chapter 12

Global Market Opportunity Assessment

Learning Objectives

In this chapter, you will learn about:

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. Estimating of company sales potential

Estimating Market Demand in Emerging Markets and Developing Countries

Estimating the demand for products or services in emerging markets and developing economies is a challenging task for managers. These countries have unique commercial environments and may lack reliable data, market research firms, and trained interviewers. Consumers may consider research activities an invasion of privacy, and some survey respondents may try to please researchers by telling them what they want to hear, rather than providing fully honest and accurate information.

Just three emerging markets—China, India, and Brazil—have a combined GDP of more than $15 trillion, significantly more than the United States. Africa is among the biggest worldwide markets for mobile phone sales, growing to over 100 million users in just a few years. While most Africans can't afford a cell phone, the trend illustrates an often-overlooked point: developing economies are huge markets for products and services. For instance, Unilever and Procter & Gamble are among the companies that market shampoo and other necessities in India. Narayana Hrudayalaya is an Indian firm that sells health insurance to countless customers for pennies per month.

Estimating market demand in such countries requires managers to be flexible and creative. Let's consider the case of two firms trying to estimate the demand for wallpaper and adhesive bandages (band-aids) in Morocco.

In Morocco, the wealthier people live in villas or condominiums, which are potential target markets for sales of wallpaper. Import statistics are often not very helpful, because the government usually records wallpaper imports by weight and value. Companies sell wallpaper by the roll, and different qualities and designs will have different weights. Such information is of little use in estimating the number of modern households that will buy wallpaper.

One wallpaper company used three approaches to estimate demand for wallpaper. First, managers used a recent study that reported the number of water heaters purchased in Morocco. Managers assumed that if households purchased this important, "modern" convenience, they also would likely want to purchase wallpaper. Second, managers accessed government statistics that disclosed the level of domestic wallpaper sales, discretionary income by type of household, and home construction data. Third, managers surveyed the lifestyle of a sample of local consumers. Their findings revealed that Moroccans usually shop for wallpaper as a complementary decoration to fitted carpets. Among married couples, it is generally the wife who decides the style and decoration of the home. Customers tend to be well-to-do; they include professionals, merchants, and high-ranking administrators. Each of these approaches provided this wallpaper company with separate estimates of its market size for wallpaper. The company then triangulated a single estimate. Specifically, the company was interested in the degree to which the three separate estimates converged. Researchers blended their own judgment into these findings in order to ultimately arrive at a reasonably reliable estimate of demand for wallpaper.

In the case of adhesive bandages, available data revealed that 70 percent of demand for pharmaceutical items—including adhesive bandages—was met by wholesalers concentrated in Casablanca, Morocco's capital city. The country imported all its adhesive bandages. Demand was quickly growing, due to rapid population growth, free hospitalization and medication for the needy, and reimbursement programs for medical and drug expenses. Although the government published import statistics, the information was confusing, because data on band-aid imports was mixed together with data on other types of adhesives. Moreover, the band-aid data was superficial and incomplete. Finally, widespread smuggling and gray-marketing of adhesive bandages through unofficial distribution channels complicated estimates of demand.

In an effort to gather more information, researchers interviewed band-aid sales personnel from firms such as Johnson & Johnson and Curad. Their findings revealed that consumers tend to be price sensitive when buying band-aids, and that they rely on doctors and pharmacists to recommend well-known brands. Researchers eventually arrived at a reasonable estimate of band-aid sales by assimilating data from various sources. They visited numerous retail stores to ask about sales, prevailing retail prices, competitive brands, and consumer attitudes toward prices and brands. Researchers also tallied statistics from the United Nations Development Program and other aid agencies that donate medical supplies to developing countries.

As you can see, estimating demand in foreign markets is challenging, but managers can overcome the challenges through creative use of market research.

Sources: Amine, Lyn and S. Tamer Cavusgil. (1986). "Demand Estimation in a Developing Country Environment: Difficulties, Techniques, and Examples," *Journal of the Market Research Society* 28 (1): 43–65; Cavusgil, S. Tamer, P. Ghauri, and M. Agarwal. (2002). *Doing Business in Emerging Markets: Entry and Negotiation Strategies*. Thousand Oaks, CA: Sage; Prahalad, C. K. (2005). "Aid Is Not the Answer," *The Wall Street Journal* Aug 31, p. A8; Wilkes, V. (2005). "Marketing and Market Development: Dealing with a Global Issue: Contributing to Poverty Alleviation," *Corporate Governance* 5 (3): 61–69; U.S. Commercial Service and the U.S. Department of State. (2005). *Country Commercial Guide Morocco Fiscal Year 2005,* retrieved at *www.buyusainfo.net*.

An Overview of Global Market Opportunity Assessment

The choices managers make determine the future of the firm. Making good choices depends on objective evidence and hard data about which products and services to offer, and where to offer them. The more managers know about an opportunity, the better equipped they will be to exploit it. This is particularly true in international business, which usually entails greater uncertainty and unknowns than domestic business.[1]

Global market opportunity
Favorable combination of circumstances, locations, or timing that offers prospects for exporting, investing, sourcing, or partnering in foreign markets.

Central to a firm's research is identifying and defining the best business opportunities in the global marketplace to pursue. **Global market opportunity** refers to a favorable combination of circumstances, locations, or timing that offers prospects for exporting, investing, sourcing, or partnering in foreign markets. In various foreign locations, the firm may perceive opportunities to: sell its products and services; establish factories or other production facilities to produce its offerings more competently or more cost-effectively; procure raw materials, components, or services of lower cost or superior quality; or enter into collaborative arrangements with foreign partners. Global market opportunities can enhance company performance, often far beyond what the firm can normally achieve in its home market.

In this chapter, we discuss six key tasks that the manager should perform to define and pursue global market opportunities. Exhibit 12.1 illustrates the objectives and outcomes typically associated with each task. Such a formal process is especially appropriate in pursuing a marketing or collaborative venture opportunity. As the exhibit shows, the six key tasks are:

1. Analyze organizational readiness to internationalize.
2. Assess the suitability of the firm's products and services for foreign markets.
3. Screen countries to identify attractive target markets.
4. Assess the industry market potential, or the market demand, for the product(s) or service(s) in selected target markets.
5. Select qualified business partners, such as distributors or suppliers.
6. Estimate company sales potential for each target market.

In carrying out this systematic process, the manager will need to employ objective *selection criteria* by which to make choices, as listed in the final column of Exhibit 12.1. Let's examine each task in detail.

Task One: Analyze Organizational Readiness to Internationalize

Before undertaking a substantial investment in international business, whether it is launching a product abroad or sourcing from a foreign supplier, the firm should conduct a formal assessment of its readiness to internationalize. A thorough evaluation of organizational capabilities is useful, both for firms *new* to international business and for those with considerable experience. Such a self-audit is similar to a SWOT analysis (that is, an evaluation of the firm's Strengths, Weaknesses, Opportunities, and Threats). Here, managers peer into their own organization to determine the degree to which it has the motivation, resources, and skills necessary to successfully engage in international business.

Concurrently, management also examines conditions in the *external* business environment by conducting formal research on the opportunities and threats that face the firm in the markets where it seeks to do business. Here, managers research the specific needs and preferences of buyers, as well as the nature of competing products, and the risks involved in entering foreign markets.

Management's goal in analyzing organizational readiness to internationalize is to figure out what resources the firm has and the extent to which they are sufficient for successful international operations. In this way, managers assess the firm's *readiness* to venture abroad. During this process, management considers the firm's degree of international experience, the goals and objectives that management envisions for internationalization, the quantity and quality of skills, capabilities, and resources available for internationalization, and the extent of actual and potential support provided by the firm's network of relationships. If it is discovered that the firm lacks one or more key resources, management must commit necessary personnel and time *before* allowing the contemplated venture to go forward.

As an example, consider *Home Instead, Inc.,* a small U.S. firm that provides services for the elderly who choose to live independently at home but require companionship, assistance with meal preparation, and help with shopping and housekeeping. Following an assessment of its readiness to internationalize, management perceived substantial international opportunities—particularly in Japan—but also recognized deficiencies in certain key capabilities. So, the company hired Ms. Yoshino Nakajima, who is fluent in Japanese and an expert on the Japanese market, to be vice president for international development. Ms. Nakajima

Task	*Objective*	*Outcomes*	*Selection criteria*
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

Exhibit 12.1 Key Tasks in Global Market Opportunity Assessment

Task	*Objective*	*Outcomes*	*Selection criteria*
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 trends in the industry • The degree of competitive intensity • Tariff and nontariff trade barriers • Standards and regulations • Availability and sophistication of local distribution • Unique customer requirements and preferences • Industry-specific market potential indicators
5. Select qualified business partners	To decide on the type of foreign business partner, clarify ideal partner qualifications and plan entry strategy.	• Determination of value adding activities required of foreign business partners • List of attributes desired of foreign business partners • Determination of value-adding activities required of foreign business partners	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.	• 3 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

launched the franchise in Japan, where it captured substantial market share. Next, management tapped into the global network of 1,700 trade specialists of the U.S. Commercial Service, a government agency that provided the firm with leads and contacts in countries it had identified as the best target markets. Now *Home Instead* has numerous franchises in Australia, Canada, Ireland, and Portugal. Its international operations are thriving.[2]

A formal analysis of organizational readiness to internationalize requires managers to address the following questions:

- *What does the firm hope to gain from international business?* Various objectives and goals are possible, including 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?* The firm should manage internationalization in the context of its mission and business plan. Over time, firms have various opportunities. Managers should evaluate one venture against others that might be undertaken in the domestic market to ensure that internationalization is the best use of firm resources.
- *What demands will internationalization place on firm resources, such as management, personnel, and finance, as well as production and marketing capacity? How will the firm meet such demands?* Management must confirm that the firm has enough production and marketing capacity to serve foreign markets. Nothing is more frustrating to the management team and the international channel than not being able to fill orders due to insufficient capacity. For instance, when Cirrus Logic, Inc., a manufacturer of audio microchips, wanted to expand its ability to market chips to international customers like Bose, LG Electronics, and Sony, it had to increase its manufacturing capacity first.[3]
- *What is the basis of the firm's competitive advantage?* Here, managers evaluate the reasons for the firm's current success. Firms derive competitive advantage from doing things better than competitors. It might be based on strong R&D capabilities, sourcing of superior input goods, cost-effective or innovative manufacturing capacity, skillful marketing, or a highly effective distribution channel. It is important to understand what advantages the firm has, so that managers can apply these advantages effectively in foreign markets.

