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MARKET ASSESSMENT

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THE GLOBAL MARKET SELECTION CONTEXT

- Important strategic question: **Where to compete?**
- More general level, Levitt posed profound questions:
 - "What business are we in?"
 - "What business do we want to be in?"

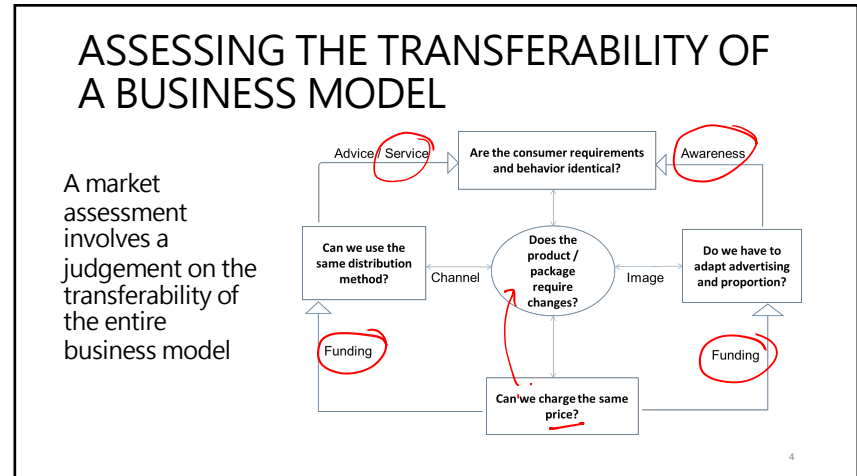
→ These questions have **three different dimensions** and need to be re-evaluated for each country market

Technological
dimensions

Customer
dimensions

Geographic
market
dimension

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THE GLOBAL MARKET SELECTION PROCESS

- **PESTEL** dimensions represent the backbone of any country assessment and selection
- Managers seeking to enter new country markets face a bewildering set of choices
- **Secondary data** to guide an initial market assessment and selection process
 - Secondary data may not come in the required format
 - Data accuracy and equivalence may be an issue

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THE GLOBAL MARKET SELECTION PROCESS

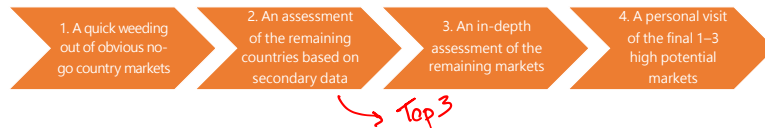
- Simple comparisons of GNP per capita may be misleading
 - e.g. medical care or education varies from country to country, adjustments of national income for purchasing power equivalence often results in significant shifts in relative wealth
- Use of secondary data is crucial due to the large number of potential target markets

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THE GLOBAL MARKET SELECTION PROCESS

Market assessment and selection usually follows a stepwise approach. A **four-stage approach** is typical:



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ESTIMATING MARKET SUPPLY



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SCORING MODELS

- Support the **second stage** of the market analysis by systematizing the country assessment and selection process
- The country with the **highest score** is identified as the most promising foreign target market



- Scoring **cannot eliminate the subjectivity** when selecting country markets entirely
- Scoring models often **fail to capture strategic issues** like market interdependences

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SCORING MODEL EXAMPLE

2-wheeler, 200 cc 1000 cc 70% growth

Countries	Selection criteria						Summated score	Rank						
	1	2	3	4	5	6								
	Market potential	Tariffs	Non-tariff barriers	Product fit	Competitive intensity	Shipping costs								
	Weights													
	W = 15	W = 5	W = 17	W = 25	W = 22	W = 16								
	E	W × E	E	W × E	E	W × E	E	W × E						
Denmark	2	30	2	10	1.5	25	3.5	87	0.5	11	3.5	56	219	4
Sweden	3.5	52	4	20	3.5	59	2.5	62	2	44	3	48	285	2
Norway	2	30	3	15	2	34	3.5	87	1	22	2.5	40	228	3
Finland	4	60	4	20	3.5	59	3	75	4	88	1.5	29	326	1
Portugal	0	0	3	15	1	17	0.5	12	2	44	2	32	120	5
Germany														
Austria														
Spain														

W weights of selection criteria

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DETAILED ASSESSMENT OF POTENTIAL COUNTRY MARKETS

- Markets surviving the first two rounds of screening: **in-depth assessment**
- Decision trees are helpful for guiding senior management discussion
- Emphasis should be placed on questioning assumptions underlying purely quantitative assessments
- Final stage of market selection: **personal market visit**
 - confirm or contradict assumptions regarding the market potential & other factors

