

Svend Hollensen

# GLOBAL MARKETING

5<sup>th</sup> Edition

## Chapter 8 The international market selection process

# Learning objectives (1)

- Define international market selection and identify the problems in achieving it
- Explore how international marketers screen potential markets/countries using secondary and primary data (criteria)
- Distinguish between preliminary and 'fine-grained' screening

# Learning objectives (2)

- Realize the importance of segmentation in the formulation of the global marketing strategy
- Choose among alternative market expansion strategies
- Distinguish between concentration and diversification in market expansion

# Why is it important to identify the 'right market' to enter?

- Influences likelihood of success
- Influences nature of marketing programmes
- Affects firm's ability to coordinate foreign operations

# International market selection in SMEs

Low psychic distance

Low cultural distance

Low geographic distance

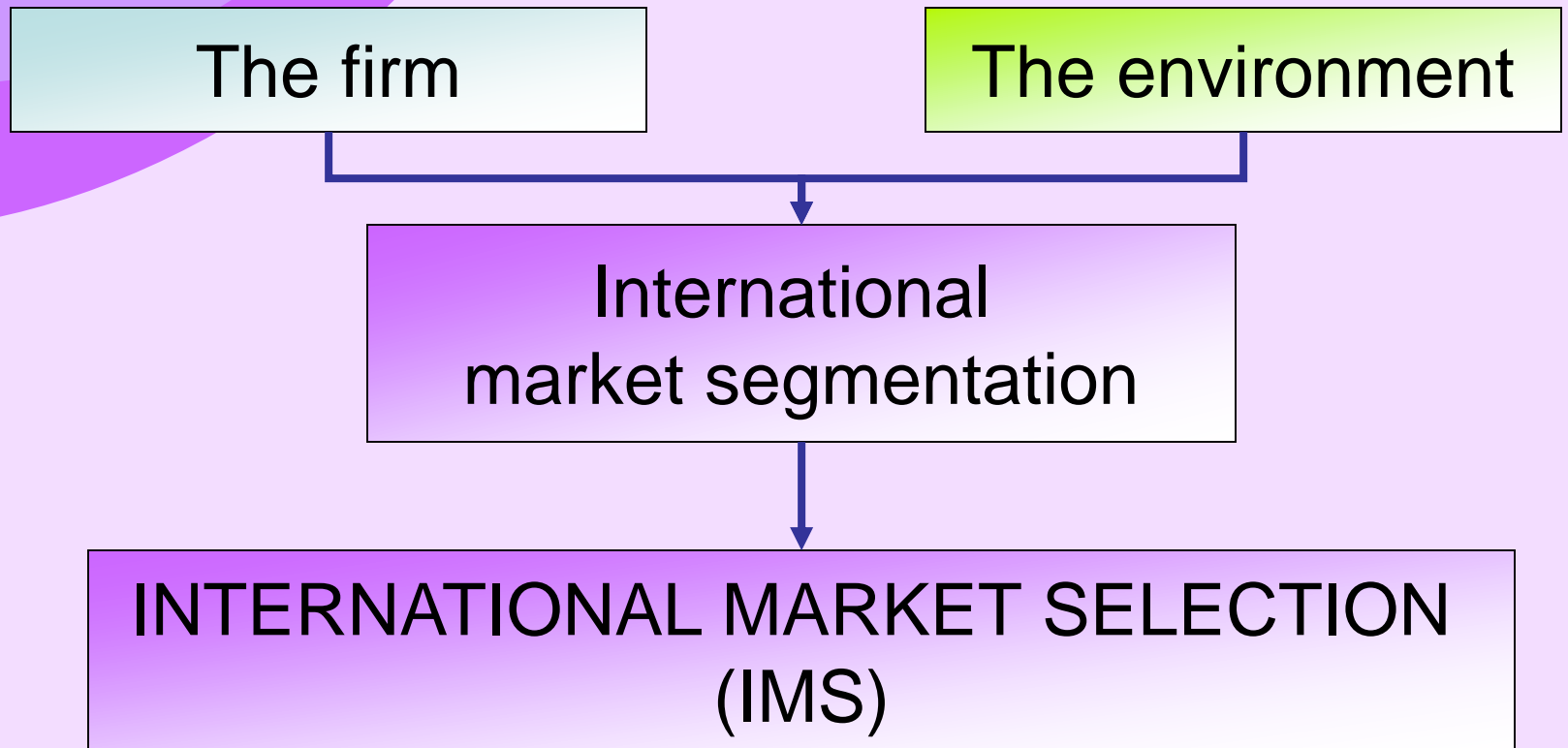


Figure 8.1 Potential determinants of the firm's choice of foreign markets

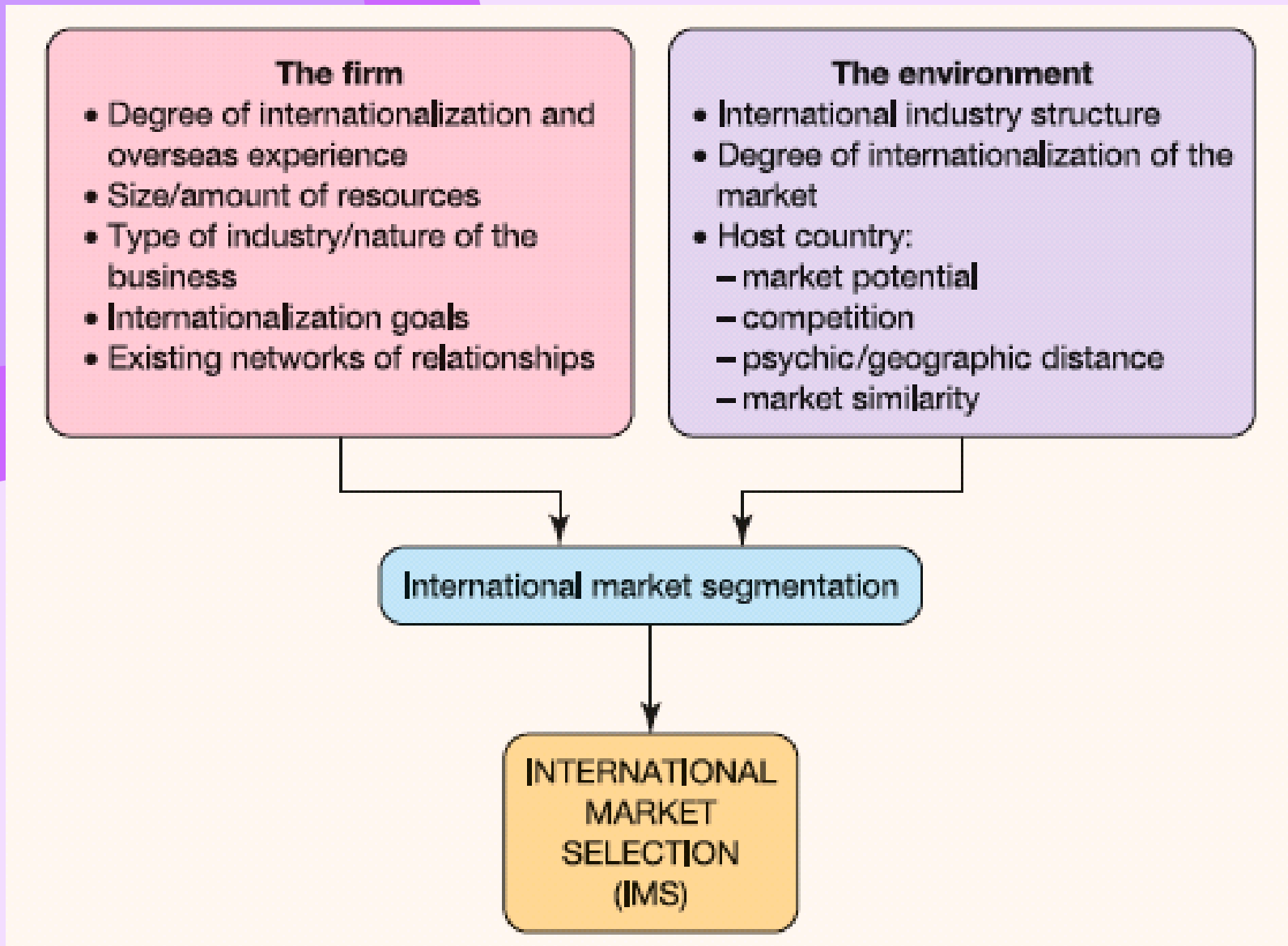


Figure 8.1 Potential determinants of the firm's choice of foreign markets (Continued)

# Determinants of firm's choice

## The firm

- Degree of internationalization
- Size/amount of resources
- Type of industry/nature of business
- Internationalization goals
- Existing networks of relationships

## The environment

- International industry structure
- Degree of internationalization of the market
- Host country:
- Market potential
- Competition
- Distance
- Market similarity



