# UNIT 13 INTERNATIONAL MARKET SELECTION

**Objectives**

After going through this unit you should be able to:

- explain the factors influencing market selection decision
- describe the process for undertaking market selection and segmentation
- discuss the strategies adopted by the firm which is undertaking the market selection decision.

**Structure**



## 13.1 INTRODUCTION

In the preceding units we have talked about economic policies of India, methodologies for undertaking political, cultural and economic analysis. All these analysis were essential for answering the question of which market to enter. In this unit the topic is carried further. Here an attempt has been made to answer questions-what should the company's corporate market portfolio look like in terms of number and types of markets held and what is the process for coming to such an answer? Put more simply, the company must answer how many markets will it capture and what would their characteristics be like, and for a particular market it must answer whether it will build, abandon or divest that market.

**Activity-1**

How does economic, political and cultural analysis help in the process of market selection?

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## 13.2 FACTORS INFLUENCING INTERNATIONAL MARKET SELF 2TION

Every company while selecting a particular country as a market, attempts at achieving the best fit between the market requirements and the company's abilities in meeting these requirements. As a result, the factors that come into consideration, while planning the international market selection, are country market factors and company factors. These factors may be studied in greater detail as under.

**1) Country Market Factors**

The country market factors may again be subdivided under three heads viz:

a) Product factors

b) Market factors

c) Marketing factors

**a) Product Factors:** The product characteristics and the transaction characteristics play a vital role in market selection and segmentation process. The degree of product specialisation, the value, the level of standardisation and the position in IPLC (International Product Life Cycle) all influence the market selection process.

The degree of product specialisation will by itself eliminate several country markets. Thus IBM wishing to market super computers would find small market because of the product specialisation and value factors. On the other hand, Nestle may choose virtually any country as its market.

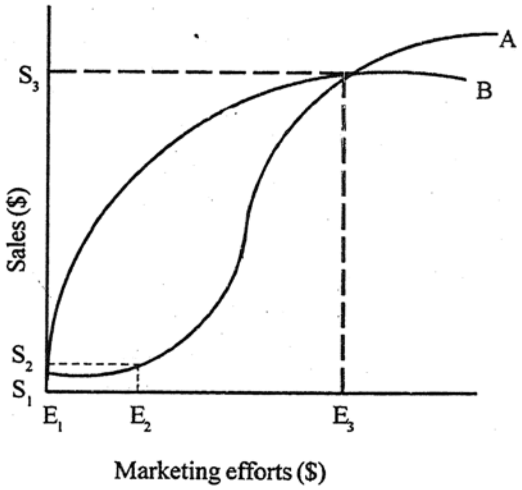
Similarly, the degree of standardisation may also influence the market selection process. Here standardisation refers to standardisation of both pre transaction and post transaction measures like after sales service. Thus, a company maybe forced to eliminate certain country markets either because the product does not meet with the country specific market requirements or because it does not have an established after sales service.

The position of the product on the PLC (Product Life Cycle Curve) of any given market and on the IPLC also influences the market selection and segmentation process. Most companies infact enter international markets not by choice but by the fact that they find their domestic markets drying up. The desire to survive and grow forces them to go into international markets. Even then, they must establish the position of the product on the PLC. Thus, product position on PLC influences the market selection process.

**b) Market Factors:** The cultural, political and economic analysis helps in determining the nature of market for undertaking the market selection and segmentation process. Questions regarding the size, stability, growth potential, uncertainty and competition get answered. These questions help in deciding which markets to eliminate and which markets to concentrate upon. Consideration to such factors is necessary for aligning the market requirement with company abilities through a marketing strategy. Very often a company may have to choose between size and growth potential. The emphasis it lays on a particular variable through its strategy may entirely be an outcome of the company's abilities and goals.

**c) Marketing Factors:** The company being an economic entity is influenced by economic gains while selecting and segmenting a particular market. It considers the costs and the nature of the costs against profitability of the market or the sales while assessing the choice of the market. The cost is the outgrowth of product characteristics and market characteristics. How much a company spends on each of its four P's of the marketing mix depends upon these factors and the entry strategy adopted. The profitability is judged on the basis of sales made. Two most frequently viewed responses while undertaking cost benefit analysis are the concave sales response function and the S-shaped sales function. In the concave sales response function the highest returns are noticed at the lower levels of marketing expenditure because of the shape of the sales function. This is essentially an outgrowth of the fact that the market is ripe for accepting the product. Here segmentation issues become predominant if maximum gains are to be cropped (reaped).

