Chapter 12

Global Market Opportunity Assessment

International Business Strategy, Management & the New Realities

by Cavusgil, Knight and Riesenberger
Learning Objectives

1. An overview of global market opportunity assessment
2. Analysis of organizational readiness to internationalize
3. Assessment of the suitability of products and services for foreign markets
4. Screening countries to identify target markets
5. Assessment of industry market potential
6. Selection of foreign business partners
7. Estimation of company sales potential
Global Market Opportunity

- Global market opportunity refers to favorable combination of circumstances, locations, or timing that offer prospects for exporting, investing, sourcing, or partnering in foreign markets.
- Global business opportunities include:
  - marketing products and services;
  - establishing factories or other production facilities to produce its offerings more competently or cost-effectively;
  - procuring raw materials or components, services of lower cost or superior quality;
  - Entering into collaborative arrangements with foreign partners.
The Six Tasks of GMOA

1. Conduct an internal assessment of the firm’s readiness to initiate international business activity.
2. Assess the suitability of the firm’s products and services for foreign markets.
3. Systematically identify the best markets to target with the chosen product(s) or service(s).
4. Estimate the industry market potential, or the “market demand”, for the product(s) or service(s) in selected target markets.
5. Screen and select qualified business partners, such as distributors or suppliers.
6. Estimate the company sales potential for each target market.
<table>
<thead>
<tr>
<th>Task</th>
<th>Objective</th>
<th>Outcomes</th>
<th>Selection criteria</th>
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</thead>
</table>
| 1. Analyze organizational readiness to internationalize | To provide an objective assessment of the company’s preparedness to engage in international business activity. | A list of firm strengths and weaknesses, in the context of international business, and recommendations for resolving deficiencies that hinder achieving company goals. | Evaluate factors needed for international business success:  
- Relevant financial and tangible resources  
- Relevant skills and competencies  
- Senior management commitment and motivation |
| 2. Assess the suitability of the firm’s products and services for foreign markets | To conduct a systematic assessment of the suitability of the firm’s products and services for international customers. To evaluate the degree of fit between the product or service and customer needs. | • Determination of factors that may hinder product or service market potential in each target market.  
• Identification of needs for the adaptations that may be required for initial and ongoing market entry. | Assess the firm’s products and services with regard to:  
- Foreign customer characteristics and requirements  
- Government-mandated regulations  
- Expectations of channel intermediaries  
- Characteristics of competitors’ offerings |
| 3. Screen countries to identify target markets | To reduce the number of countries that warrant in-depth investigation as potential target markets to a manageable few. | Identification of five to six high-potential country markets that are most promising for the firm. | Assess candidate countries that the firm may enter with regard to:  
- Market size and growth rate  
- Market intensity (that is, buying power of the residents in terms of income level)  
- Consumption capacity (that is, size and growth rate of the country’s middle class)  
- Country’s receptivity to imports  
- Infrastructure appropriate for doing business  
- Degree of economic freedom  
- Political risk |
| 4. Assess industry market potential | To estimate the most likely share of industry sales within each target country, to investigate and evaluate any potential barriers to market entry. | 3 to 5-year forecasts of industry sales for each target market  
- Delineation of market entry barriers in industry | Assess industry market potential in the target country by considering:  
- Market size, growth rate, and trend in the industry  
- The degree of competitive intensity  
- Tariff and non-tariff trade barriers  
- Standards and regulations  
- Availability and sophistication of local distribution  
- Unique customer requirements and preferences  
- Industry-specific market potential indicators |
| 5. Select foreign business partners | To decide on the type of foreign business partner, criteria for partner qualifications and plan mode of entry. | • Determination of value-adding activities required of foreign business partners  
• List of attributes desired of foreign business partners  
• Determination of value-adding activities foreign business partners contribute | Assess and select intermediaries and facilitators based on:  
- Manufacturing and marketing expertise in the industry  
- Commitment to the international venture  
- Access to distribution channels in the market  
- Financial strength  
- Quality of staff  
- Technical expertise  
- Infrastructure and facilities appropriate for the market |
| 6. Estimate company sales potential | To estimate the most likely share of industry sales the company can achieve, over a period of time, for each target market. | • 2 to 5-year forecast of company sales in each target market  
- Understanding of factors that will influence company sales potential | Estimate the potential to sell the firm’s product or service, with regard to:  
- Capabilities of partners  
- Access to distribution  
- Competitive intensity  
- Pricing and financing  
- Market penetration timetable of the firm  
- Risk tolerance of senior managers |

**Exhibit 12.1 Key Tasks in Global Market Opportunity Assessment**
Task 1. Organizational Readiness

**Objective:** To provide an objective assessment of the company’s preparedness to engage in international business activity.