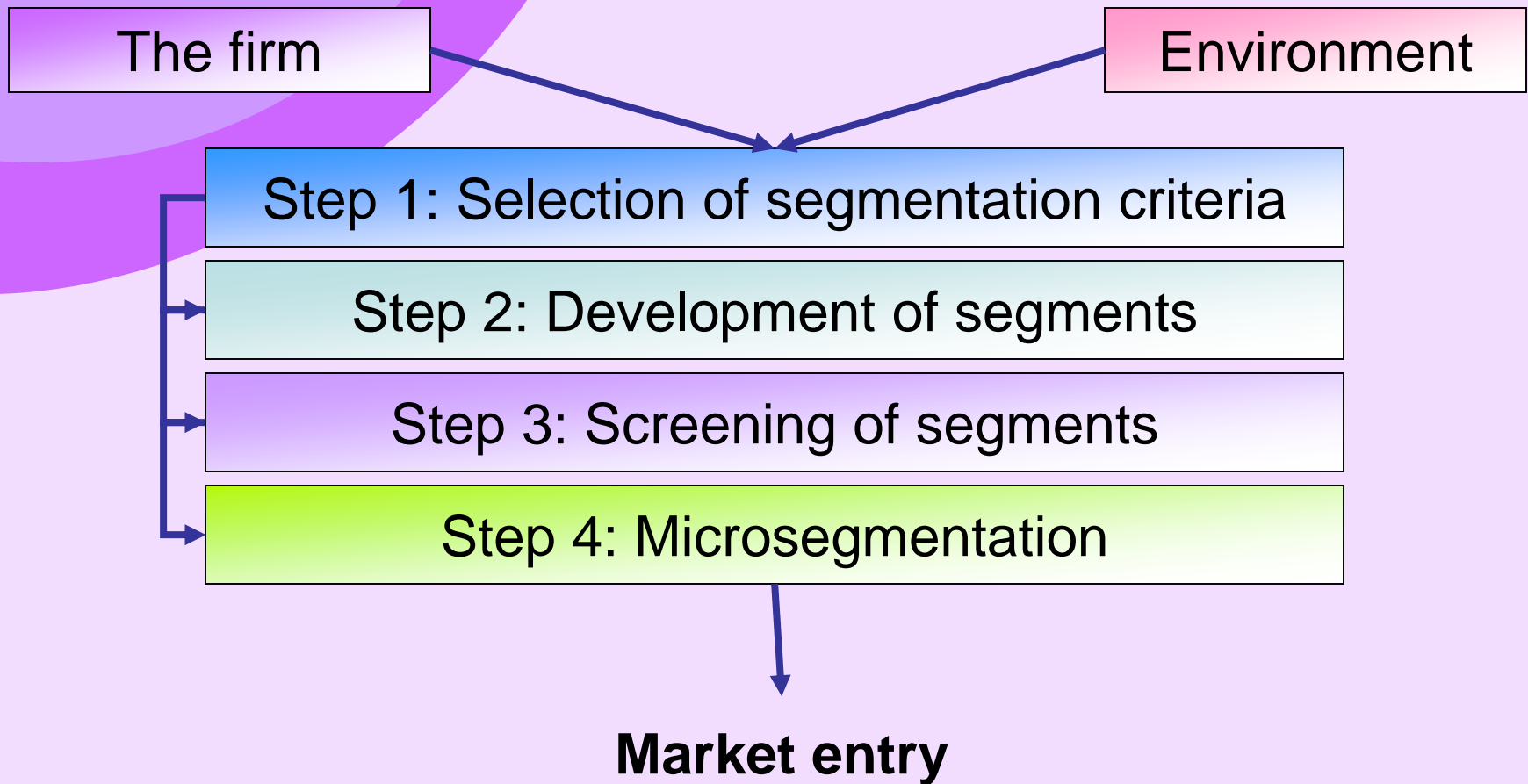


Figure 8.2 International market segmentation

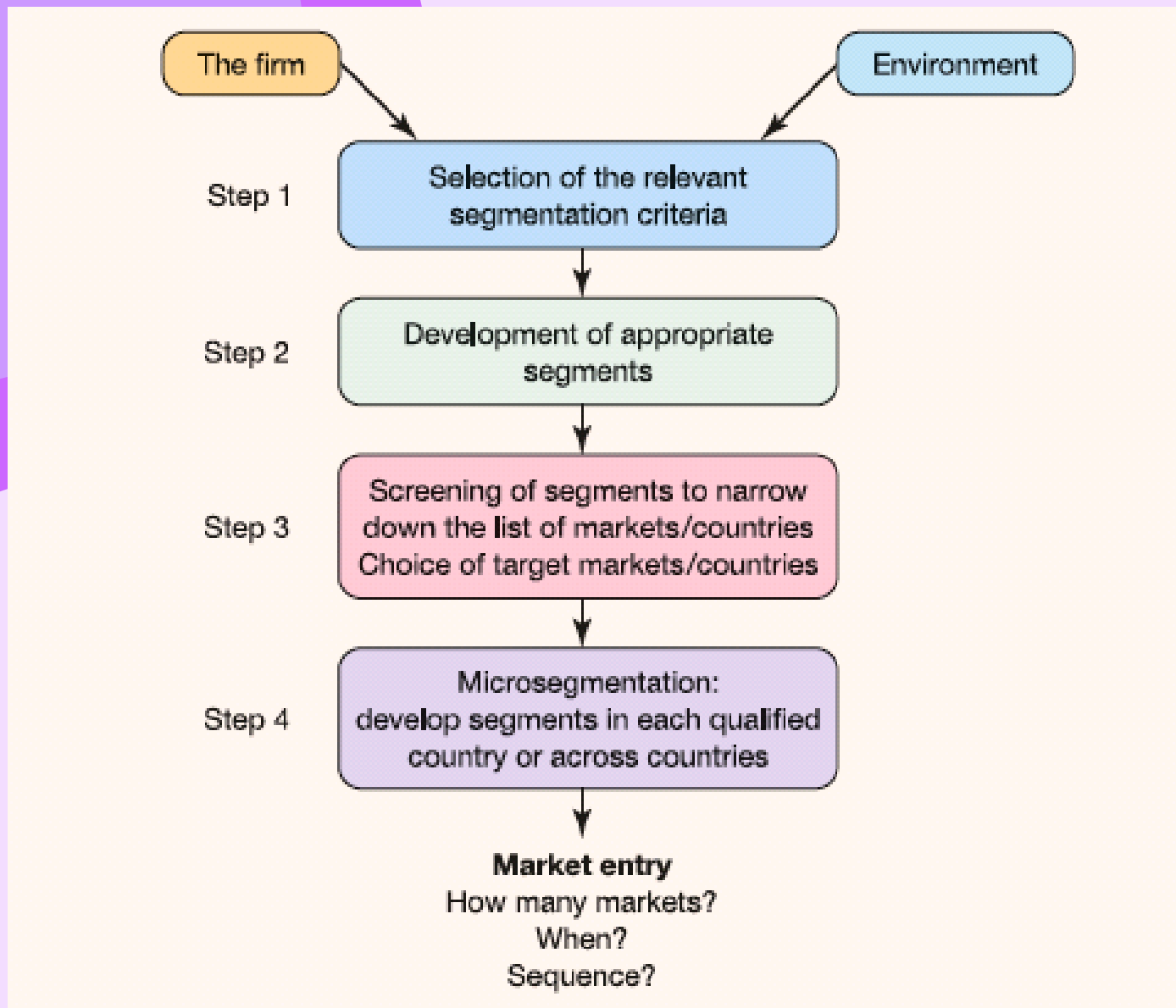


Figure 8.2 International market segmentation (Continued)

# Criteria for effective segmentation

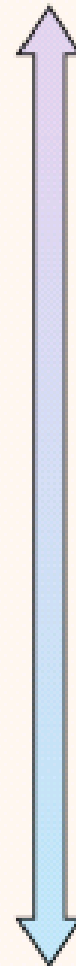
- Measurability
- Accessibility
- Substantiality/profitability
- Actionability

**General characteristics**

- Geographic
- Language
- Political factors
- Demography
- Economy
- Industrial structure
- Technology
- Social organization
- Religion
- Education

**Specific characteristics**

- Cultural characteristics
- Lifestyle
- Personality
- Attitudes and tastes

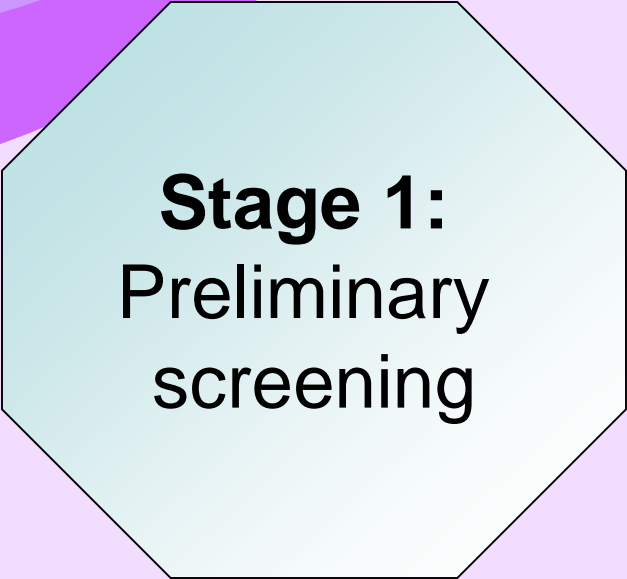


*High degree of measurability, accessibility and actionability*

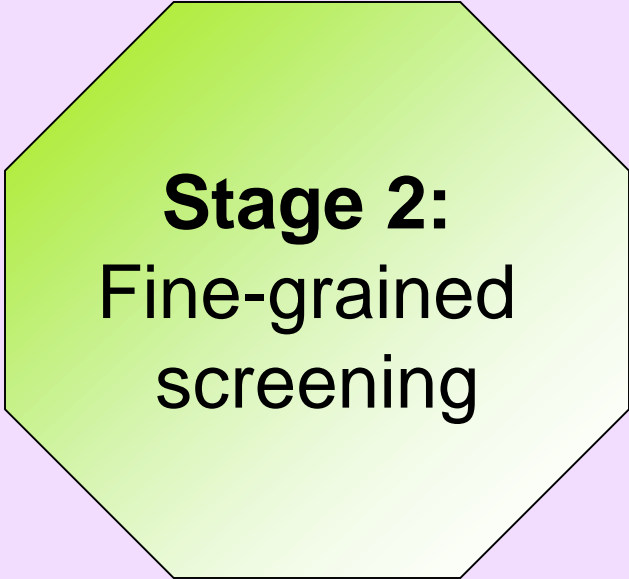
*Low degree of measurability, accessibility and actionability (however, high degree of relevance in specific situations)*

Figure 8.3 The basis of international market segmentation

# The screening process



**Stage 1:**  
Preliminary  
screening



**Stage 2:**  
Fine-grained  
screening

# What is this?

The \_\_\_\_\_ is a useful tool for coarse-grained, macro-oriented screening of international markets.

