4.8 TERMINAL QUESTIONS

1. What is the relationship between market segmentation, market targeting and product positioning?
2. Discuss the importance of market segmentation in marketing decisions and explain the bases of market segmentation.
3. What are the elements that influence in deciding the principles of segmentation and what will be the suitable base for marketing of Television in various countries? Also suggest the marketing strategies to be followed.
4. What are the different market targeting strategies? Explain them with appropriate examples.
5. "Global positioning is most effective for product categories that approach either end of 'high-touch/high-tech' continuum". Elaborate.

UNIT 5 FOREIGN MARKET SELECTION

Structure

5.0 OBJECTIVES

After studying this unit, you should be able to:

- discuss the need for a firm to be selective in choosing markets for export
- state the process of export market selection
- explain the criteria to be used in selecting export markets

5.1 INTRODUCTION

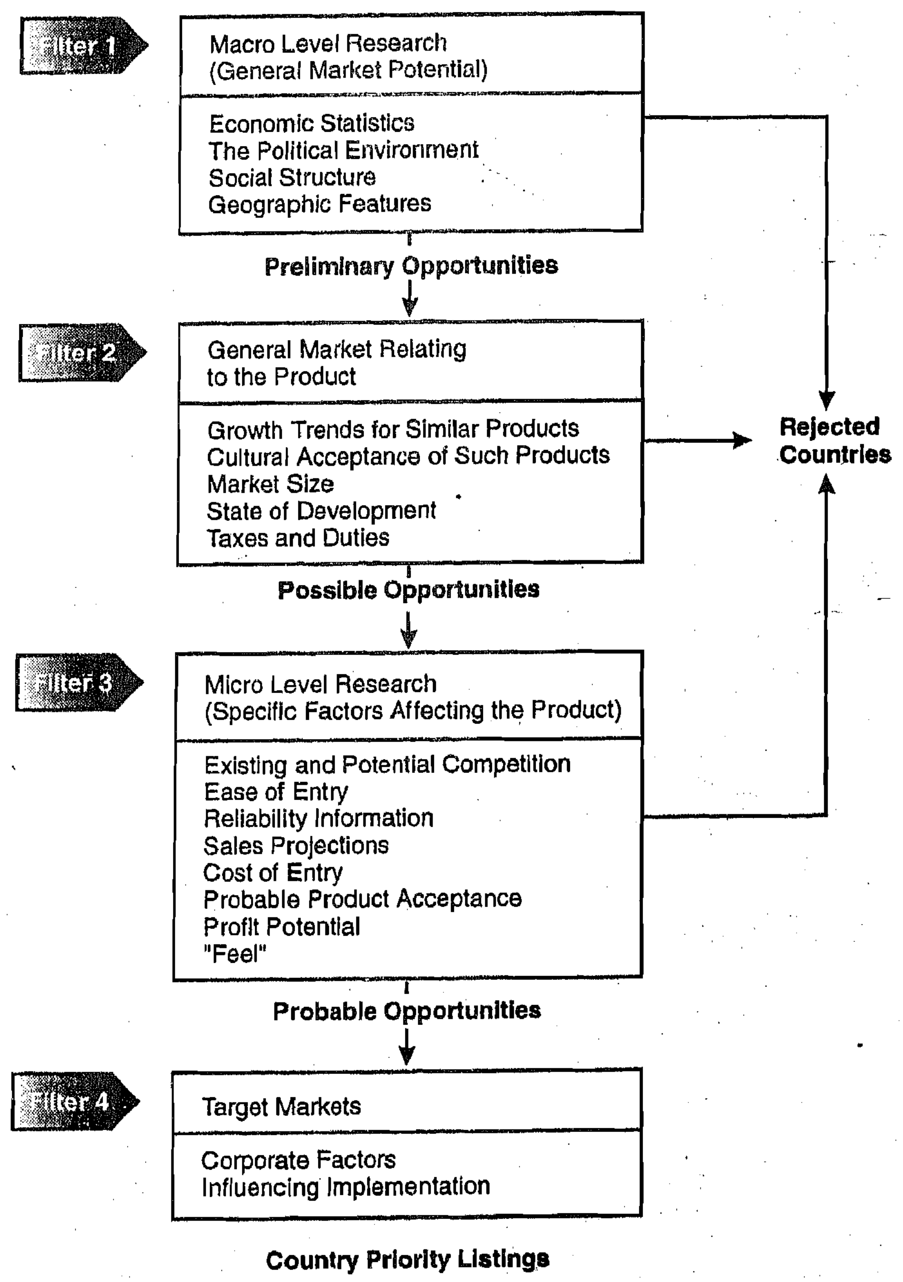
As you know, the first step in the international market selection process is segmentation, targeting and positioning. This you have already studied in Unit 4. The second step is collection of relevant data on each country (for the selected segment), analyze it, filter out less promising countries and select the most promising countries. All these aspects are discussed in this unit.

This unit has been developed to highlight the need for a firm to choose its export markets judiciously. The different criteria that may be used in the location process as well as illustrations of the relevance of the criteria in the relation of markets are provided in the unit.