**Outcomes:** A list of firm strengths and weaknesses, in the context of international business, and recommendations for resolving deficiencies that hinder achieving company goals.

**Criteria:** relevant financial and tangible resources; relevant skills and competencies; senior management commitment and motivation
Issues to beResolved in Organizational Readiness Analysis

- **What does the firm hope to gain from international business?**  E.g., increasing sales or profits, following key customers who locate abroad, challenging competitors in their home markets, or pursuing a global strategy of establishing production and marketing operations at various locations worldwide.
- **Is international business expansion consistent with other firm goals, now or in the future?**
- **What demands will internationalization place on company resources, such as management, personnel, and finance, as well as production and marketing capacity?**  How will such demands be met?
- **What is the basis of the firm’s competitive advantage?**  Here, managers evaluate the reasons for the firm’s current success.
CORE as Diagnostic Tool

• One can use diagnostic tools to facilitate a self-audit of the firm’s readiness to internationalize. One of the best-known tools is CORE (Company Readiness to Export). See: globaledge.msu.edu

• CORE asks managers questions about their organizational resources, skills, and motivation to arrive at an objective assessment of the firm’s readiness to successfully engage in exporting.

• CORE also generates assessments on both “Organizational Readiness” and “Product Readiness.”
Task 2. Product Suitability

**Objective:** To conduct a systematic assessment of the suitability of the firm's products and services for international customers; To evaluate the degree of the fit between the product or service and customer needs.

**Outcomes:** Determination of factors that may hinder product or service market potential in each target market; Identification of needs for the adaptations that may be required to initial and ongoing market entry.

**Criteria:** Assess the firm’s products and services with regard to:
- foreign customer characteristics and requirements
- government mandated regulations
- expectations of channel intermediaries
- characteristics of competitors’ offerings
Product Suitability

- **Sell well in the domestic market.** Those that are received well at home are likely to succeed abroad, especially where similar needs and conditions exist.
- **Cater to universal needs.** International sales may be promising if the product or service is relatively unique or has important features that are hard to duplicate by foreign firms.
- **Address a need not well served in particular foreign markets.** Potential may exist in developing countries or elsewhere where the product or service does not currently exist, or where demand is just beginning to emerge.
- **Address a new or emergent need abroad.** For some products and services, demand might emerge suddenly following a disaster or other large-scale or emergent trend. For example, a major earthquake in Turkey can create an urgent need for portable housing. Rising AIDS cases in South Africa can create a need for drugs or medical supplies.
Issues that Determine Potential Product Demand

- **Who initiates purchasing?** For example, homemakers are usually the chief decision makers for household products. Professional buyers make purchases on behalf of firms.

- **Who uses the product or service?** For instance, children consume various products, but their parents may be actual buyers.

- **Why do people buy the product or the service?** Honda sells gasoline-powered generators that customers in advanced economies use for recreational purposes; customers in developing economies may buy these for basic household heating and lighting.

- **Where do consumers purchase the product or service?** Once the researcher understands where the offering is typically purchased, it is useful to visit potential buyers to find out their potential interest.

- **What economic, cultural, geographic, and other factors in the target market can limit sales?** Countries vary substantially in terms of buyer income levels, preferences, climate, and other factors that can inhibit or facilitate purchasing behavior.
**Task 3. Country Screening**

**Objective:** To reduce the number of countries that warrant in-depth investigation as potential target markets to a manageable few.