**Business Environment Risk Index  
(BERI)**

**Table 8.1**

Criteria included in the overall BERI index

Criteria	Weights	Multiplied with the score (rating) on a scale of 0–4*	Overall BERI index†
Political stability	3		
Economic growth	2.5		
Currency convertibility	2.5		
Labour cost/productivity	2		
Short-term credit	2		
Long-term loans/venture capital	2		
Attitude towards the foreign investor and profits	1.5		
Nationalization	1.5		
Monetary inflation	1.5		
Balance of payments	1.5		
Enforceability of contracts	1.5		
Bureaucratic delays	1		
Communications: phone, fax, Internet access	1		
Local management and partner	1		
Professional services and contractors	0.5		
<b>Total</b>	<b>25</b>	<b>× 4 (max.)</b>	<b>= max. 100</b>

\* 0 = unacceptable; 1 = poor; 2 = average conditions; 3 = above average conditions; 4 = superior conditions.

† Total points: >80 favourable environment for investors, advanced economy; 70–79 not so favourable, but still an advanced economy; 55–69 an immature economy with investment potential, probably an NIC; 40–54 a high-risk country, probably an LDC. Quality of management has to be superior to realize potential. <40 very high risk. Would only commit capital if there were some extraordinary justification.

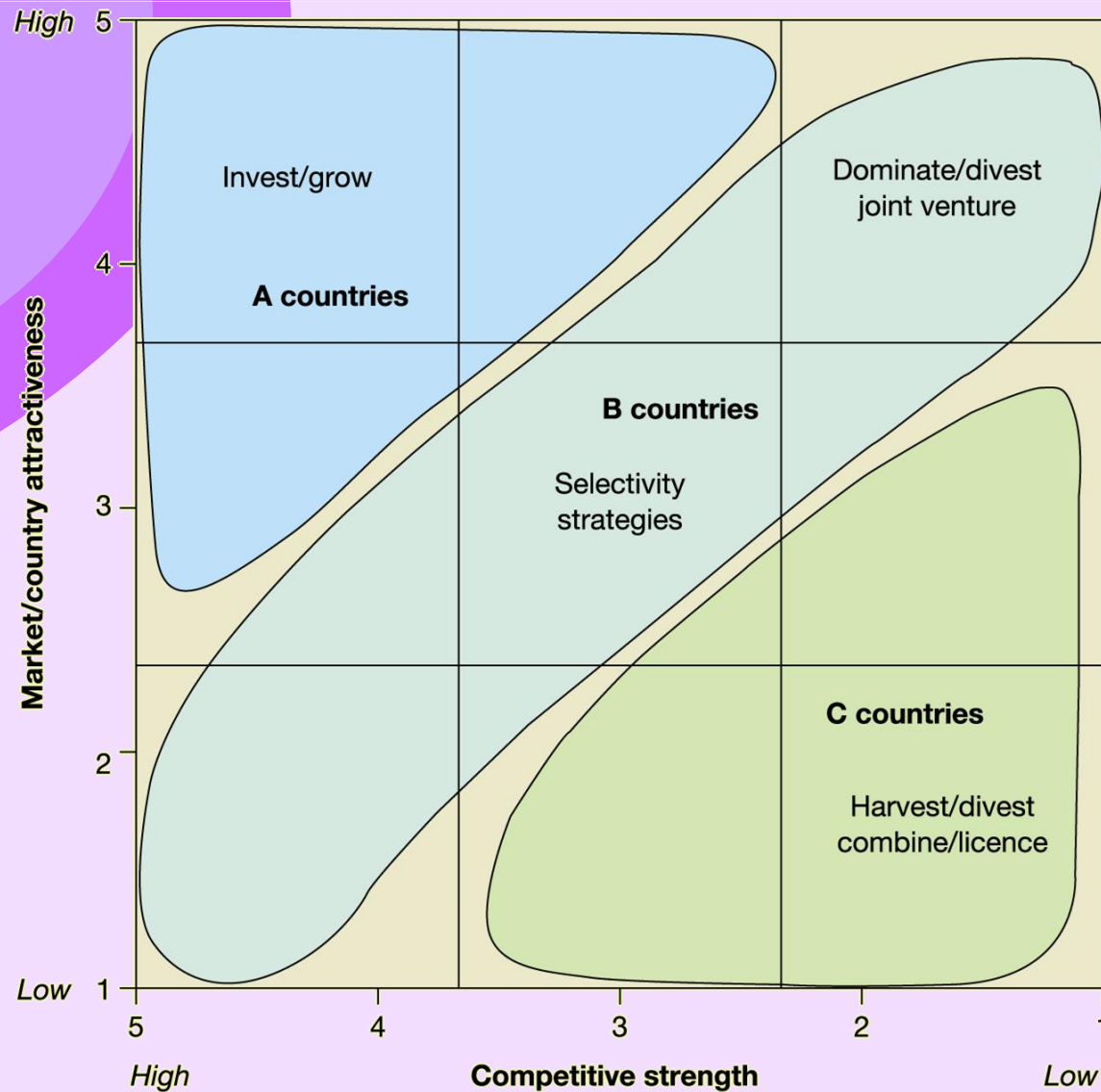


Figure 8.4 The market attractiveness/competitive strength matrix



**Table 8.2****Dimensions of market/country attractiveness and competitive strength****Market/country attractiveness**

Market size (total and segments)

Market growth (total and segments)

Buying power of customers

Market seasons and fluctuations

Average industry margin

Competitive conditions (concentration, intensity, entry barriers, etc.)

Market prohibitive conditions (tariff/non-tariff barriers, import restrictions, etc.)

Government regulations (price controls, local content, compensatory exports, etc.)

Infrastructure

Economic and political stability

Psychic distance (from home base to foreign market)

**Competitive strength**

Market share

Marketing ability and capacity (country-specific know-how)

Products fit to market demands

Price

Contribution margin

Image

Technology position

Product quality

Market support

Quality of distributors and service

Financial resources

Access to distribution channels

## Market size

The total market volume per year for a certain country/market can be calculated as:

Production (of a product in a country)

+ import

– export

= theoretical market size

+/- changes in stock size

= effective market size

Time of analysis:  
 Analysis of product area:  
 In country:

**A. Market attractiveness**

	1 Very poor	2 Poor	3 Medium	4 Good	5 Very good	% Weight factor	Result (grading × weight)
Market size							
Market growth							
Buying structure							
Prices							
Buying power							
Market access							
Competitive intensity							
Political/economic risks							
etc.							
<b>Total</b>						100	

Market attractiveness = Result : 100 = .....

**B. Relative competitive strength**

with regard to the strongest competitor = .....

	1 Very poor	2 Poor	3 Medium	4 Good	5 Very good	% Weight factor	Result (grading × weight)
Products fit to market demands							
Prices and conditions							
Market presence							
Marketing							
Communication							
Obtainable market share							
Financial results							
etc.							
<b>Total</b>						100	

Relative competitive strength = Result : 100 = .....

Figure 8.5 Underlying questionnaire for locating countries on a market attractiveness/competitive strength matrix