5.2 SCREENING INTERNATIONAL MARKETING OPPORTUNITIES

Global trade in merchandise has grown significantly during the last five decades and during 1999, it was estimated to be more than US$4.5 trillion at current value. As on February 2001, there were 140 countries who were members of the World Trade Organization (WTO) besides countries like People's Republic of China and the Russian Federation which were not members of WTO. Initially millions of products are traded across national boundaries of countries every year and the number of companies engaged in foreign trade operations is also growing. This does not, however, mean that all products can be sold to all countries at all times by a company. Apart from the fact that it will be practically impossible given the resource constraints a company or country will face in trying to sell more than a limited number of products to a limited number of countries. Reliable and up dated data and information may not be available in respect of a number of countries to enable a firm to arrive at the right conclusion. It may not also be advisable to fritter away the scarce resources of a firm on attempts to export an unmanageable number of products and/or to unmanageable number of countries. Taking into account the strengths and weakness of a firm and the opportunities and threats in the trading environment, it would be advisable for the firm to

Figure 5.1: A Model for Selecting Foreign Markets



Source: R. Wayne Walcoord, Export Market Research, Global Magazine, May 1989, p. 83.

select a limited number of products for export and a manageable number of countries as export markets and concentrate its efforts on achieving the best returns.

The foreign market selection process usually begins with a screening process that involves gathering relevant information on each country and filtering out less promising countries. A model for selecting foreign markets is shown in Figure 5.1.

The model includes a series of four filters to screen out countries. It is necessary to break the process down into a series of steps due to the large number of markets since it is not possible to conduct extensive market research studies in each of the more than 150 countries of the world (The World Bank Atlas includes 185 countries and territories). The screening process is used to identify prospective countries. Two common errors of country selection are likely to be (1) ignoring countries with significant potential for the company's products, and (2) spending resources investigating countries that may turn out to be poor prospects. The screening process thus allows an international company to quickly focus efforts on a few of the most promising markets by using published secondary sources of data and information

available in most libraries of international and regional organizations, export service institutions, etc.

The **first stage** of the selection process uses macro variables to discriminate between countries that represent basic opportunities and countries with little or no opportunity or with excessive risk. Macro variables describe the total market in terms of economic, social, geographic, and political information. For instance macro economic statistics can indicate that the country is too small, as evidenced by the gross national product (GDP) or population size, or if the gross national product is large the personal disposable income per household may be too low. Political stability or political relations between the exporter's country and the consumer's country can also be used to remove or select a country from the set of possible opportunities. Similarly the geographic distance between the exporter's country and the target country, the topographical and climate conditions can also influence selection/ rejection of a country.

In the **second stage** of the selection process, variables that indicate the potential market size and acceptance of the product or similar products are used. Often proxy variables are used in this screening process. A proxy variable is a similar or related product that indicates a demand for your product. For example, if you are attempting to measure the potential market size and receptivity for satellite television reception equipment, possible proxy variables may be the number of television sets for household, total sales of VCRs or total sales of microwave ovens. The number of television sets and VCRs indicates the potential for home entertainment and the sales of microwave ovens indicates the propensity to use advanced technologies in place of traditional appliance technology. The year-to-year growth rates and the total sales of similar or proxy products are good indicators of market size and growth. Other factors in the second stage of the selection process can also be used to screen out countries, such as the stage of economic development, taxes, and duty requirements. If you do not plan to manufacture locally, a high import duty or quota restriction may eliminate a country from consideration in the second stage of the screening process.

The **third stage** of the screening process focuses on micro-level considerations such as competitors, ease of entry, cost of entry, and profit potential. Micro-level factors influence the success or failure of specific product in market. At this stage of the screening process, you may only be considering a limited number of countries; hence, is feasible to get more detailed, reliable and updated information from the various governmental agencies, banks and other such institutions and from other companies currently in operation in that country. In India, many export service institutions such as Export Promotion Councils have branch offices overseas, who can provide information and contacts in many markets. Customs brokers and freight forwarders can also help at this stage of the process. Besides, a major source of information at this stage is the Indian Embassys and High Commissions in overseas countries. They not only provide Indian firm with relevant data and information but also render other types of assistance including fixing up appointments for the representative of Indian firm during a visit to the country of accreditation, advice on the do's and don'ts of doing business within the country, advice on the standing of a local party, etc.

The focus of the screening process switches from market size to profitability. For example, based on the current and potential competitors, how much would you need to invest to gain a particular market share? Given the prices currently charged in the market, what margin can your company expect? Given the cost of entry and the expected sales, what is the likely profit? This stage of the analysis focuses on the quantitative profit expected. Many subjective judgements have to be made to arrive at many decisions. For example, an Israeli manufacture of pipe insulation found that the market price in the United Kingdom was $10 per kilogram while its actual cost was less than $5 per kilogram. This indicated a good profit potential if the company could gain access to the UK market.

The fourth stage of the screening process is an evaluation and ranking of the potential target countries based on corporate resources, objectives and strategies. For example, although South Africa may have the same expected potential as Venezuela, the later may have been given a higher priority by one firm since successful entry into Venezuela can later pave the way for entry into neighbouring countries like Colombia and Bolivia. Alternatively, another firm may opt for South Africa on account of the country's historical and cultural links with

India, familiarity with English language and presence of a large population of people of Indian origin.

Check Your Progress A

Examine the rationale behind export market selection process. What are the variables that can be used by a firm to screen overseas countries to prioritise them ?

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5.3 CRITERIA FOR SELECTING TARGET COUNTRIES

The process of selecting target countries through the screening process requires that the companies identify the criteria to be used to differentiate one country from another. Research on international business has shown that the following four critical factors influence market selection:

- Market size
- Political environment
- Legal environment
- Social and Cultural environment

In the following section of the chapter we will explain each of these factors and their uses in the market selection process.

5.3.1 Market Size and Growth

It is obvious that the potential market size and growth would be an important factor in selecting markets. The larger the potential demand for a product in a country, the more attractive it will be to a company.