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MOTIVATION AND TIMING OF FOREIGN MARKET ENTRY

- First mover advantages may be related to
 - innovations in proprietary technology
 - preempting scarce assets, such as potential distribution partners in a country
 - creating switching costs for customers
- First mover advantages do not always guarantee success
- Latecomers: take advantage of investments made by first movers, may even leapfrog early movers
- Research on the relative advantages and disadvantages of early versus late movers is still inconclusive

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BALANCING RISK AND CONTROL

Exporting tends to be the least risky form of market entry; less risk = less control

Most risky are wholly owned foreign subsidiaries; more risk = more control

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CAGE framework – distance framework

Punjab Ghemawat.

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CAGE framework – Cultural distance

Attributes creating distance	Industries (products) affected by distance
<ul style="list-style-type: none"> Different languages Different ethnicities (lack of connective ethnic or social networks) Different religions Different social norms 	<ul style="list-style-type: none"> Having high linguistic content (TV) Affecting cultural / national identity of consumers (foods) Product features varying in terms of size (cars), standards (electric appliances), or packaging Products carrying country specific quality associations (wines)

India - SUV
 Europe - Sedan
 US - Station wagon
 Basmati
 Champagne

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Culture

culture – the collective programming of the mind that distinguishes the members of one group or category of people from another

Components of Culture

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Hofstede's dimensions of culture

Power distance

the extent to which less powerful members within a country expect and accept that power is distributed unequally

how a society deals with the fact that people are unequal in physical and intellectual capabilities

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Hofstede's dimensions of culture

Uncertainty avoidance

Savings Retirement

the extent to which members in a culture accept or avoid ambiguous situations and uncertainty

the relationship between the individual and his or her fellows

long-term orientation – dimension of how much emphasis is placed on perseverance and savings for future betterment

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Hofstede's dimensions of culture

Individualism versus collectivism

US **individualism** – the idea that an individual's identity is fundamentally his or her own *Super hero*

China **collectivism** – the idea that an individual's identity is fundamentally tied to the identity of his or her collective group

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Hofstede's dimensions of culture

Masculinity versus femininity

the relationship between gender and work roles

→ **masculinity** – a relatively strong form of societal-level sex role differentiation whereby men tend to have occupations that reward assertiveness and women tend to work in caring professions

US **femininity** – a relatively weak form of societal-level sex role differentiation whereby more women occupy positions that reward assertiveness and more men work in caring professions

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CAGE framework – Administrative distance

Attributes creating distance

- Absence of colonial ties
- Absence of shared **monetary or political association**
- **Political hostility**
- **Government policies**
- **Institutional weakness**

Vads.

Industries (products) affected by distance

- Govt. involvement is high in industries that are
 - Producers of **staple goods** (*electricity*)
 - Producers of other 'entitlements' (*drugs*)
 - **Large employers** (*farming*)
 - **Large suppliers** to govt. (*mass transportation*)
 - **National champions** (*aerospace*)
 - Vital to **national security** (*telecom*)
 - Exploiters of **natural resources** (*oil, mining*)
 - Subject to **high sunk costs** (*infrastructure*)

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INFORMAL INSTITUTIONS

informal institution – institution represented by cultures, ethics, and norms

ethnocentrism – a self-centered mentality by a group of people who perceive their own culture, ethics, and norms as natural, rational, and morally right

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Different Legal Systems

1. **Common law** - based on tradition, precedent, and custom
2. **Civil law** - based on detailed set of laws organized into codes
3. **Theocratic law** - law is based on religious teachings

French.

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Property Rights

- **Property rights** - the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource
- Property rights can be violated through
 1. **Private action** – theft, piracy, blackmail
 2. **Public action** - legally - ex. excessive taxation or illegally - ex. bribes or blackmailing
 - high levels of corruption reduce foreign direct investment, the level of international trade, and the economic growth rate in a country

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Product Safety and Liability

- **Product safety laws** set certain standards to which a product must adhere
- **Product liability** involves holding a firm and its officers responsible when a product causes injury, death, or damage
 - liability laws tend to be less extensive in less developed nations

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CAGE framework – Geographic distance

Attributes creating distance

- Physical remoteness
- Lack of common border
- Lack of sea or river access
- Size of country *distribution*
- Weak transportation or communication links
- Differences in climate *freeze*

Industries (products) affected by distance

- Products having a **low value –of-weight or bulk ratio** (*cement*)
- Products are **fragile or perishable** (*glass, fruit*)
- Communications and connectivity are important (*financial services*)
- Local supervision and operational requirements are high (*many services*)

