Analyzing International Opportunities

Learning Objectives

- Explain each of the four steps in the market- and site-screening process.
- Describe the three primary difficulties of conducting international market research.
- Identify the main sources of secondary international data and explain their usefulness.
- Describe the main methods used to conduct primary international research.

This chapter examines important issues involved in researching potential international business opportunities. The screening process for potential markets and sites consists of four steps. First, a company must identify a location’s basic appeal. This is true whether determining basic demand for a product or determining basic availability of resources needed to carry out local activities. Second, a company must assess the national business environment. This refers to examining cultural, political, legal, economic, and financial forces. Third, a company must measure the market or site potential, which requires collection of as much data as possible. Fourth, a company must select the single best market or site, which often involves field trips. Firms can encounter several difficulties when conducting international research: (1) problems with the availability of data; (2) difficulties associated with the comparability of data; and (3) difficulties attributed to cultural differences between home and target nations. Sources of secondary international data include international organizations, government agencies, industry and trade associations, service organizations, and the Internet. Methods used in conducting primary international research include trade shows, trade missions, interviews, focus groups, surveys, and environmental scanning.
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Lecture Outline

1. **INTRODUCTION**
   Technological advances in communication and transportation open national markets around the globe. Managers screen and analyze locations as potential markets and potential sites for operations. The attraction to distant markets and the integrated nature of location decisions demand that location decisions be made in a systematic manner.

2. **SCREENING POTENTIAL MARKETS AND SITES** (PPT 3)
   Two issues concern managers when screening potential markets and sites: Keeping search costs down, and examining every potential market/location. The screening process has four steps: (1) identify basic appeal; (2) assess the national business environment; (3) measure market or site potential; and (4) select the market or site.

   **A. Step 1: Identify Basic Appeal** (PPT 4)
   The first step in determining basic appeal of a potential market is to estimate demand for a product. Determining basic appeal of a potential site involves assessing the availability of required resources.

   1. **Determining Basic Demand**
      The first step means finding out if there is a demand for a company’s product. The suitability of a nation’s climate is essential in determining demand. Are there bans on a product such as alcohol in Islamic nations?

   2. **Determining Availability of Resources**
      a. Raw materials for manufacturing must be found in either the national market or imported. Imports may have high tariffs, quotas, or other government barriers placed upon them.
      b. The availability of labor is essential to production in any country. Many companies relocate to lower-wage countries, especially those with labor-intensive products.
      c. Financing can be an impetus for production abroad, especially if financing is not available at home or when interest rates are high.
      d. Markets and sites not meeting requirements are dropped.

   **B. Step 2: Assess the National Business Environment** (PPT 5-8)
   If cultures, politics, laws, and economies of all countries were the same, deciding where to market or produce products would be straightforward. International managers must understand these differences and incorporate that understanding into market and site selection decisions.

   1. **Cultural Forces**
      a. Countries differ in language, attitudes towards business, religious beliefs, traditions, and customs. Cultural elements can influence what kinds of products are sold and how (e.g., Coca-Cola in China overcame an aversion to its taste).
      b. Culture affects site-selection decisions; companies sometimes locate production in the local market when changes must be made to a product’s physical features for cultural reasons.
      c. Cultural elements such as work ethic, educational attainment, or the level of managerial skills of the local people affect site-selection decisions.
2. Political and Legal Forces

Political and legal forces also play a role in market and site selection.

a. Government Regulation

i. Nations differ in their attitudes toward trade and investment based on their culture, history, and current events. A government’s attitude toward trade and investment is reflected in the quantity and types of restrictions it places on imports.

ii. Government regulations can quickly eliminate a market or site from further consideration. They create investment barriers to ensure domestic control of a company or industry by imposing investment rules on business ownership (e.g., forcing nondomestic companies into joint ventures).

iii. Governments can restrict international companies from freely removing profits, forcing them to hold cash in the host country or to reinvest it in new projects there.

iv. Governments can impose strict environmental regulations such as pollution-control devices or close monitoring of nearby air, water, and soil quality.

v. Governments can extend investment rules to bar international companies from competing in certain sectors of the economy.

b. Government Bureaucracy

i. A lean and smoothly operating bureaucracy can encourage investment while an inefficient, cumbersome, or corrupt one can discourage it.

ii. Companies will endure an inefficient bureaucracy if the benefits outweigh the cost of inefficiencies.

c. Political Stability

i. International companies must monitor political events that threaten operations and future earnings. Political risk can threaten the activities of any type of international business activity.

ii. The key element of political risk is unforeseen political change. If a company cannot estimate the future political environment with accuracy, political risk is increased.

iii. Companies can obtain political risk information from independent political-risk agencies, political leaders, union leaders, reporters, consultants, and bankers.