Measures of market size and growth can be on both macro and micro basis. On a macro basis, it may be determined that the country needs a minimum set of potential resources to be worth further consideration. Table 5.1 shows a summary of potential macro indicators of market size. There are a variety of readily available statistical data that are macro indicators of market size. If you are screening countries for a firm that sells microwave ovens, you may decide not to consider any country with a personal disposable income per household income is less than $10,000 per year. The logic of this criterion is that if the average household of less than $10,000 the potential for a luxury item like a microwave oven will not be great. However, a single statistic can sometimes be deceptive. For example, a country may have an average household income of $8,000, but there may be one million households with income

of over $10,000. These one million households will be potential buyers of microwaves. Similarly, a company that desires to sell footwear or textiles might like to have desired area wise, age wise, income wise data. Another firm which wants to tap the market for items like rain coats, umbrellas, woolen blankets, refrigerators, air conditioners, carpets, etc. must necessarily collect information on the climatic conditions in the main regions of the country.

Table 5.1: Macro Indicators of Market Size

Geographic Indicators

- Size of the country in terms of geographic area
- Climatic conditions
- Topographical characteristics

Demographic Characteristics

- Total population
- Population growth rate
- Distribution of the population age-wise, gender-wise, income-wise, rural–urban wise, etc.
- Population density

Economic Characteristics

- Total gross national product
- Per capita income (also income growth rate)
- Personal or household disposable income
- Income distribution
- Industrial, mineral, agricultural infrastructure and development plans
- Balance of payments/Trade position
- Import size and growth
- Commercial Policy instruments
- Nature and export of restrictions and incentives
- Trade agreements with other countries

Data and information relating to the stage of industrial development of the country and the number and type of industries and the future industrial development plans of the country will indicate the potential for exports of machinery, raw materials, components operating supplies and know-how to the country. For instance, if a country has a number of textile mills and is planning to expand the textile sector, it means that there is scope for exports of textile machinery and components and raw materials like cotton, wool, jute and synthetic fibre to the country besides know how. This, of course, has to be matched with the local production of the concerned items. Similarly, the present status and the future plans relating to the agriculture and mineral sectors are good indicators for the supply of products relevant to these sectors such as seeds, agricultural machinery, fertilizers, mining equipment, etc., the same study can be extended to the other sectors including fisheries, dairy, forestry etc. and physical infrastructure like roads, rail and power.

Most often a country imposes restrictions on imports if it faces constant and huge balance of payments and/or balance of trade deficit. Hence, at the macro level, an analysis of the payments and trade positions of the country becomes relevant. In the shortlisting of countries, it is better to identify and give less priority to countries with consistent and chronic balance of payments and/or balance-of-trade deficits.

Once countries are short listed on the basis of the above criterion, the non stop should be to go through the import commodity mix of the countries with a fine tooth-comb. If imports of the country are growing at a reasonable rate, this itself is a general indication that there is scope for exploring the market further. The commodity mix of imports will indicate which commodities/commodity groups offer the maximum potential as evidenced by their size and growth rates. This information has to be counterchecked with the earlier yardstick that was proposed, i.e. the industrial, agricultural, mineral, physical infrastructure and the future plans in regard to these. For instance, in the case of a country, past trend may indicate reasonable growth in the imports of jute bags, but the country may have plans to grow jute or a substitute crop in the near future or produce synthetic bags. In such an eventuality, complete dependence on past import trends may mislead a firm into exporting jute bags to that country. In fact, such a development had occurred in India's export history.

After it has become fairly clear that the growth in imports of a particular commodity is likely to continue in the immediate future, a close look at the import policy of the country including any special type of trade relationship that the country may have with another country or some other countries will indicate the extent of market access that the company can hope for. It is quite likely that imports of a particular item may be growing, but the item may face high import duty and/or low tariff/barriers like quota restrictions in the country. In some cases, imports from India may be subjected to duty higher than those from some other countries with which the importing country has special trade relations or imports from India may be subjected to quota restrictions while those from some other countries may not be. This is specially true in respect of items like textiles today. There are quota and non quota countries for textiles exports and there are some countries like Nepal whose exports of textiles are not subject to any quota restrictions even in quota countries. On the one hand, this type of analysis may help an export firm to zero in on non quota, low import duty countries, while on the other this is also useful to firm to formulate alternate strategies, other than exporting, to enter a quota or high import duty market. For example, there are instances where Indian textile export firms have set up textile units in Nepal to beat the quota restrictions. Similarly, a high import duty on Indian textiles can be countermanded by setting up a textile manufacturing unit in the importing country itself or in another country which imposes less restrictions on exports of textiles from its borders.

The macro indicators of market potential and growth are usually analyzed in the first stage of the screening process, because the data are normally readily available and can be used to quickly eliminate countries with little or no potential. The macro indicators focus on the total potential demand (population) and ability to afford a product (per capita income). However, because the macro indicators of market size are too general, they do not necessarily indicate a perceived need for the product. In the third stage of the screening process it is hence, recommended that micro indicators of market potential be analyzed. Micro indicators usually indicate actual consumption of the product that a firm wants to sell or a similar product which is a measure of the perceived need.

Table 5.2: Micro Indicators of Market Size

• Radios	• Hotel beds
• Television sets	• Telephones
• Cinema seats	• Tourist arrivals
• Scientists and engineers	• Passenger cars
• Hospitals	• Civil airline passengers
• Hospital beds	• Steel production
• Physicians	• Rice production
• Alcoholic liquor consumption	• Number of farms
• Coffee consumption	• Land under cultivation
• Petrol/diesel consumption	• Electricity consumption

Micro indicators can be used to estimate market size. Table 5.2 presents the list of micro indicators. The number of households with television sets indicates the potential market size for television sets, if every household purchased a television set. Based on the life of the average television set in use, one can estimate the annual demand. Although the actual consumption statistics may not be available for a certain product category, often the consumption of similar or substitute products are used as proxy variables. For example, in terming the market size for surgical sutures, marketers may use the number of hospital beds as a proxy variable. The number of farms may indicate the potential demand for items like tractors, fertilizers, seeds, pump sets, etc.