**Outcomes:** Identification of 5 to 6 high potential country markets that are most promising for the firm.

**Criteria:** market size and growth rate; market intensity (that is, buying power of the residents in terms of income level); consumption capacity (that is, size and growth rate of the country’s middle class); country’s receptivity to imports; infrastructure appropriate for doing business; economic freedom; political risk.
Focus of Screening Varies with Entry Strategy

• Firms that seek to source from foreign suppliers need to identify countries where capable suppliers are located.

• Once a firm chooses a particular country, it needs to ensure that conditions for importing from the country are favorable.

• For firms looking to make a direct investment in foreign markets, it is best to focus on countries that promise long-term growth, substantial returns, while posing relatively low political risk.

• Exporting firms should target countries with low tariff barriers, steady demand, and qualified intermediaries.
Cultural Similarity with Target Market may Matter

• Some firms target “psychically” similar countries, that is, countries similar to the home country in terms of language, culture, and other factors. These countries fit management’s comfort zone.

• E.g., Australian firms often choose the United States as their first target market abroad. Many choose the U.K. rather than France or Italy, as their first target in Europe.

• The choice is logical because both the U.K. and the U.S. speak English and have cultures similar to that of Australia.

• As managerial experience, knowledge, and confidence increase, the firms expand into more complex, culturally distant markets, such as China or Japan.
Nature of Information Sought varies with Product/Industry

- For example, in marketing consumer electronics, the researcher would emphasize countries with large populations of people with adequate discretionary income, and ample energy production and consumption.
- For farming equipment, the researcher would consider countries with substantial agricultural land and farmers who enjoy relatively high incomes.
- For health care insurance, the researcher targets countries that have numerous hospitals and doctors. Criteria include: number of physicians per capita, number of surgeries, number of hospital beds, etc.
Targeting a Region may Make Sense

- Compared to targeting one country at a time, targeting a group of countries is more cost effective, particularly when the markets have similar demand conditions, business regulations, and culture.
- A good example is the European Union, which comprises some 27 countries that are relatively similar in terms of income level, regulations, and infrastructure.
- When entering Europe, companies often devise a pan-European strategy that considers many member countries of the EU rather than planning separate efforts in individual countries.
Gateway Countries and Regional Hubs

- Managers may target so-called *gateway countries* or *regional hubs* that serve as entry points to nearby or affiliated markets.
- E.g., Singapore has traditionally served as the gateway to Southeast Asian countries; Hong Kong is an important gateway to China; Turkey is a good platform for entering the Central Asian republics; and Finland provides business-friendly access to the former Soviet Union.
- Firms base their operations in a gateway country so they can serve the larger, adjacent region.
Gradual Elimination Method for Screening Countries

• The manager starts with a large number of prospective target countries and then gradually narrows choices by examining increasingly specific information obtained via research.

• The objective is to reduce to a manageable few the number of countries that warrant in-depth investigation as potential target markets -- five or six high potential country markets that are most promising.

• To save time and money, it is essential to eliminate unattractive markets as quickly as possible.

• At the same time, it is wise to be open-minded and consider all reasonable markets. E.g., developing economies with a product that is not yet widely consumed may be more profitable than targeting more competitive markets in Europe, Japan, and the U.S.
Country Screening with Broad, Macro Level Variables

• In the early stages, market research proceeds in a step-wise manner in which the researcher follows a “funnel” approach of obtaining general information first, and then specific information last.

• The researcher initially obtains information on macro-level market potential indicators such as population or income-related measures to identify a short list of countries that represent the most attractive markets.

