A.8 International Market Opportunity Analysis

THE INTERNATIONAL MARKET ENTRY DECISION

As markets become increasingly internationalized, marketers are frequently called upon to select the international markets into which a product should be introduced. Through **strategic market planning** (GLOSSARY entry A.20), the firm or the business unit may give direction that encourages marketing managers to consider international marketing of their products, but decisions as

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to which international markets should be entered must be made product by product and market by market.

The Decision-Making Process. In a broad sense, the decision to enter an international market is made by finding a match between the attributes of the product and the opportunities presented by the market. Such a match should result in a profitable and secure entry.

The process for planning an international market entry follows the general form of the **marketing planning process** (see Chapter 4). The international market situation is analyzed, an entry strategy is selected, the product is **positioned,** and a **marketing mix** is designed that will carry out the entry strategy and the positioning. We will call the initial step **international market opportunity analysis.** Its objective is to determine whether or not an international market offers an opportunity for a particular product and to determine the characteristics of the market that the entry strategy must address. The design of an **international market entry strategy** is considered in GLOSSARY entry C.14.

The outline and the analytical approach presented in GLOSSARY entry A.17 for the **situation analysis** stage of the **marketing planning process** can be followed for the international market opportunity analysis. However, the elements analyzed differ substantially because of the differences in the international market environment.

Differences in the International Market Environment. The international market opportunity analysis must highlight the differences in the market under study so that the fit of the product to that market can be evaluated.

- *Culture.* Culture consists of the shared elements of a society, including shared values, norms, roles, traditions, and ways of solving problems. In making decisions, including the selection of products, consumers are guided by culture because it represents tested and socially acceptable behavior. Marketers must develop product offerings that conform to cultural values or they will be rejected by consumers (see GLOSSARY entry A.5). Cultural values in overseas markets differ from those in the domestic market, and there are cultural differences among international markets. Clothing, housing, and eating patterns are examples of areas where culturally accepted ways of problem solving vary widely by market. Language and the meanings of symbols also vary widely among cultures. Understanding the culture of international markets allows the marketer to evaluate whether or not a product will be accepted as consistent with the culture or what changes in marketing strategy would be required to make the product acceptable.
- *Political Stability.* Domestic U.S. markets operate in an environment of political stability that is unlike that found in many international markets. Frequent changes in government leaders, changes in form of government, and revolutions create market risks. Nationalization, expropriation of assets, or changes in regulation can result in severe losses and eruptions of political instability can interrupt market development. Political instability often leads to increases in trade regulations that are aimed at imported products or foreign-owned companies. The vulnerability of products to political instability varies with the type of product. In general, essential goods are likely to receive less political attention than nonessentials or luxuries.[1]
- *Trade Regulation.* The regulation of trade varies markedly among international markets. Trade regulation takes many forms, but common barriers include restrictive tariffs or import controls, controls on the free flow of currency, restrictions on ownership of property, direct competition by government subsidized or owned businesses, product standards that discriminate against imports, and complex, harassing procedures for clearing imported products. All of these barriers to free trade make a market less desirable.
- *Economic Conditions.* The economies of international markets differ in their size, growth, and stability, their stage of economic development, the freedom of their markets, and the stability of their currencies. Most marketers find international markets to be small when compared

[1]Philip Cateora, *International Marketing,* 5th ed. (Homewood, Ill.: Richard D. Irwin, 1983), pp. 159–62.

to the domestic U.S. market and many of them experience wide cyclical swings. However, many of these markets have growth rates that exceed those in domestic markets.

Economies vary in their level of economic development. Countries can be classified as underdeveloped, developing, industrialized, and post-industrialized. As nations move through these development stages, their economies evolve from primarily agricultural to industrial, gross national product increases, demand for consumer goods increases, and the economic infrastructure (such as transportation, energy, and communications services) strengthens. The types of products demanded and the capacity of the economy to purchase them varies with the level of economic development.

Economies vary in the freedom of their markets. Some markets, (China and the USSR, for example) are dominated by central government planning while others (most Western European nations, for example) are largely governed by the free interplay of supply and demand. Centrally planned markets are less attractive to marketers because of the restrictions placed on elements of the marketing strategy.

Unstable currencies and unstable exchange rates create undesirable risks in some markets. High rates of inflation create chaotic pricing, instability in demand, and difficulty in extracting profits. Unstable exchange rates create the risk of losses in international investments and barriers to repatriating profits.