The macro and micro indicators of market size allow the marketer to estimate or infer the potential market size. The marketer should now evaluate the risk associated with each market opportunity.

Check Your Progress B

Illustrate with appropriate examples, the different indicators that may be used by a firm to reach at a reasonably valid estimate of the size of an overseas market.

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5.3.2 Political Environment

The impact of a host country's political environment on market selection is obvious. Though political risk tends to be more subjective than the quantitative indicators of market size, it must be realized that it is a major factor influencing market selection. For example, the invasion of Kuwait in 1990 resulted in the exposure of millions of dollars of U.S. assets in the Middle East.

Every company will be hurt by political risk, from limitations on the number of foreign company officials, limits on the amount of profits or dividends repatriation to the parent company, or ban on imports from a particular company or country, threat of outright takeovers. There are a number of indicators that can be used to assess political risk. Table 5.3 shows some indicators of political risk that may be used in country selection.

Table 5.3: Indicators of Political Risk

• Probability of nationalization	• Percent of members of the Communist Party
• Bureaucratic delays	• Restrictions on capital movement
• Number of expropriations	• Government intervention
• Number of riots or assassinations	• Limits on foreign ownership
• Political executions	• Soldier/civilian ratio

While selecting the foreign market, the firm must properly analyze the prevailing political conditions in the host country. The following checklist can guide this process.

Checklist for analyzing a country's political environment

1. What is the country's political structure ?
2. How do citizens, political parties and special-interest groups participate in political decision making ?
3. What is the current government's philosophy? How is it implemented?
4. What are the philosophies of opposing political forces ?
5. What role does the current government see for foreign business ?
6. Is foreign business treated differently from local firms in public policy ? If so how ?
7. What is the country's history in dealing with different types of foreign businesses?
8. What is the process whereby changes in public policy are made ?
9. What is the current and foreseeable trends in relationships between government in the foreign country and home country?
10. What general role does government see for private business in that country's economic life?
11. What restrictions on international transfer of resources will affect your firm's operations in that country ?
12. What are the major trends in the regulatory environment?
13. What incentives does the government give to private business and foreign investors?
14. What are the trigger points for increased nationalistic and foreign investors ?
15. How does the government assert its economic sovereignty ?
16. What are the specific risks of loss of ownership or control of assets?
17. What are the chances of political harassment and what forms is it likely to take ?
18. What tools can be used to build a mutually beneficial relationship with that country's government?
19. What are the possibilities of government or political instability?
20. Is your firm, your industry and/or your products likely to be politically vulnerable?
21. What is the basis of the foreign country's legal system?
22. Will your firm's activities violate any of the home or host country's extra-territorial laws?
23. What aspects of your marketing strategy will be affected by the host country's legal environment?

An important aspect of a country's political environment is its political structure and decision-making processes. The basic political structure is determined by the roles of citizens, political parties, and special interest groups in the power structure and political decisions. In democracies, all these groups have comparatively high participation in decision making. In monarchies and dictatorships, these groups play minimal roles. Except for the military, which as a special interest group may be important in selecting a dictator otherwise, the ruling royal family or the dictators family decide everything. In communist political structures, the political party is central to decision making, while citizens and other interest groups are less important. Yet some communist governments have evolved greater decentralization of policy and decisions on business activities. Uogoslavia has for the past two decades encouraged decentralized decision making by employee groups and small capital at the small business level. In recent years, under Den Xiaoping, China has been evolving and even encouraging capitalism alongside government owned enterprise to encourage and hasten economic development. In todays China, it is okay to get rich. It is helpful then to know who participates in decisions about political structure and policy.

As important as knowledge of a country's political structure is an understanding of the significant political philosophies that guide policy. Conservative governments usually promote a broad role for private business in the country's economic life with a minimum of restrictions on its activities. Leftist governments, on the other hand, may encourage public ownership of business and a more comprehensive and restrictive regulatory environment. It is important to understand the philosophy of the government in power as well as those philosophies that guide opposing political parties and other significant political forces in the country. A change in political power can dramatically change accepted political philosophy. France, which had nationalized a number of major industries during the past decade under a socialist government, is now in the process of denationalizing many of those same industries. Sectors for denationalization include banking, telecommunications, insurance, chemicals, packaging, glass, aluminium, and aerospace.

International firms are often viewed differently from local businesses in a country. A government that encourages private investment in general may discourage imports or foreign ownership of local businesses. For example, in the 1960s and 1970s, Canadians became concerned about the significant share of overseas firms in their oil, forestry, and manufacturing industries. Both the Labour and Conservative parties developed platforms that called for strict rules for foreign firms wishing to operate in their country. In some countries the prevailing philosophy may be that imports are to be discouraged but foreign investment finds government support. The international marketer must discover what the perceived role is for foreign business in a country.

Establishing a Positive Political Business Interface

The surest long term strategy for minimizing political risk is to acknowledge the importance of positive interfaces with host governments. Some firms implement this by reminding personnel that they are guests in the foreign markets and continued permission to operate is contingent on showing the benefits of resource transfer, balance of payments, employment, income distribution and social/cultural benefits.

International firms use a variety of techniques to institutionalize their efforts to have a supportive political environment. One of these is the development of a "balance sheet" showing benefits and costs of the firm's activities in a specific country. Table 5.4 shows a checklist that can be followed by any international business firm to prepare international business social balance sheet. It is particularly helpful when a firm has some history of operations in a country.

