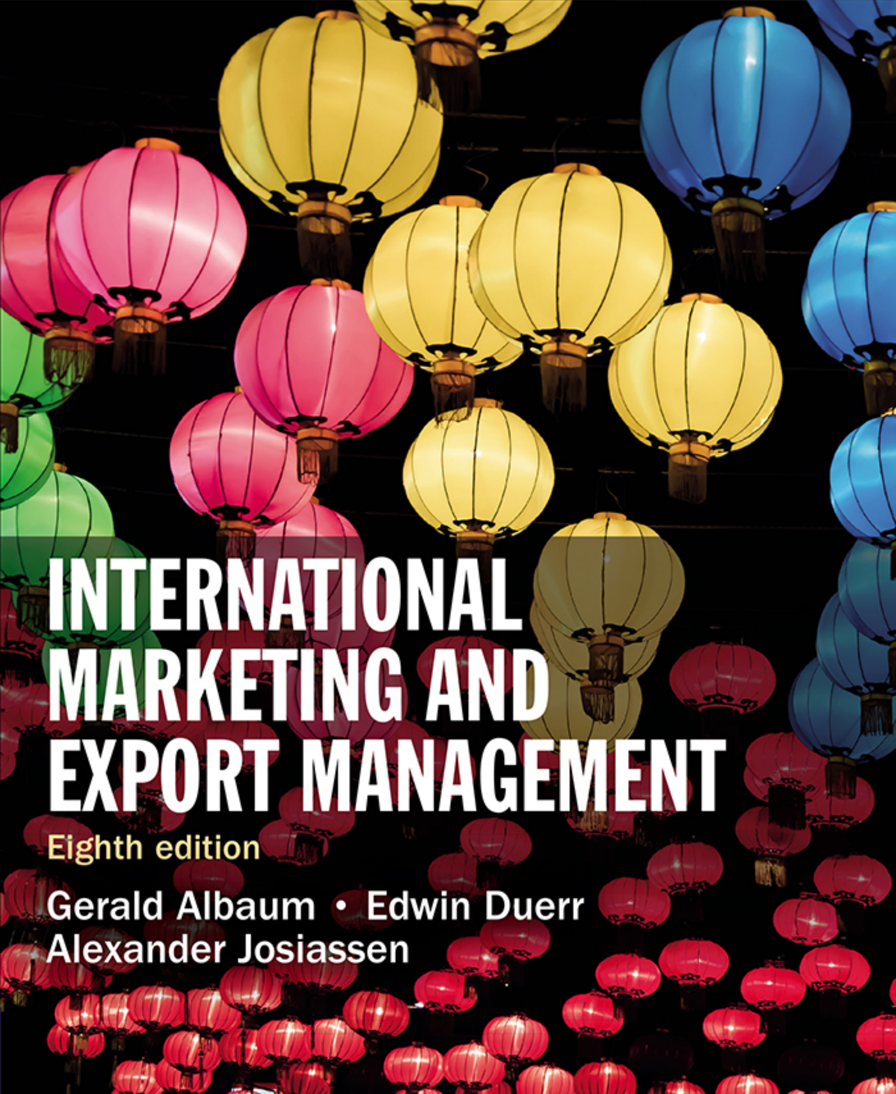

INTERNATIONAL MARKETING AND EXPORT MANAGEMENT

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International Marketing and Export Management

Exhibit 5.1 Insufficient and overlooked markets

One of the worst errors a company can make is failing to determine if a market exists for its product(s) or service(s) prior to market entry. The market may not be as promising as anticipated or there may have been inadequate market assessment studies performed. For example, Asia represents a problem in assessment in market size as the exact size of its middle class is difficult to measure, as purchasing power and tastes vary. A case in point is China. Lee (2010) estimates China's middle class at between 100 million and 200 million, whereas Adler (2008) puts the number at 197 million. Another example is India where Lee's estimate of the middle class is 300 million while Adler states it as 100 million. Table 5.1 shows for the year 2008 the size of the middle class and what proportion of the total this represents for the selected markets.

The countries with the largest growth in 2008 were China, India, Russia, and the United States, and the countries projected to have the largest-sized middle class in 2025 are China, United States, India, and Japan (Adler, 2008, p. 23). In 2014, of the larger countries, India and China still stand out with growth rates of around 7.4% growth in GDP (CIA World Factbook, 2014). Notably several African countries such as Chad, Ivory Coast, and Mozambique grew even faster in 2014. Other notable high growing countries were Qatar (6.5%), Laos (7.4%), Myanmar (8.5%), and top scorer Macao (11.9%).