Managers 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),* developed by Professor Tamer Cavusgil in the early 1980s (see www.globalEDGE.msu.edu). *CORE* has been adopted and used widely by individual enterprises, consultants, and the U.S. Department of Commerce. Since *CORE* has benefited from extensive research on the factors that contribute to successful exporting, it also serves as an ideal tutorial for self-learning and training.

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. It also generates assessments on both organizational readiness and product readiness. This self-assessment tool helps managers recognize the useful assets they have and the additional resources they need to make internationalization succeed. The assessment emphasizes exporting, since it is the typical entry mode for most newly internationalizing firms.

Assessing organizational readiness to internationalize is an ongoing process. Managers need to continuously verify the firm's ability to modify its products and processes to suit conditions in local markets. For example, Levi

Strauss is the world's largest manufacturer of trousers, notably denim jeans, which are sold worldwide. Countries differ in their tastes and fashions, which creates the need for firms to adapt products and services. Levi has had to assess its ability to undertake marketing adaptations in various markets. For example, in Islamic countries, women are discouraged from wearing tight-fitting attire, so Levi made a line of loose-fitting jeans. When Levi first entered Japan, local preferences and the smaller physique of many Japanese meant that the firm had to make its famous blue jeans tighter and smaller.

In addition to considering local customs, preferences, and physical makeup, Levi also adapts to local regulations. Levi often re-shot TV commercials in countries such as Australia and Brazil because local regulations insist on domestically produced commercials. Differences in climate also necessitate changes; for instance, in hot climates, customers prefer thinner denim in brighter colors, and shorts. Management has had to regularly assess the firm's capacity to accommodate the adaptations required for numerous individual markets.[4]

Levi makes tight-fit jeans to accommodate the Japanese physique and loose-fitting jeans to accommodate tastes in Islamic countries.

Task Two: Assess the Suitability of the Firm's Products and Services for Foreign Markets

Once management has confirmed the firm's readiness to internationalize, it next ascertains the degree to which its products and services are suitable for foreign markets. Most companies produce a portfolio of offerings, some or all of which may hold the potential for generating international sales.

Factors Contributing to Product Suitability for International Markets

There are various ways to gauge the viability of offerings in foreign markets. The products or services with the best international prospects tend to have the following four characteristics:

1. *Sell well in the domestic market.* Those products and services that are received well at home are likely to succeed abroad, especially where similar needs and conditions exist. The manager should examine why the product or service is received well at home and then identify foreign markets with similar demand requirements.
2. *Cater to universal needs.* For example, buyers all over the world demand personal-care products, medical devices, and banking services. 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.
3. *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.

4. *Address a new or emerging need abroad.* For some products and services, demand might suddenly emerge following a disaster or other largescale 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 pharmaceuticals and medical supplies. Growing affluence in various emerging markets can create a growing demand for restaurants and hospitality services. Managers need to monitor such trends, so they can be prepared to enter the right market at the right time.

Key Issues for Managers to Resolve in Determining Product Potential

Here are some of the key questions managers should answer to determine the international market potential of a particular product or service:

- 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 the actual buyers. Employees consume various products, but their company makes the purchases.
- Why do people buy the product or service? That is, what specific needs does the product or service fulfill? These needs vary around the world. For example, Honda sells gasoline-powered generators that consumers in advanced economies use for recreational purposes; consumers 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 the extent of their potential interest. These store audits also provide useful information on whether the product or service must be adapted to specific market needs, as well as how to price, promote, and distribute it.
- 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. Managers should investigate such factors and adapt their offers accordingly.

One of the simplest ways to find out if a product or service holds promise for generating international sales is to ask potential intermediaries in the target market about the potential of a product in their markets. A manager can also review importer or distributor lists, available from government sources, trade associations, or directories online or in libraries.

Data on the extent to which the target country has imported a product over time is also very useful for understanding current and future potential demand. Data may be available from various sources, such as http://export.gov, http://www.stat-usa.gov, or globalEDGE™. The level of exports should be investigated as well, because some countries, such as Singapore or Hong Kong, are used mainly as a transit point for international products and, therefore, may not actually be major users.

Another useful method for determining a product's marketability is to attend an industry trade fair in the target market or region and interview prospective customers or distributors. Since trade fairs often cover entire regions, such as Asia or Europe, this approach is efficient and cost effective for simultaneously learning about the market potential of several countries.

For successful international ventures, most firms focus on offering products and services that fit its resources and competitive advantages and can be produced from existing production facilities with minimal adaptation. The managers target those markets that are most likely to accept their offering and which have high profit and long-term potential growth.

Task Three: Screen Countries to Identify Target Markets

Screening for the best country to target is a fundamental decision in international business, whether the firm is engaged in importing, investing, or exporting. 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 that 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 and substantial returns, while posing relatively low political risk. Finally, exporting firms should target countries with low tariff barriers, steady demand, and qualified intermediaries.

Exporters typically use trade statistics that reveal exports or imports by country and product and allow the researcher to compare the size of the market among candidate countries. Statistics on how much of the product is already being exported to the target market help gauge the market's viability for accepting sales of the offering. By examining statistics over a period of years, a manager can determine which markets are growing and which are shrinking. The exporter can purchase research reports from professional market research consultants that provide descriptions, assessments, and key statistics on particular markets. For instance, the U.S. Department of Commerce conducts and publishes numerous market surveys, such as *The Water Supply and Wastewater Treatment Market in China, Automotive Parts and Equipment Industry Guide in Europe,* and the *Country Commercial Guide for Brazil.*

The choice of country markets is particularly important in the early stages of internationalization. Failure to choose the right markets will not only result in a financial loss, but the firm will incur opportunity costs as well. That is, by choosing the wrong markets, the firm ties up resources that it might have more profitably employed somewhere else. When entry is planned through *foreign direct investment (FDI)*, choosing the right market is especially critical, because FDI is very costly. As you learned in Chapter 1, FDI is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant, and equipment. With FDI entry, the cost of abandoning the market and terminating relationships can easily exceed millions of dollars.

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. For instance, Australian firms often choose New Zealand, the United Kingdom, or the United States as their first target markets abroad. Many choose the United Kingdom rather than France or Italy as their first European target. The choice is logical, because English is spoken in New Zealand, the United Kingdom, and the United States, and these cultures bear similarities to that of Australia. As their managerial experience, knowledge, and confidence increase, these firms expand into more complex and culturally distant markets, such as China or Japan.

In the contemporary era, however, firms have become more venturesome as well as more knowledgeable regarding foreign-market entry. As a result, many target nontraditional, higher-risk countries. The born-global companies exemplify this trend. Ongoing globalization tends to mitigate the foreignness of markets and—thanks to advances in communication and transportation technologies—have reduced the cost and risk of reaching out to culturally distant countries, including emerging markets.

As firms become more knowledgeable about foreign markets, they are venturing into countries with different languages and cultures. U.S.-based Motorola sells mobile phones in Vietnam. The United States imports agricultural and other products from Vietnam.

When screening countries, it is best for managers to target markets that are growing rapidly or in which the offered product or service is relatively new to the market. Markets in which there are numerous competitors or in which the product is already widely used are unattractive, because existing rivals may strongly resist the entry of newcomers.

The nature of information necessary for country screening varies by product type or 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.

In the process of screening for attractive country markets, managers need to monitor a range of economic, political, and cultural factors. These factors affect the international business environment in major ways, and point to various opportunities and threats that firms analyze and evaluate. Read the *Global Trend* feature to learn about a number of current trends that affect the global market environment.

Targeting Regions or Gateway Countries

Often, the firm may target a region or a group of countries rather than individual countries. 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, firms often devise a pan-European strategy that considers many member countries of the European Union, rather than planning separate efforts in individual countries.

In other cases, the firm may target so-called *gateway countries,* or *regional hubs,* which serve as entry points to nearby or affiliated markets. For example, 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.

Screening Methodology for Potential Country Markets

With almost 200 countries around the world, it is neither cost effective nor practical to target all of them. Thus, management must choose markets that offer the best prospects. There are two basic methods for accomplishing this: gradual elimination and indexing and ranking.

Global Macro Trends That Affect International Business

Managers must regularly assess the long-term trends in its product markets, as well as shifting aspects of technology and globalization. Firms succeed when they ride these currents—those that swim against them usually struggle. For instance, in sectors such as banking, telecommunications, and technology, almost two-thirds of recent organic growth in western firms (that is, growth from increasing sales) has resulted from being in the right markets and regions. By identifying and analyzing key trends, it is possible to forecast long-term directional changes that affect the firm's future fortunes.

What current trends are international managers tracking that will make the future world very different from the world of today? A recent study by McKinsey, a consulting firm, identified the following macroeconomic trends as transforming the global economy.

Centers of economic activity that will undergo a major shift, not just globally, but also regionally. The locations of global economic activities are shifting due to economic liberalization, technological advances, capital market developments, and demographic shifts. Today, Asia (excluding Japan) accounts for 13 percent of world GDP, while western Europe accounts for more than 30 percent. By 2025, these proportions may reverse, as most global economic activity shifts toward Asia. Some industries and functions in Asia—manufacturing and IT services, for example—will be the major beneficiaries. Elsewhere, emerging markets are becoming centers of activity as well.

Need to increase organizational productivity. Populations are aging across the developed countries, meaning there are fewer young people to work and pay taxes. This demographic shift requires higher levels of efficiency and creativity from both the public and private sectors. Governments must perform their services less expensively and with greater efficiency. They will gradually apply private-sector approaches in the provision of social services. Otherwise, there is a risk that aging populations will reduce the overall level of global wealth. The shift is creating opportunities for firms in certain product and service sectors, such as finance and health care.

