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
The firm

The environment

International market segmentation

INTERNATIONAL MARKET SELECTION (IMS)

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
The firm

Environment

Step 1: Selection of segmentation criteria

Step 2: Development of segments

Step 3: Screening of segments

Step 4: Microsegmentation

Market entry

Figure 8.2  International market segmentation
Figure 8.2  International market segmentation (Continued)

- Step 1: Selection of the relevant segmentation criteria
- Step 2: Development of appropriate segments
- Step 3: Screening of segments to narrow down the list of markets/countries. Choice of target markets/countries
- Step 4: Microsegmentation: develop segments in each qualified country or across countries

Market entry: How many markets? When? Sequence?
Criteria for effective segmentation

- Measurability
- Accessibility
- Substantiality/profitability
- Actionability
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

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

* 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>
<thead>
<tr>
<th>Market/country attractiveness</th>
<th>Competitive strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size (total and segments)</td>
<td>Market share</td>
</tr>
<tr>
<td>Market growth (total and segments)</td>
<td>Marketing ability and capacity (country-specific know-how)</td>
</tr>
<tr>
<td>Buying power of customers</td>
<td>Products fit to market demands</td>
</tr>
<tr>
<td>Market seasons and fluctuations</td>
<td>Price</td>
</tr>
<tr>
<td>Average industry margin</td>
<td>Contribution margin</td>
</tr>
<tr>
<td>Competitive conditions (concentration, intensity, entry barriers, etc.)</td>
<td>Image</td>
</tr>
<tr>
<td>Market prohibitive conditions (tariff/non-tariff barriers, import restrictions, etc.)</td>
<td>Technology position</td>
</tr>
<tr>
<td>Government regulations (price controls, local content, compensatory exports, etc.)</td>
<td>Product quality</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Market support</td>
</tr>
<tr>
<td>Economic and political stability</td>
<td>Quality of distributors and service</td>
</tr>
<tr>
<td>Psychic distance (from home base to foreign market)</td>
<td>Financial resources</td>
</tr>
<tr>
<td></td>
<td>Access to distribution channels</td>
</tr>
</tbody>
</table>
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
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

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

Figure 8.9 The laser printer range of Konica Minolta

¹ 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”)

EXHIBIT 8.3  An example of the ‘trickle-up’ strategy

One Laptop per Child.
Figure 8.11  Market expansion strategies: Shower approach

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

Figure 8.13  The market expansion matrix

<table>
<thead>
<tr>
<th>Country</th>
<th>Concentration</th>
<th>Diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentration</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Diversification</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

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
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:

<p>| 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 |</p>
<table>
<thead>
<tr>
<th>Tata Nano</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base price</td>
<td>2,500</td>
</tr>
<tr>
<td>+ Conversion (cost for fitting to emission standard and safety regulations)</td>
<td>500</td>
</tr>
<tr>
<td>+ Logistics costs</td>
<td>375</td>
</tr>
<tr>
<td>+ Marketing</td>
<td>125</td>
</tr>
<tr>
<td>+ Manufacturer profit</td>
<td>105</td>
</tr>
<tr>
<td>+ Dealership profit</td>
<td>108</td>
</tr>
<tr>
<td>+ Import tariffs</td>
<td>93</td>
</tr>
<tr>
<td>Expected MSRP (manufacturer's suggested retail price)</td>
<td>3,806</td>
</tr>
<tr>
<td>+ Sales tax</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td><strong>4,206</strong></td>
</tr>
<tr>
<td>No.</td>
<td>Model</td>
</tr>
<tr>
<td>-----</td>
<td>----------------</td>
</tr>
<tr>
<td>1</td>
<td>Nano</td>
</tr>
<tr>
<td>2</td>
<td>QQ3</td>
</tr>
<tr>
<td>3</td>
<td>M800</td>
</tr>
<tr>
<td>4</td>
<td>Merrie Star</td>
</tr>
<tr>
<td>5</td>
<td>S-RV mini SUV</td>
</tr>
</tbody>
</table>

Source: based on 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)

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

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

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.