In case of the S-shaped sales function, it is assumed that a market has to be created therefore the highest returns are yielded just before the diminishing returns set in and after the marketing blocks are overcome.




In the exhibit above curve B represents the concave sales function where as curve A represents the S-shaped sales response. With every increase in marketing efforts (E) the sales response (S) can be gauged. The impact of the predicted sales response function on the choice of market is clear, however, it must be pointed out here that marketing efforts by themselves can be of different types, therefore, the response would be dependent upon the type of marketing effort planned. Thus, a company indulging in Mail Order business may observe lower communication costs as against a company wishing to set up its own facilities in the specified market. The analysis must, therefore, revolve around similar marketing efforts.

**Activity-2**

a) How can a new company with a technologically new product undertake a similar analysis for the purpose of market selection?

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b) Determine whether the sales response function in the above case will be S-shaped or concave.

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**2) Company Factors**

As, the process of market selection involves a match between market factors and company factors, it becomes necessary to understand the company factors. The company factors may be divided under three heads-the management's risk consciousness, the company goals, and the company's resources. The management's risk consciousness determines how the company will perceive various risks while undertaking country market analysis. In fact, subjects like assessment of political risk depend directly on how the company perceives the risk The company goals can also influence the market selection and segmentation process, for, they provide the foothold for direction. The company's resources both financial and managerial influence the market selection process. In fact the financial strength of a company may force it to choose a mode of entry in spite of its not wanting to do so. Similarly, the management's export market experience may determine the choice of market even when the macro analysis may be against the choice.

The fit between the company factors and the country market factors broadly answer the question as to which country will be selected. But, although they represent the factors, every company must determine a process for market selection. This is the issue, which is addressed in the next section.

## 13.3 THE PROCESS OF MARKET SELECTION

Every company is forced to address the question of which market to enter and how. Even after entering the markets a company must answer questions like, should it build, divest or abandon the market it has entered; how many such markets should it hold so as to maximize its economic benefits; how best to export to the chosen market?

To answer such questions every company must formulate procedures, policies and adopt strategies which allow it to keep the focus on both; country market factors and company factors. All these require marketing intelligence as indicated in the following exhibit :

| Marketing decision | Marketing intelligence |
|---|---|
| Go international or remain domestic | Assessment of global market and firm's potential share in it, in view of local and international competition, compared to domestic opportunities. |
| Which markets to enter | A ranking of world markets according to market potential, local competition and the political situation. |
| How to enter target markets | Size of markets, international trade barriers, transport costs, local competition, government requirements and political stability. |
| How to market in target markets | For each market, buyer behaviour, competitive practice, distribution channels, media, company experience |

Since the process of market selection begins with an attempt to match the market requirement with the company's ability, the first step involves defining the market and the company's ability. This step is followed by identifying the section of the market to be captured or market segmentation, and the final step involves determining the number of markets to he held.

**Step 1: Market Definition**

When a company is forced with heterogeneous international market, it becomes imperative for the company to define the market. Market definition is usually one dimensional i.e. a company can define the market in terms of country characteristics or in terms of product characteristics. Such a definition must also include a time frame and a reference to competition. The time frame is essential not only from the point of performance measurement and control but also for giving direction. Thus, a short-term market definition would involve a tactical concern. Similarly, defining the competition would help in knowing precisely how the market is not being served, thus it would pave way for the company's positioning. Since market definition precedes segmentation it becomes necessary for it to be specific. Market definition must encompass both served and unserved markets. All this makes it necessary for a company to undertake the mechanical exercise of market definition.

**Step 2: Market Segmentation**

Having defined the market it becomes necessary for the company to identify the relevant segment. This is done through market segmentation which is the process of dividing the total market into one or more parts, each of which tends to be homogeneous in all significant aspects. The basic criteria for segmenting international markets maybe any one or combination of the following : geographic segmentation, demographic segmentation, psychographic segmentation, behavioural segmentation and benefit segmentation. The process of segmentation must clearly lay down the niche in terms of measurability, accessibility, profitability and actionability. Also, the segments should be conceptually distinguishable from each other, and should respond differently to different marketing mix elements and programmes.

**(i) Measurability**

This involves identifying the market segment in terms of size, purchasing power and consumer behaviour. Since international markets are heterogeneous, the concept of measurability has been flouted all too often, all the same some effective criteria must be developed by the company.

**(ii) Accessibility**

How effectively can the company reach the identified segment must also be spelled out. Here again, the existence of heterogeneous markets makes the task more difficult.