The other side of this is *overlooked markets*. An example would be the 4 billion people worldwide who live in abject poverty, subsisting on less than US$1,500 per year. To some foresighted companies such as Hewlett-Packard and Unilever, and Citibank, these are underserved markets in Africa, Asia, eastern Europe, Latin America, and the Middle East where a profit can be made while having a positive impact on the sustainable livelihoods of people not usually considered potential customers. These people rarely have extra cash,

Table 5.1 Size of middle class – 2008

Country	Size of middle class (millions)	Proportion of total population of middle class (%)
United States	271	91
China	197	15
Japan	108	85
India	100	9
Germany	62	75
Russia	48	34
United Kingdom	48	80
France	48	78
Italy	46	80
Brazil	43	23
South Korea	33	67
Indonesia	28	12
Australia	17	85
Thailand	17	26
Taiwan	17	72
Philippines	12	17

Source: Adapted from Adler, 2008, p. 21.

often live in remote areas where they shop at small kiosks, and many have low literacy. In order to be successful, companies will be required to form unconventional partnerships – with entities ranging from local governments to nonprofit organizations to pop stars – to gain the community's trust and understand the environmental, infrastructure and political issues that may affect business. Being able to provide affordable, high-quality products and services often means new approaches to marketing – new packaging and pricing structures, and using unfamiliar distribution structures. In order to learn about this rather large global segment, traditional marketing research techniques will have to be modified and adapted to the population. For example, where literacy is low, researchers should use visual rather than numeric and verbal scales. In 2006, Prahalad published the famous piece 'The Fortune at the Bottom of the Pyramid' in which he discussed the assumptions that business people make about catering to the poorest segments in the developing world. One of the main conclusions is that many of the assumptions which hold firms back are mistaken, and firms can indeed purposefully target these segments as a viable business opportunity.

There are many examples of individual company market entry mistakes based on insufficient markets (Ricks, 1999). Two examples are given below. A United States manufacturer of cornflakes tried to introduce its product in Japan, but failed. The Japanese at the time, it turned out, simply were not interested in the general concept of breakfast cereals. CPC International met some resistance when it tried to sell its dry Knorr soups in the United States. Even though the company had test marketed the product using a taste test, such a test was not capable of detecting the American tendency to avoid most dry soups …

The lessons to be learned are few and simple. Never assume that a market is of sufficient size to make it profitable to enter just because it has a large number of people. There is no substitute for performing a formal analysis of a market. Spend the time to research and analyze a potential market, including visiting the market. Formal market analysis is discussed in Chapter 6.

Together with strategies for and choices of market entry and operating decisions, market selection and direction are perhaps the most aggregate of export marketing issues. The marketing mix transforms these high level decisions into concrete policies. Segmentation, positioning, and differentiation are some of the traditional analytical tools applied in developing the marketing mix.

For both market selection and market direction, the importance of analysis done prior to commitment to international expansion cannot be stated too strongly. This analysis (an *external* analysis) needs to focus on the targeted markets themselves. To illustrate, a study of external factors in the decision of United Kingdom industrial companies that were international in scope to enter a new foreign market looked at the impact of five broad external factors that potentially could affect that decision (Whitelock and Jobber, 2004). The factors were: (1) the country environment, (2) psychic (or geocultural) distance, (3) market-based factors, (4) competition, and (5) information and market knowledge. The findings revealed five factors that were important in discriminating between entry and non-entry (in order of importance):

1. Developed economy
2. Good market information
3. Unsympathetic government attitude
4. Geocultural/political similarity
5. Attractive market

According to these researchers, their results support a marketing strategy-based theory of market entry (Whitelock and Jobber, 2004, p. 1450), which was discussed above.

Equally important is an *internal* analysis of the company's abilities to support the expansion. This approach is discussed in Exhibit 5.2 in the context of the direct selling industry but it is applicable to all companies.

Exhibit 5.2 Analysis for international expansion

External analysis

The external element of the analysis should focus on the targeted markets and their characteristics, both those common to a company's current operations and those unique to the market. Specifically, there is a need to evaluate the potential of the market for the business in the areas of population size, economic environment, stability of currency, political stability, and receptivity to market entry by foreign companies, including investment.

A company should also look at the successes and failures of other companies in the industry and their efforts within the country being analyzed. What did they do successfully, and can one emulate those actions? Perhaps more importantly, what did they not do successfully and what can be learned from it?