- *Marketing Infrastructure.* The availability of marketing infrastructure elements such as distribution channels, advertising media, and marketing information sources varies with the level of economic development. New products to an international market are heavily dependent on domestic distribution resources that have in-place selling and product-handling capabilities. Absence of such services is a serious handicap to successful entry. Media availability also varies widely. Less developed markets tend to have less media coverage available and more centrally planned economies tend to limit access to media by marketers. In many countries, the broadcast media are state-operated and advertising is prohibited or limited.

  The availability of market information tends to vary with the level of economic development. Compared to the U.S. market, international markets, particularly in less developed countries, have far less secondary data available from government and trade sources. Moreover, the reliability of available information is often suspect and difficult to verify. Language and currency differences make the data difficult to interpret. Doing original marketing research in overseas markets also faces difficulties. In less developed countries, reliable marketing research firms may not be available and data necessary for drawing samples may not be available. Language and cultural barriers make it difficult for nondomestic researchers to be effective.

The International Market Opportunity Analysis. The purpose of the international opportunity analysis is to determine whether or not there is a fit between the attributes of a product and the opportunities presented by an international market.

The first step in the analysis is to gather data on which the analysis can be based. The difficulty in collecting information on international markets was discussed above, but there are usually sufficient secondary data sources available domestically to permit a preliminary evaluation of the market.[2] Sources of secondary data include publications and reports by U.S. government agencies such as the Department of Commerce, Department of Agriculture, and Export-Import Bank; publications of international organizations such as the United Nations, the International Monetary Fund, and the Organization for Economic Cooperation and Development; the U.S. Chamber of Commerce and chamber of commerce offices maintained by foreign countries in the United States; and information published by foreign countries that is generally available through consular and trade offices. Analysis of secondary data may be followed by original marketing research if serious data gaps cannot otherwise be filled. A personal visit to the market for first-hand observation and search for additional data is often worthwhile.

[2]For further discussion of data sources for international markets, see Changiz Pezeshkpur, "Systematic Approach to Finding Export Opportunities," *Harvard Business Review* (September–October 1979), pp. 182–96.

The international market opportunity analysis can follow the format suggested for the situation analysis, although the emphasis in this case should be on the differentiating features of the market that make it suitable or unsuitable for entry. Five areas should be analyzed.

- *Product Analysis.* This analysis must identify the attributes of the product, especially those that offer competitive superiority. For international entry, it is important to determine what product modifications, if any, will be required to make the product acceptable to the overseas consumer. Product costs to supply the product overseas must be determined, including the costs of adapting the product to the overseas market. Transportation costs for a domestically produced product may be an important new cost element that must be determined. Middleman costs may also be significantly different from those experienced domestically. Product analysis should include an examination of the other company resources in the overseas market. Does the company have sales offices, distribution and warehousing facilities, companion products that can share costs, an established consumer or trade reputation, or other resource advantages?
- *Market Analysis.* The market analysis should establish the size, growth, and distribution of the product market sales. This analysis also needs to establish the availability of logistical facilities (warehousing, transportation), distribution agencies (distributors, agents), promotional media (advertising media, advertising agencies), and experienced marketing personnel. Availability of marketing infrastructure depends upon the level of economic development in the market.

  The **international product life cycle** concept can be used to help predict the receptivity of international markets to imported products.[3] In its most general form, the concept suggests that new products with strong new technology content will likely be developed by economically advanced nations and find good overseas market, not because of the low cost of the item, but because of its functional superiority. As the product category matures, products in the class become more standardized and the technology becomes generally available. The innovator's export market begins to dwindle as overseas markets begin their own production. In time, the production of the product gravitates to low-cost producers that tend to be economically less developed nations. Having lost its functional product advantage and now suffering cost disadvantages, the innovating nation loses its export market and may even become an importer of the product.
- *Environmental Analysis.* The environmental analysis should attempt to identify the external factors that will affect international market access or growth. Factors analyzed should include the legal, regulatory, political, and economic environments. These variables were discussed above as important differences between domestic and international markets. They should be thoroughly researched in the opportunity analysis as potential sources of market entry barriers.
- *Competitive Analysis.* In this analysis the major competitors in the international market must be identified and their marketing strategies understood. Barriers to market entry, if not considered in the environmental analysis, should be considered here. The market strength of competitors, special advantages of domestic producers, the extent of government participation and intervention in the market, limitations on use of marketing tools such as promotion and price incentives, and protective product standards are some of the devices found in international markets that influence the ability of the importer to compete.
- *Consumer Analysis.* This analysis must determine the motives and behavior of consumers in the international market toward the marketer's product. Information for this analysis is particularly difficult to obtain without direct exposure to the market. The analysis should focus particularly on cultural differences in motives, product choice criteria,

