



Near East University

INTERNATIONAL MARKETING

MARK 402

COUNTRY ATTRACTIVENESS
SESSION 4

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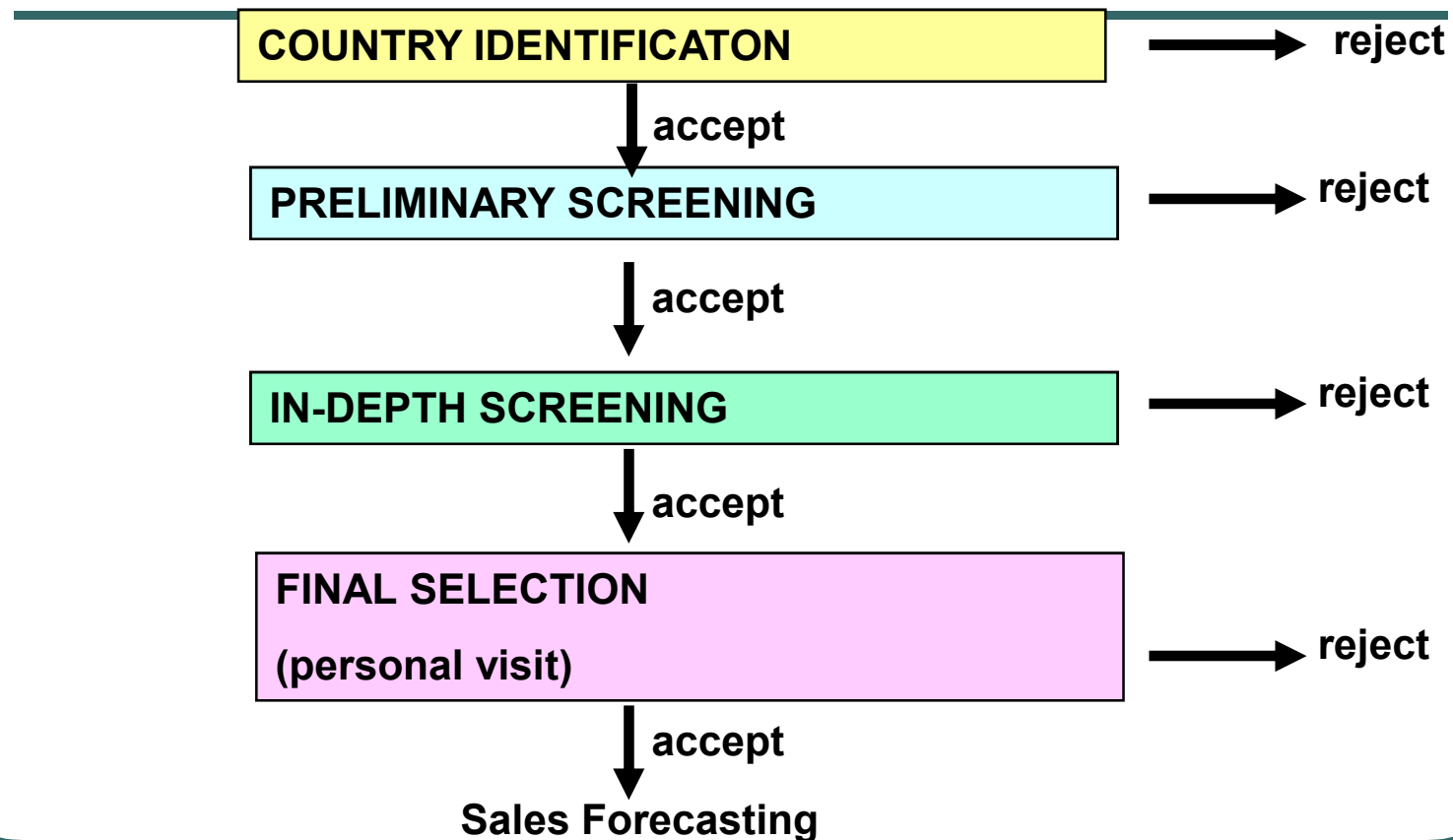
Source: Malhotra and Birks, et al. Chp 4