More consumers, especially in the developing economies. Almost a billion new consumers will enter the global marketplace through 2015, as economic growth in emerging markets pushes them beyond the threshold level of $5,000 in annual household income, a point when people begin to spend on discretionary goods. In the period up to 2015, consumers' spending power in emerging economies will increase to more than $9 trillion, near the current spending power of western Europe. Consumers everywhere will increasingly leverage information and communications technologies to access the same products and brands. These shifts require firms to devise new products and marketing strategies. For example, firms are increasingly employing the Internet to reach new markets and deepen relations with existing customers.

The shifting talent battlefield. The shift to knowledge-intensive industries highlights a growing scarcity of knowledge workers. Increasing integration of global labor markets (e.g., China, India, and Eastern Europe) is opening vast new talent sources. Emerging markets now have tens of millions of university-educated young professionals, more than double the number in advanced economies. To take advantage of this trend, firms increasingly leverage information and communication technologies to employ well-educated individuals located in the emerging markets and elsewhere.

Growing demand for natural resource. As economic growth accelerates, especially in emerging markets, use of natural resources will grow at unprecedented rates. Demand for oil is likely to grow by 50 percent through the year 2025. This shift portends new opportunities for firms in the global energy sector. In China, demand for copper, steel, and aluminum has tripled in recent years, suggesting new opportunities for mining companies. Meanwhile, water shortages are increasingly common in much of the world. Climate change and the gradual decay of the ozone level require attention. Addressing these challenges is costly, and will likely slow growth. Innovation in technology, regulation, and the use of resources is central to creating a world that can both drive robust economic growth and sustain environmental demands.

Widespread access to information. Knowledge is increasingly available to people worldwide. For instance, the presence of search engines such as Google makes seemingly limitless information instantly available. Knowledge production itself is growing. For example, worldwide patent applications have been rising annually at 20 percent. Companies are applying new models of knowledge production, access, distribution, and ownership.

Managers need to understand the implications of these macroeconomic trends, along with customer needs and competitive developments. In such an evolving environment, the role of market research and competitive intelligence is growing. Managers who account for these trends in their strategy development will be best placed to succeed in the global marketplace. Thinking about these trends will be time well spent for any future manager.

Sources: Davis, I., and E. Stephenson. (2006). "Ten Trends to Watch in 2006," *The McKinsey Quarterly*, retrieved January, 2006 at www.mckinsey.com; Porter, Eduardo. (2003). "Buying Power of Hispanics Is Set to Soar," *Wall Street Journal*, April 18, p. B1.

Gradual Elimination The firm that applies *gradual elimination* starts with a large number of prospective target countries and then gradually narrows its choices by examining increasingly specific information. As indicated in Exhibit 12.1 on pages 348–349, the firm aims to reduce to a manageable few the number of countries that warrant in-depth investigation as potential target markets. The objective is to identify five or six high-potential country markets that are most promising for the firm. Research can be expensive. 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. For example, targeting developing economies with a product that is not yet widely consumed may be more profitable than targeting saturated and more competitive markets in Europe, Japan, and North America.

In the early stages, market research proceeds in a stepwise manner, in which the researcher follows a funnel approach of obtaining general information first, then specific information next. 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 (perhaps five or six) that represent the most attractive markets. Such broad screening data are readily available from sources such as globalEDGE ™.

Once managers identify the most promising markets, they employ more specific and precise indicators to narrow the choices. For example, a manager may use current import statistics of the particular product to determine the potential desirability of a target market. This information is readily available, because most countries record the flow of imported and exported products to levy import duties and to determine the value of their own exports. Most countries also make these statistics available to international organizations, such as the United Nations (see www.comtrade.un.org/db/) and the Organi-

Country	*Market Size*		*Market Growth Rate*		*Market Intensity*		*Market Consumption Capacity*	
	Rank	Index	Rank	Index	Rank	Index	Rank	Index
China	1	100	1	100	25	23	12	59
Hong Kong	24	1	20	23	1	100	13	54
Singapore	27	1	18	27	9	59	11	62
Taiwan	12	5	6	57	11	57	—	—
Israel	25	1	12	45	2	79	4	82
South Korea	7	12	16	30	5	63	2	99
Czech Rep.	23	2	9	48	13	55	3	97
Hungary	26	1	24	14	3	76	1	100
India	2	44	3	63	22	37	7	77
Poland	14	5	27	1	10	58	6	80

Exhibit 12.2 Application of Indexing and Ranking Methodology: Emerging Market Potential Indicators, 2007

Note: Only top 10 countries are provided here; consult www.globaledge.msu.edu for the complete list.

Source: globalEDGE™ (www.globaledge.msu.edu/ibrd/marketpot.asp).

zation for Economic Cooperation and Development (OECD; www.oecd.org). By analyzing research data and gradually narrowing the choices, the researcher identifies the one or two most promising markets for further exploration.

Indexing and Ranking The second primary method for choosing the most promising foreign markets is *indexing* and *ranking,* in which the researcher assigns scores to countries for their overall market attractiveness. For each country, the researcher first identifies a comprehensive set of market-potential indicators and then uses 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 researcher uses the resulting weighted scores to rank the countries.

This indexing and ranking method is illustrated by the *Emerging Market Potential (EMP) Indicators* methodology, developed by the senior author of this book, Tamer Cavusgil,[5] and featured at globalEDGE™.[6] Exhibit 12.2 presents the resulting index. It ranks the emerging markets—some 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. Exhibit 12.3 defines the variables and relative weights used in the Exhibit.

Among the variables in Exhibit 12.3, *market size* and *market growth rate* are especially important for measuring market potential.[7] They address the question "Is the market big enough and does it have a future?" If a country's population is large and its per–capita income is substantial, it is probably a good prospect for international sales. By itself, however, a sizable market is insufficient. The market should also be growing at a stable or substantial rate, particularly in terms of population or income. Countries with robust income growth are desirable targets. For each country, a researcher examines population,

Commercial Infrastructure		*Economic Freedom*		*Market Receptivity*		*Country Risk*		*Overall Index*	
Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index
16	45	27	1	22	3	13	49	1	100
2	97	6	79	2	75	2	90	2	96
6	83	10	71	1	100	1	100	3	93
1	100	8	76	5	23	3	87	4	79
3	94	3	86	4	26	5	63	5	78
5	90	7	78	10	13	4	65	6	75
4	91	2	93	9	15	6	63	7	73
7	78	4	83	8	16	8	62	8	64
25	17	17	44	27	1	16	39	9	55
8	71	5	82	14	7	9	58	10	46

Variable	*Definition*	*Weight (out of 100)*	*Example Measurement Indicators*
Market size	Proportion of the country's population concentrated in urban areas	20	• Urban population
Market growth rate	Pace 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 for Country Screening in the Emerging Market Potential (EMP) Indicators Index

national income, and growth statistics for the previous 3 to 5 years. A key question is whether or not market growth has been consistent year to year. In addition to large, fast-growing markets, a researcher should identify some smaller but fast-emerging markets that may provide ground-floor opportunities. There are likely to be fewer competitors in new markets than in established ones. Countries in which the product is not currently available or in which competitors have only recently entered may also be promising targets.

As we discussed in Chapter 9 on 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 middle-class consumer households are the best prospect for a typical marketer 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 indicate 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.

While the middle class is an important indicator for estimating the size of foreign markets, as also elaborated in Chapter 9, per capita income measure may underestimate the true potential of emerging markets due to such factors as the existence of a large, informal economy.

In Exhibit 12.2, an analysis of the rankings for each of the dimensions reveals some interesting patterns. For example, China ranks first in market size, but twenty-fifth in market intensity and last in economic freedom. It also ranks low in infrastructure. As this observation reveals, 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 also 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 in the index in Exhibit 12.2 are all in East Asia. In recent years, East Asian economies have made tremendous strides in market liberalization, industrialization, and modernization. South Korea is a champion of economic growth, with annual per-capita GDP growth of almost 6 percent. The level of 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. The country is the world's test market for state-of-the-art wireless and Internet services and applications. South Korean firms use pioneering technologies that are years ahead of their competitors and are poised to overtake other countries in mobile technology, broadband, and other leading communications technologies. Asia's rapid economic development is a primary factor in the current phase of globalization.[8]

Country rankings of the type indicated in Exhibit 12.2 are not static. Rankings change over time as shifts occur in each country because of macroeconomic events or country-specific developments. For example, while India ranks relatively high, it may dramatically fall if a new political regime reverses market liberalization. The recent accession of Hungary and Poland into the European Union should improve the economic prospects of these countries. The introduction of modern banking systems and legal infrastructure should increase Russia's attractiveness as an export market. Chile has achieved substantial progress in economic reforms and higher living standards. However, economic stagnation has led to a drop in Argentina's market attractiveness.

A final point relates to the rather generic and broad nature of the variables suggested by ranking indicators. They are only a general guide for identifying promising country markets. The ranking and indexing methodology is intended for use in the early stages of qualifying and ranking countries. Much more detailed analysis is needed once a firm identifies a handful of target markets. The researcher will eventually need to supplement the indicators for specific industries. Indicators to emphasize when researching soft drink markets, for example, vary substantially from those used for researching medical equipment. For medical equipment, the researcher will probably gather additional data on health care expenditures, number of physicians per capita, and number of hospital beds per-capita. 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. Each firm must assign appropriate weights to each indicator, depending on its specific circumstances.

Screening Countries for Direct Investment and Global Sourcing

The discussion so far has taken the perspective of a firm seeking the best country markets for exporting. However, firms internationalize through other entry modes as well—such as FDI—to set up production and assembly facilities abroad, and to source goods from foreign suppliers. While the goal of delineating a handful of prospective countries remains the same in these entry modes, the researcher may employ a different set of criteria for country screening. Let's discuss how the desirable country attributes differ for FDI and global sourcing.