5.3.3 Legal Conditions

Law is the ordering of activity, it spells out the rules of the game. In different countries not only are the "rules" for business different, but the ways they are applied also vary. Newton Minnow, former ECC Chairman, commented that "in Germany, under law everything is prohibited except that which is permitted. In France, under the law everything is permitted except that which is prohibited. In the Soviet Union, everything is permitted, including that which is permitted. And in Italy under the law everything is permitted, especially that which is prohibited." This variation presents an exceedingly difficult environment for international marketers because they must understand complex legalities in each and every national environment before determining an appropriate marketing strategy.

International business is seriously hampered by the absence of an international court of legal systems. Just as political institutions remain national in scope, courts and laws regulating business activity have only national jurisdiction. While in the case of some countries bilateral treaties seek to overcome this problem, there is no international agency which can enforce decisions across countries, and hence exporters and importers must abide by the local laws regulating their operations in each national market.

Table 5.4: Social Balance-Sheet Checklist for an International Firm

CAPITAL CONTRIBUTIONS	OTHER CONTRIBUTIONS	NEGATIVE FACTORS
1. Original capital, loans from parent, and reinvested profit added to local capital accumulation, speed development, Strengthen the local balance of payments.	1. New ideas represent inputs of technology, new products, marketing organization, business experience detract from balance of payments.	1. Remittance of dividends, royalities fees, interest, and other payments detract from balance of payments.
2. Trademarks, patents, and know-how bring in years of research and development.	2. People trained locally. Both local managers and technicians, as well as skilled workers, are developed creating stable middle class, speeding economic development.	2. Materials and components imported, while cutting import till for finished products, generally increase overall bills as more semi-manufacturers and raw materials are required.
3. Local loans channel savings into wealth-producing projects, stimulate savings.	3. Output. A new venture supplies goods, otherwise unavailable or available at greater expense and/or in small quantities, developed local resources.	3. Damper on local investors. Fear of "big and powerful" foreign investors sometimes creates antagonism in local manufacturers who worry about their competitive position.
4. Local equity capital channels savings into wealth-producing operations, strengthens the stock market.	4. Import savings displace foreign exchange losses otherwise incurred to bring in finished goods.	4. Lack of local understanding. Foreign subsidiaries generally are managed in world-wide terms rather than in the interest of any one country (but foreign firms know that success of local operations depends on the stability and strength of the local market).
	5. Exports contribute to country's foreign exchange earnings, provide worldwide marketing network.	
	6. Taxes paid finance government and development.	
	7. Wages and salaries raise employment and living standards, create purchasing power, add tax revenue.	
	8. Purchases from ancillary industries spur local industry development diversified local suppliers in turn raising incomes, tax revenues and development.	
	9. Other local expenditures stimulate all types of service industries from insurance and banking to shipping and advertising, raising incomes, tax revenues, and development.	
	10. Local dividends paid strengthen purchasing power savings.	
	11. Stimulus to other foreign investors. Capital inflow shows confidence in country and encourages further inflow or shows capital flight.	
	12. Stimulus to local investor. A foreign venture enlarges the local market provides skilled managers technicians and workers through transfers among companies often sets efficiency model, creates confidence in the economy.	
	13. Contributions to charities, education boost social infrastructure.	
	14. Working conditions. Foreign-owned plants usually set standards for worker facilities, plant improvement.	
	15. Standard of Living. Foreign ventures make more and better products at lowest cost.	

If a foreign owned firm has a conflict with private or public parties in a foreign market, it must solve it in the court system of that country if it wants to ensure enforcement. And yet, the foreign firm is often at a disadvantage in suing another country's legal system, if it wants to ensure enforcement. It may find public opinion hostile or even experience discrimination

in judgement because it is "alien". The following phrase summarizes the international marketer's precarious position: "Engaging in business transactions in a country other than one's own is a privilege and not a right". The foreign firm may have the option of settling an international dispute within its home country legal system, but enforcement of the decision will then be a problem.

One of the key issues in international disputes is determining jurisdiction in the absence of international commercial law. The following three bases are used in deciding which country's laws have jurisdiction over the dispute.

- Jurisdictional clauses in business contracts
- Country where the contract was negotiated
- Country where the provisions of a contract were performed.

Unfortunately, these bases do not always lead to a clear decision about jurisdiction because the contract could have been negotiated in one country, but exonerated in another. In fact, the clearest rule is when the original contract itself spells out jurisdiction.

While laws and legal systems are national in scope, there are some situations in which nations supply these laws to activities outside their borders. This concept is called the **extraterritorial applications of law**. It holds, for example, that even if an American business is operating outside the territorial jurisdiction of the US courts, those courts still have jurisdiction if the operations produce effects within the United States.

One area where the concept of extraterritoriality applies is trade with enemies of the home country. For example, wholly owned subsidiaries of the US firms were building natural gas pipelines in Russia during 1982. The US government threatened sanctions against the parent companies because it believed that this technology could be used for military purposes and thus the sale was a violation of the *Trading With the Enemy Act*. The United States is not the only country with laws that forbid aiding and abetting an enemy country. An international firm may find itself in violation of these laws as world alliances and hostilities constantly change.

Host governments find it difficult to treat a foreign firm like a local one, especially when that firm must adhere to its home country's foreign policies, and thus appears to be an arm of its home country's government and a threat to the host country's economic sovereignty. A French subsidiary of the American Fruehauf Corporation faced this situation prior to 1971. The French subsidiary signed a contract to sell equipment to the People's Republic of China. The US parent forbade the subsidiary to fulfill the contract since it was a violation of the US Trading With the Enemy Act. In response, the French government seized the subsidiary, forced compliance with the contract, and then returned to its French owners.