Outline

- **Political risk factors**

- **Environmental research**
- **Stages in the Entry Evaluation Procedure**
- **Data Bases for Country Evaluations**
- **Sales Forecasting in Foreign Markets**
- **Forecasting in early PLC markets**
- **Forecasting in Mature Markets**
- **Forecasting Market Shares**
- **Takeaways.**

Part I: Entry Research Steps



1. Political Risk

- **Political Risk**

- **Is the danger that political and military upheaval will change the nation's economic rules and regulations overnight**
- **The rise of international terrorism is a new type of political risk**
- **As governments change and new regimes come to power**
 - **Political risk can be temporary**
 - **Where the risk index is high, scenario planning becomes necessary**

Political Risk Factors

Factors

Examples

Level 1: General Instability

Revolution, External aggression

Level 2: Expropriation

Nationalism,
Contract revocation

Level 3: Operations

Import restrictions,
Local content rules,
Taxes, Export requirements

Level 4: Finance

Repatriation restrictions,
Exchange rates

Country ID: Unpredictable Risk

- **Terrorism, including kidnappings of executives**
- **Epidemics, risk of outbreaks**
- **Political Risk generally**
 - **Political and military upheaval can change a nation's economic rules and regulations overnight**
 - **As governments change and new leaders come to power, political risk can change rapidly - expropriation, currency exchange and more.**



2. Environmental Research

Once ~~political risk has been analyzed~~ environmental factors affecting marketing should be researched

- **In new local markets, the most valuable market research centers on very basic environmental determinants of consumption and buying behaviors**

For marketing research purposes it is common to distinguish among four environmental dimensions

- Physical
- Economic
- Regulatory
- Sociocultural

Environmental Research

Physical Environment

- **Climate is most obvious environmental factor affecting people's behavior**

Sociocultural Environment

- **Cultural influences are pervasive in most country markets**

Economic Environment

- **The level of economic development is a major determinant of local buyer behavior**

Regulatory Environment

- **The institutional framework within which markets function is designed to enable or prohibit certain business practices**

Preliminary screening: A Business Environment for Us?

Physical Environment

- **Climate, weather – is there a market for the product, and will it function well? Ex. Air conditioning for cars in Norway.**

Sociocultural Environment

- **Are cultural and social factors aligned with product usage? Ex. Bikinis in Muslim countries.**