Country Screening for Foreign Direct Investment FDI amounts to investing in physical assets, such as a factory, marketing subsidiary, or regional headquarters, in a foreign country. Such investments are usually undertaken for the long term. Accordingly, the types of variables to consider differ from those appropriate for export entry. For example, the availability in the target market of skilled labor and managerial talent are relatively more important to consider for FDI entry than exporting. Researchers identifying the best locations for FDI entry would normally consider the following variables:

- Long-term prospects for growth
- 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, grants, or low-interest loans

As in the case of screening countries for export opportunities, there are several sources of publicly accessible studies for screening countries for FDI. A useful resource is provided by the United Nations Conference on Trade and Development (UNCTAD). UNCTAD's *FDI Indices* methodology benchmarks both FDI performance and potential, ranking countries by how well they perform as recipients or originators of FDI (www.unctad.org). Another resource is provided by the consulting firm, A. T. Kearney, which prepares an annual *Foreign Direct Investment 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. By surveying executives at these firms, the index captures the most important variables to consider from the 65 countries that receive more than 90 percent of global FDI investments.

Exhibit 12.4 displays the results of the A. T. Kearney Index. The index reveals that advanced economies in western Europe, as well as Australia, Japan, and the United States, possess high investor confidence. In other words, firms prefer these locations for making FDI-based investments. 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 United States are each others' most important partners for FDI. Their transatlantic economy represents over $2.5 trillion in total foreign affiliate sales, and it mutually supports nearly a quarter of the world's entire foreign affiliate workforce employed by MNEs abroad.

Note that of the top ten 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. However, executives see India as the world's leader for business process and outsourcing IT services. 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. Sourcing is critically important to all types of firms. As with FDI decisions, the types of screening variables managers consider in sourcing are often distinct from those they consider for exporting. When seeking foreign sources of supply, 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 also prepares an annual *Offshore Location Attractiveness Index* (www.atkearney.com). 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 a supplier's experience and skills, labor-force availability, education and linguistic proficiency, and employee-attrition rates.

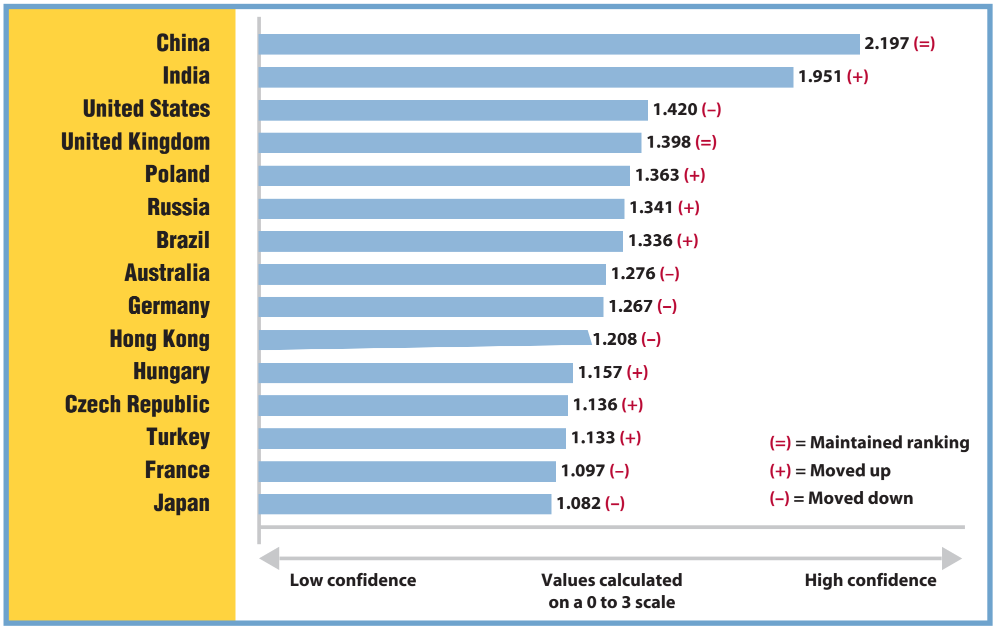

Exhibit 12.4

A. T. Kearney Foreign Direct Investment Confidence Index

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- *Business environment* assesses economic and political aspects of the country, commercial infrastructure, cultural adaptability, and security of intellectual property.

Exhibit 12.5 presents the *Offshore Location Attractiveness Index.* Note that 9 of the top 10 countries in the index are emerging markets, such as India, China, and Brazil. Although important, the 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, English fluency, low country risk, and high degree of global integration.

Task Four: Assess Industry Market Potential

The methods for screening countries discussed so far are most useful for gaining comparative insights into individual markets and for reducing the complexity of choosing appropriate foreign locations. Once the number of potential countries has been reduced to a manageable number—say five or six—the next step is to conduct in-depth analysis of each of these country markets. Rather than examining broad, macro-level indicators, as done in earlier stages, the researcher narrows

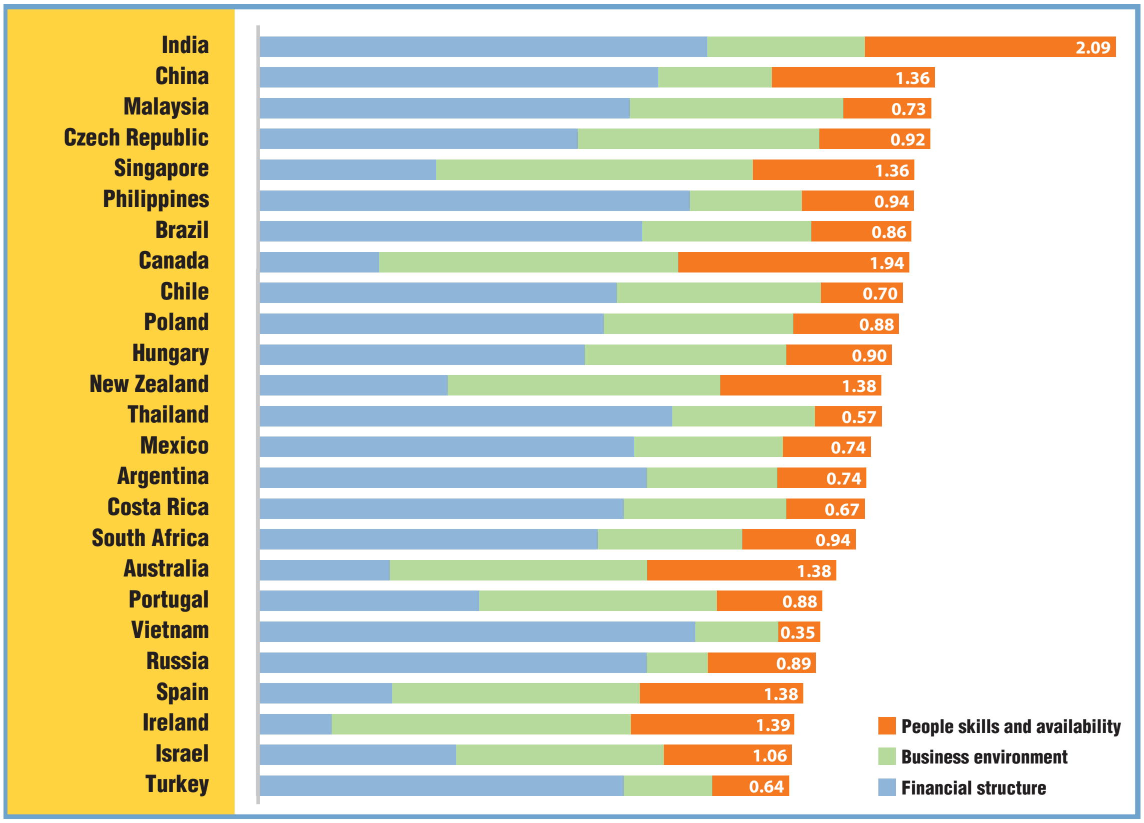

Exhibit 12.5 A. T. Kearney's Offshore Location Attractiveness Index

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the focus to examine *industry-level* market potential indicators, because market potential is industry specific.

In task four, the researcher estimates the current and future levels of sales expected for the particular industry as a whole. This is termed **industry market potential**—an estimate of the likely sales that can be expected for all firms in the particular industry for a specified 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 given year. Most firms forecast sales at least three years into the future, of both industry market potential and company sales potential.

Industry market potential
An estimate of the likely sales that can be expected for all firms in the particular industry for a specified period of time.

Estimating industry market potential enables the manager to refine the analysis and identify the most attractive countries for the firm's product or service. By examining country-level characteristics more closely at this stage, the manager is able to decide which countries to retain for subsequent analysis of company sales potential. In addition to gaining industry-specific insights into the select markets, managers will be able to formulate an understanding of the degree to which the firm needs to adapt its product and marketing approaches.

To develop an estimate of industry market potential, managers need data and insights on the following variables:

- Market size, growth rate, and trends in the specific industry
- Tariff and nontariff 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

In addition to generic determinants of demand, each industry sector—from fire alarms to zippers—has its own *industry-specific potential indicators* or *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 might examine data on the number of hospitals, clinics, hospital beds, and doctors, as well as the level of governmental 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. These are all industry-specific market potential indicators.

Managers also evaluate factors that affect the marketing and use of the product, such as consumer characteristics, culture, distribution channels, and business practices. Intellectual property rights and enforcement vary around the world. Managers should therefore evaluate regulations, trademarks, and product liability, and formulate strategies for protecting the firm's critical assets. The researcher should also ascertain the existence and nature of subsidy and incentive programs, from home and foreign governments, that the firm can access to obtain capital and to reduce the cost of foreign market entry.

A key question is whether industry market growth has been consistent from year to year. 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 fewer competitors in markets that are opening for the first time. For example, most of the 60,000 pubs in the United Kingdom have recently come under the ownership of big chains, which are injecting substantial capital and trying to attract new clientele by serving food, a shift that will greatly

More British pubs are serving food, creating a new market potential for firms in the food catering industry.

increase opportunities for firms in the restaurant food industry. The market research firm Mintel International estimated that food sales to British pubs will increase several billion dollars through the late 2000s. This represents a big change in British pub culture and a large new market for firms in the food industry.[9]

Growth rates tend to be substantially higher in new industries or those undergoing rapid innovation. For each country, the researcher should bear in mind that the product is likely to be in a different phase of its product life cycle. Countries in which the product is not currently available or in which competitors have only recently introduced the product may be especially promising targets.