• Broad screening data are readily available from sources such as globalEDGE™.
<table>
<thead>
<tr>
<th>Countries</th>
<th>Market Size</th>
<th>Market Growth Rate</th>
<th>Market Intensity</th>
<th>Market Consumption Capacity</th>
<th>Commercial Infrastructure</th>
<th>Economic Freedom</th>
<th>Market Receptivity</th>
<th>Country Risk</th>
<th>Overall Market Potential Index</th>
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<tr>
<td>Market size</td>
<td>Proportion of the country’s population concentrated in urban areas</td>
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<td>• Urban population</td>
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</tbody>
</table>
| Market growth rate                   | Face of industrialization and economic development                        | 12                  | • Annual growth rate of commercial energy use  
• Real GDP growth rate                |
| Market intensity                     | Buying power of the country’s residents                                  | 14                  | • Per-capita gross national income, based on purchasing power parity  
• Private consumption as a percentage of GDP |
| Market consumption capacity          | Size and growth rate of the country’s middle class                        | 10                  | • Percentage share of middle-class income and consumption                                      |
| Commercial infrastructure            | Ease of access to marketing, distribution, and communication channels     | 14                  | • Telephone mainlines (per 100 habitants)  
• Cellular mobile subscribers per 100 inhabitants  
• Paved road density  
• Internet hosts per million people  
• Population per retail outlet  
• Television sets per capita           |
| Economic freedom                     | Degree to which the country has liberalized its economy                   | 10                  | • Trade and tax policies  
• Monetary and banking policies  
• Government consumption of economic output  
• Capital flows and foreign investment  
• Property rights  
• Extent of black market activity     |
| Market receptivity to imports        | Extent to which the country is open to imports                             | 12                  | • Per-capita imports  
• Trade as percentage of GDP                                                                  |
| Country risk                         | Level of political risk                                                   | 8                   | • Country risk rating                                                                         |
| Total                                |                                                                           | 100                 |                                                                                               |

**Exhibit 12.3** Variables Used in Indicators Indexing and Ranking Method for Country Screening in the Emerging Market Potential (EMP)
Indexing and Ranking Methodology for Country Screening

- Assigning scores to countries for their overall market attractiveness.
- For each country, first identify a comprehensive set of market potential indicators and then use one or more of these indicators to represent a variable.
- Weights are assigned to each variable to establish its relative importance: The more important a variable, the greater its weight.
- The resulting weighted scores are used to rank order countries.
Emerging Market Potential Indicators (EMP) Index

- This indexing and ranking method is illustrated by the Emerging Market Potential (EMP) Indicators methodology featured at globalEDGE™.
- The EMP Index ranks the emerging markets, 27 of the world’s most promising developing countries.
- The exhibit highlights a collection of variables that are useful for describing the attractiveness of countries as potential target markets.
Factors That Contribute to Market Attractiveness

- Market size and market growth rate are especially important for measuring market potential. “Is the market big enough and does it have a future?”
- By itself, however, a sizable market is insufficient. It should also be growing at a stable or substantial rate, particularly in terms of population or income.
- For each country, the researcher examines population, national income, and growth statistics for the previous three to five years.
- In addition to large, fast-growing markets, the researcher should identify some smaller but fast-emerging markets that may provide ground-floor opportunities. There are likely to be fewer competitors.
- Countries in which the product is not currently available or which competitors have only recently entered may also be promising.
Middle-Class is a Powerful Indicator for Emerging Markets

• The *size and growth rate of the middle class* are critical indicators of promising targets. The middle class is measured by the share of national income available to middle income households.

• These households are the best prospect for a typical marketer is the middle-class consumer because the wealthier class in most emerging markets is relatively small, and the poorest segment has little spending capacity.

• The relative size of the middle class, and the pace with which it is growing, also reflects how national income is distributed in that country. If income is not equally distributed, the size of the middle class will be limited and the market will not be very attractive.
Observations from the Emerging Market Potential Indicators Index (Exhibit 12.2)

• China ranks first in market size, but 25th in market intensity and last in economic freedom. It also ranks low in infrastructure.
• There are always trade-offs in targeting country markets. No single country is attractive on all dimensions.
• Along with more desirable features, the researcher must contend with less desirable features. For example, both Singapore and Hong Kong are favorable targets in terms of economic freedom, but they are city states with small populations.
• The top four countries are all in East Asia. East Asian economies have made tremendous strides in market liberalization, industrialization, and modernization. South Korea is a champion of economic growth. Per-capita GDP in the past 40 years has advanced tenfold. South Korean firms have become world leaders in many industries, such as shipbuilding, mobile communications, and flat screen televisions.
Refinements of the Ranking/Indexing Methodology

- The ranking/indexing methodology is intended for use in the early stages of qualifying and ranking countries. In addition to rather broad and generic indicators used, much more detailed analysis is needed once a firm identifies a handful of target markets.

- E.g., specific indicators for medical equipment will include additional data on health care expenditures, number of physicians per capita, number of hospital beds per capita, etc.