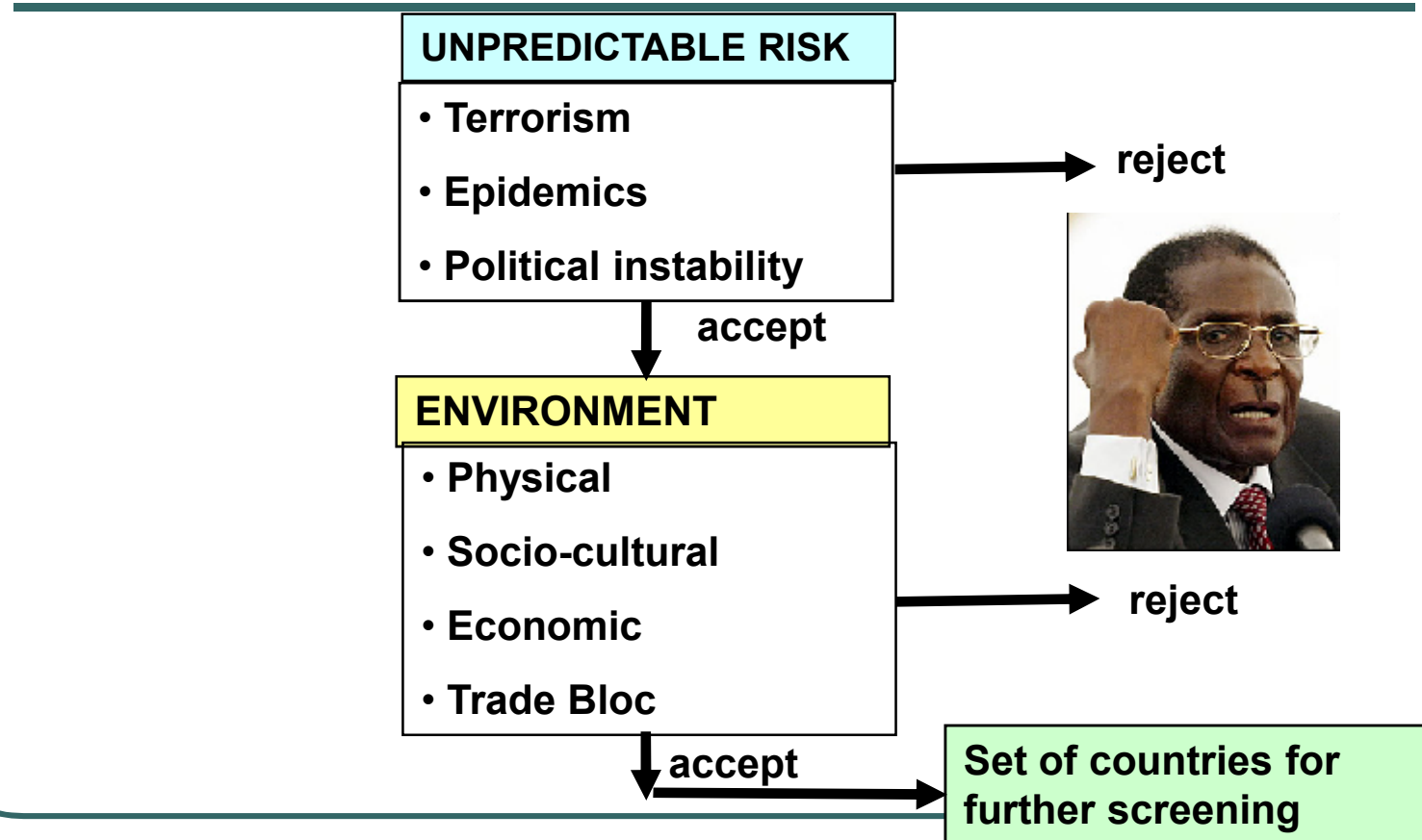
Economic Environment

- **Is the level of economic development and infrastructure conducive? Ex. Ferrari in Vietnam.**

Trade Blocs and Regulation

- **Does the country belong to a trade bloc we want to be in? Ex. Dell in Ireland-EU.**

Entry Research: First two steps



3. In-Depth Screening Criteria

- **Market Size**
- **Market Growth**
- **Competitive Intensity**
- **Trade Barriers**

In-Depth Screening Criteria

MARKET SIZE

1. The size of the potential target segment.

- **Population, age-groups, no. of households (n B2B number of businesses)**
- **Disposable income per capita.**
- **Per capita spending on product category**

2. Product Life Cycle

- **Stage of the PLC**
- **Potential saturation level**
- **Percent of saturation potential sold (penetration)**

In-Depth Screening Criteria

MARKET GROWTH

1. Growth rate of new potential buyers.

- Population growth.
- Growth in disposable income.

2. Growth in penetration (new actual buyers)

- Per capita spending growth in product category
- Growth in percent of total potential sold

3. Growth among existing buyers

- Growth in buying frequency
- Growth in buying amounts

In-Depth Screening Criteria

COMPETITIVE INTENSITY

- **1. Number of competitors, domestic and foreign.**
 - **Domestic companies, market shares.**
 - **Multinational competitors, market shares.**

- 2. Market shares in the product category**
 - **Domestic competitors**
 - **Multinational competitors**

- 3. Own strength**
 - **Competitive advantages**
 - **Actual and potential market shares**

In-Depth Screening Criteria

TRADE BARRIERS

1. Distance barriers

- **Geographical distance (transportation costs,...)**
- **Cultural distance (ex. Hofstede distances)**

2. Artificial barriers

- **Tariff barriers for the product category.**
- **Non-tariff barriers (e.g. customs procedures).**
- **Preferential treatments by country of origin.**