Another dilemma faced by international firms is the extent of home government protection they want. Under the Hickenlooper Amendment, the US law requires cutting off foreign aid to a country where the US-owned assets of personnel are seized without restitution. While it may protect American firms from political risks, it presents its own problems. For example, American tuna boats were seized by Ecuador and Peru for violating their 200 mile international boundaries. The United States recognized only a 12 mile international boundary, so the Hickenlooper Amendment was invoked against the two countries. And yet, the American fisherman had clearly violated Peruvian and Ecuadorian laws.

Antitrust laws are also applied extraterritorial. When subsidiaries of the US firms engage in mergers in other countries, they may find US Justice Department ruling them illegal. Gillette was disallowed purchase of a German firm that held Robson patents in the United States. IBM had been prosecuted for violating antitrust laws of the European Union. The major problem with extraterritorial application of antitrust laws is that they judge the effects on competition. Such activities may increase world-level competition, but have a negative effect in one market. Again it seems that international firms are unduly hampered by the national scope of laws regarding their activities.

Major world legal systems: Two major structures have guided the development of legal systems in most countries of the world. Common Law is the basis of law in countries that have been at some time, under British influence. Common law countries do not attempt to anticipate all contingencies in the application of a law and have provisions within it to cover every foreseeable situation. Instead, cases in Common Law countries are decided on the basis of tradition, common practice, and interpretation of statutes. Civil or Code Law countries have as their promise the writing of codes of law that are inclusive of all foreseeable applications of law. Codes of law are then developed for commercial, civil, and criminal applications of law. Precedents are important in understanding common law as it is or has been interpreted. The laws themselves are the important factors in understanding the legal environment in Civil or Code Law countries.

Even in Common Law countries there are often codes of law. The Uniform Commercial Code in the United States is a good example of code of law governing business activity. However, Common Law does not differentiate among civil, criminal, and commercial activities, and thus a business may be liable under any of these laws. In common law countries, ownership of industrial property rights comes from use; in Code of Civil Law countries, ownership comes from registration. The implications of this difference are obvious: a company may find itself in litigation in a Code Law country to gain the rights to use its own name, transfer logos, and it may not win!

There are many other ways in which Code or Common Law systems can affect the functioning of a firm: some of these are liability of the firm for product damages, requirements of a contract, and implications of noncompliance with a contract. Suffice it to say that good legal counsel is an essential component of effective marketing in foreign markets.

Legal perspectives of marketing activities: The legal environment that influences marketing activities is so broad that we cannot hope to cover all areas for all countries in the space. However, we can point out some instances of the way marketing strategy in some countries is affected because of the difference in legal environment. For example, we have already discussed antitrust laws as they affect joining ventures, mergers, and licensing as market entry strategies. Antitrust laws can also stand in the way of growing dealers exclusive territories. Exclusive territory provisions in the US contracts are not enforceable, but they are allowable under most conditions in Latin American countries. Other distribution activities such as tying contracts, resale restrictions on dealers, reciprocity, full-line forcing, functional discounts, franchising, or other forms of vertical integration are prohibited in some countries and permissible in others. Similarly the amount of commission to be paid to an overseas agent may be governed by local laws; the company may not have the freedom to post its own power as an agent in lame; countries the laws may require association of a local party with the agency.

Pricing by the international firm is likely to be affected in variety of ways by the legal environment in different countries. Price maintenance laws may prevent the firm from suing discount stores or from offering quantity discounts or other price concessions. Some countries have minimum price laws and others may require licenses for price increases. Pricing may have to be pegged to inflation indexes in some situations; in others the firm may be prevented from raising prices in a highly inflationary environment, and thus will face declining profitability. The anti-dumping laws in most countries limit the freedom of the overseas firms to change price beyond a point.

Promotion is the area of marketing strategy where the impact of varying legal rules is particularly obvious. In Germany, for example, advertisements cannot claim that a firm's products are the "best" since that is interpreted as violating a law that forbids disparaging competitors. Comparative advertising messages (direct comparisons with competing products) may not be permitted. Promoting products such as alcohol and cigarettes through the press or electronic media is not allowed in some countries. In some others, medical drugs can not be promoted without clearance from the medical profession. Some advertisements which are considered obscene by some countries are allowed freely in some other countries. Sales promotion tools such as push monies, consumer giveaways, sampling coupons, contests,

trading stamps, etc. are illegal in many countries; in others, these practices are strictly regulated. Taxes may be levied on store windows or displays.

5.3.4 Social and Cultural Conditions

A culture, to some extent, determines its members' needs and expectations. Norwegian citizens may place a high priority on job and social security guarantees (cradle-to-grave protection), while South Africans may expect their society to provide only the opportunity to make their own future. At the same time, a black South African may have the same ambitions but will have fewer opportunities than the white. Values and attitudes also vary widely from culture to culture. A citizen of China places high value on contribution to the State, honesty and the rights, and has a laissez-faire attitude about the rights of others. Judeo-Christians are likely to be much more strongly oriented toward improvement of personal economic conditions compared with Hindus who tend to accept their lot as it is.

An international marketer is expected to be familiar with the various elements of culture of the country in which he wants to operate. The following are the main elements of culture:

- Material culture
- Language
- Esthetics
- Education
- Religion

Material culture will be considered as the tools, artifacts, and technology of a society. It is concerned with techniques and with physical things, but only those made or fashioned by man, as opposed to those found in nature. For example, a tree per se is not a part of the culture but the Christmas tree is, and so is an orchard. Material culture includes economic considerations, that is, the way the society organizes its economic activities. When we speak of a "technology gap" between India and USA, for instance, we are referring to differences in the material culture of the two areas.

Language is the most obvious difference between cultures. Inextricably linked with all other aspects of a culture, language reflects the nature and values of the culture. For example, the English language has a rich vocabulary for commercial and industrial activities, reflecting the nature of the English and American societies. Many countries with less industrial and commercial activities may have richer vocabularies than the English language, but for matters important to their culture and not necessarily for industrial and commercial activities.