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CAGE framework – Economic distance

Attributes creating distance

- Differences in consumer incomes
- Differences in costs and quality of:
 - Natural resources
 - Financial resources
 - Human resources
 - Infrastructure
 - Intermediate inputs
 - Information or knowledge

Industries (products) affected by distance

- Nature of demand varies with income (*cars 125cc 440cc*)
- Economies of standardization or scale are important (*mobile phones*)
- Labor and other factor cost differences are salient (*garments*)
- Distribution or business systems are different (*insurance*)
- Companies need to be responsive and agile (*home appliances*)

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Economic System

1. **Market economies** - all productive activities are privately owned and production is determined by the interaction of supply and demand
 - *Right* government encourages free and fair competition between private producers
2. **Command economies** - government plans the goods and services that a country produces, the quantity that is produced, and the prices as which they are sold
 - *Left* all businesses are state-owned, and governments allocate resources for "the good of society"
 - because there is little incentive to control costs and be efficient, command economies tend to stagnate

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Economic System

3. **Mixed economies** - certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning
- governments tend to own firms that are considered important to national security

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UPPSALA MODEL

Nokia.

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THE UPPSALA MODEL OF INTERNATIONALIZATION

The Uppsala Model predicts an incremental internationalization of firms

- Firms start with markets close to the home market in psychic distance terms and afterwards expand to more distant markets

The mode of entry follows a gradual development process

- Firms start with sporadic exporting and eventually produce in a foreign market.

FDI

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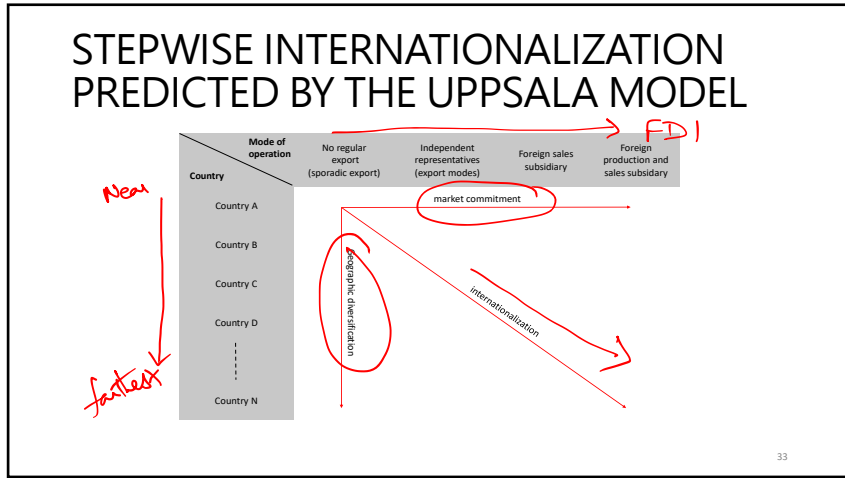
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THE UPPSALA MODEL OF INTERNATIONALIZATION

- The firm is a learning organization
 - Internationalization is a series of steps in a learning process (learning about international environment and activities)
- Internationalization is not spontaneous; it is the gradual result of successive decisions (evolutionary development of the firm)
 - The greater a firm's international experience, the greater its commitment to foreign markets
 - Knowledge and experience are directly related to the firm's growing commitment

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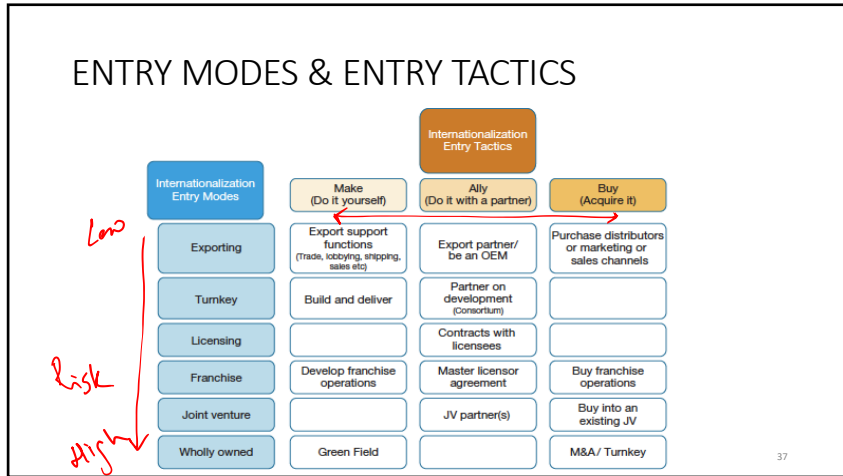
ENTRY MODE