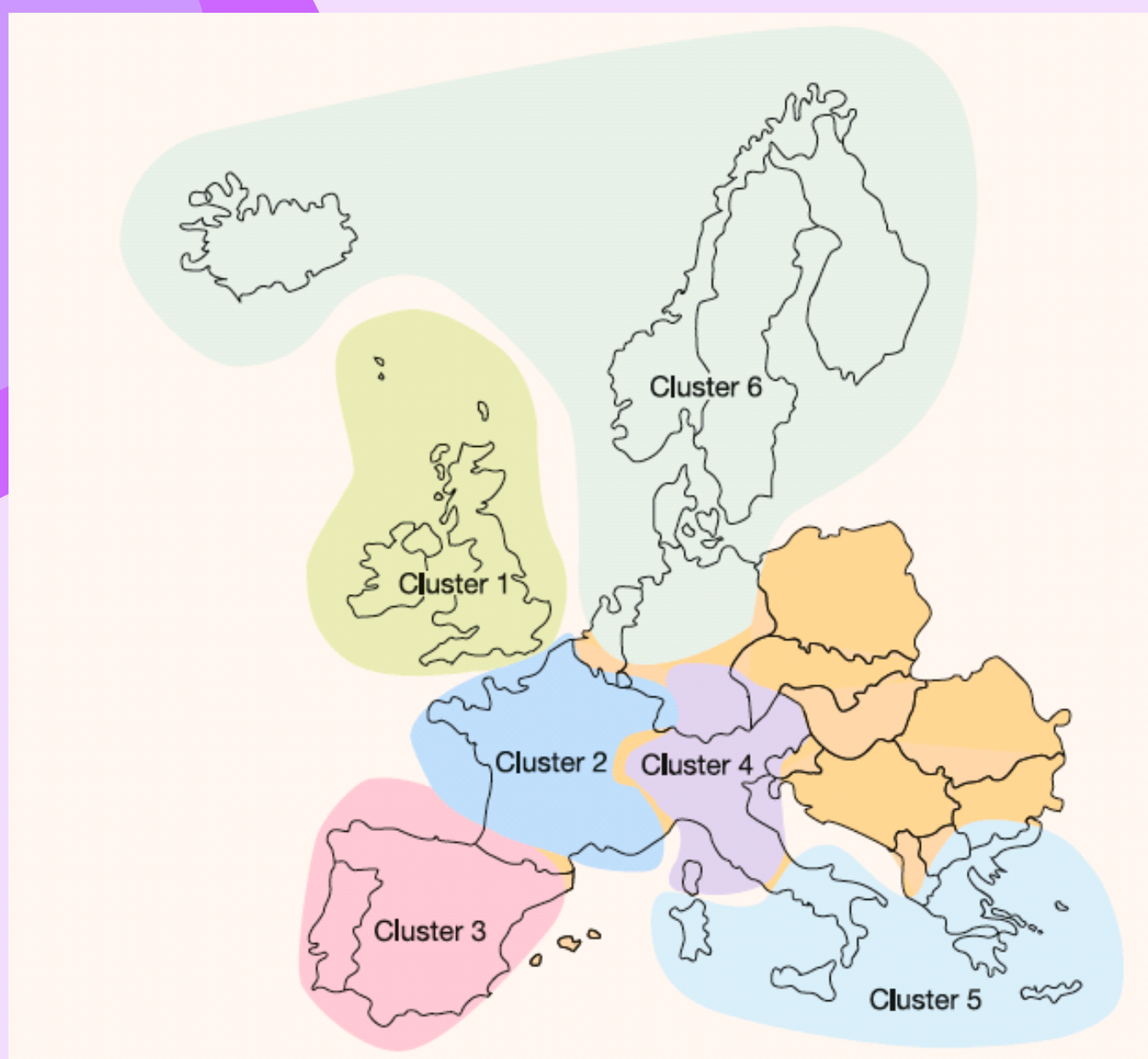


Figure 8.6 Transnational clustering of the western European market

Source: Welford and Prescott (1996). *European Business: An Issue-Based Approach*, 3rd edition. Reprinted by permission of Pearson Education Ltd.

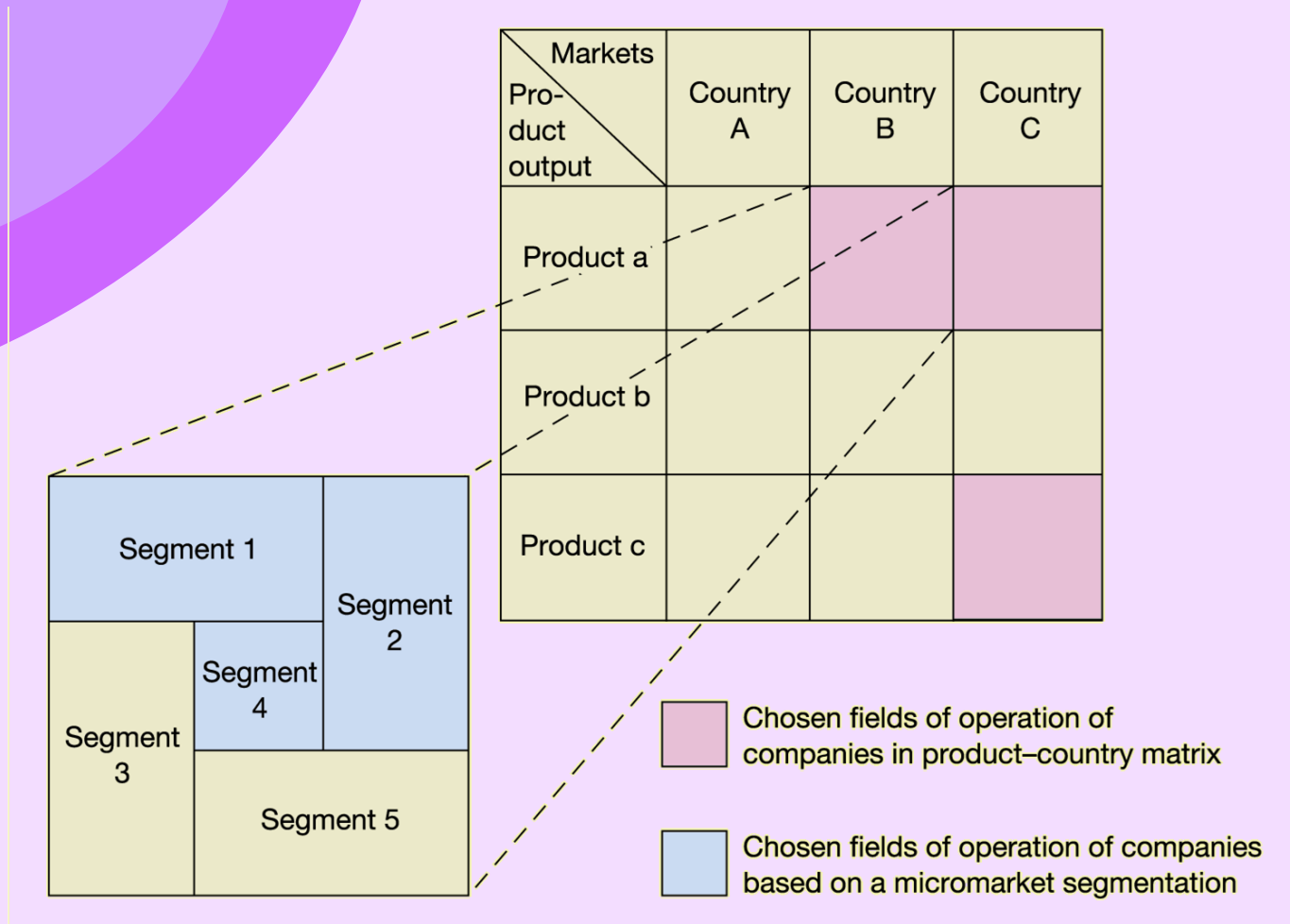


Figure 8.7 Micromarket segmentation

# Develop subsegments

Demographics

Lifestyles/Psychographics

Consumer motivations

Geography

Buyer behaviour

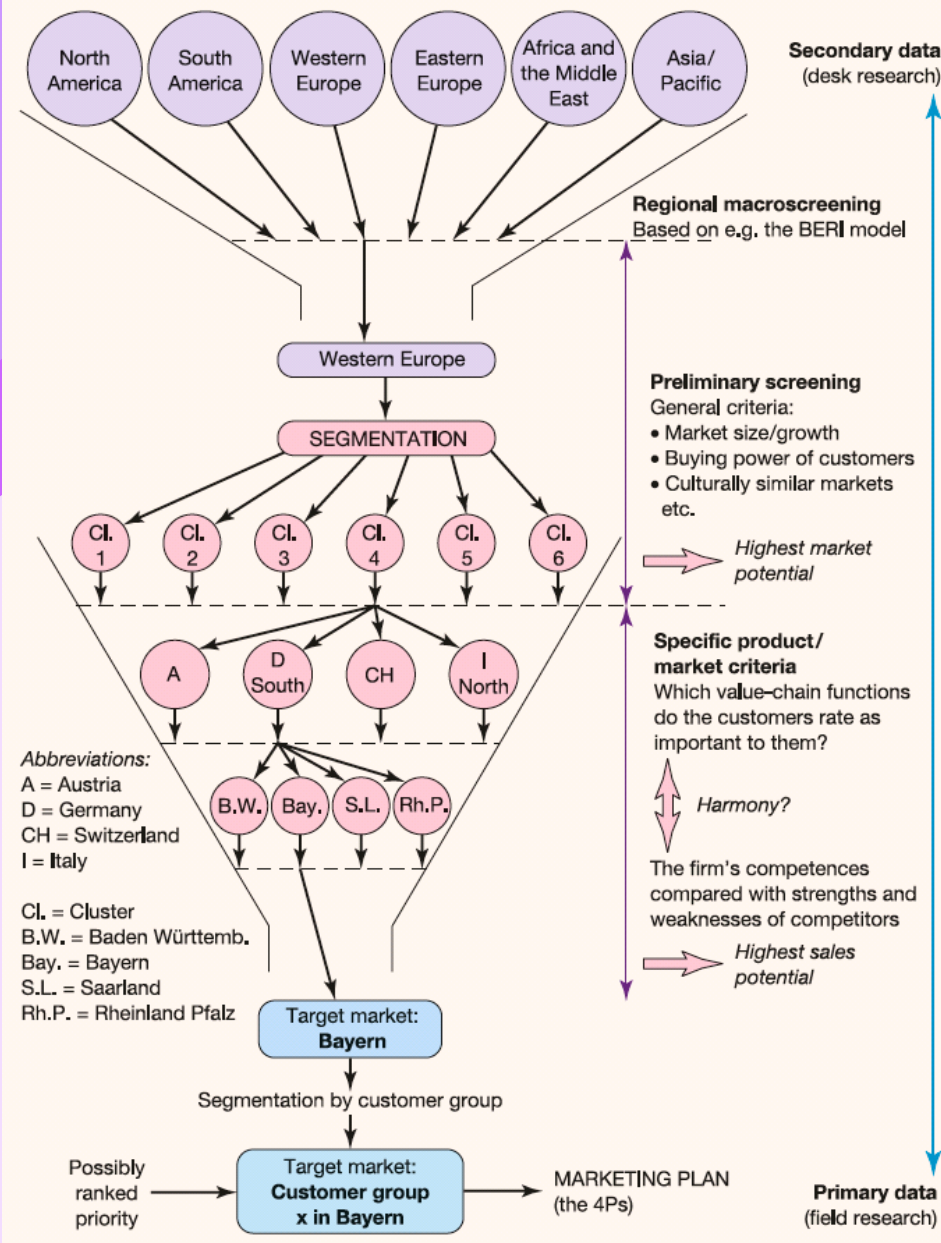


Figure 8.8 The international market segmentation/screening process: an example of the proactive and systematic approach