While most countries targeted for international expansion would be expected to have a good size population base, a key question is: What percentage of the population can afford the price of our products or the cost to participate in the business as an independent representative? If this percentage is low, then a company will run the risk of entering a market that does not have as much potential as it may seem on the surface.

Language and other cultural differences also affect the success, or lack thereof, of an international expansion. Do brands and brand names translate effectively into the local language? Are there any negative connotations attached to the company's brand or product names that could send an unintended message to local consumers? Does the very nature of the product offering favorably reflect the cultural norms and values within the market? Perhaps most important, will the product or service provided be viewed as unique, distinct, and representing value from the perspective of the local consumer? If any of these questions are answered negatively, or answers are uncertain, further analysis of the market is required.

Internal analysis

In addition to being knowledgeable about the targeted market, it is equally important to know that the resources of the company can effectively support the existing business and the added complexity of an international operation. Rather than similarities, differences are relevant. It is important that managers avoid thinking along the lines of 'We've always done it that way.' The better alternative is to look for ideas that could improve not only the potential for success in the new market(s) but also a solution that might bring an overall improvement to the total business.

A perfect blend

When there is a perfect blending of the components, the results are positive and impressive. In establishing a successful international presence, that perfect blending is the effective implementation of the adage 'Think globally, act locally.' Generally, this is often easier said than done!

While it is important to maintain the essence of the business worldwide, it is equally important to realize that every country is unique and that a country-specific plan will be necessary if growth within the country is to be maximized. The ability to be culturally sensitive to the market, to its values and norms, and to develop an approach with these sensitivities in mind is a major step toward getting things done right.

Finally, it must be realized that the international business is a start-up and should not be expected to be driven in the exact same way or have the same challenges as the larger parent company.

Have realistic expectations

In an international expansion there arises the pressure of time-to-market. However, the scope and importance to the company of replicating itself in foreign markets is great, and allowing adequate time to conduct proper diligence and in-depth analysis prior to making a decision to expand is crucial to being successful.

While time-to-market is important, some flexibility in the timeline should be built in to deal with unexpected delays or other issues that could arise. After all, 'getting it done right is more important than getting it done fast!'

Source: Adapted from Crowley (2006). Reprinted with permission from *Direct Selling News*.

Market definition and segmentation

Market definition is not a mechanical exercise, but a crucial and complex component of export marketing strategy. Correct market definition is obviously crucial for the measurement of share and other indicators of performance, for the specification of target customers and their needs, and for the recognition of important competitors.

Issues of market definition lead inevitably into issues of *market segmentation*. Given the heterogeneity of most markets, segmentation means breaking down the market for a particular product or service into segments of customers that differ in terms of their response to marketing strategies. More formally, market segmentation is the process of classifying customers into homogeneous groups with similar demand and/or preferences (Bruning *et al.*, 2009, p. 1500). In the context of international markets, segmentation can be viewed as a process whereby unique customer groups can be identified, whether they are country-based or individual consumer-based groups (Bruning *et al.*, 2009, p. 1500). The goal of such segmentation is to identify those persons who show similar behaviors, and thus are more likely to react uniformly to marketing stimuli such as promotion, price, sales techniques, etc. (Griffith, 2010, p. 59). By doing so, the firm can tailor its marketing policies to the need of each specific segment, hoping to obtain greater profits than are possible by following a uniform strategy aimed at the entire market. For example, on the basis of language only, there are French, German, and Italian-based segments in Switzerland. As another example, consider the United States where ethnic background is the basis for many potential segments in different areas of the country including Hispanic, Irish, African–American, Chinese, Italian, Korean, and other Southeast Asian areas. Yet another example comes from China, within which there are wide differences. For China, it should be recognized that it is several fragmented, regional markets that can be further broken down into niche markets based on cities, rural versus urban, types of people, and income levels (Andruss, 2001, p. 11). A growing segment within China is the more than 400 million young people aged 5 through 24 (Gong *et al.*, 2004). These youths have power and influence over personal and household purchases. One other characteristic to consider is accessibility. China's rural dwellers are not easily accessed. Trying to take advantage of segmentation on these bases would, at best, be extremely difficult.

So-called niche firms that are internationally oriented do not follow the usual segmentation, targeting, and positioning (STP) process. Rather, they largely depend on resource-based advantages, products that are of high quality (based perhaps on tradition, chance, or production philosophy), and long-term personal relationships and commitment in developing their niche strategies (Toften and Hammervoll, 2009, p. 1388).

A major strength of market segmentation is that it can generate specialization. At the same time, segmentation involves costs, risks, and possible weaknesses in some cases, especially where accessibility is not easy.