Practical Methods for Managers to Assess Industry Market Potential

Managers can use a variety of practical methods to estimate industry market potential:

- *Simple trend analysis.* This method quantifies the total likely amount of industry market potential by examining aggregate production for the industry as a whole, adding imports from abroad and deducting exports. This gives a rough estimate of the size of the current industry sales in the country.
- *Monitoring key industry-specific indicators.* The manager examines unique industry drivers of market demand by collecting data from a variety of sources. For example, Caterpillar, a manufacturer of earthmoving equipment, examines the volume of announced construction projects, number of issued building permits, growth rate of households, infrastructure development, and other pertinent leading indicators as a way of anticipating countrywide sales of its construction equipment.[10]
- *Monitoring key competitors.* To gain insights into the potential of a particular country, the manager investigates the degree of major competitor activity in the countries of interest. For example, if Caterpillar is considering Chile as a potential market, he or she investigates the current involvement in Chile of its number one competitor, the Japanese firm Komatsu. Caterpillar gathers competitive intelligence to anticipate Komatsu's likely future moves.
- *Following key customers around the world.* Using this approach, the firm follows its major accounts as they enter new markets. 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. Similarly, Caterpillar follows current customers in the construction industry (such as Bechtel) as these customers bid for contracts or establish operations in specific foreign markets.
- *Tapping into supplier networks.* Many suppliers serve multiple clients and can be a major source of information about competitors. 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 a wide range of information on potential foreign markets. By attending a trade fair in the target country, a

manager can learn a great deal about market characteristics that can help to estimate industry sales potential. Trade fairs are also helpful for identifying potential distributors and other business partners.

Data Sources for Estimating Industry Market Potential

For each target country, the manager seeks data that directly or indirectly report levels of industry sales and production, as well as the intensity of exports and imports in the product category of interest. A particularly useful information source is the National Trade Data Base (NTDB), available from the U.S. Department of Commerce's STAT-USA[11] and www.export.gov databases. Specific reports available from the NTDB include the following:

- *Best Market Reports* identify the top ten country markets for specific industry sectors.
- *Country Commercial Guides* analyze countries' economic and commercial environments.
- *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.

In developing market estimates of any kind, managers must be creative and must consult any resource that may shed light on the task at hand. Data and resources are rarely complete and precise in international market research. Consider the example of Teltone Inc. The firm wished to enter Mexico with its inexpensive brand of cellular telephones and needed to estimate industry-wide demand. It consulted numerous sources, including reports by the International Telecommunications Union (in Geneva, Switzerland), the *National Trade Data Bank,* and several United Nations publications. Managers researched the size of the Mexican upper class and its average income, the nature of support infrastructure for cellular systems in Mexico, and the nature and number of retail stores that could handle cell phones. Teltone managers also came across some statistics from the National Telecommunications Trade Association on the number of competitors already active in Mexico and their approximate sales volumes. From these sources, the company was able to arrive at a rough estimate of market size for telephones and prevailing prices in Mexico.

The *Recent Grad in IB* feature on the next page profiles Javier Estrada, who found exciting opportunities in his young career in international market research.

Task Five: Select Foreign Business Partners

As we discussed in Chapter 3, business partners are critical to the success of the focal firm in international business. These partners include distribution-channel intermediaries, facilitators, suppliers, and collaborative venture partners, such as joint venture partners, licensees, and franchisees. Once a target market has been selected, the focal firm needs to decide on the type of partners it needs for its foreign-market venture. It also needs to identify suitable partner candidates, negotiate the terms of its relationship with chosen partners, and support as well as monitor the conduct of chosen partners. The firm's success depends on its ability to perform these tasks well.

There are many examples of partnering in international business. Exporters tend to collaborate with foreign-market intermediaries such as distributors and agents. Firms that choose to sell their intellectual property, such as know-how, trademarks, and copyrights, tend to work through foreign licensees. These

RECENT GRAD IN IB Javier Estrada

Javier's major: Business

Objectives: Integrating business skills with social planning in a public agency and pursuing a career in politics

Jobs held since graduating:

- United Nations World Food Programme in Guatemala and Honduras
- Director of Research, Bates Advertising, Dominican Republic
- Director of a major charity in Mexico

Javier Estrada graduated from a state university several years ago with a bachelor's degree in business. Upon graduation, Javier went to work for the United Nations World Food Programme (WFP) in Guatemala and Honduras. Fluent in Spanish, Javier was the youngest U.N. officer in Latin America. He was given the task of monitoring the functioning and execution of all WFP projects. The experience taught Javier about international management and logistics in the high-pressure environment of the various disasters the United Nations faced in Central America.

Ever adventurous, Javier next moved to the Dominican Republic, where, at the age of 24, he took a position as director of research in the local office of Bates Advertising, a global ad agency that handled accounts such as Wendy's, Purina, and Bell South. In this position, Javier investigated the local target market—how the market responded to key brands, the level of market share, and the most effective way of reaching target markets with advertising and other marketing communications tools. According to Javier, "the real challenge in international advertising is not in the large, established brands, but in the small, poorly positioned one."

A typical day for Javier included meetings with colleagues to discuss the progress of market research projects and assessing the next steps on behalf of his clients. Javier implemented consumer surveys to find out what specific benefits Latin American consumers were seeking. He used the information from this research to craft advertising campaigns ideally tailored to customer needs and attitudes. In creating surveys, Javier researched various secondary data sources on the Internet and in Bates' private library. He visited Santa Domingo to get a more authentic feel for the market and to meet with local experts. He also used a comprehensive report prepared by the United States Department of Commerce International Trade Administration (ITA) on the target market.

Javier developed Spanish-language questionnaires to gain an even deeper understanding of the market. Javier sent out questionnaires to a random sample of typical consumers throughout the Dominican Republic. He then analyzed the completed questionnaires and presented the results to his superiors. Findings from these studies helped Javier prepare reports with recommendations on the most appropriate advertising strategies for the Dominican Republic.

Success Factors

"My parents felt strongly that our lives should be influenced not only by the quality of our education, but also by our travels. . . . In school we were far from the wealthiest kids, but we were definitely among the most traveled." Javier was lucky enough to live in several countries during his teens and twenties. He comments: "You really get to know yourself when you are completely alone in a whole new culture, and reestablishing a network of friends and work contacts." International experience contributed to Javier's independent spirit and his ability to function successfully anywhere in the world.

In his market research position, Javier enjoyed going to other countries and meeting different people.

"My job provided the chance to help companies develop marketing programs that were really appropriate for their customers. If you really understand your customer, you have tremendous responsibility to use the information wisely and honestly. . . . Of course, I wouldn't have received the job if I hadn't worked hard in school. Good management training provided me with the skills to perform effectively. Sensitivity is important, since you need to be able to communicate with people who are culturally different from you. You need a strong empathy for your customers, and you need to try to identify exactly which research questions they are trying to address. . . ."

What's Ahead?

Javier has ever-higher goals for his career. He has been long concerned about poverty issues in Latin America, and his experiences with the United Nations had a profound effect on him. Javier pursued a master's degree in social policy and planning from the London School of Economics. Having worked in both business and development, Javier found his passion in integrating his business skills with social planning at the governmental level. Recently, Javier headed a major charity organization in Mexico. Eventually he wants to pursue a political career. He says, "I need to dream big."

licensing partners are independent businesses that apply intellectual property to produce products in their own country. In the case of internationalization through **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 (such as in the fast-food or car-rental industries). Alternatively, the focal firm may internationalize by initiating an **international collaborative venture**, which entails business initiatives undertaken jointly with other local or international partners. These collaborations may be project-based or may involve equity investments. Other types of international business partnerships include global sourcing, contract manufacturing, and supplier partnerships. We describe these partnerships in greater detail in Chapters 13 through 16.

Licensing Arrangement where the owner of intellectual property grants a firm the right to use that property for a specified period of time in exchange for royalties or other compensation.

Franchising Arrangement whereby the focal firm allows another the right to use an entire business system in exchange for fees, royalties, or other forms of compensation.

International collaborative venture Cross-border business alliance where partnering firms pool their resources and share costs and risks to undertake a new business initiative. Also referred to as an international partnership or an international strategic alliance.

Criteria for Selecting a Partner

Perhaps the most important decision for the focal firm is to identify the ideal qualifications of potential foreign partners. In general, the firm should seek a good fit in terms of both strategy (common goals and objectives) and resources (complementary core competencies and value-chain activities). It is helpful to anticipate the potential degree of synergy with the prospective partner for the intermediate-term, say 3 to 6 years into the future. Managers must be assured of a harmonious partnership in a dynamic environment.

Brunswick Corporation, a leading manufacturer of bowling equipment, considers the following criteria when screening for potential foreign distributors:

- Financially sound and resourceful, so that they can invest in the venture and ensure their 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
- Possessing 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

Firms also seek partners with complementary expertise. For example, while the focal firm may bring engineering and manufacturing expertise to the partnership, the local distributor may bring knowledge of local customers and distribution channels.

These and similarly desirable characteristics are not always available in prospective partners. If a company enters a foreign market late, then it may have to pick the second best or an even less-qualified partner. This implies that the firm should be ready and able to strengthen the partner's capabilities by transferring appropriate managerial and technical know-how over time.

Searching for Prospective Partners

The process of screening and evaluating business partners can be overwhelming. It is an ongoing task for most internationally-active firms. To identify prospective partners and gather background information, managers

Firms seeking a foreign business partner look for a variety of qualifications, including common goals and objectives and competent management.

consult various sources as well as conduct field research. 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 very helpful in developing a list of partner candidates. Many national governments offer inexpensive services that assist firms in finding partners in specific foreign markets. The knowledge portal globalEDGE™ (www.globalEDGE.msu.edu) provides additional resources, including several diagnostic tools, to help managers make systematic choices about alternative partner candidates.