## EXHIBIT 8.1 Konica Minolta Solutions Europe B.V. makes an international market screening for its laser printers<sup>1</sup>

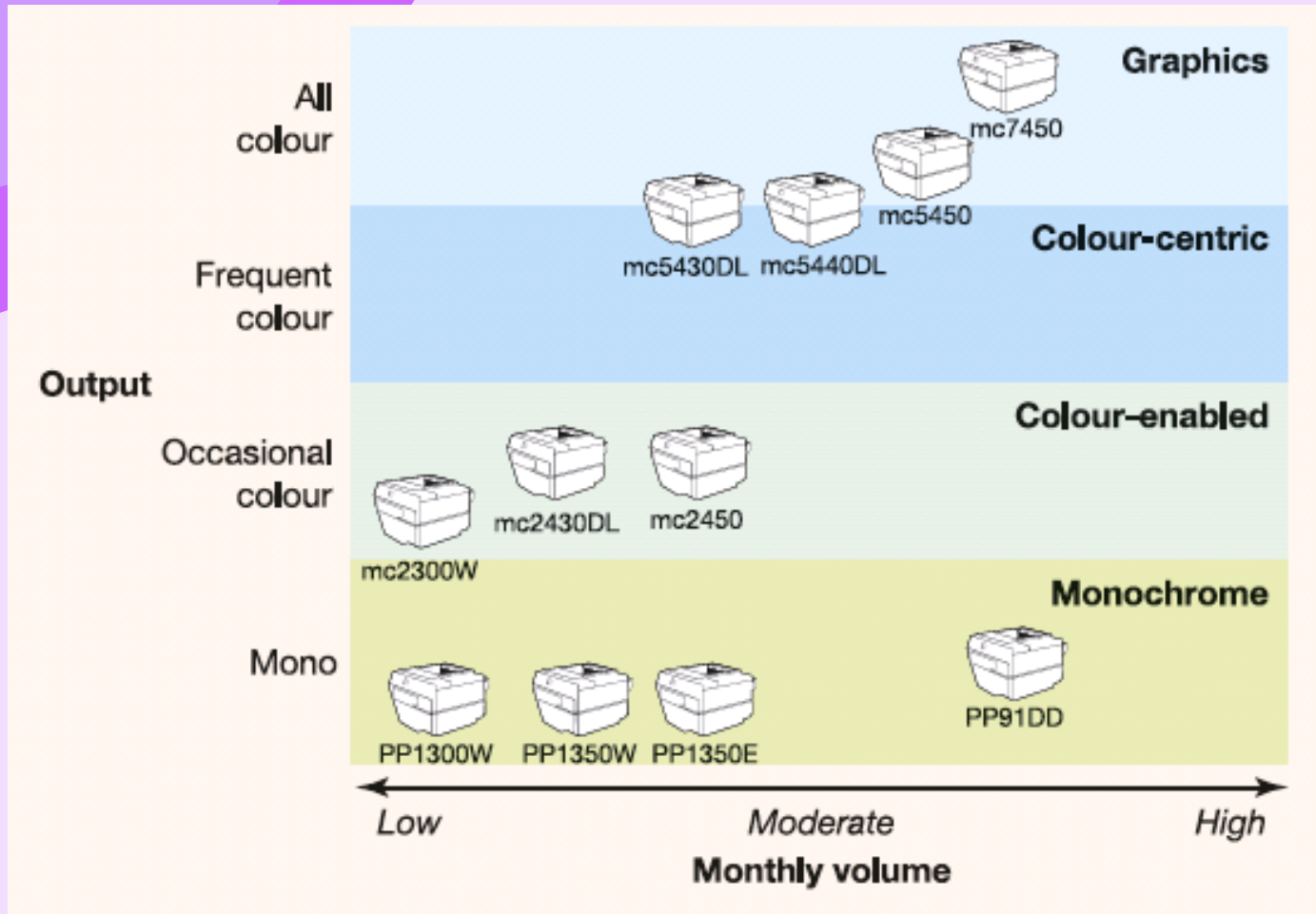


Figure 8.9 The laser printer range of Konica Minolta

<sup>1</sup> The exhibit does not necessarily reflect the current strategy of Konica Minolta Printing Solutions Europe B.V.



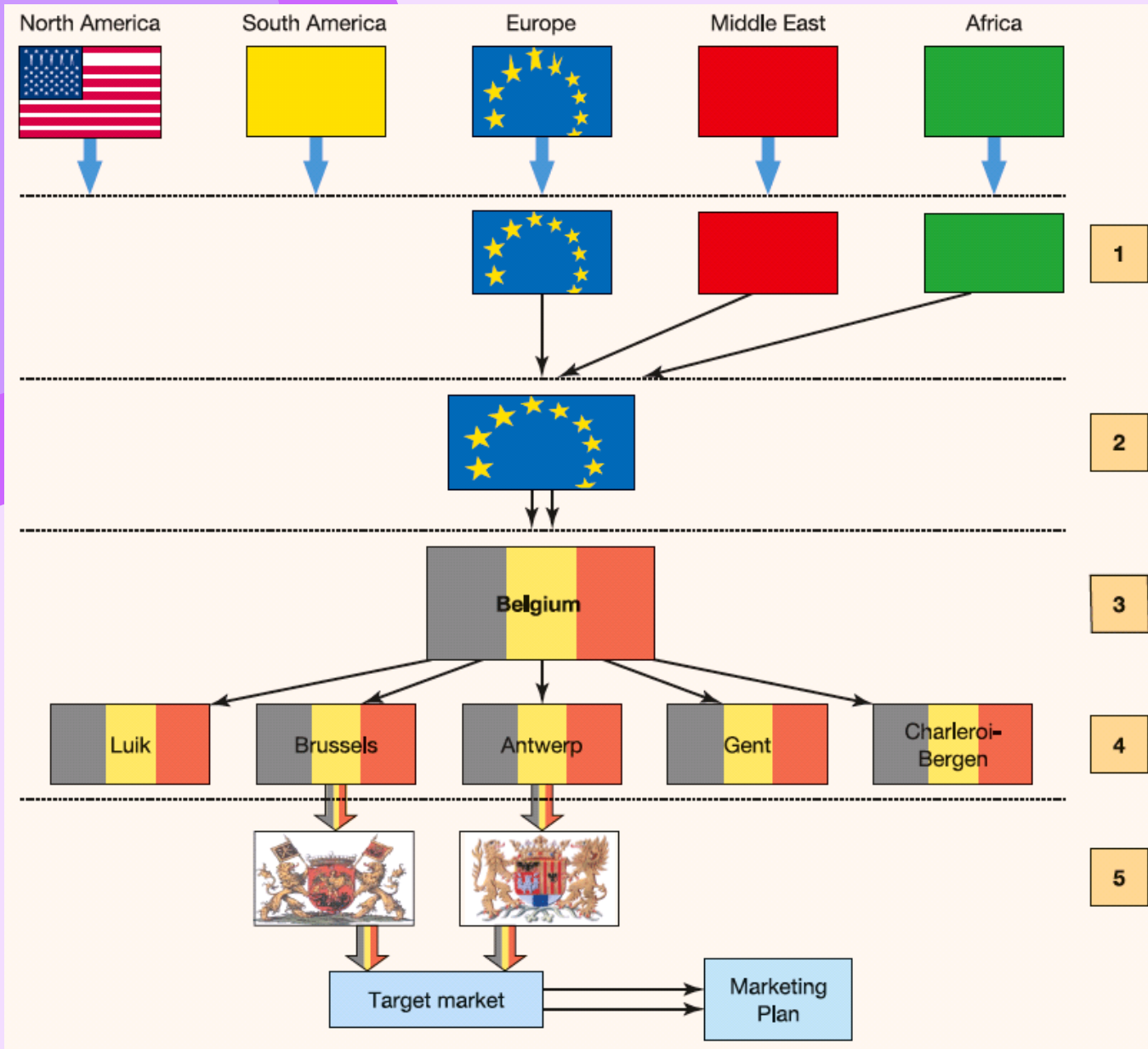


Figure 8.10 The IMS process of Konica Minolta Printing Solutions, Europe

# Market expansion strategies

- Should we enter markets incrementally or simultaneously?
- Will entry be concentrated or diversified across international markets?