Entry Research: Last two steps



IN-DEPTH SCREENING

- Market size
- Market growth
- Competitive intensity
- Trade barriers

→ reject

↓ accept

FINAL CHOICE

- Personal visit
- Face-to-face

→ reject

↓ accept

→ SALES FORECAST

Major Data Sources

The Economist Intelligence Unit (EIU) – marketing in Europe

Business International – consumption patterns in different countries

Frost & Sullivan – syndicated market research for various industries in different countries

Euromonitor – European marketing data and statistics

Bates Worldwide – global scan, spending patterns, media habits

US Department of Commerce – global market surveys, overseas marketing reports

Forecasting Country Sales

Market Potential – what could potentially be achieved under “ideal” conditions

Sales Forecast – what is likely to be obtained given the probable situation and contemplated strategies

Forecasting Country Sales

Sales Forecasts

- The focus is on the derivation of sales forecasts at two levels
 - Industry sales and market share

A Basic Equation

Forecasted Sales = Forecasted Industry Sales x Forecasted Market Share

- economic growth,
- disposable incomes,
- social and political development,
- dynamics of the product life cycle need to be incorporated
- competitive situation
- Marketing effort

Forecasting and the PLC

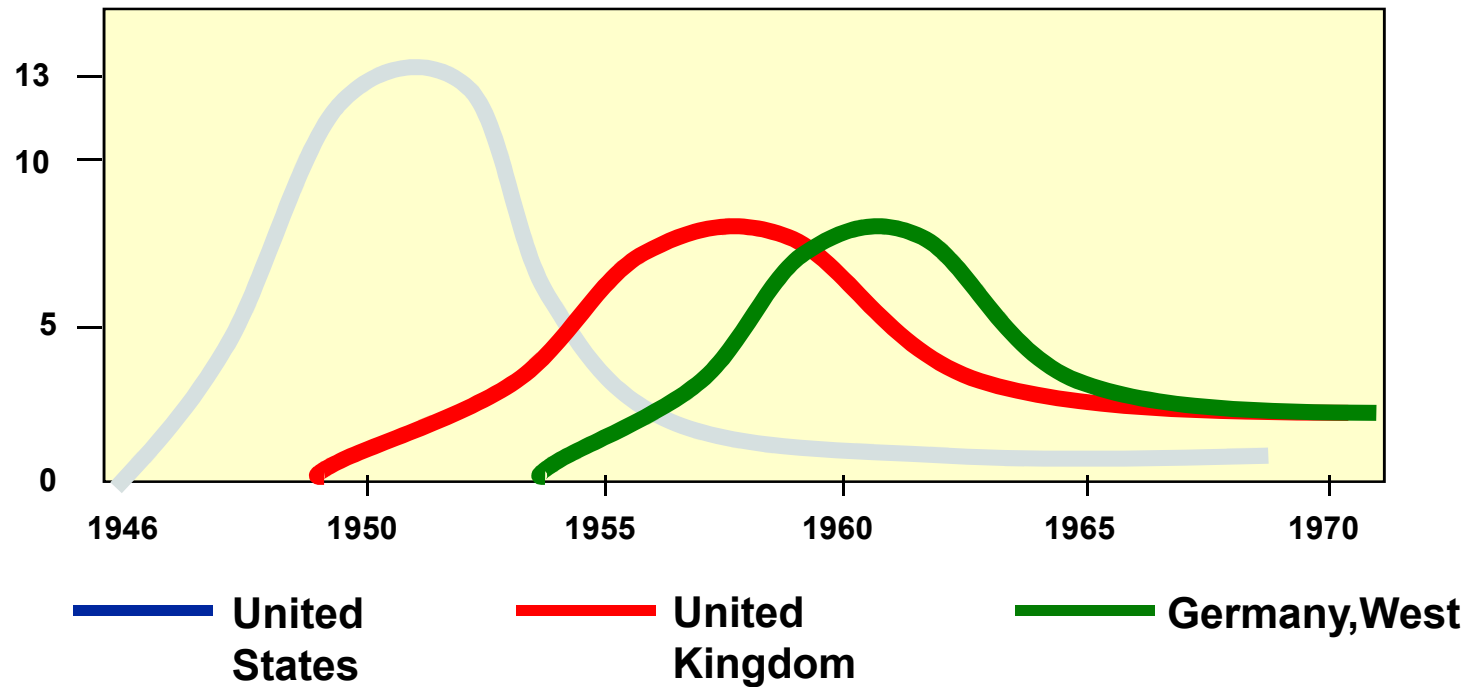
The forecasting technique depends on the stage of the Product Life Cycle in the country market.