3. Economic and Financial Forces

a. Poor fiscal and monetary policies can cause high rates of inflation, increasing budget deficits, a depreciating currency, falling productivity levels, and flagging innovation. Such conditions can lessen investor confidence and cause companies to scale back or cancel proposed investment projects.

b. Currency and liquidity problems pose special challenges for international companies. Volatile currency values make it difficult for firms to predict future earnings in terms of the home-country currency.
c. Managers can obtain information about economic and financial conditions from the World Bank, the International Monetary Fund, and the Asian Development Bank.

4. **Other Forces**
A country’s image and the cost of transporting materials and goods play important roles in the assessment of national business environments.

a. **Cost of Transporting Materials and Goods**
   i. This can affect any decision about where to locate manufacturing facilities.
   ii. **Logistics** refers to the management of the physical flow of products from point of origin as raw materials to end users as finished products. This includes all modes of transportation, storage, and distribution. Logistics weds production to delivery.

b. **Country Image**
   i. Because country image embodies every facet of a nation’s business environment, it affects the selection of sites for production, R&D, or any other activity.
   ii. Country image affects the location of manufacturing or assembly because products must be stamped with labels identifying country of origin or assembly.
   iii. Products in developed countries are evaluated more positively than those from less developed nations.
   iv. There is a perception that the workforces of certain nations have superior skills (e.g., Vietnamese prefer Tide made in Thailand than that made in Vietnam).
   v. Country image can be good for certain products but unfavorable for others—Mexico’s Corona beer has a premium image but what if Rolls Royce autos were made there?
   vi. Country image can also change over time—while “Made in India” at one time applied only to textiles and sporting goods, it now has a respectable image for quality software products.

C. **Step 3: Measure Market or Site Potential** (PPT 9-10)
Markets and sites passing the first two steps undergo further analysis to arrive at a more manageable number of locations. Despite the presence of a need for a product and an adequately stable business environment, potential customers might not be ready or able to buy a product for a variety of reasons. Despite the availability of resources, certain sites may be unable to supply the level of resources needed.

1. **Measuring Market Potential**
   Different levels of economic development affect the kinds of products that are sold, the manner in which they are sold, and the features they have. Different levels of economic development require varying approaches to researching market potential. Managers consider certain factors when analyzing industrialized markets and emerging markets.
a. Industrialized Markets
i. A great deal of information on market potential is available about industrialized countries.
ii. The information in a typical industry analysis includes:
   • Names, production volumes, and market shares of the largest competitors.
   • Volume of exports and imports of the product.
   • Structure of the wholesale and retail distribution networks.
   • Background on the market, including population figures, social trends, and kinds of marketing approaches used.
   • Total expenditure on the product (and similar products).
   • Retail sales volume and market prices of the product.
   • Future outlook for the market and potential opportunities.
iii. These reports provide a quick overview of the size and structure of a nation’s market for a product.
iv. One way of forecasting market demand is determining a product’s income elasticity—the sensitivity of demand for a product relative to changes in income. The income-elasticity coefficient for a product is calculated by dividing a percentage change in the quantity of a product demanded by a percentage change in income.
v. A coefficient greater than 1.0 conveys an income-elastic product, or one for which demand increases in a greater proportion to growth in income. These products are discretionary purchases, such as computers, video games, jewelry, or expensive furniture—generally not considered essential items.
   A coefficient less than 1.0 conveys an income-inelastic product, or one for which demand increases less relative to an increase in income. These products are considered
b. Emerging Markets
i. Companies that wish to enter emerging markets face a lack of information. Data on market size or potential may be unavailable, due to poor data collection methods.
ii. One way to rank different locations is through a market-potential indicator; yet, this method is useful only to companies considering exporting. Firms considering investing in emerging markets look at other factors:
   • Market size, which provides a snapshot of the size of a market at any point in time.
   • Market growth rate, which helps to avoid markets that are large (but shrinking) and targets those that are small (but expanding).
• **Market intensity**, which estimates the wealth or buying power of a market from the expenditures of both individuals and businesses.
• **Market consumption capacity**, which estimates spending capacity.
• **Commercial infrastructure**, which assesses channels of distribution and communication.
• **Economic freedom**, which estimates the extent that free-market principles predominate.
• **Market receptivity**, which attempts to estimate market “openness.”
• **Country risk**, which estimates the risk of doing business, including political, economic, and financial risks.

iii. After each factor is analyzed, it is assigned a value showing the importance of the demand for a particular product; then potential locations are ranked according to their appeal as a new market.