Field research through onsite visits and gathering research from independent sources and trade fairs are crucial in the early stages of assessing a partner. Companies also find it useful to ask prospective partners to prepare a formal business plan before entering into an agreement. The quality and sophistication of such a plan provides insights into the capabilities of the prospective partner and serves as a test of the partner's commitment.

Task Six: Estimate Company Sales Potential

Company sales potential An estimate of the share of annual industry sales that the firm expects to generate in a particular target market.

Once managers have singled out several promising country markets, verified industry market potential, and assessed the availability of qualified business partners, the next step is to estimate company sales potential in each country. **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 fundamental assumptions about the market and project the firm's revenues and expenses for 3 to 5 years into the future. The estimates are never precise and require quite a bit of judgmental analysis.

Determinants of Company Sales Potential

In arriving at an estimate of company sales potential in the foreign market, managers will collect and review various research findings and assess the following:

- *Partner capabilities.* The competencies and resources of foreign partners, including channel intermediaries and facilitators, tend to 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 determines how much sales the firm can achieve.
- *Intensity of the competitive environment.* Local or third-country competitors are likely to intensify their own marketing efforts when confronted by new entrants. Their actions are often unpredictable and not easily observed.
- *Pricing and financing of sales.* The degree to which pricing and financing are attractive to both customers and channel members is critical to initial entry and to ultimate success.
- *Human and financial resources.* The quality and quantity of the firm's resources are a major factor in determining the proficiency and speed with which success can be achieved in the market.
- *Market penetration timetable.* A key decision is whether managers opt for gradual or rapid market entry. 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.* Results are a function of the level of resources that top management is willing to commit, which in turn depend on the extent of management's tolerance for risk in the market.
- *Special links, contacts, and capabilities of the firm.* The extent of the focal firm's network in the market—its existing relationships with customers, channel members, and suppliers—can have a strong effect on venture success.
- *Reputation.* The firm can succeed faster in the market if target customers are already familiar with its brand name and reputation.

Such a comprehensive assessment should lead to general estimates of potential sales, which managers can compare to actual sales results of incumbent firms in the market, when such data are available.

Thus, the process of estimating company sales is more like starting from multiple angles, then converging on an ultimate estimate that relies heavily on judgment. Exhibit 12.6 provides one framework managers may use to estimate company sales. Managers would combine information about customers, intermediaries, and competition, and see if such an analysis points to a reasonable estimate. Often, managers prepare multiple estimates based on best case, worst case, and most-likely case scenarios. Note also that arriving at such estimates will require assumptions from the manager as to the degree of firm effort, price aggressiveness, possible competitive reactions, degree of intermediary effort, and so on. Finally, note that sales prospects for a company hinges on factors both controllable by management (e.g., prices charged to intermediaries and customers), as well as uncontrollable factors (e.g., intensity of competition). Ultimately, the process of arriving at a sales estimate is more of an art than a science.

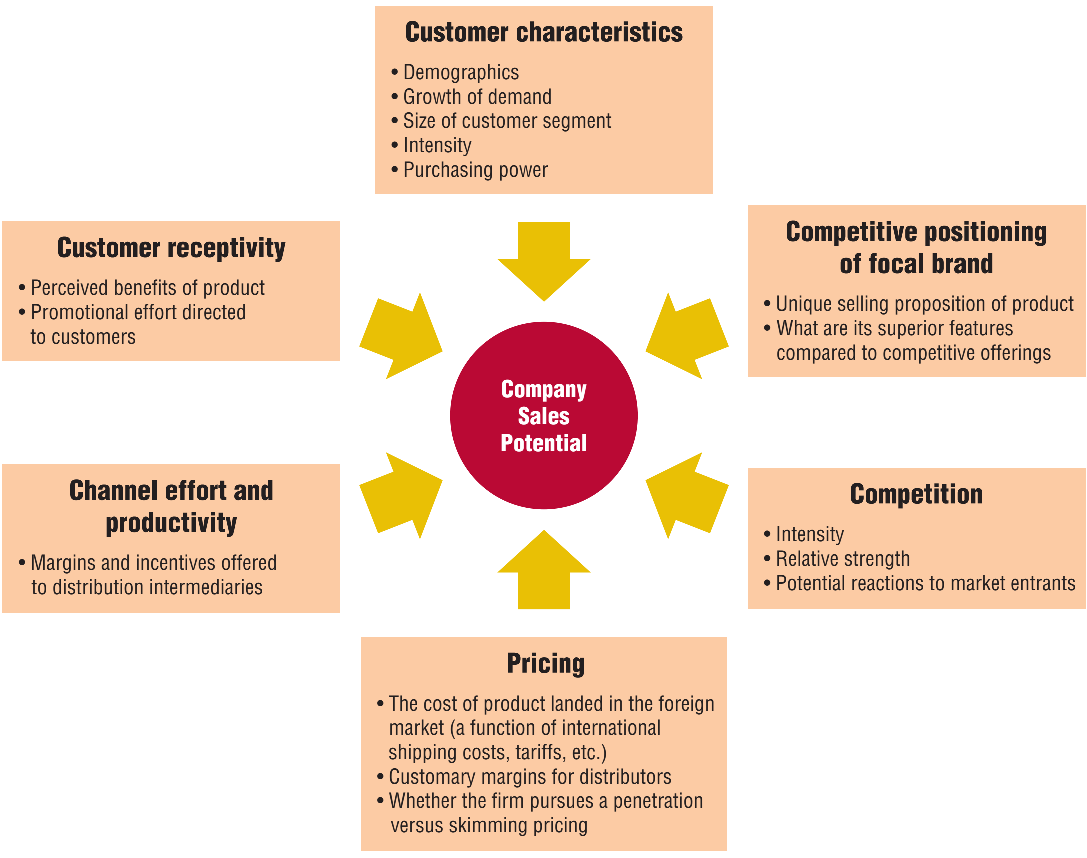

Exhibit 12.6

A Framework for Estimating Company Sales Potential in the Foreign Market

Practical Approaches to Estimating Company Sales Potential

It is critical for managers to begin with the factors suggested in Exhibit 12.6. In addition, experienced managers find the following activities to be especially helpful in estimating company sales potential in a foreign market:

- *Survey of end-users and intermediaries.* The firm can survey a sample of customers and distributors to determine the level of potential sales.
- *Trade audits.* Managers may visit retail outlets and question channel members to assess relative price levels of competitors' offerings and perceptions of competitor strength. In this approach, managers estimate market potential through the eyes of the trade (intermediaries) responsible for handling the product in the market. The trade audit can also indicate opportunities for new modes of distribution, identify types of alternative outlets, and provide insights into company standing relative to competitors.
- *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? If key competitors in a given market are large, powerful firms, competing head-on could prove costly and lead to failure. Keep in mind, however, that even in those countries dominated by large firms, research may reveal market segments that are underserved or ignored altogether. Such market niches may be attractive, particularly for smaller firms with modest sales goals.
- *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.

In addition to these approaches, other techniques are also useful in the developing-country and emerging-market settings, where information sources are especially limited. These are *analogy* and *proxy indicators.* We illustrated these approaches in the opening vignette.

- *Analogy.* When using the *analogy* method, the researcher draws on known statistics from one country to gain insights into the same phenomenon for another, similar country. For instance, if the researcher knows the total consumption of citrus drinks in India, then—assuming that citrus-drink consumption patterns do not vary much in neighboring Pakistan—a rough estimate of Pakistan's consumption can be made, making an adjustment, of course, for the difference in population. Another illustration would be for the marketer of antibiotics. If the firm knows from experience that X number of bottles of antibiotics are sold in a country with 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.* By using *proxy indicators,* the researcher uses information known about one product category to infer potential about another product category. For the wallpaper marketer in the opening vignette, a useful proxy was the water heaters. This simple approach may lead to practical results especially if the two products exhibit a complementary demand relationship. For example, a proxy indicator of demand for pro-

fessional hand tools in a country may be the level of construction activity in the country. Surrogate indicators of potential for a particular piece of surgical equipment in a market may include the total number of surgeries performed.

In Conclusion

The decision to internationalize is never easy. Some firms are attracted to foreign markets by the promise of revenues and profits; others are drawn by the prospect to increase production efficiency; still others internationalize due to competitive pressures or to keep pace with rivals. Whatever the rationale, when companies fail in their international business ventures, it is often because they neglect to conduct a systematic and comprehensive assessment of global market opportunity.

Although we present the six tasks for global market opportunity assessment in a sequential manner, firms do not necessarily pursue them in succession. Indeed, firms often pursue two or more of the tasks simultaneously. In addition, the process is highly dynamic. Market conditions change, partner performance may fluctuate, and competitive intensity will increase. These dynamic events require managers to constantly evaluate their decisions and commitments. Management must be open to making course changes as circumstances dictate.

Of the six key tasks, some of the choices that managers will make are interrelated. For example, the choice of a business partner is very much a function of the country. The type of distributor to use is likely to vary from market to market, be it the Netherlands or Nigeria. The degree of political risk firms can expect in the latter case implies a need for a politically well-connected business partner. Similarly, in a nontraditional market such as Vietnam, the firm may opt for a partner who can serve both as a distributor and cultural adviser.

The local business partner is crucial to the success of the cross-border venture. Seasoned executives contend that even the most attractive country cannot compensate for a poor partner. While the quantity and quality of market information about individual countries have increased substantially, most managers tend to struggle in their ability to identify qualified and interested business partners. This is especially true in emerging markets that may lack an abundance of competent and professional intermediaries, suppliers, joint venture partners, or facilitators. The most qualified partners are likely to be already subscribed and representing other foreign firms. This necessitates the recruitment of second- or even third-best candidates, and then committing adequate resources to upgrade their technical and managerial skills.