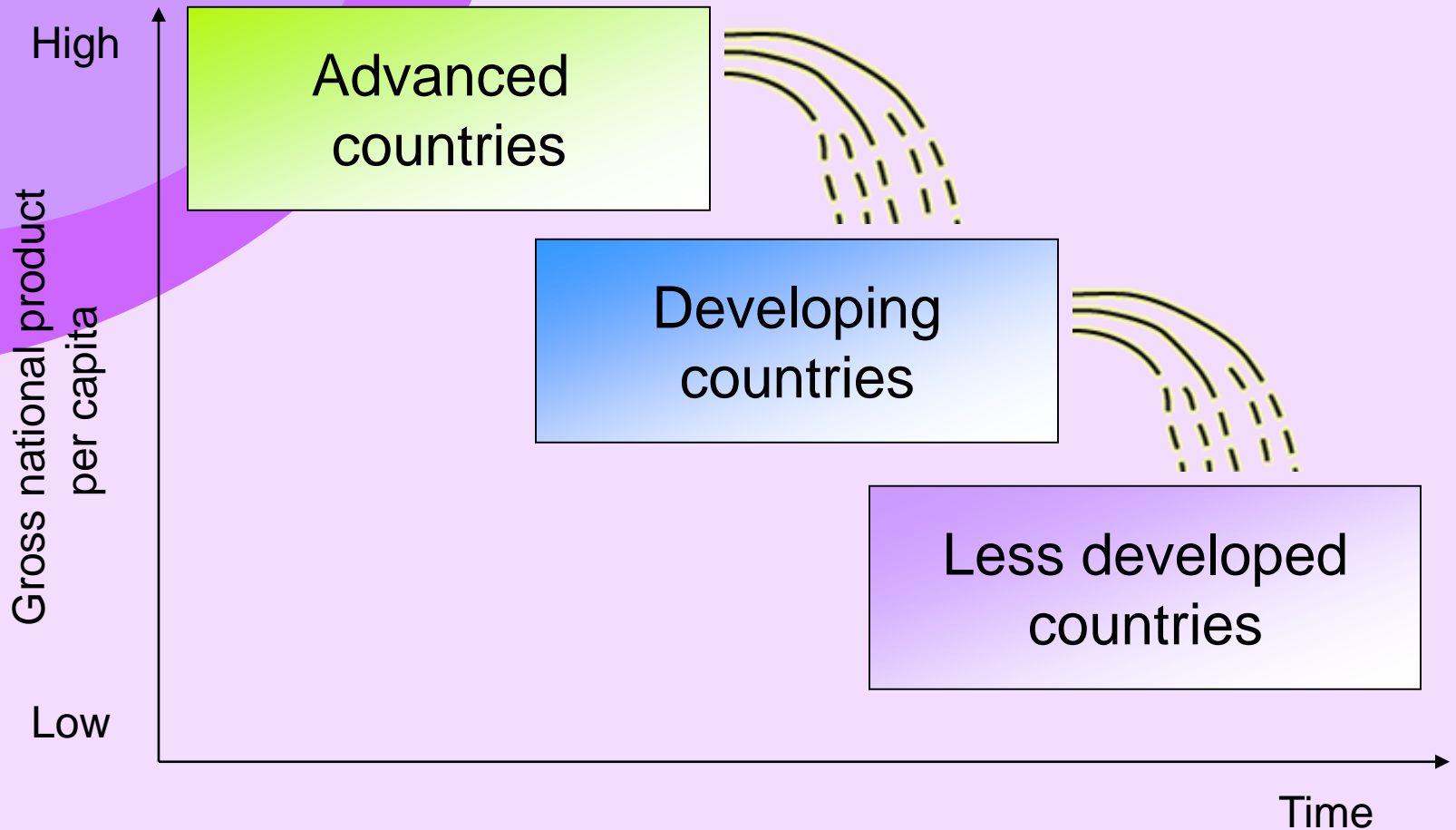


Figure 8.11 Market expansion strategies: Waterfall approach (“trickle-down”)

Source: *Global Marketing Management*, by Keegan, Warren J. © Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

## EXHIBIT 8.3 An example of the 'trickle-up' strategy



One Laptop per Child.

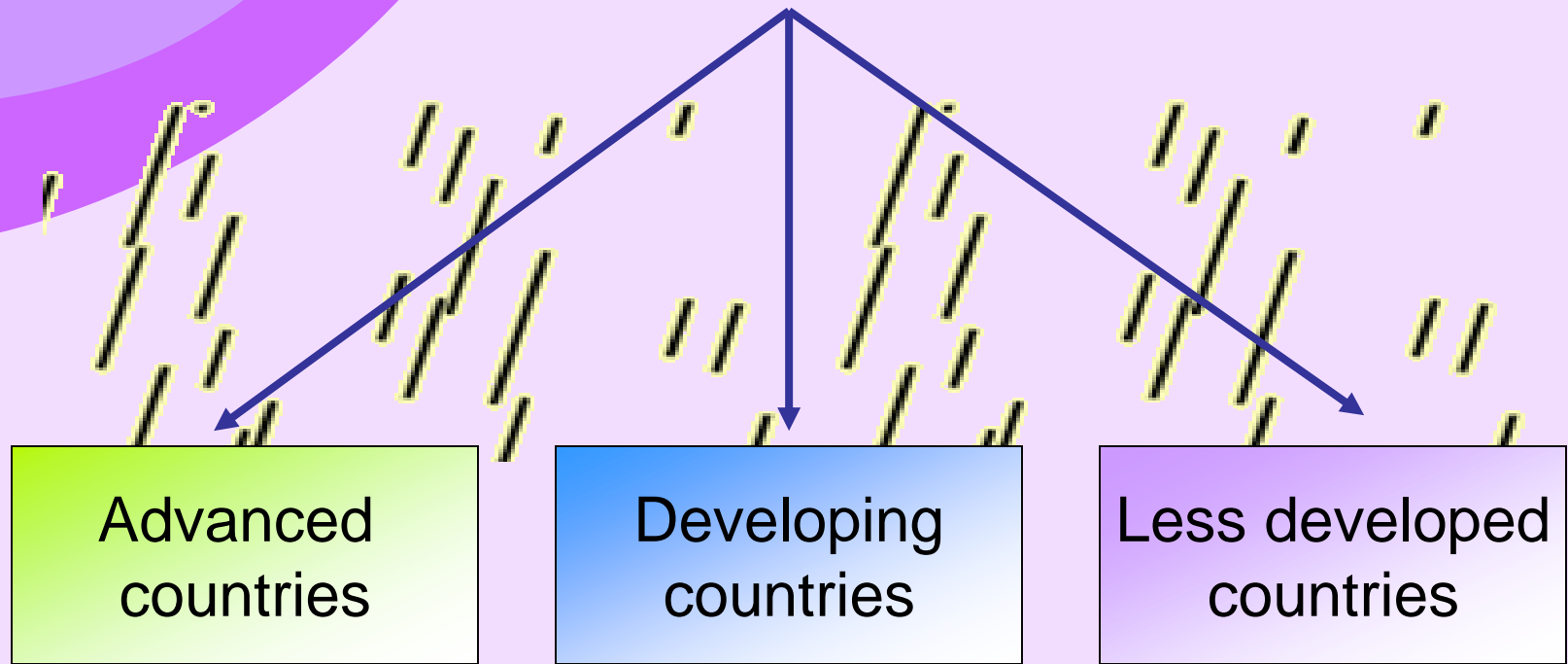


Figure 8.11 Market expansion strategies: Shower approach

Source: *Global Marketing Management*, by Keegan, Warren J. © Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

**EXHIBIT 8.2** Sanex's aggressive search for cross-border niches: an example of the shower approach



Source: © Sanex Global Brand.

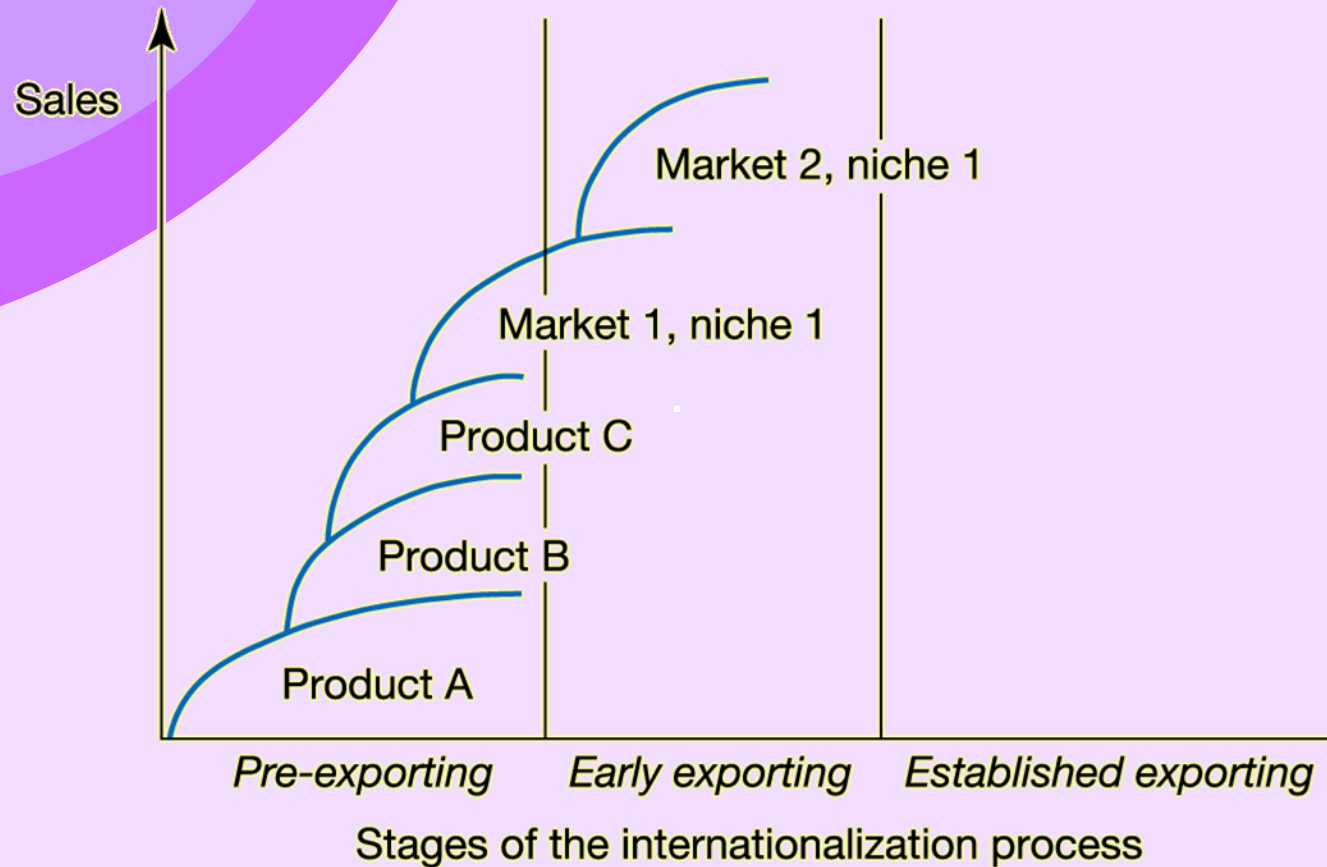


Figure 8.12 Appropriate global marketing strategies for SMEs

Source: Bradley (1995). *International Marketing Strategy*, 2nd edition. Reproduced by permission of Pearson Education Ltd.