2. **Measuring Site Potential**
   a. For the site-screening process, managers assess the quality of the resources that they employ locally. For many companies, the most important will be human resources—both labor and management.
   b. Wages are lower if labor is abundant, relatively less skilled (though perhaps well-educated), or both. Yet, training local managers requires a substantial investment of time and money.
   c. Companies must assess the productivity of local labor and managers; low wages may reflect low productivity levels.
   d. Managers should examine local infrastructure, including roads, bridges, airports, seaports, and telecommunications systems; each can impact efficiency.

D. **Step 4: Select the Market or Site** (PPT 11)
This final step represents intensive efforts of assessing remaining potential markets and sites—typically less than a dozen, but sometimes one or two. Managers visit each location to confirm earlier expectations and perform a competitor analysis. Managers evaluate each potential location’s contribution to cash flows by undertaking a financial evaluation.

1. **Field Trips**
   Managers should take trips to each remaining site to experience the culture, observe the workforce, or make personal contact with potential new customers and distributors. Top executives often return to the location for signing contracts and a more formal gathering among partners.

2. **Competitor Analysis**
   Intensely competitive markets put downward pressure on the prices firms charge their customers. Intensely competitive sites for production and R&D activities increase the costs of doing business. Lower prices and higher costs due to competitive forces must be balanced against the
potential benefits offered by each market and site under consideration. Competitor analysis should address the following:

- Number of competitors in each market (domestic and international).
- Market share of each competitor
- Whether each competitor’s product appeals to a small market segment or has mass appeal
- Whether each competitor focuses on high quality or low price
- Whether competitors tightly control channels of distribution
- Customer loyalty commanded by competitors
- Potential threat from substitute products
- Potential entry of new competitors into the market
- Competitors’ control of production inputs (labor, capital, raw materials, etc.)

3. CONDUCTING INTERNATIONAL RESEARCH

- **Market research** is the collection and analysis of information in order to assist managers in making informed decisions; this definition applies to the assessment of both markets and sites. International market research provides information on business environments: cultural practices, politics, regulations, the economy, a market’s potential size, buyer behavior, logistics, and distribution.

- Conducting market research on new markets is helpful in designing a marketing strategy and understanding buyer preferences and attitudes. Market research informs managers about employment levels, wage rates, and local infrastructure before committing to the new location. It supplies timely and relevant market information to anticipate market shifts, changes in current regulations, and the potential entry of new competitors.

A. Difficulties of Conducting International Research (PPT 12)

Although market research serves basically the same function in all nations, unique circumstances present difficulties that force adjustments in conducting market research in different nations. Companies must be aware of such obstacles to ensure their research data is reliable.

1. Availability of Data
   a. In the most industrialized markets, secondary data exists on various product markets. In many emerging and developing countries previously gathered information can be difficult to obtain; even when market data is available, its reliability is questionable.
   b. Government-collected information in emerging markets is often stated in the most favorable light—and therefore somewhat suspect.
   c. Large international research agencies are entering these markets, providing a source of higher-quality information.

2. Comparability of Data
   a. Data obtained from other countries must be interpreted with great caution. Terms such as poverty, consumption, and literacy can differ greatly from one country to another.
   b. The different ways governments measure data also affects comparability among nations. Misinterpreting data because of
not knowing how it was compiled can sabotage the best marketing plans and production strategies.

3. Cultural Problems
   a. Marketers conducting research in unfamiliar markets must pay attention to the ways that cultural variables influence information. The most important variable is language; interpreters might unintentionally misrepresent certain comments or not convey the sentiment with which statements are made.
   b. High illiteracy rates force researchers to conduct time-consuming verbal surveys with potential customers (e.g., A written survey is impossible to conduct in countries with high illiteracy rates such as Egypt [43%], Haiti [48%], and Pakistan [55%]).
   c. Hiring local research agencies is good when a company runs into cultural obstacles to research; they understand which practices are acceptable and which types of questions can be asked. They realize how to interpret the information they gather and know its reliability.

B. Sources of Secondary International Data (PPT 13-14)

Secondary market research is the process of obtaining information that already exists within the company or that can be obtained from outside sources. Information from secondary research can estimate market demand for a product or form a general impression of a nation’s business environment. Secondary data are relatively inexpensive because they have been collected, analyzed, and summarized.

1. International Organizations
   a. International organizations are excellent sources of free and inexpensive information about product demand in particular countries (e.g., The International Trade Statistics Yearbook published by the United Nations lists the export and import volumes of different products for each country).
   b. These international agencies include the United Nations, the International Trade Center, the World Bank, IMF, and the Asian Development Bank.