CLOSING CASE

Advanced Biomedical Devices: Assessing Readiness to Export

Advanced Biomedical Devices, Inc. (ABD), is headquartered in Maryland, and plans to initiate exporting activities. The company just completed the process of assessing its readiness to export, using CORE (**CO**mpany **R**eadiness to **E**xport). ABD was founded by Dr. Richard Bentley, a well-known British surgeon who developed a medical device that helps the wound-healing process. Dr. Bentley was so committed to the ground-breaking technology that he left his surgery practice and founded ABD in the United States. ABD's product line includes several innovative devices called Speedheal, named because of their ability to accelerate the healing rate of wounds following surgery. Speedheal also reduces post-surgery pain because it keeps the wound area from swelling. Speedheal oxygenates the wound area by pulsing electrons through the bandage covering the wound. The devices are very small and portable. Various versions exist for different types of surgeries: hand surgery, face lifts, abdominal procedures, and so on.

Dr. Bentley launched ABD with a skillful management team. The team includes managers who have worked extensively in the European market and have traveled and worked periodically in the Pacific Rim and Latin America. In addition, ABD's manufacturing director is from Germany, and another manager had lived in France and Malaysia for several years.

Substantial demand for Speedheal helped to rapidly increase sales, approaching 20 percent annual growth in some years. Over time, employment at ABD grew to 85 people and sales expanded, primarily through medical product distributors, to hospitals and clinics throughout the United States. The firm's success had stimulated the entry of competitors offering similar products, but rivals never achieved the degree of miniaturization in ABD's products. Miniaturization remains one of Speedheal's competitive advantages. ABD management's projections for future growth remain promising.

Dreams of International Expansion

Top management turned its thoughts to internationalization and generating sales outside of the United States. ABD had received unsolicited orders from abroad and had learned a great deal about handling international transactions, including foreign exchange, letters of credit, and logistics. While ABD's plan to internationalize was in its early stages, management intended to expand beyond occasional export sales. The long-term motivation was to target key world markets.

One expected benefit of internationalization was the opportunity for ABD to learn from global competitors and markets. Many trends that start in foreign markets eventually reach the United States, and often the best way to track them is to do business internationally. Management also believed it could reduce ABD's overall risks by selling to a variety of foreign markets. Finally, management believed that by internationalizing, competitors with similar products could be preempted in specific foreign markets.

International Strategic Intent

Dr. Bentley and his management team formulated some questions about ABD's internationalization decision. They knew that the answers to these questions would represent the company's first real strategic direction for going international, ABD's strategic intent. Management wanted to develop a comprehensive strategic plan that would lay the foundation for international success. Following a series of meetings, the team reached consensus on the following key elements of ABD's initial strategic direction:

- Top management will strongly commit to internationalization, and ABD will pursue foreign markets aggressively. The firm will hire a vice president for international operations within the coming year.
- ABD will invest up to 20 percent of the firm's earnings in export opportunities.
- ABD will begin building distributor relationships in a number of countries.
- ABD will establish a marketing subsidiary in at least one foreign location within three to five years, and hire sales personnel who select and manage the distributors in their market area.
- Management will take steps to ensure that all international ventures reach profitability within two years of their launch.
- Management will develop international marketing plans for each target market, each with its own budget.
- Plans call for international sales to reach 35 percent of total sales within four years.
- ABD will establish an annual budget of $220,000 to finance international activities for each of the first three years. Of that, about $60,000 will be devoted to market research to determine the best target markets and to understand competitors.

Product Readiness for Export

Following approval of the strategic intent, Dr. Bentley and his management team addressed questions about the challenges of internationalization. The first question dealt with training sales representatives in foreign markets to sell medical devices to hospitals and clinics, the primary end-markets for ABD products. Sales reps require training because they deal with doctors, nurses, and other professionals who are deeply involved in decision making about purchases of hospital supplies. Because training costs can be high in foreign markets, Dr. Bentley wanted to ensure ABD was prepared to make this investment as part of succeeding abroad.

Dr. Bentley also raised the issue of after-sales service. Because ABD's products were seldom defective, the solution for a defective product was to replace it rather than trying to make a repair. U.S. customers counted on a ready backup stock in the event of product defects. ABD planned to employ the same solution for its foreign operations, and management assumed there would be no need for a separate staff to deal with after-sales service. Because Speedheal devices are small and lightweight but valuable, per-unit transportation costs are very low. In fact, in urgent situations abroad, ABD often solved customer service complaints by shipping a replacement device by air.

Eventually, the management team came to realize that pricing for foreign markets was complex and would require substantial market research. While pricing in the United States was well understood, management realized there was much it did not know about foreign pricing. Dr. Bentley and several managers had attended trade fairs in Europe and had concluded that ABD's prices were not too expensive, particularly since no other firms offered similar wound-healing products. In fact, ABD had filled unsolicited orders from the European Union and found that customers never challenged its pricing. Nevertheless, management decided that some research was needed to refine their pricing approach.

Next, the team discussed foreign inventory management. Because the devices are cheap to transport by air freight, distributors can replenish inventories quickly and economically. This was a significant benefit to distributors, on the one hand, because they would not have to maintain much inventory to support sales. On the other hand, Speedheal devices are sensitive to changes in temperature and humidity, and function best when warehoused in climate-controlled facilities. Such warehousing is increasingly common, so ABD should have no problem locating the right warehousing in Europe and elsewhere.

ABD's management realized that the firm's flexible packaging put them in a good position to enter foreign markets, and they were prepared to modify the product in various ways that might be required for foreign markets. Management instinctively understood the importance of designing products that meet worldwide standards and regulations. The team knew, for example, that products targeted to Europe would have to meet two standards: the CE mark, a mandatory safety mark required of toys, machinery, and low-voltage equipment; and ISO standards, aimed at making the development, manufacturing, and supply of products and services efficient, safe, and clean.

Knowledge, Skills, and Resources

In a subsequent meeting, the ABD team considered less-tangible aspects of the firm's readiness to internationalize. Management knew that critical self-assessment was vital to the long-term success of the firm. They gradually realized that internationalization would incur numerous additional costs. For example, they needed additional working capital for foreign warehousing, longer shipping times, and maintaining larger inventories abroad. While letters of credit would be used when first opening new markets, management would opt for open-account payment systems (payable in 30 or 60 days, depending on the market).

Dr. Bentley also considered the appropriate growth rate for the firm. Management knew of companies that began exporting but were interrupted when foreign demand grew too quickly, or when an imbalance developed between domestic and international sales. In some cases, a company's business could increase rapidly, demanding the firm to supply a volume of product that greatly exceeded production capacity. In other cases, the company's domestic sales dropped sharply, requiring management to divert all efforts to rescuing domestic operations, thus disrupting the export program.

Management had much to learn about the costs ABD would incur in getting into specific foreign markets. There would be costs for legal help, freight forwarding, international transportation, and customs duties. There would also be costs for bank charges, rental costs for establishing foreign offices, and expenses for getting approvals for certain regulatory issues. ABD's management was not completely clear on the amount of these costs, but they were willing to learn.

Competitive intelligence was another concern. In fact, another incentive for internationalization was to learn more about global competitors. While some of the major medical device manufacturers were marketing in the United States, others were based strictly abroad. ABD would have to research and understand the strategies and marketing practices of the important competitors. Dr. Bentley recognized the importance of getting patent coverage on his inventions around the world, and of protecting the intellectual property rights of his firm. He plans to retain legal counsel, at home and abroad, to ensure ABD's critical assets are protected from patent infringements. ABD plans to hire lawyers to develop suitable distribution and agent agreements, sales agreements, licensing, and to deal with local employment laws.

ABD's management believed the firm's initial foreign markets would be Australia, Canada, Western Europe, and Japan, because they have the largest proportion of affluent consumers with the ability to pay for sophisticated medical care. Therefore, ABD had gathered information about the markets and competition in those countries, but recognized that it needed to do much more.

Managerial Capabilities for Long-Term Internationalization

One concern was whether management would be able to cope with deepening internationalization. In the end, the ABD team recognized that, at minimum, they were right to take painstaking efforts to determine the firm's readiness to export. Extensive meetings and preliminary research provided the basis for developing initial strategies and action programs, as well as the basis for identifying improvements to make the company stronger in the coming months and years.

This case was written by Myron M. Miller, Michigan State University (retired), in association with Professor S. Tamer Cavusgil.

AACSB: Reflective Thinking, Analytical Skills

Case Questions

1. Do you believe that ABD's products are in a state of readiness to begin exporting to Europe? Why or why not? Are the products ready for exporting to emerging markets (e.g., China, Russia, Mexico) that may have little experience with the high-tech solutions afforded by Speedheal products? What factors suggest that Speedheal products might enjoy substantial demand in all types of foreign markets?
2. Does management at ABD possess the appropriate knowledge, skills, and capabilities for internationalization? Why or why not? What steps should management take to better prepare the firm, managers, and employees to internationalize?
3. Refer to Exhibit 12.1, "Key Tasks in Global Market Opportunity Assessment" on page 348. Evaluate if ABD accomplished each task well or poorly. Did ABD achieve each of the objectives set out for the tasks?
4. If you were a member of ABD's management team, what countries would you recommend that ABD target first? As a manager, you would need to justify your recommendation. Carry out an investigation by examining characteristics of specific countries to arrive at your recommendation.

CHAPTER ESSENTIALS

Key Terms

company sales potential, p. 368
franchising, p. 367
global market opportunity, p. 346
industry market potential, p. 363
international collaborative venture, p. 367
licensing, p. 367

Summary

In this chapter, you learned about:

1. An overview of global market opportunity assessment

Global market opportunity assessment refers to a favorable combination of circumstances, locations, or timing that offer prospects for exporting, investing, sourcing, or partnering in foreign markets. The firm may perceive opportunities to sell, establish factories, obtain inputs of lower cost or superior quality, or enter collaborative arrangements with foreign partners that support the focal firm's goals. Global market opportunities help the firm improve its performance, often far beyond what it can achieve in the home market. Managers continuously seek the most relevant data and knowledge to make the most of international opportunities. This chapter discusses six key tasks that managers perform in defining and pursuing global market opportunities. See Exhibit 12.1 for a summary of these tasks.