		Market/customer target group	
		<i>Concentration</i>	<i>Diversification</i>
Country	<i>Concentration</i>	1	2
	<i>Diversification</i>	3	4

Figure 8.13 The market expansion matrix

Source: Ayal and Zif (1979, p. 84)



# Expansion alternatives

1. Few customer groups/segments in few countries
2. Many customer groups/segments in few countries
3. Few customer groups/segments in many countries
4. Many customer groups/segments in many countries

# Company factors

## *Favouring country diversification*

- High management risk consciousness
- Object of growth through market development
- Little market knowledge

## *Favouring country concentration*

- Low management risk consciousness
- Objective of growth through penetration
- Ability to pick 'best' markets

Table 8.3 International market diversification versus market concentration

Source: adapted from Ayal and Zif (1979); Piercy (1981); Katsikea *et al.* (2005)

# Product factors

## *Favouring country diversification*

- Limited specialist uses
- Low volume
- Non-repeat
- Early or late in product life cycle
- Standard product
- Radical innovation

## *Favouring country concentration*

- General uses
- High volume
- Repeat purchase product
- Middle of product life cycle
- Requires adaptation to different markets
- Incremental innovation

Table 8.3 International market diversification versus market concentration

Source: Adapted from Ayal and Zif, 1979; Piercy, 1981; Katsikea *et al.* (2005)

# Market factors

## *Favouring country diversification*

- Small markets
- Unstable markets
- Many similar markets
- Low growth rate
- Established competitors with large share
- Low loyalty
- High synergy between countries

## *Favouring country concentration*

- Large markets
- Stable markets
- Limited number of markets
- High growth rate
- Not excessively competitive
- High loyalty
- Low synergy effect

Table 8.3 International market diversification versus market concentration (Continued)

Source: Adapted from Ayal and Zif, 1979; Piercy, 1981; Katsikea *et al.* (2005)

# Marketing factors

## *Favouring country diversification*

- Low communication costs
- Low order-handling costs
- Low physical distribution costs
- Standardized communication

## *Favouring country concentration*

- High communication costs
- High order-handling costs
- High physical distribution costs
- Communication requires adaptation

Table 8.3 International market diversification versus market concentration (Continued)

Source: Adapted from Ayal and Zif, 1979; Piercy, 1981; Katsikea *et al.* (2005)

## EXHIBIT 8.4 Bajaj is selecting new international markets ignored by global leaders



SITE BEST VIEWED IN 1024 X 768 OR HIGHER RESOLUTIONS

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Figure 8.14 Location of Bajaj's international dealers

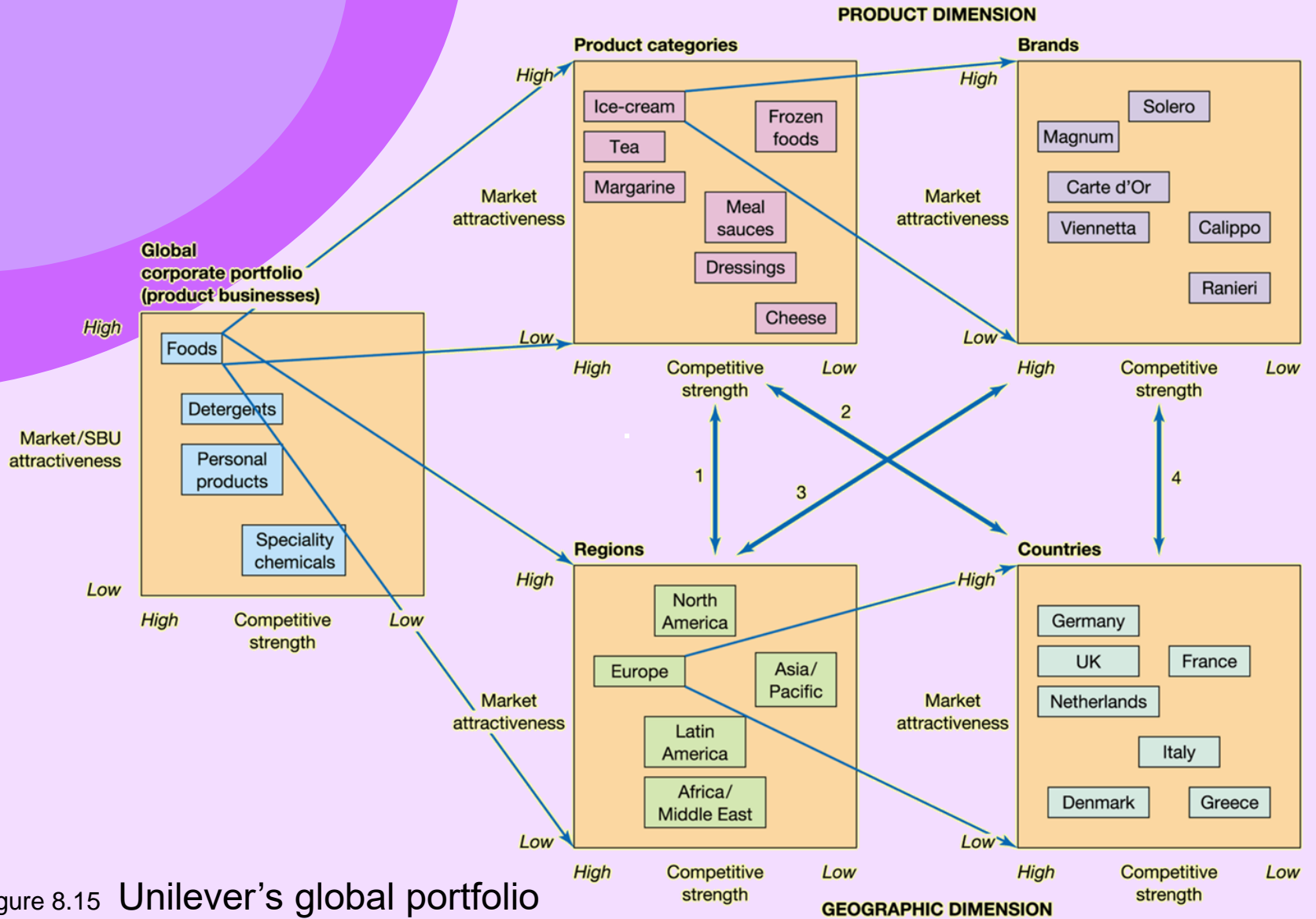


Figure 8.15 Unilever's global portfolio



## CASE STUDY 8.1

Tata Nano: international market selection with the world's cheapest car

Problem:



Solution:



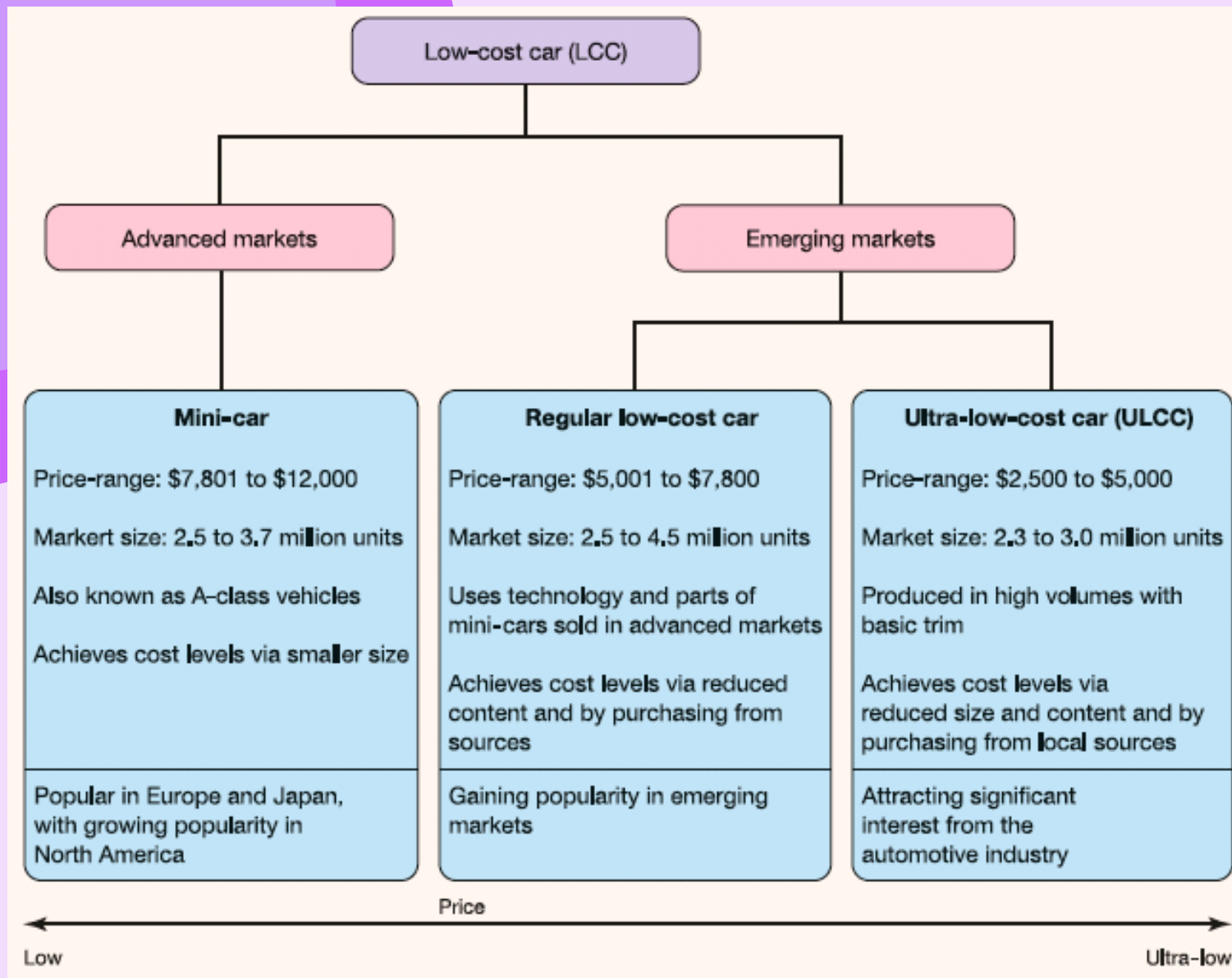


Figure 1 Segmentation of the low-cost car market

Source: based on Oxyer *et al.* (2008)

European suppliers:

Seat belts

Autoliv

HVAC

Behr

Starter motor, engine-control  
module, injectors, sensors

Bosch

Transmission speed sensors,  
fuel-level sensor, fuel pump

Continental

Fuel filter, air cleaner

Mahle

Glazings

Saint-Gobain

Speed sensors

TT Electronics

Clutches

Valeo

<b>Tata Nano</b>	<b>US\$</b>
Base price	2,500
+ Conversion (cost for fitting to emission standard and safety regulations)	500
+ Logistics costs	375
+ Marketing	125
+ Manufacturer profit	105
+ Dealership profit	108
+ Import tariffs	93
Expected MSRP (manufacturer's suggested retail price)	3,806
+ Sales tax	400
<b>Total costs</b>	<b>4,206</b>

No.	Model	Producer	Price US\$/€
1	Nano	Tata Motors in India	2,500/1,688
2	QQ3	Chery Automobiles in China	5,000/1,726
3	M800	Suzuki-Maruti in India	5,200/3,451
4	Merrie Star	Geely Automobiles in China	5,500/3,796
5	S-RV mini SUV	Geely Automobiles in China	5,780/3,989

Source: based on [www.timesonline.co.uk](http://www.timesonline.co.uk).

## QUESTIONS

1. What could be the main reasons for Tata Motors to enter the global ultra-low-cost car market?
2. What are the competitive advantages that Tata Motors would enjoy with their Nano in emerging markets?
3. Which screening criteria would you suggest for Tata Nano's IMS process?
4. Which world regions and specific countries would you suggest Tata Nano should enter after India and China?

## CASE STUDY 8.2

### Philips Lighting: screening markets in the Middle East



Outdoor advertising for Philips Lighting in Iraq (Bagdad)  
Royal Philips Electronics of the Netherlands.

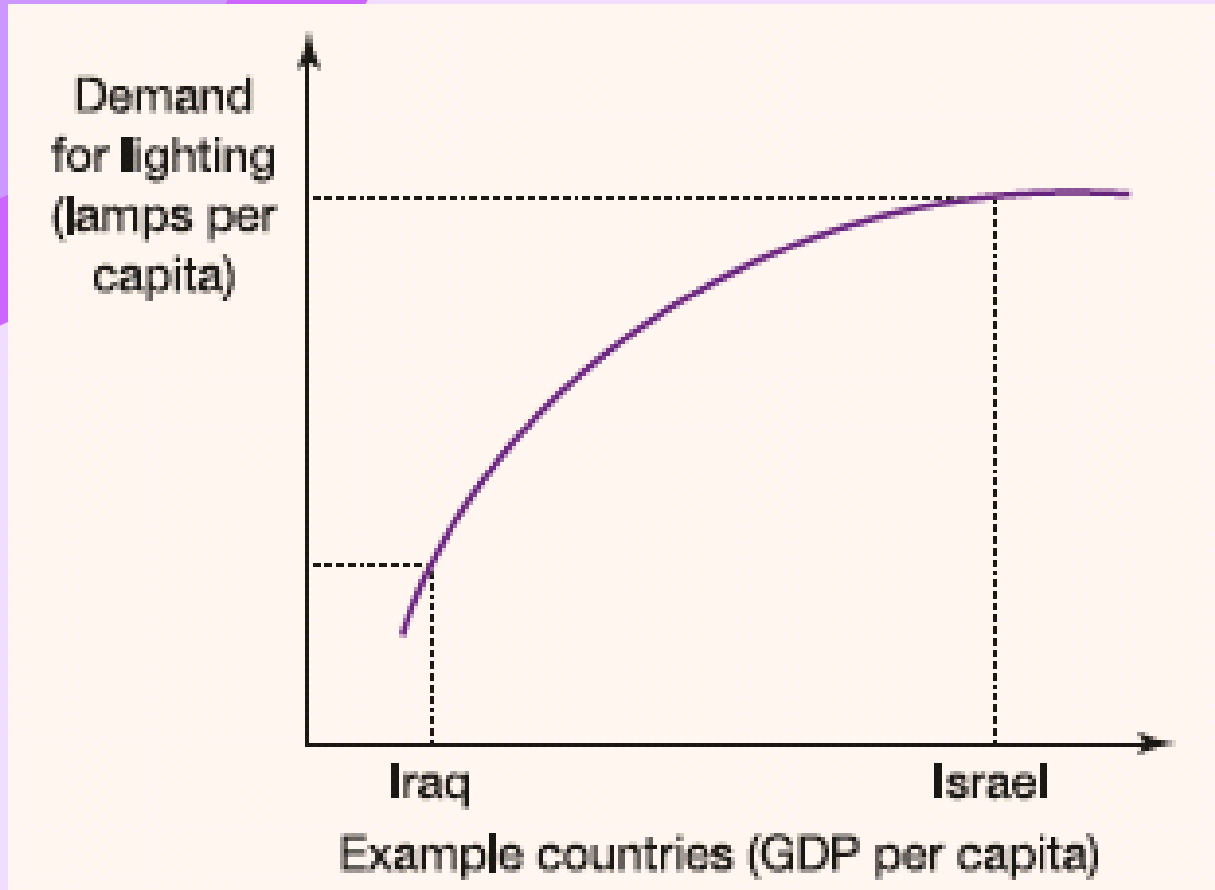


Figure 1 The relationship between the wealth of a country and the demand for lighting



**Table 1**

Basic demographic data in the Middle East (2007)

Markets	Population (million)	GNP 2007 (% growth)	GNP per cap (US\$)
Bahrain	0.6	3.0	8,620
Egypt	61.9	5.0	1,232
Iran	66.0	3.0	1,670
Iraq	19.7	-5.0	758
Israel	5.5	7.1	15,700
Jordan	4.6	5.0	2,359
Kuwait	2.2	3.5	15,970
Lebanon	3.2	4.0	4,250
Libya	5.5	3.5	4,982
Oman	2.4	4.3	6,268
Palestine	2.1	-5.0	630
Qatar	0.6	2.0	13,520
Saudi Arabia	20.6	3.5	5,943
Syria	17.0	6.0	982
UAE	2.5	0.5	17,840
Yemen	15.0	3.0	793
Middle East	229.4	-	-

Source: Wim Wils, Eindhoven, Fontys Export Day, 13 October 2004, update via [www.worldbank.org](http://www.worldbank.org).

## QUESTIONS

1. Discuss the appropriateness of the screening model used in this case.
2. Suggest another screening model that could be relevant for Philips Lighting to use in the Middle East.

## VIDEO CASE STUDY 8.3 Hasbro

download from [www.pearsoned.co.uk/hollensen](http://www.pearsoned.co.uk/hollensen)

### Questions

1. What are the foundations of Hasbro's global success?
2. What demographic changes and social issues might influence the future global market for toys and games?
3. What are the most important screening criteria for Hasbro in the IMS?

# Questions for discussion (1)

- Why is screening of foreign markets important?  
○ Outline the reasons why many firms do not systematically screen countries/markets.
- Explore the factors which influence the international market selection process.
- Discuss the advantages and disadvantages of using only secondary data as screen criteria in the IMS process.

## Questions for discussion (2)

- What are the advantages and disadvantages of an opportunistic selection of international markets?
- What are the differences between a global market segment and a national market segment? What are the marketing implications of these differences for a firm serving segments on a worldwide basis?

## Questions for discussion (3)

- Discuss the possible implications that the firm's choice of geographic expansion strategy may have on the ability of a local marketing manager of a foreign subsidiary to develop and implement marketing programmes.