- **Early Stage:** lack of data means forecasting becomes more subjective
- **Later Stage:** with data available, quantitative forecasts are feasible

Early PLC: Three methods

- **Three forecasting techniques used in the early stages of the PLC**
 - **“Build-up” Method**
 - **Derived from market sales estimated on the basis of separate estimates from individuals knowledgeable about certain market segments**
 - **Forecasting by Analogy**
 - **Based on the premise that sales of the product in one “lagging” country will show similarities to sales in another “leading” country**
 - **Judgmental Methods**
 - **Generally attempt to introduce a certain amount of rigor and reliability into otherwise quite arbitrary guesses**

Forecasting by analogy



YEARLY INCREASE IN HOUSEHOLD OWNERSHIP OF TV SETS 1946-1970

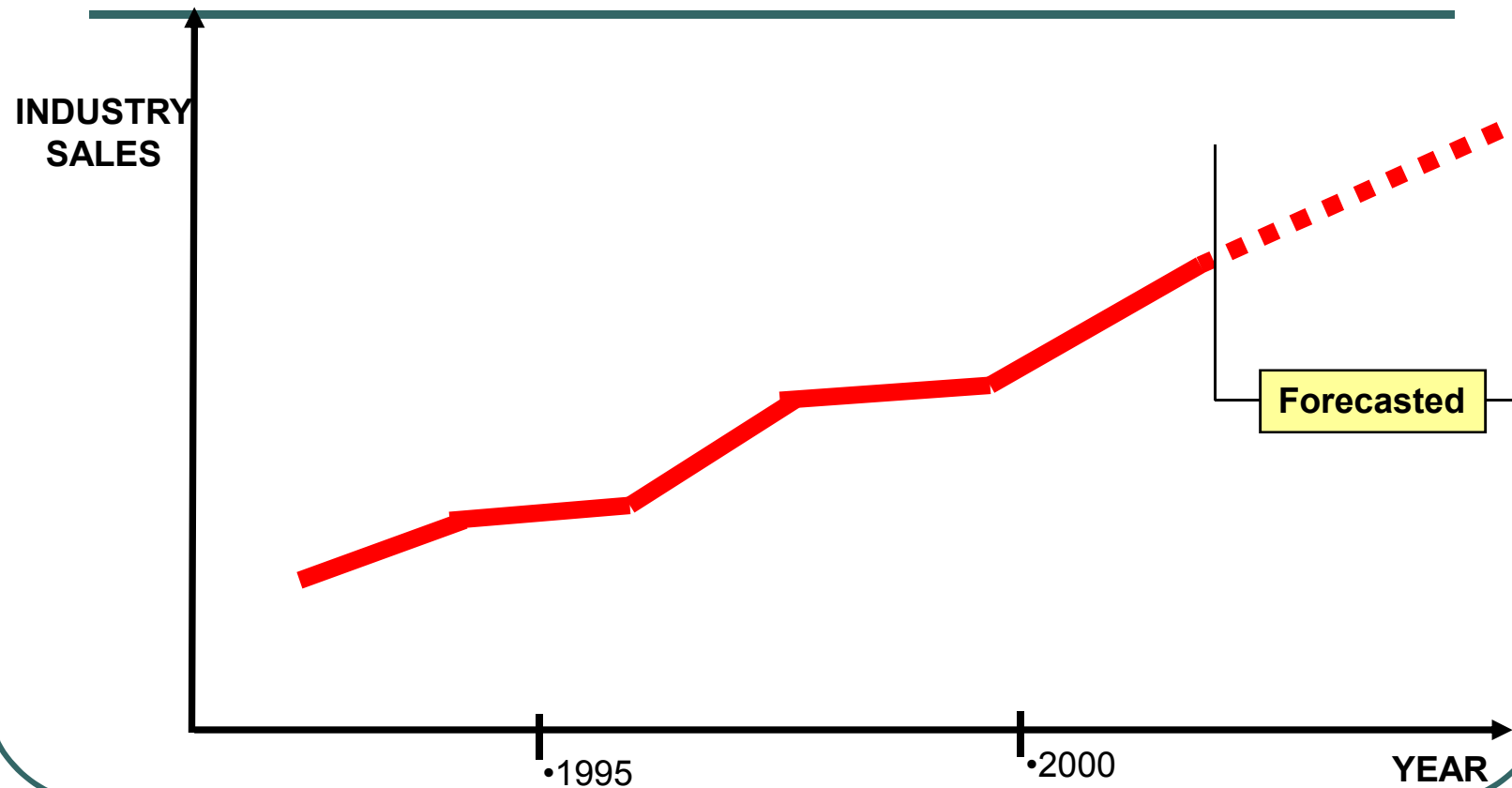
Judgmental Forecasting

- **The Jury Technique**
 - Members of the group are asked to submit their separate forecasts with the forecasts being pooled and results again evaluated
- **Expert Pooling**
 - Consultation with experts on the country contemplated will always be a cornerstone in sales forecasting where new entry is concerned
- **Panel Consensus**
 - Attempts to pool the available information from more than one source
- **Delphi Method**
 - Consists of a series of “rounds” of numerical forecasts from a preselected number of experts

Mature PLC: Quantitative methods

- **Forecasting in the later stages of the PLC can rely on data**
 - **Time Series Extrapolation**