- Firms in the financial services sector will require specific data on commercial risk.

- In addition, depending on the industry, researchers may apply different weights to each market potential indicator. For example, population size is relatively less important for a firm that markets yachts than for one that sells footwear.
Criteria Relevant to Country Screening for FDI

• Long-term prospects for growth, as well as the potential for exports
• Cost of doing business: Potential attractiveness of the country based on the cost and availability of commercial infrastructure, tax rates and wages, access to high-level skills and capital markets
• Country risk: Regulatory, financial, political, and cultural barriers and the legal environment for intellectual-property protection
• Competitive environment: Intensity of competition from local and foreign firms
• Government incentives: Availability of tax holidays, subsidized training costs, grants, or low-interest loans.
A.T. Kearney’s FDI Confidence Index

www.atkearney.com

- The index tracks how political, economic, and regulatory changes affect the FDI intentions and preferences of the world's top 1,000 firms.
- Advanced economies in Western Europe, as well as Australia, Japan, and the U.S, possess high investor confidence.
- These locations are popular due to their relative size and business-friendly infrastructure.
- The advanced economies engage in substantial cross investments in each other's markets. For example, Europe and the U.S. are each others’ most important partners for FDI. Their transatlantic economy represents over $2.5 trillion in total foreign affiliate sales.
### Exhibit 12.4

A. T. Kearney Foreign Direct Investment Confidence Index


<table>
<thead>
<tr>
<th>Country</th>
<th>Confidence Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2.197 (−)</td>
</tr>
<tr>
<td>India</td>
<td>1.951 (+)</td>
</tr>
<tr>
<td>United States</td>
<td>1.420 (−)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.398 (−)</td>
</tr>
<tr>
<td>Poland</td>
<td>1.363 (+)</td>
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<tr>
<td>Russia</td>
<td>1.341 (+)</td>
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<tr>
<td>Brazil</td>
<td>1.336 (+)</td>
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<tr>
<td>Australia</td>
<td>1.276 (−)</td>
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<tr>
<td>Germany</td>
<td>1.267 (−)</td>
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<td>Hong Kong</td>
<td>1.208 (−)</td>
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<tr>
<td>Hungary</td>
<td>1.157 (+)</td>
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<tr>
<td>Czech Republic</td>
<td>1.136 (+)</td>
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<tr>
<td>Turkey</td>
<td>1.133 (+)</td>
</tr>
<tr>
<td>France</td>
<td>1.097 (−)</td>
</tr>
<tr>
<td>Japan</td>
<td>1.082 (−)</td>
</tr>
</tbody>
</table>

(=) = Maintained ranking
(+)= Moved up
(−)= Moved down

Low confidence values calculated on a 0 to 3 scale.
Emerging Markets Are Top Destinations for FDI

- Of the top 10 destinations in the A.T. Kearney Index, six are emerging markets: China, India, Poland, Russia, Brazil and Hong Kong.
- Investors prefer China because of its huge size, fast-growing consumer market, and position as an excellent site for low-cost manufacturing. China also enjoys superior access to export markets, favorable government incentives, low cost structure, and a stable macroeconomic climate.
- Executives see India as the world's leader for business process and IT services outsourcing. India has a highly educated workforce, strong managerial talent, established rule of law, and transparent transactions and rules.
Country Screening for Global Sourcing

• Global sourcing and offshoring refer to the procurement of finished products, intermediate goods, and services from suppliers located abroad.

• As with FDI decisions, the types of screening variables managers consider in sourcing are often distinct from those they consider for exporting.