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MARKET ENTRY MODES

	Advantages	Disadvantages
NON-EQUITY MODES		
Exporting	Low cost, quick access, flexibility, economies of scale	Tariffs, embedded production costs, transportation costs
Turnkey	Entry into restricted highly technical markets	Customers can become competitors
Licensing	Low risk, quick growth, growth outside strategic focus of the firm, differential pricing	Distances from the customer, limited control of product and brand, loss of core capabilities
Franchising	Limited financial risk, high degree of response to local needs	Difficult to find suitable franchisees, need to build brand in country prior to franchising
EQUITY MODES		
Joint Ventures	Reduced political risk, increased local knowledge, shared development costs	Different partner goals and objectives, loss of intellectual property
Wholly owned subsidiaries	Retain knowledge, full control of foreign operations, direct exposure to local customers	Expensive, high risk

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FOREIGN MARKET ENTRY: EXPORTING

- Compared to other market entry methods, exporting offers considerably more flexibility
- In many cases corporations combine exporting with other entry modes, such as joint ventures or wholly owned subsidiaries
- Exporting can also be combined with an offshore sales office
- Within exporting, there are two alternatives to address foreign markets: indirect and direct exporting

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EXPORTING

<p>Advantages</p> <ul style="list-style-type: none"> Selling regular production overseas Requires little investment Relatively free of risk 	<p>Caveats</p> <ul style="list-style-type: none"> Commission to export agents, commission agents, export merchants Foreign business can be lost if exporters decide to change their sources and supply Firm gains little experience from transactions
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INDIRECT EXPORTING

- Manufacturer outsources all activities related to foreign markets to a specialized company located in its home country
 - Domestic partners referred to as export trading companies (ETCs), export management companies (EMCs), export merchants, export brokers, combination export managers, manufacturer's export representatives or commission agents, and export distributors
- Business transaction remains a domestic transaction
- Export service provider acts as the export department for companies lacking export experience or treat export as a marginal activity

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DIRECT EXPORTING

- Direct exporting requires a more extensive commitment of resources
- Provides the manufacturer with better control and market presence
- There are two main options: direct market representation and independent market representation



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DIRECT EXPORTING

Direct market representation

- Companies sell to wholesalers or retailers
- Advantages are control and communication
- Companies in better position to steer efforts needed to achieve sales and decisions concerning program development
- Opportunity to learn and acquire knowledge from the target market


Independent market representation

- Ideal for small sales volumes
- Agents act on behalf of the exporter
- Agents do not take ownership, while distributors do take ownership
- Distributors take on market risk, demand higher margins than an agent and frequently demand exclusive rights for a specific sales territory
- Piggyback exporting

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PIGGYBACK EXPORTING



- Also referred to as Piggyback Marketing or Mother Hen Sales Force
- Form of independent market representation
- Manufacturer obtains distribution of products through another company's distribution channel
- Benefits:
 - Active distribution partner benefits through a better capacity utilization of the distribution system,
 - Manufacturer benefits in that the cost of such an arrangement are much lower than that of a direct market representation

→ Successful piggyback marketing requires complementary product lines targeted at the same customer segments

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EXPORTING OF SERVICES

- In general, the rise in demand for services exports is particularly strong for "soft services," which refer to the provision of information and knowledge-based solutions
- There are two means of exporting services:

Embodied object export

 - Embodied object means that "soft services" can often be stored or embodied in some physical form, like reports or construction plans, which can be sent to the foreign customer

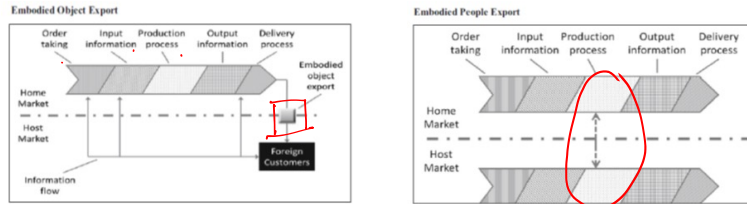
Embodied people export

 - The company's staff who are abroad on a short-term basis perform the functions that must be delivered locally at the client's place
 - Used in services such as market research, product design, or management consultancy.