2. Government Agencies
   a. The commerce departments and international trade agencies supply information about import and export regulations, quality standards, and market size.
   b. Visiting embassies and attending social functions are excellent ways of making contacts with potential business partners, although governments try to present their country in the best possible light. It is important to seek sources that take an objective view of a potential location.
   c. The Central Intelligence Agency (CIA) publishes World Factbook, a useful tool throughout the market- or site-screening process because of its facts on each nation’s business environment.
   d. The Trade Information Center (TIC) provides product standards and advice for U.S. companies in individual markets;
information includes trade laws, trade shows, export counseling, import tariffs, and customs procedures.

e. Nations also have agencies in other countries to promote trade and investment (e.g., ProChile is a commission of 35 offices to promote Chile’s exports and encourage investment).

f. Another government source is the trade-data libraries of nations (e.g., the Japanese External Trade Organization (JETRO) assists companies interested in exporting to and investing in Japan).

3. Industry and Trade Associations

a. Companies often join associations composed of firms within their own industry or trade. These associations often publish newsletters (and web sites) that keep members of the association abreast of market happenings and opportunities in their particular industry.

b. Sometimes industry and trade associations’ commission specialized studies of their industries and offer them to members at subsidized prices.

4. Service Organizations

a. International service organizations in banking, insurance, management consulting, and accounting offer information on cultural, regulatory, and financial conditions.

b. Newsletters cover trends in population growth, consumer spending, purchase behavior, media, and advertising (e.g., MARKET supplies reports on demographics, lifestyles, and consumer data).

5. Internet and World Wide Web

a. The leading online provider of market information is LEXIS-NEXIS—a database of full-text new reports from around the world. It provides profiles of executives and products, and information on financial conditions, marketing strategies, and public relations.

b. Using the Internet can be an inexpensive means to conduct secondary research considering the high cost of other research tools.

C. Methods of Conducting Primary International Research (PPT 15)

Although secondary data can be very useful, it is often necessary to conduct primary market research—the process of collecting and analyzing original data and applying the results to current research needs. Primary research helps complete the broad picture supplied by secondary data.

1. Trade Shows and Trade Missions

a. A trade show is an exhibition at which members of an industry or group of industries showcase their latest products, see what rivals are doing, and learn about recent trends and opportunities. Trade shows go on throughout the year in the largest industries and vary in scope and style (e.g., Shows in the U.S. focus on U.S. markets whereas in Europe the focus on a broader market, such as the EU).

b. A trade mission is an international trip by government officials and businesspeople organized by agencies of national or
provincial governments to explore international business opportunities.

c. Small and medium-size companies find trade missions appealing for two reasons: 1) Visible support of home-country government officials gives them clout in the host country, and 2) such trips are cost-effective because they encompass several national markets across a region.

2. Interviews and Focus Groups
   a. To uncover potential or current buyers’ emotions, attitudes, and general impressions of a company or its product, companies often conduct interviews and focus groups. Interviewing customers in other countries is difficult and evaluating results that they are unbiased and reliable is challenging.
   b. A focus group is an unstructured but in-depth interview of a small group of individuals (8 to 12 people) by a moderator to learn attitudes about a company or its product. This research uncovers negative perceptions among buyers in order to correct marketing strategies.
   c. Because subtle differences in verbal and body language could go unnoticed, focus group interviews work best when moderators are natives of the countries in which the interview is held.
   d. A consumer panel is research in which people record in personal diaries, information on their attitudes, behaviors, or purchasing habits. This can be useful when people in a focus group might agree with others in the group—as in group-oriented cultures.

3. Surveys
   a. A survey is research in which an interviewer has current or potential buyers answer written or verbal questions to obtain facts, opinions, or attitudes. The advantage of a survey is its ability to gather a vast amount of data in a single sweep.
   b. Survey methods must be adapted to local markets (e.g., Telephone interviewing would yield poor results in Bangladesh because only a small percentage of the general population has telephones). Written surveys are impractical in countries with high illiteracy rates although verbal responses can be obtained.

4. Environmental Scanning
   a. Environmental scanning is an ongoing process of gathering, analyzing, and dispensing information for tactical or strategic purposes. The process entails obtaining factual and subjective information on the business environments in which a company is operating or considering entering.
   b. Environmental scanning contributes to well-informed decisions and effective strategies; it helps develop contingency plans for a volatile environment.

4. A FINAL WORD
In order to keep pace with an increasingly hectic and competitive global business environment, companies should follow a systematic screening process that incorporates high-quality research methods. This chapter provided a systematic way to screen
potential locations as new markets or sites for business operations. However, these issues constitute only the first step in the process of “going international.” The next step involves actually accomplishing the task of entering selected markets and establishing operations abroad. In the following chapters, we survey the types of entry modes available to companies, how they acquire the resources needed to carry out their activities, and how they manage their sometimes far-flung international business operations.