• Managers will examine such factors as: cost and quality of inputs, stability of exchange rates; reliability of suppliers; and the presence of a work force with superior technical skills.
A.T. Kearney’s Offshore Location Attractiveness Index

• This index assists managers to understand and compare the factors that make countries attractive as potential locations for offshoring of service activities such as IT, business processes and call centers. A.T. Kearney evaluates countries across 39 criteria categorized into three dimensions:
  • *Financial structure* takes into account compensation costs (for example, average wages), infrastructure costs (for electricity and telecom systems), and tax and regulatory costs (such as tax burden, corruption, and fluctuating exchange rates);
  • *People skills and availability* accounts for supplier’s experience and skills, labor force availability, education and linguistic proficiency, and employee attrition rates;
  • *Business environment* assesses economic and political aspects of the country, commercial infrastructure, cultural adaptability, and security of intellectual property.
Exhibit 12.5  A. T. Kearney’s Offshore Location Attractiveness Index

SOURCE A. T. Kearney.
Top Sourcing Destinations are Emerging Markets

- Nine of the top 10 countries in the Offshore Location index are emerging markets such as India, China, and Brazil.
- Although important, cost of labor is only one of several factors in the decision to source inputs from abroad. Managers also cite productivity level, technical skills, and customer service skills as important factors.
- The index credits India and China, and to a lesser extent Russia and the Philippines, for educational achievement.
- Among developed economies, the index credits New Zealand, Canada, and Ireland with other strengths, such as highly developed infrastructure, low country risk, and high degree of global integration.
Task 4. Industry Market Potential Analysis

**Objective:** To estimate the size of relevant industry sales within each target country; To investigate and evaluate any potential barriers to market entry.

**Outcomes:** 3 to 5- year forecasts of industry sales for each target market. Delineation of market entry barriers in industry

**Criteria:** Market size, growth rate, and trends in the industry; The degree of competitive intensity; Tariff and non-tariff trade barriers; Standards and regulations; Availability and sophistication of local distribution; Unique customer requirements and preferences; Industry-specific market potential indicators.
Industry Market Potential

• **Industry market potential** – an estimate of the likely sales that can be expected for all firms in the particular industry for a specific period of time. In other words, it is an aggregate of the sales that may be realized by all companies in the industry.

• Industry market potential is different from *company sales potential*, which refers to the share of industry sales the focal firm itself can expect to achieve during a year.

• Most companies forecast sales at least *three years* into the future, of both industry market potential and company sales potential.
Indicators of Industry Market Potential

- Market size, growth rate, and trends in the specific industry
- Tariff and non-tariff trade barriers to enter the market
- Standards and regulations that affect the industry
- Availability and sophistication of local distribution
- Unique customer requirements and preferences
- Industry-specific market potential indicators
Industry Specific Potential Indicators

• *Industry-specific potential indicators are* distinctive drivers of demand.

• Marketers of cameras, for instance, examine climate-related factors such as the average number of sunny days in a typical year, given that most pictures are taken outdoors.

• In marketing laboratory equipment, the researcher may explore government expenditures on health care.

• A manufacturer of electric generators might examine the rate of industrialization and dependence on hydroelectricity.

• A marketer of cooling equipment and industrial filters will consider the number of institutional buyers, such as restaurants and hotels.
Practical Methods for Estimating Industry Market Potential

- **Simple Trend Analysis.** Likely industry market potential is derived from aggregate production for the industry as a whole, adding imports from abroad and deducting exports.

- **Monitoring Key Industry-Specific Indicators.** Caterpillar, examines announced construction projects, building permits, growth rate of households, infrastructure development, and other pertinent leading indicators.

- **Monitoring Key Competitors.** If Caterpillar is considering Chile as a potential market, it investigates the current involvement in Chile of its number-one competitor, the Japanese firm Komatsu.

- **Following Key Customers around the World.** Automotive suppliers can anticipate where their services will be needed next by monitoring the international expansion of their customers such as Honda or Mercedes Benz.

- **Tapping into Supplier Networks.** Firms can gain valuable leads from current suppliers by inquiring with them about competitor activities.

- **Attending International Trade Fairs.** Industry trade fairs and exhibitions are excellent venues for managers to obtain valuable information on foreign markets.
National Trade Data Bank (STAT-USA) Is Particularly Helpful for Industry Market Potential Analysis

- **Best Market Reports** identify the top 10 country markets for specific industry sectors.
- **Country Commercial Guides** analyze economic and commercial environments of countries.
- **Industry Sector Analysis reports** analyze market potential for sectors such as telecommunications.
- **International Market Insight reports** cover country and product-specific topics, providing various ideas for approaching markets of interest.
Task 5. Foreign Partner Selection

**Objectives:** To decide on the type of foreign business partner; clarify ideal partner qualifications; and plan mode of entry.