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[3]For more information on the international product life cycle and its application to international market selection, see Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* 80 (May 1966), pp. 190–207; Igor Ayal, "International Product Life Cycle: A Reassessment and Product Policy Implications," *Journal of Marketing* 45 (Fall 1981), pp. 91–96; and Norman W. McGuiness and Blair Little, "The Influence of Product Characteristics on Export Performance of New Industrial Products," *Journal of Marketing* 45 (Spring 1981), pp. 110–22.

product-usage patterns, terminology, and shopping behavior to which the marketing strategy would have to adjust.

APPLICATION OF THE CONCEPT TO MARKETING DECISION MAKING

The international market opportunity analysis has two applications. It is used to determine whether or not the product under consideration should be entered into the international market. If the answer is yes, the information developed in the analysis is used in shaping an international market entry strategy for the product.

Selection of International Markets. Completion of the market analysis makes it possible for the marketer to determine the suitability of the international market. If the market appears to offer opportunity, the next step is to design a market entry strategy. The final decision to enter the market is made by projecting the financial and other outcomes of the entry strategy. Unless there are overriding business strategy considerations, the market entry plan can be implemented if the

FIGURE A.8–1

Criteria for Selection of International Markets

Criteria	*Importance Weight*	*Market Performance*
1. Does the product fit the market?		
a. Does the product have competitive advantages?		
b. Would product modifications be required?		
c. Will product costs, including transportation, be competitive?		
d. Does the business have other supportive resources in the market?		
2. Is the market potential attractive?		
a. Is the market large enough to support entry?		
b. Does the market forecast indicate growth?		
c. Is there adequate market infrastructure to support the product?		
d. Does the international product life-cycle stage suggest favorable entry conditions?		
3. Are there environmental risks in the market?		
a. Is the market in a politically stable nation?		
b. Is the product politically vulnerable?		
c. Does the stage of economic development support consumption of the product?		
d. Are the economy, price level, and currency stable?		
4. Are there competitive barriers to entry?		
a. What is the competitive strength of current market entries?		
b. Are domestic products protected from import competition?		
c. Are there limitations on the use of marketing tools?		
d. Do trade regulations or tariffs restrict competition?		
5. Are there cultural barriers to product acceptance?		
a. Does the product meet consumer needs in the new market?		
b. Is language a barrier to promotion and understanding of the product?		
c. Are there cultural differences in the market that would inhibit product acceptance?		

outcome meets the profitability standards of the business.

Upon completion of the international market opportunity analysis, then, the issue is whether or not to go forward with the development of an international market entry strategy. Criteria for making this decision are suggested in Figure A.8–1. The criteria questions can be answered using information from the analysis. Each criterion can be weighted in terms of its importance to the business and given a performance score.[4] With experience, the firm can establish standards for acceptable score levels.

Application to the International Market Entry Strategy Decision. If the preliminary decision indicates a market opportunity, the next step is to develop an **international market entry strategy.** This decision, considered in GLOSSARY entry C.14, has several components:

- *Globalization.* Should the market entry utilize a standardized marketing mix or one tailored to the individual market?
- *Concentration versus Diversification.* Should a few markets be served with a strong marketing effort or should many markets be entered with low level marketing efforts?
- *Method of Entry.* Should market entry be by exporting, licensing, overseas manufacture, joint venture, or other method?
- *Positioning.* How should the product be positioned in the new market?
- *Marketing Mix.* What marketing mix should be formulated to carry out the entry strategy and the positioning?

Information and conclusions generated through the international market opportunity analysis will be needed in making each of these entry strategy decisions.

SUGGESTIONS FOR FURTHER READING

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[4]This approach is suggested by Henry Assael, *Marketing Management Strategy and Action* (Boston: Kent Publishing Company, 1985), pp. 667–68.