Esthetics refers to a community's ideas concerning beauty and good taste, as expressed in the fine arts (music, art, drama, and dancing) and the particular appreciation of color and form. There are important international differences in esthetics, but they tend to be regional rather than national. For example, Kabuki theatre is exclusively Japanese, but the Western community is its audience.

Musical tastes too tend to be regional rather than national. In the West, a great number of countries enjoy the same classical and popular music. In fact, music may become truly international. Nevertheless, there are obvious differences between Western music and that of the Middle East, Africa, or India. Likewise the dance styles of the African tribal groups of the Balinese are quitely removed from Western dance styles. The beauty of India's Taj Mahal is different from that of the Notre Dam in Paris or the Level Building on Park Avenue in New York.

Education, in the simple sense, usually means formal training received in school. A well-educated person, for example, is one who has had many years of such training. In this normal sense, the aborigines in Australia or the Pygmies in Africa are not educated; that is, they have never been to school. However, this formal definition of education is too restrictive. Education includes the process of transmitting skills, ideas, and attitudes, as well as training in particular disciplines. Even primitive peoples have been educated in this broader sense. For example, the Bushmen of South Africa are well educated in the restricted culture in which they live. One function of education is the transmission of the existing culture and traditions to the new generation. This is as true among the people of America as among the aborigines of Australia. However, education can also be used for cultural change. Russia and Mainland China are notable examples, but this again is an aspect of education in most nations of the world. For example, in India educational campaigns are carried on to improve agriculture or to quell the population explosion. In Western Europe, educational reform is undertaken to bridge the technology gap.

The material culture, language, and esthetics are, in effect, outward manifestations or observable physical behaviour of a culture. If we are to get a full understanding of a culture, however, we must gain a familiarity with the internal, psychic, or mental behaviour that gives rise to the external manifestations. Generally, it is the **religion,** beliefs, and attitudes of a group of people that provide the best insights into their behaviour. Therefore, although an international company should be primarily interested in knowing how people behave as consumers or workers, its task will be aided by an understanding of why people behave as they do. Even in America, studies of worker and consumer motivation are used extensively.

5.4 THE PROCESS OF MARKET SELECTION

Every company is forced to address the question of which market to enter. Even after entering the markets a company must answer questions like, should it build, divest or abandon the market it has entered; how many such markets should it hold so as to maximize its economic benefits; how best to export to the chosen market. To answer such questions every company must formulate procedures, policies and adopt strategies which allow it to keep the focus on both country market factors and company factors.

Since the process of market selection begins with an attempt to match the market requirement with the company's ability, the **first step** involves defining the market and the company's ability, the **second step** involves identifying the section of the market to be captured or market segmentation and the **final step** involves determining the number of markets to be held. Let us discuss these three steps in detail.

Step 1: Market Definition

When a company is facing with a heterogeneous international market, it becomes imperative for the company to define the market. Market definition is usually one dimensional i.e. a company can define the market in terms of country characteristics or in terms of product characteristics. Such a definition must also include a time frame and a reference to competition. The time frame is essential not only from the point of performance measurement and control but also for giving direction. Thus, a short term market definition would involve a tactical concern. Similarly, defining the competition would help in knowing precisely how the market is not being served, thus, it would pave way for the company's positioning. Since market definition precedes segmentation it becomes necessary for it to be specific. Market definition must encompass both served the unserved markets. All this makes it necessary for a company to undertake the mechanical exercise of market definition.

Step 2: Market Segmentation

Having defined the market it becomes necessary for the company to identify the relevant segment. This is known as market segmentation. The process of segmentation must clearly lay down the niche in terms of measurability, accessability, profitability and action ability (This is discussed in detail in unit 6 of this course)

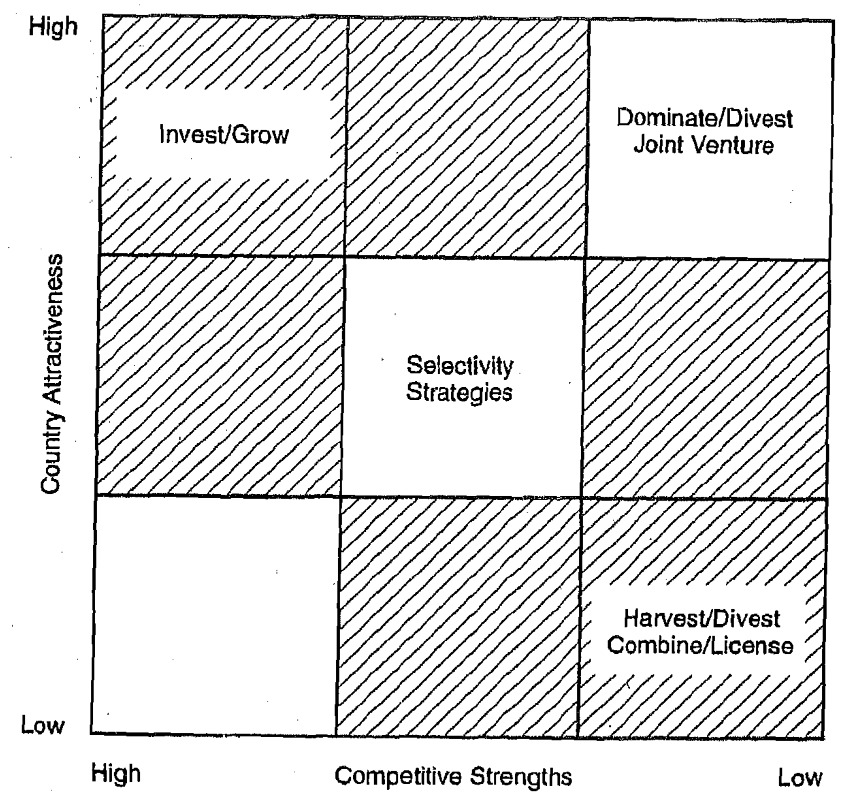
The process of segmentation is the most crucial step for the survival of the firm. It is here that the company's resources are matched with the identified segment. Wrong choices may lead to the decline of the company. This step is more or less in line with the step on market definition. If the definition is based on product characteristics then the segments are identified using product indicators else the segments are identified using general market indicators.