**Outcomes:** Determination of most suitable types of foreign business partners. List of attributes desired of foreign business partners. Determination of value-adding activities foreign business partner contribute.

**Criteria:** manufacturing and marketing expertise in the industry; commitment to the international venture; access to distribution channels in the market; financial strength; quality of staff; technical expertise; infrastructure & facilities.
Foreign Business Partner Selection

- Foreign business partners include distribution channel intermediaries, facilitators, suppliers, and collaborative venture partners such as joint venture partners, licensees, and franchisees.
- The focal firm needs to decide on:
  - the types of partners it needs for its foreign market venture;
  - identify suitable partner candidates;
  - negotiate the terms of its relationship with chosen partners; and
  - support as well as monitor the conduct of chosen partners.
Types of Foreign Business Partners

- Exporters tend to collaborate with foreign market intermediaries such as distributors and agents.
- Firms that sell intellectual property, such as know-how, trademarks, and copyrights, tend to work through foreign licensees. These **licensing** partners are independent businesses that apply intellectual property to produce products in their own country.
- In **franchising**, the foreign partner is a franchisee – an independent business abroad that acquires rights and skills from the focal firm to conduct operations in its own market.
- In an **international collaborative venture**, collaborations may be project based or involve equity investments.
- Other types of international business partnerships include global sourcing, contract manufacturing, and supplier partnerships.
Ideal Qualifications of Foreign Distributors

- Financially sound and resourceful so that they can invest in the venture and ensure its future growth;
- Competent and professional management, with qualified technical and sales staff;
- Willing and able to invest in the focal firm’s business and grow the business;
- Possesses a good knowledge of the industry; and has access to distribution channels and end-users;
- Known in the marketplace and well-connected with local government, as political clout is helpful especially in emerging markets.
- Committed and loyal in the long run.
Searching for Foreign Business Partners

- Commercial banks, consulting firms, trade journals and industry magazines as well as country and regional business directories, such as Kompass (Europe) and Dun and Bradstreet, are helpful in identifying partner candidates.
- The knowledge portal globalEDGE™ provides additional resources, including several diagnostic tools to help managers make systematic choices about alternative partners.
- Field research through on-site visits and gathering research from independent sources and trade fairs are crucial in the early stages of assessing a partner.
- Firms also ask prospective partners to prepare a formal business plan before entering into an agreement. The quality and sophistication of such a plan provides insights about the capabilities of the prospective partner and serves as a test of the partner’s commitment.
Task 6. Estimate Company Sales Potential

Objective: To estimate the most likely share of industry sales the company can achieve, over a period of time, for each target market.

Outcomes: 3 to 5-year forecast of company sales in each target market. Understanding of factors that will influence company sales potential.

Criteria: Capabilities of partners; access to distribution; competitive intensity; pricing and financing; market penetration timetable of the firm; risk tolerance of senior managers.
Company Sales Potential

- **Company sales potential** is an estimate of the share of annual industry sales that the firm expects to generate in a particular target market.
- Estimating company sales potential is often much more challenging than earlier tasks. It requires the researcher to obtain highly refined information from the market.
- The researcher needs to make certain assumptions about the market, and project the firm’s revenues and expenses for 3-5 years into the future. The estimates are never precise and require quite a bit of judgmental analysis.
Factors Determining Company Sales Potential

- **Partner capabilities.** The competencies and resources of foreign partners determine how quickly the firm can enter and generate sales in the target market.
- **Access to distribution channels.** The ability to establish and make best use of channel intermediaries and distribution infrastructure in the target market.
- **Intensity of the competitive environment.** Local or third-country competitors are likely to intensify their own marketing efforts when confronted by new entrants.
- **Pricing and financing of sales.** The degree to which pricing and financing are attractive to both customers and channel members is critical to initial penetration.
- **Human and financial resources.** Such resources are a major factor in determining the proficiency and speed with which success can be achieved.
Factors Determining Company Sales Potential (cont.)