**(iii) Profitability**

Since the fine is an economic entity, it must make sure that the identified segments are profitable. Here also the existence of heterogeneous markets compound the task. Many new costs are added while adapting to the identified segments. Market tariffs also influence the cost structure. The company must c ire that the size of the identified segment should be large enough to recover these costs.

**(iv) Actionability**

The last factor but, by no means the least, is actionability. Every identified segment should be capable of being captured through effective marketing programmes. If an identified segment cannot be tapped, it is useless from the point of view of the company, however profitable it may be.

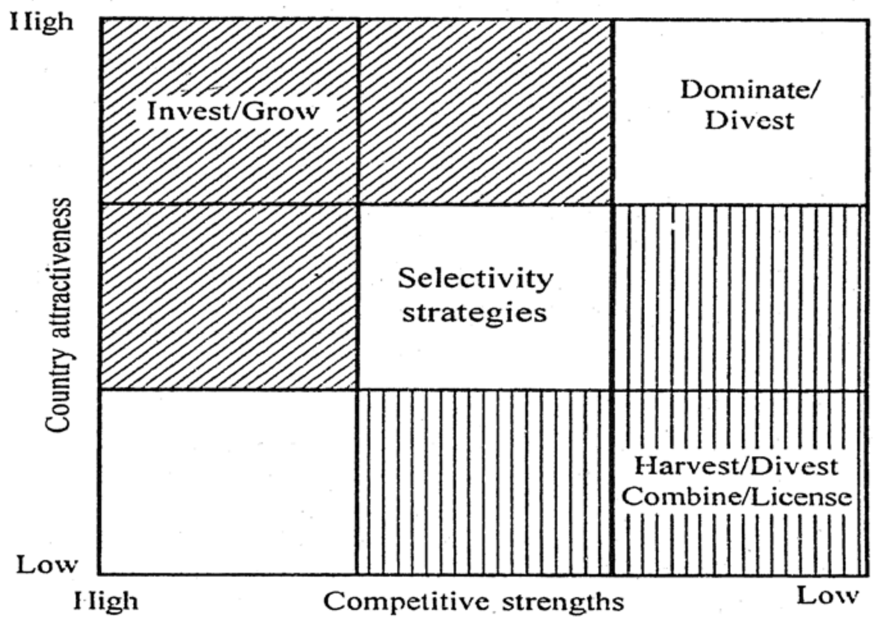
The process of segmentation is the most crucial step for the survival of the fine. It is here that the company's resources are matched with the identified segment. Wrong choices may lead to the decline of the company. This step is more or less in line with the step on market definition. If the definition is based on product characteristics then the segments are identified using product indicators else the segments are identified using general market indicators. It must also be mentioned here that in international marketing the process of segmentation involves two levels viz. (a) Country market level and (b) customer market level.

**Step 3 : Determining the Markets**

The next step in the process is usually associated with companies who have been in the export market for long. They must know which market to build, which to divest and which to abandon in order to optimize their return on investment. In other words they must define the direction of growth.

Most companies use the country attractiveness/competitive strength matrix for market selection as shown in the exhibit below.

*Export Market Selection: Strategies and Assessment*



Such a matrix helps in identifying Invest/Grow countries against Harvest/Divest countries. However, before using such a matrix the company must ensure that

- contributing factors are identified
- their relationship and direction have been established
- weights have been allotted to such factors.

It must also realise that such an analysis does not take into account

- the risk of international operation
- cost of entry into various countries and markets
- shared costs in international marketing.

Keeping these facts in mind it becomes simple for a company to identify the market on the basis of growth, divesture. The various countries that can be identified on such a matrix would fall under any one of the following heads.

**Invest/Grow Countries :** Such countries call for a high level marketing commitment. They represent a large market size which can be tapped through investment in people and capital. Here it becomes necessary to match the products with the marketing requirements.

**Hamst/Divest/Licenee/Combilae Countries :** They represent the direct opposite of invest/ grow countries. Because the country attractiveness is low and competitive strength is also low, such a country must be har$^{v}$ested. A growth of market share in such a market would demand an equal increase in marketing effort wiping out the gains if any. Therefore, in such countries it makes more sense to sell out, to maintain a close watch of cash flow and to follow a pricing policy which will minimize the investment till the operations are abandoned.

**Dominate/Divest Countries :** Such countries rank high on country attractiveness but low on competitive strengths. Therefore, the choice rests in either of the alternatives, to sell out or to develop competitive strength to reap the opportunities offered by such a market. If one wants to reap such benefits then he must analyse the market more closely in terms of cash required to build the strength and the potential profits. In such decision time frame and corporate profitability become important issues.