It must also be mentioned here that in international marketing the process of segmentation involves two levels viz. (a) country market level and (b) customer market level.

Step 3: Determining the Markets

The next step in the process is usually to know which market to build, which to divest and which to abandon in order to optimize their return on investment. In other words they must define the direction of growth. For this purpose most companies use the country attractiveness/competitive strength matrix as shown in Figure 5.2 below.

Figure 5.2: Export Market Selection: Strategies and Assessment



Such a matrix helps in identifying invest/grow countries against Harvest/Divest countries.

However, before using such a matrix the company must ensure that

- contributing factors are identified
- their relationship and direction have been established
- weights have been allotted to such factors.

It must also realize that such an analysis does not take into account

- the risk of international operation
- cost of entry into various countries and markets
- shared costs in international marketing.

Keeping these facts in mind it becomes simple for a company to identify the market on the basis of growth, divesture. The various countries that can be identified on such a matrix would fall under any one of the following heads.

Invest/grow countries: Such countries call for a high level marketing commitment. They represent a large market size which can be tapped through investment in people and capital. Here it becomes necessary to match the products with the marketing requirements.

Harvest/divest/licence/combine countries: They represent the direct opposite of invest/grow countries. Because the country attractiveness is low and competitive strength is also low, such a country must be harvested. A growth of market share in such a market would demand an equal increase in marketing effort wiping out the gains if any. Therefore, in such countries it makes more sense to sell out, to maintain a close watch of cash flow and to follow a pricing policy which will minimize the investment in such countries till the operations are abandoned.

Dominant/divest countries: Such countries rank high on country attractiveness but low on competitive strengths. Therefore, the choice rest in either of the alternatives, to sell out or to develop competitive strength to reap the opportunities offered by such a market. If one wants to reap such benefits then one must analyze the market more closely in terms of cash required to build the strength and the potential profits. In such a decision, time frame and corporate profitability become important issues.

Selectivity countries: Such countries fall in the center of the matrix representing the fact that they are neither highly attractive countries nor highly unattractive. They also represent in company terms, a position that can be built or broken. In such situation the company can either unite the market or build the market by introducing new product features, through technological upgradations.

Such an analysis helps a company competing in the global scene to use its limited resources more effectively. It knows which markets to divest and which to hold. Even within markets it answers questions regarding which segments to build. In the absence of such an analysis the corporate profitability would fall because of inclusion of losers in the market portfolio and the company's survival itself may come into question.

5.5 LET US SUM UP

A careful exercise to shortlist overseas markets becomes necessary since all products cannot be sold by all firms to all countries at all times. It is also not advisable to fritter a firm's energy away by spreading the net too far and wide. It is better to exert maximum pressure on a minimum area to achieve the best results.

Analysis of overseas markets must, as in geological survey of minerals, be done stage by stage. Commencing from macro factors like the political environment, population, geographic distance, climatic and topographical conditions, industrial, agricultural, mineral, fisheries, dairy, forestry and physical infrastructure, the company should zero in on more specific information and data relating to market analysis which indicate the market potential like balance of payments/balance of trade position, import growth and import commodity mix. The next stage would be to look at the market access factors such as tariff and now tariff barriers facing to exports of the selected products and the relative position of the company in the export of the products vis-à-vis competing firms from other countries, which may enjoy the benefit of special trade relationship of their countries with the imposing country.

The politico-legal environment of the country is an important factor in market analysis. The exporting firm should be firmly familiar with the political structure and philosophy of the ruling party of the importing country since generally overseas firms are not given the same treatment as local firms in many countries. Since laws and courts in all countries have only national jurisdiction. It is highly important that a firm intending to enter export business familiarities itself with the legal systems of the countries where it wants to operate because there are laws in many countries relating to product, pricing, promotion and distribution. Finally, understanding the socio cultural conditions of the country is very important since, ultimately, it is the consumer who is to be influenced to accept a firm's offer.

The process of international market selection involves three basic steps: (1) defining the market and the company's ability, (2) market segmentation and (3) determining the markets to be held. These three steps are discussed in detail.

5.6 ANSWERS TO CHECK YOUR PROGRESS

A. Since every country and every firm has its own strengths and weaknesses, in terms of geographical location, resources, objectives etc. it is not possible nor desirable for a country or company to try to export every product to every country. Hence the desirability of selecting the most potential markets. Variables given in Figure 5.1 should be listed here.

B. The indicators that are given in Table 5.1 should be listed here and explained with appropriate examples.

5.7 TERMINAL QUESTIONS

1. An Indian firm intending to export agricultural tractors desires to undertake analysis of global markets for its product so that it can select the most promising markets. What are the factors on which it should collect data and information to shortlist the priority markets ? Explain in detail.
2. Explain various steps involved in the process of international market selection.
3. Identify various indicators which can help the marketer in estimating the size of the overseas market. Explain how you estimate the market size by using such indicators.
4. Explain how various political, social and cultural conditions influence foreign market selection.
5. 'Analysis of legal conditions are a very critical component in selecting foreign markets'. Do you agree. Explain how they influence market selection.