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EMBODIED OBJECT EXPORT VS. EMBODIED PEOPLE EXPORT



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CONTRACTUAL AGREEMENTS

Licensing
(market seeking)

Franchising
(market seeking)

Outsourcing
(efficiency seeking)

Co-marketing
(market seeking)

These are not international market entry methods per se, however these are frequently used to enter international markets

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LICENSING

- A licensing agreement regulates temporary access to intellectual property rights (e.g. patents)
- Licensing permits to enter foreign markets with little capital outlay
- Cons:
 - Limited contact with customers
 - Little control over the product and the image developed in the market
 - Danger of having one's intellectual property infringed upon by the licensee

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FORMS OF LICENSING AGREEMENTS

Know-how agreements

- Permission is given to use a specific technological or management knowledge about how to design, manufacture or deliver a product

Trademark and copyright licensing

- Agreements that permit the holder to use its propriety name, characters or logos

Food and beverage licensing

- Very lucrative
- Can be utilized to increase brand awareness of an umbrella brand

SOP

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LICENSING

Benefits

- Appealing to small companies that lack resources
- Faster access to the market
- Rapid penetration of the global markets

Caveats

- Other entry mode choices may be affected
- Licensee may not be committed
 - Lack of enthusiasm on the part of a licensee
- Risk of opportunism
 - Licensee may become a future competitor

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FRANCHISING

- Agreements between two parties where the franchisor grants the franchisee the right to run a business bearing the former's name
- Advantages:
 - Reduced investment costs for franchisors
 - For the franchisee: become part of a recognized network with the minimal capital needed
- Disadvantages:
 - Maintaining a consistent standard among its franchisees presents the company with a considerable challenge

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FORMS OF FRANCHISING

Business format franchising

- The most popular form of franchising
- Provides a total business concept to the franchisee

Master franchising agreements

- Franchisee operates outlets on its own
- Also seeks out other franchises in the host market

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CONTRACTS

- Management Contract
 - Arrangement by which one firm provides management in all or specific areas to another firm
- Contract Manufacturing
 - Arrangement in which one firm contracts with another to produce products to its specifications but assumes responsibility for marketing

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CONTRACT MANUFACTURING (OUTSOURCING)

<p>Benefits</p> <ul style="list-style-type: none"> • Labor cost advantages • Savings via taxation, lower energy costs, raw materials, and overheads • Lower political and economic risk • Quicker access to markets 	<p>Caveats</p> <ul style="list-style-type: none"> • Contract manufacturer may become a future competitor • Issues of <u>quality and production standards</u> • Backlash from the company's home-market employees regarding HR and labor issues
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Apple

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OUTSOURCING

Outsourcing

- Arrangement between a company and its independent supplier to manufacture services according to well-defined specifications
- Relationship between independent corporations
- Drawbacks: limited control over production or service quality and the inability to secure intellectual property
- Advantages: corporations can concentrate on their core competences

Offshoring

- Refers to a cross-border outsourcing arrangement
- Relationship not necessarily between independent corporations

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OUTSOURCING

Nearshoring

- Offshoring to a neighboring country

Farshoring

- Offshoring to a far-away country

Captive offshoring

- When certain organizational tasks are carried out abroad by an organizational unit of the same company

Business process outsourcing (BPO) ✓

- Includes services such as finance and accounting, human resources, and design and engineering.

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CO-MARKETING

- ≥ 2 companies who jointly market their products and services
- Pros: Co-marketing can improve customer appeal and provide access to new market segments
- Cons: Increases costs and permits only limited control
- → to penetrate international markets, co-marketing often offers an efficient and effective market entry method

Marvel + Mc'D




STAR ALLIANCE

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JOINT VENTURES

Advantages

- May be only way to enter country where foreign control of corporations is prohibited
- Faster and less costly market entry alternative
- Local partner has established relationships with suppliers and access to distribution channels
- Attractive opportunity for market entry in volatile emerging markets

Disadvantages

- About half of all international joint ventures fail
- Difficulties related to unanticipated market developments
- Disputes over IP use or regulatory uncertainties
- Different strategic priorities or philosophies of partners
- Partner mutates to a competitor

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WHOLLY OWNED SUBSIDIARIES

Benefits

- Greater control and higher profits
- Strong commitment to the local market on the part of companies
- Allows the investor to manage and control marketing, production, and sourcing decisions

Caveats

- Risks of full ownership
- Developing a foreign presence without the support of a third part
- Risk of nationalization
- Issues of cultural and economic sovereignty of the host country

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Why do firms Internationalize?

Market Assessment

CAGE Framework

Uppsala Model

Born Global Firms

Entry Modes

Thank you

<https://globalization.stern.nyu.edu/cage>

<https://unctadstat.unctad.org/EN/RcaRadar.html>

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