- **Market penetration timetable.** Gradual entry gives the firm time to develop and leverage appropriate resources and strategies, but may cede some advantages to competitors in getting established in the market. Rapid entry may allow the firm to surpass competitors and obtain first-mover advantages, but it can tax the firm’s resources and capabilities.

- **Risk tolerance of senior managers.** Management’s tolerance for risk in the market.

- **Special links, contacts, capabilities of the firm.** The focal firm’s network in the market – its existing relationships with customers, channel members, and suppliers.

- **Reputation.** The firm can succeed faster in the market if target customers are already familiar with its brand name and reputation.
Exhibit 12.6

- Customer characteristics
  - Demographics
  - Growth of demand
  - Size of customer segment
  - Intensity
  - Purchasing power

- Customer receptivity
  - Perceived benefits of product
  - Promotional effort directed to customers

- Competitive positioning of focal brand
  - Unique selling proposition of product
  - What are its superior features compared to competitive offerings

- Channel effort and productivity
  - Margins and incentives offered to distribution intermediaries

- Pricing
  - The cost of product landed in the foreign market (a function of international shipping costs, tariffs, etc.)
  - Customary margins for distributors
  - Whether the firm pursues a penetration versus skimming pricing

- Competition
  - Intensity
  - Relative strength
  - Potential reactions to market entrants
Estimating Company Sales Potential is More of an Art than a Science

- The process of estimating company sales is more like starting from multiple angles, and then converging on an ultimate estimate that relies heavily relying on judgment.
- Managers combine information about customers, intermediaries, and competition.
- Often, managers prepare multiple estimates based on ‘best case,’ ‘worst case,’ and ‘most likely case’ scenario.
- Arriving at such estimates will require assumptions as to: the degree of firm effort; price aggressiveness; possible competitive reactions; degree of intermediary effort; etc.
- Sales prospects for a company hinges on factors both controllable by the firm (e.g., prices charged to intermediaries and customers), as well as uncontrollable factors (e.g., intensity of competition).
Practical Approaches to Estimating Company Sales Potential

- **Survey of end-users and intermediaries.** The firm can survey a sample of customers and distributors to identify a potential market.

- **Trade audits.** Managers visit retail outlets and question channel members to assess relative price levels of competitors’ offerings and perceptions of competitor strength. The trade audit can indicate opportunities for new modes of distribution, identify types of alternative outlets, and provide insights into relative competitive strength.

- **Competitor assessment.** The firm may benchmark itself against principal competitor(s) in the market and estimate the level of sales it can potentially attract away from them. What rival firms will have to be outperformed? Even in those countries dominated by large firms research may reveal market segments that are underserved or ignored altogether.
Practical Approaches to Estimating Company Sales Potential (cont.)

- **Obtaining estimates from local partners.** Collaborators such as distributors, franchisees, or licensees already experienced in the market are often best positioned to develop estimates of market share and sales potential.

- **Limited marketing efforts to “test the waters.”** Some companies may choose to engage in a limited entry in the foreign market – a sort of ‘test market’ – as a way of gauging long-term sales potential or gaining a better understanding of the market. From these early results, it is possible to forecast longer-term sales.
The Method of Analogy

- When using the *analogy* method, the researcher draws on known statistics from one country to gain insights into the same phenomenon for a similar country.
- If the researcher knows the total consumption of citrus drinks in India then -- assuming that citrus drink consumption patterns do not vary much in the neighboring Pakistan – a rough estimate of Pakistan’s consumption can be made, making an adjustment, of course, for the difference in population.
- If the marketer of antibiotics knows from experience that X number of bottles of antibiotics are sold in a country with a Y number of physicians per thousand people, then it can be assumed that the same ratio (of bottles per 1,000 physicians) will apply in a ‘similar’ country.
Proxy Indicators for Estimating Company Sales Potential

• By using *proxy indicators*, the researcher uses information known about one product category to infer findings about another product category.
• For the wallpaper marketer in the opening vignette, a useful proxy was the water heaters.
• This approach may lead to practical results especially if the two products exhibit a complementary demand relationship.
• A proxy indicator of demand for professional hand tools in a country may be the level of construction activity in the country. Surrogate indicators of potential for a particular piece of medical equipment in a market may include total number of hospital beds and total number of surgeries performed.