 - **Extrapolation refers to the method by which a time series of (sales) data observed over some periods in the past is extended into the future**
 - **The primary requirements for statistical extrapolation of foreign sales are**
 - **That data are available**
 - **That past events will continue into the future**

Mature PLC: Time-series extrapolation



Forecasting by Regression Analysis

Regression-Based Forecasts

Required prior knowledge to develop a regression forecast

- ❖ **First, the relevant dependent variable of interest needs to be determined – e.g. sales per customer or total sales?**
- ❖ **Second, the forecaster must try to identify what factors will affect the dependent variable selected**

Forecasting by Regression Analysis

- **Regression-Based Forecasts can usefully be divided up as follows:**
 - **The Size Component – How many people in the target market?**
 - **Willingness to Buy**
 - **Ability to Buy**
 - **Sales per Customer**
Multiplying the willingness and ability to buy one
 - **Market Sales**
The number of customers times the sales per customer gives the total. forecasted sales.

Forecasting Market Share

Forecasting Market Share involves predicting competition:

- **Identifying Competitors**
 - Drawing on informal in-house knowledge and on selected contacts in the market country, a list of competitors is compiled
- **Domestic Competitors**
 - For forecasting purposes, the critical figure is the proportion of the market available to foreign competitors
- **Foreign Competitors**
 - If appropriate, this last step can be broken down into evaluating foreign competitors first then firms from the entrant's own home country