2. Analysis of organizational readiness to internationalize

As the first task, management assesses the firm's readiness to internationalize. Similar to a SWOT analysis (that is, an evaluation of the firm's Strengths, Weaknesses, Opportunities, and Threats), management assesses the firm's strengths and weaknesses regarding its ability to do international business. Managers assess the *external* business environment by conducting formal research on the opportunities and threats that face the firm. The objective of assessing readiness to internationalize is to figure out what resources the firm has and the extent to which they are appropriate for successful international operations. The firm must develop resources that it lacks. Diagnostic tools, such as *CORE* (**CO***mpany* **R***eadiness to* **E***xport*), facilitate a self-audit of the firm's readiness to internationalize.

3. Assessment of the suitability of products and services for foreign markets

Products and services that are good candidates for marketing successfully abroad are those that sell well in the domestic market, cater to universal needs, address a need not well served in the target market, or address a new or emergent need abroad. Management should ask specific questions to determine the product's or service's international market potential. For example, who initiates purchasing in the market? Who uses the offering? Why do people buy it? Where is the product or service purchased? What economic, cultural, geographic, and other factors can limit sales?

4. Screening countries to identify target markets

Whether the firm is engaged in importing (sourcing from abroad), investing, or exporting, the choice of country is critical, particularly in the early stages of internationalization. Failure to choose the right markets is costly not only for its own sake, but also because of opportunity costs. The best markets are those that are large and fast-growing. The nature of information necessary for country screening varies by product type and industry. There are two basic methods for screening country markets: gradual elimination and ranking and indexing.

5. Assessment of industry market potential

Once a firm reduces the number of potential country targets to a manageable number—say five or six—the next step is to conduct in-depth analyses of each of these country markets. The researcher examines industry-level market potential indicators. **Industry market potential** refers to an estimate of the likely sales that can be expected for all firms in the particular industry for a specific period of time. An estimate of industry market potential enables the manager to hone in on a few most promising countries. In addition to generic determinants of demand, each industry sector has its own *industry-specific potential indicators.* Among the methods for assessing industry market potential are simple trend analysis, monitoring key industry-specific indicators, monitoring key competitors, following key customers around the world, tapping into supplier networks, and attending international trade fairs.

6. Selection of foreign business partners

International business partners include distribution channel intermediaries, facilitators, suppliers, and collaborative venture partners such as joint venture partners, licensees, and franchisees. Management in the focal firm must decide the types of partners it needs, identify suitable partner candidates, negotiate the terms of relationships with chosen partners, and support as well as monitor the conduct of chosen partners.

7. Estimation of company sales potential

Company sales potential refers to the share of annual industry sales that the firm can realistically achieve. It is the best estimate of how much the firm believes it can sell in the target market over a given time period. Estimating company sales potential requires the researcher to obtain highly refined information from the market. Among the most influential determinants of company sales potential are: partner capabilities, access to distribution channels in the target market, intensity of the competitive environment, pricing and financing of sales, quality of human and financial resources, the timetable for market entry, risk tolerance of senior managers, the firm's contacts and capabilities, and being well-known in the market.

Test Your Comprehension AACSB: Reflective Thinking

1. What is a global market opportunity? What opportunities do firms seek abroad?
2. Identify and explain the six major tasks that managers undertake in global market opportunity assessment.
3. Identify the major issues that managers consider when they perform a formal analysis of organizational readiness to internationalize.
4. What are the typical characteristics of products or services that have the best prospects for selling in foreign markets?
5. Summarize the screening methodology for potential country markets.
6. What are the typical variables used in indexing and ranking method?
7. What types of variables should the researcher consider when screening for export markets, foreign direct investment, and global sourcing?
8. What is involved in assessing industry market potential?
9. What are the major issues to consider when selecting foreign business partners?
10. How can firms go about estimating company sales potential?

Apply Your Understanding AACSB: Communication, Reflective Thinking

1. Target is a large retailer with about 1,500 stores in the United States, but very few in other countries. Target has a reputation for merchandising thousands of chic yet inexpensive products for the home, including apparel, furniture, electronics, sporting goods, and toys. Management is looking to open stores in major European cities, but due to limited floor space, it is unable to offer all its usual products. Target hires you as a consultant to decide which products from the firm's U.S. product line to offer in Europe. In other words, your task is to identify Target products suitable for global business. Although a challenging task, you know of various criteria that Target can apply to identify the most appropriate products. Write a brief report in which you describe these criteria and offer some examples to back up your ideas. Be sure to justify your answer using the advice and other information included in this chapter.

2. Cuesta Corporation, an SME manufacturer of various types of scented hand and body soaps, hires Victoria Ridge to locate foreign markets. She seeks your help in deciding how to proceed. You have decided to lend Victoria a hand, before she washes out of the soap business. You advise Victoria that markets for scented soap are fairly saturated within advanced

economies. However, you are aware of numerous *emerging markets* that the industry has overlooked. Using your knowledge of Exhibit 12.2, "Emerging Market Potential Indicators," on pages 356–357 develop a list of the top five emerging markets that Victoria should target. These are the emerging markets that, based on your research, offer the greatest prospects for generating sales. Be sure to justify your choice of countries, based on indicators from this chapter such as market size, market growth rate, market intensity, and market consumption capacity.

3. Upon graduation, a company that makes and sells accessories for luxury automobiles hires you. The company hopes to expand into foreign markets. Your boss comes into your office and hands you a list of countries that he believes hold the greatest potential for international sales. You peruse the list and notice that your boss has based his analysis on per capita income levels of the target countries, reasoning that consumers with the highest incomes are most likely to own luxury cars. Nevertheless, his analysis is based on traditional per capita income, without regard to purchasing power parity. In addition, you feel that some other key indicators of demand are neglected. Mustering your courage, you decide to propose an improved methodology for picking countries. What should be the principal features of this methodology?

globalEDGE Internet Exercises

(http://globalEDGE.msu.edu)

AACSB: Reflective Thinking, Use of Information Technology

Refer to Chapter 1, page 27, for instructions on how to access and use globalEDGE™.

1. China is an attractive market partly because of its large size and growing affluence. Before they begin exporting to China, most firms conduct market research to acquire a fuller understanding of the country's market situation. Two useful sites for conducting research are the China Business Information Center (CBIC; www.export.gov/china) and UK Trade and Investment (www.uktradeinvest.gov.uk). At the CBIC, for example, firms can find out if they are "China Ready." They can access trade leads and read current news about doing business in China. Suppose you get a job with a firm that markets various products, including: (a) breakfast cereal, (b) popular music on CDs, and (c) laptop computers, and wants to begin exporting to China. For each of these three product categories, using the Web sites given above and globalEDGE™, prepare a wish list of the information that the firm should gather prior to making a decision to export to China.

2. Wal-Mart is now the largest retailer in the United States, Canada, and Mexico. However, Wal-Mart still gets only about a quarter of its sales from outside the United States. Coles Myer is the largest retailer in Australia, and gets very little of its sales from outside Australia (its main foreign market is nearby New Zealand). Assess the international retailing sector using online resources, such as globalEDGE™ and A. T. Kearney (www.atkearney.com). Based on your research: (a) What factors should these top retailers consider in choosing countries for internationalizing their operations? (b) What are the best target markets for these companies to expand to? (c) What types of questions should management at each firm ask in assessing their readiness to internationalize?

3. The U.S. Census Bureau tracks foreign trade statistics. Visit the site at www.census.gov and find the most recent versions of the report "Profile of U.S. Exporting Companies" by entering this title in the search engine. Peruse the report and address the following questions: (a) What types of companies export from the United States? That is, what is the breakdown by company type of U.S. exporters? For example, are the exporters mainly large or small firms? Do they operate mainly in the manufacturing, agricultural, or services sectors? (b) What is the role of small and medium-sized exporters in U.S. trade? What percent of U.S. exporters are these types of firms, and what proportion of total exports do they account for? (c) What countries are the three favorite targets of U.S. exporters? According to the report, what factors make these countries the top markets for U.S. firms?

CKR Cavusgil Knight Riesenberger

Management Skill Builder©

Global Market Opportunity Assessment for Cancer Insurance

Cancer is a leading cause of premature death. Major types of cancer include skin, lung, stomach, breast, and prostate cancer. It is a life-threatening disease that is often difficult and expensive to treat, with medical bills running into the hundreds of thousands of dollars. In many countries, people buy health insurance to pay the costs of medical care. Health insurance companies such as AFLAC and American International Group (AIG) specialize in supplemental policies to cover specialized cancer care.

AACSB: Reflective Thinking, Analytical Skills

Managerial Challenge

Given limited resources, managers must identify the most appropriate countries to target with their products and services. Because decisions about which markets to enter can be very challenging, managers conduct research on the available choices. Initially, managers systematically narrow the number of potential target countries using *Global Market Opportunity Assessment.* In this exercise, your challenge is to assess markets for supplemental cancer insurance in various countries.

Background

Companies and governments often provide citizens with basic medical insurance. However, these policies may not fully cover the high cost of life-threatening ailments such as cancer. Moreover, most people lack comprehensive health insurance against cancer. Thus, people often purchase supplemental health insurance. A sizeable market for comprehensive cancer insurance exists around the world. There are numerous health insurance companies that offer cancer insurance. When seeking to sell insurance abroad, these firms need to find out what countries offer the best sales prospects. Because the choice of potential markets can be overwhelming, managers use Global Market Opportunity Assessment (GMOA).

Managerial Skills You Will Gain

In this C/K/R Management Skill Builder©, as a prospective manager, you will:

1. Learn the factors to consider when screening countries for foreign market entry.
2. Understand how these factors relate to maximizing the firm's competitive advantages.
3. Screen foreign markets to identify the most appropriate markets to target with the firm's products and services.

Your Task

In this exercise, your task is to conduct a *Global Market Opportunity Assessment* to identify the most promising country to target for sales of supplemental cancer insurance. You will examine variables that can help you estimate the size of relevant industry sales within each of four possible target countries. Your assessment of each target country will be based on industry-specific indicators of demand for cancer insurance.

Go to the C/K/R Knowledge Portal©

www.prenhall.com/cavusgil

Proceed to the C/K/R Knowledge Portal© to obtain the expanded background information, your task and methodology, suggested resources for this exercise, and the presentation template.