**Selectivity Countries :** Such countries fall in the centre of the matrix representing the fact that they are neither highly attractive countries nor highly unattractive. They also represent in company terms, a position that can be built or broken. In such situation the company can build the market by introducing new product features, through technological upgradations.

Such an analysis helps a company competing in the global scene to use its limited resources more effectively. It knows which markets to divest and which to hold. Even within markets it answers questions regarding which segments to build. In the absence of such an analysis the corporate profitability would fall because of inclusion of losers in the market portfolio and the company's survival itself may come into question.

## 13.4 SOME STRATEGIES

While the above procedure broadly outlines the country selection method, various strategies and approaches are available to the management which fit within this framework. Some of the approaches have been discussed as under.

**(1) Reactive vs Proactive Approach**

When an exporter enters into foreign market on the basis of an enquiry received by him, he has resorted to the reactive approach.

Such an approach for market selection reflects absence of plan nine The enquiries in such cases result from earlier participation in international markets or through contacts established. This approach is frequently used by small and middle-sized firms belonging to countries rated as attractive. The objective underlying such a mode of entry can normally be classified as `short-term profits'. Thus, many exporters in India who procured enquiries through participation in international trade fairs reflected a passive entry mode or a reactive method of market selection.

In direct contrast to the above approach is the proactive approach where a formal process of market selection is followed. In such an approach the international marketer has to develop an organisation with strong international marketing experience. Such an approach reflects marketing orientation.

While the above approach reflects the theoretical difference, in reality any firm would pursue both the modes of market selection.

**(2) Expansive vs Contractible Approach ,**

If the firm decides to follow a proactive approach then it has two options for market selection. It can follow the expansive approach as against the contractible approach. The expansive approach presupposes a bench mark i.e. it either uses the home market or an established market as the base market. All other markets are screened on the basis of the similarities that exist. Thus, it reflects the experience based market selection approach. The clustering technique or the nearest neighbour technique are examples of the expansive approach. They resort to either environmental proximity or trade policy proximity for eliminating unwanted markets. The other technique which falls under the expansive approach is the temperature gradient approach where the countries are classified as moderate, hot or cold on the basis of seven variables. These variables are political stability, market opportunity, economic development and performance, cultural unity, legal barriers, physiographic barriers and geo-cultural distance.

As against the expansive approach is the contractible approach. In the contractible approach the markets are first organised on the basis of (a) general market indicators and (b) specific product indicators and then screened against knock out factors.

Normally, this approach involves two steps for market screening, they are geographic segmentation and customer segmentation.

**(a) Geographic Segmentation**

This step is further sub-divided into two stages (a) information stage (b) decision stage. In the information stage, information regarding the general market characteristics and product characteristics is collected. Here it must be pointed out that the information collected will have to deal with ever changing variables. Therefore, some criteria for allowing for such change must also be taken into account.

The data so collected is further sub-divided under the heads of prohibitive market factors and prohibitive product factors.

A prohibitive product factor may be factor which contrast against general market factors. Therefore, such a market or product may comfortably be knocked out. Similarly, a prohibitive market factor may be a barrier imposed by the government.

The markets which remain after such an analysis may he further knocked out on the basis of established knock out factor. This is known as the decision stage.

**(b) Customer Segmentation**

The markets which remain after step (a) are further petered out by a qualitative and quantitative analysis of demand and supply data.

On the demand side, data regarding consumer behaviour for both consumer and industrial products must be collected. Similarly, on the supply side data pertaining to quantity produced, number of producers, distribution system must be collected. This data is again matched with the market characteristics and product characteristics to arrive at the final choice of markets to be tapped.

**Activity-3**

Visit an experience and determine the strategy followed by him for export market selection. Why does he follow that particular strategy?

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## 13.5 SUMMARY

The discussion in this unit centres around market selection and segmentation issues. These issues are faced by a firm every time it wants to enter a new market. Therefore, they are very often evaluated as expansion or growth strategies.

The factors which influence international market segmentation and selection include country market factors as well as company factors. Further, the process of market selection has been discussed. This helps an organisation in answering two pertinent questions - which markets to enter and which direction to build. Some approaches commonly followed by international firms have also been discussed.

## 13.6 SELF-ASSESSMENT QUESTIONS

1) What are the factors influencing the market selection decision?

2) With the held of an example explain how a marketing manager can use "country attractiveness / competitive strength" matrix to define the direction of growth for the organisation.

3) Using the contractible method select a market for a company marketing shoes internationally.

## 13.7 FURTHER READINGS

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