Researching Competitors

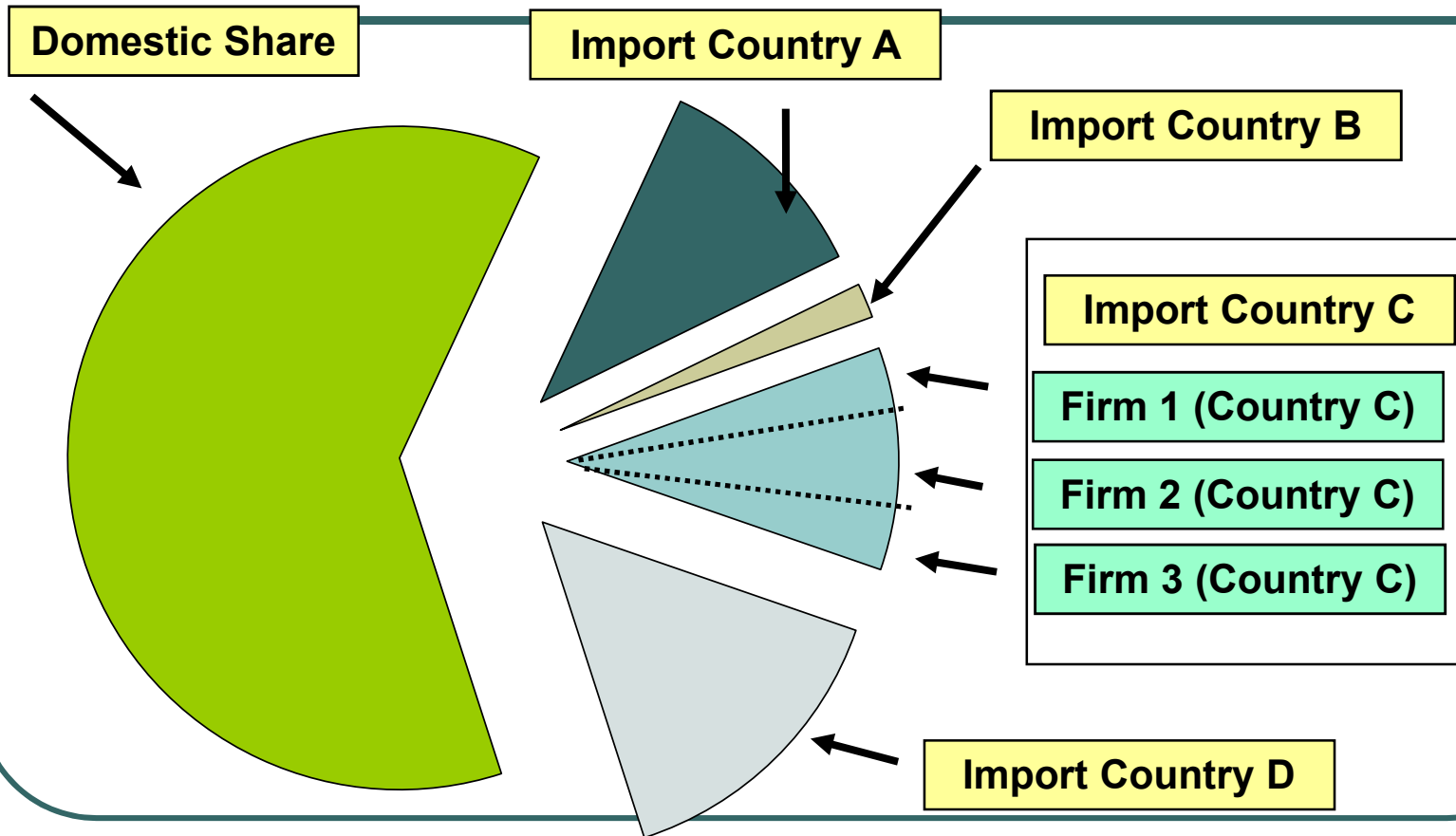
Strengths and Weaknesses

- It is possible to get a sense of the financial capability of the competition from annual reports, 10K or corresponding stock exchange filings
- Understanding the organizational structure of the competitors helps gauge their local strengths

Competitive Signaling

- The local marketer must read competitive signals to judge the competitors' future actions

Domestic and Import Shares Forecast



Takeaway

Evaluate country attractiveness by looking at:

- market potential & growth
- political developments
- trading bloc membership
- competitive intensity
- entry barriers

Takeaway

Assess a country's attractiveness by weighing various factors against each other, & by considering alternative scenarios of political developments & competitive reactions.

Takeaway

The Internet & other sources provide up-to-date economic & political data on countries & regions.

Independent research agencies will provide customized analysis on specific products & markets.

Takeaway

To forecast sales for a country, the manager will often have to combine subjective estimates with whatever objective data are available.