In export marketing a common way of defining and describing markets is in terms of export countries. This is only one level out of an immense number of potential market levels. To be of value, analysis of market behavior should be conducted at multi-levels including such dimensions as channels, customer segments, or use occasions as well as the geographic dimension. Market definitions are often made on the basis of only one dimension (e.g., customer groups) which may be in conflict with definitions based on other dimensions (e.g., product function). Competitors also define markets, and their definitions often may not coincide with each other. Ignoring competitors' definitions may result in both lost opportunities and bases for future competitive action.

An analysis of marketing a product or service should be undertaken within every relevant market segment and at higher levels of analysis across market segments, markets, and countries. Evaluating the company's performance or potential for a given product within the boundaries of a market segment provides an indication of the interrelationship among the products offered by a number of competitors. At this level of analysis interest is centered on the individual customer. The single market segment's perception is important to marketers for determining market boundaries. A narrow definition can satisfy the short-term, tactical concerns of the marketing mix.

Product mix (i.e., structural pattern of imports) may also define markets. Green and Srivastava (1985) used cluster analysis to group 80 nations on the basis of their imports (18 product categories, two-digit SITC, were used), and concluded that there are dangers in segmenting international markets on single geographic or demographic bases. The resulting 12 clusters that were identified are not to be viewed as definitive in their own right, but as indicative of complex interactions that occur which help to determine the relative magnitude of different national markets for individual product categories. The findings and techniques used in this study are appropriate for direct investment and associated marketing activities as well as for export market segmentation. For example, countries that import relatively large amounts of a product and which possess a sufficiently large market may represent candidates for direct investment or strategic alliances. Similarly, large countries that might be excluding a product by restrictions (e.g., Mexico's past behavior) may also be potential candidates for direct investment or a strategic alliance.

At higher levels of market segmentation the analysis tends to ignore the individual customer and focuses more on the performance of each product in its relevant market segment. A broader definition of a market then results in a dilution of effort and competence in the business's current activities. Defining product markets and country markets gives rise to the selection of the most attractive combinations of products and markets and thus to resource allocation of *a portfolio of strategic elements*. The broader definition of the market reflects long-term, strategic planning concerns, including changes in technology, price relationships, potential substitute products, potential 'new' markets, and so on. In identifying new opportunities or competitive threats, the market definition must not only reflect *the served market*, for example the customers to whom the business directs its marketing effort, but also those portions of the unserved market that in the long run are critical for the competitive success of the company.

Export market segmentation

The issues of segmentation are at least as important, and often more important, for export markets as for domestic markets. Because of differences in the economic, cultural and political environments between countries, international markets tend to be more heterogeneous than domestic markets. The range of income levels and the diversity of lifestyles and of social behavior are likely to be significantly greater when considering the world as opposed to a national market. The existence of such heterogeneity provides substantial potentials for identifying different segments.

Given limited financial and organizational resources, the export firm should try to identify the most attractive market segments that it can serve in terms of segment preferences, patterns of competition, and company strengths. This offers several benefits including better market opportunities in terms of competitive positioning, tailoring marketing programs to meet the needs of different customer segments, and clearer criteria in allocating marketing funds to the different segments in line with their likely levels of purchase response. But in identifying market segments these benefits have to be greater than the costs of reaching them with the company's marketing strategies.

The success of any market segmentation scheme depends heavily on the choice of variables by which to perform the segmentation (Souiden, 2002). There are many possible ways to segment on a worldwide or regional basis, and applying mixed criteria can create the most meaningful segments. For example, in selling sowing machines the use of the level of economic development (measured by, say, GNP or GDP per capita) as a base for country segmentation could identify export markets with high purchasing power but with no or, at most, insignificant agricultural sectors. Thus, more complex and combined measures have to be used, including, for example, the importance and composition of the agricultural sectors, purchasing powers, education levels, level of technology, buying decision criteria, and so forth.

It is important to note that any decision to segment on a particular basis should be evaluated in terms of the following characteristics.

Measurability

Measurability is the degree to which segments can be *identified* and to which the size and purchasing power of the segments can be measured. In export marketing management, important qualitative indicators such as cultural characteristics are intuitively appealing bases for country segmentation, but difficult to use due to conceptual and measurement problems. Suppose a clothing manufacturer from Hong Kong wanted to export to the European Union countries and was interested in the following two segments based on age: 16–24 years, 25–40 years. The company must be able to identify which potential consumers belong in each group and must be able to measure the size and, say, income of each group. If these age categories do not correspond to those used in the various countries, which may