8

The international market selection process

Contents

Learning objectives

After studying this chapter you should be able to do the following:

- **Define international market selection and identify the problems in achieving it.**
- **Explore how international marketers screen potential markets/countries using secondary and primary data (criteria).**
- **Distinguish between preliminary and 'fine-grained' screening.**
- **Realize the importance of segmentation in the formulation of the global marketing strategy.**
- **Choose among alternative market expansion strategies.**
- **Distinguish between concentration and diversification in market expansion.**

8.1 Introduction

Identifying the 'right' market(s) to enter is important for a number of reasons:

- It can be a major determinant of success or failure, especially in the early stages of internationalization.
- This decision influences the nature of foreign marketing programmes in the selected countries.
- The nature of geographic location of selected markets affects the firm's ability to coordinate foreign operations.

In this chapter a systematic approach to international market selection (IMS) is presented. A study of recently internationalized US firms showed that on average firms do not follow a highly systematic approach. However, those firms using a systematic sequence of steps in IMS showed a better performance (Yip *et al.*, 2000).

8.2 International market selection: SMEs versus LSEs

The international market selection process is different in small and medium-sized enterprises (SMEs) and large-scale enterprises (LSEs).

In the SME, the IMS is often simply a reaction to a stimulus provided by a change agent. This agent can appear in the form of an unsolicited order. Government agencies, chambers of commerce and other change agents may also bring foreign opportunities to the firm's attention. Such cases constitute an externally driven decision in which the exporter simply responds to an opportunity in a given market.

In other cases, the IMS of SMEs is based on the following criteria (Johanson and Vahlne, 1977):

- Low 'psychic' distance: low uncertainty about foreign markets and low perceived difficulty of acquiring information about them. 'Psychic' distance has been defined as differences in language, culture, political system, level of education or level of industrial development.
- Low 'cultural' distance: low perceived differences between the home and destination cultures ('cultural' distance is normally regarded as part of 'psychic' distance).
- Low geographic distance.

Using any one of these criteria often results in firms entering new markets with successively greater psychic distance. The choice is often limited to the SMEs' immediate neighbours, since geographic proximity is likely to reflect cultural similarity, more knowledge about foreign markets and greater ease in obtaining information. When using this model the decision maker will focus on decision making based on incrementalism where the firm is predicted to start the internationalization by moving into those markets they can most easily understand. It is generally believed that SMEs and firms which are early in their internationalization process are more likely to use a 'psychic' distance or other 'rules of thumb' procedures than LSEs with international experience (Andersen and Buvik, 2002).

By limiting their consideration to a nearby country, SMEs effectively narrow the IMS into one decision: to go or not to go to a nearby country. The reason for this behaviour can be that SME executives, usually being short of human and financial resources, find it hard to resist the temptation of selecting target markets intuitively.

In a study of internationalization in Danish SMEs Sylvest and Lindholm (1997) found that the IMS process was very different in 'old' SMEs (established before 1960) from that in 'young' SMEs (established in 1989 or later). The young SMEs entered more distant markets much earlier than the older SMEs, which followed the more traditional 'step-by-step' IMS process. The reason for the more rapid internationalization of young SMEs may be their status as subsuppliers to larger firms, where they are 'pulled out' to international markets by their large customers and their international networks.

While SMEs must make first entry decisions by selecting targets among largely unknown markets, LSEs with existing operations in many countries have to decide in which of them to introduce new products. By drawing on existing operations, LSEs have easier access to product-specific data in the form of primary information that is more accurate than any secondary database. As a result of this the LSEs can be more proactive. Although selecting markets based on intuition and pragmatism can be a satisfying way for SMEs, the following will be based on a more proactive IMS process, organized in a systematic and step-by-step analysis.

However, in 'real life' the IMS process will not always be a logical and gradual sequence of activities, but an iterative process involving multiple feedback loops (Andersen and Strandskov, 1998). Furthermore, in many small subcontracting firms exporting firms do not actively select their foreign markets. The decision about IMS is made by the partner obtaining the main contract (main contractor), thus pulling the SME into international markets (Brewer, 2001; Westhead *et al.*, 2002).

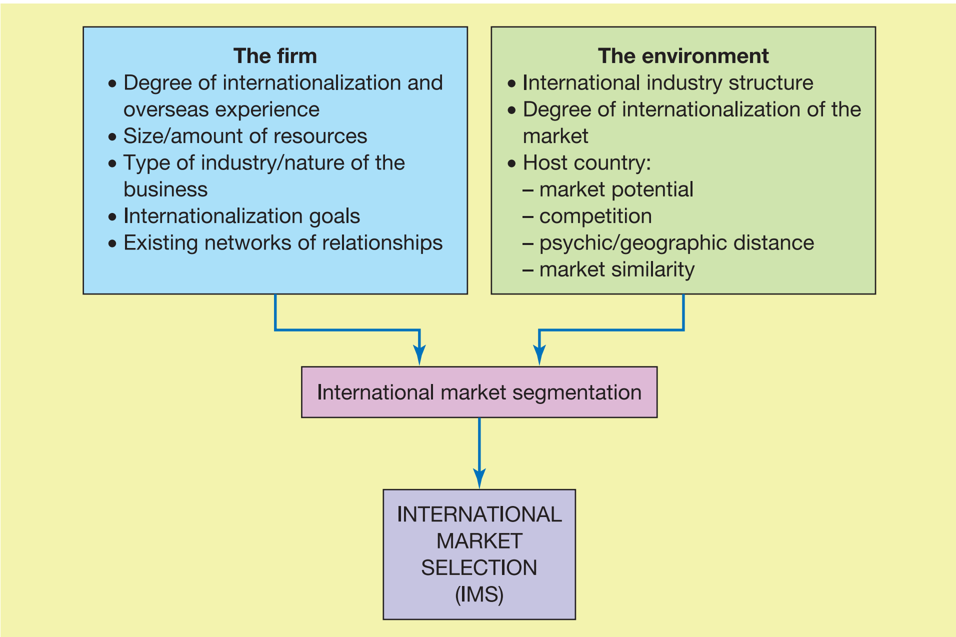
8.3 Building a model for international market selection

Research from the Uppsala school on the internationalization process of the firm has suggested several potential determinants of the firm's choice of foreign markets. These can be classified into two groups: (1) environmental and (2) firm characteristics (see Figure 8.1).

Let us look first at the environment. How do we define 'international markets'? The following approach suggests two dimensions:

1 The international market as a country or a group of countries.
2 The international market as a group of customers with nearly the same characteristics. According to this latter definition a market can consist of customers from several countries.

Figure 8.1 Potential determinants of the firm's choice of foreign markets



Most books and studies in global marketing have attempted to segment the world market into the different countries or groups of countries. This has been done for two principal reasons:

1 International data are more easily (and sometimes exclusively) available on a nation-by-nation basis. It is very difficult to acquire accurate cross-national statistical data.
2 Distribution management and media have also been organized on a nation-by-nation basis. Most agents/distributors still represent their manufacturers only in one single country. Few agents sell their products on a cross-national basis.

However, country markets or multicountry markets are not quite adequate. In many cases boundary lines are the result of political agreement or war and do not reflect a similar separation in buyer characteristics among people on either side of the border.

Presentation of a market-screening model

In Figure 8.1 an outline model for IMS was presented. In the following we will look in more detail at the box labelled 'international market segmentation'. The elements of IMS are shown in Figure 8.2.

Steps 1 and 2: Defining criteria

In general, the criteria for effective segmentation are as follows:

- *measurability*: the degree to which the size and purchasing power of resulting segments can be measured;

Figure 8.2 International market segmentation

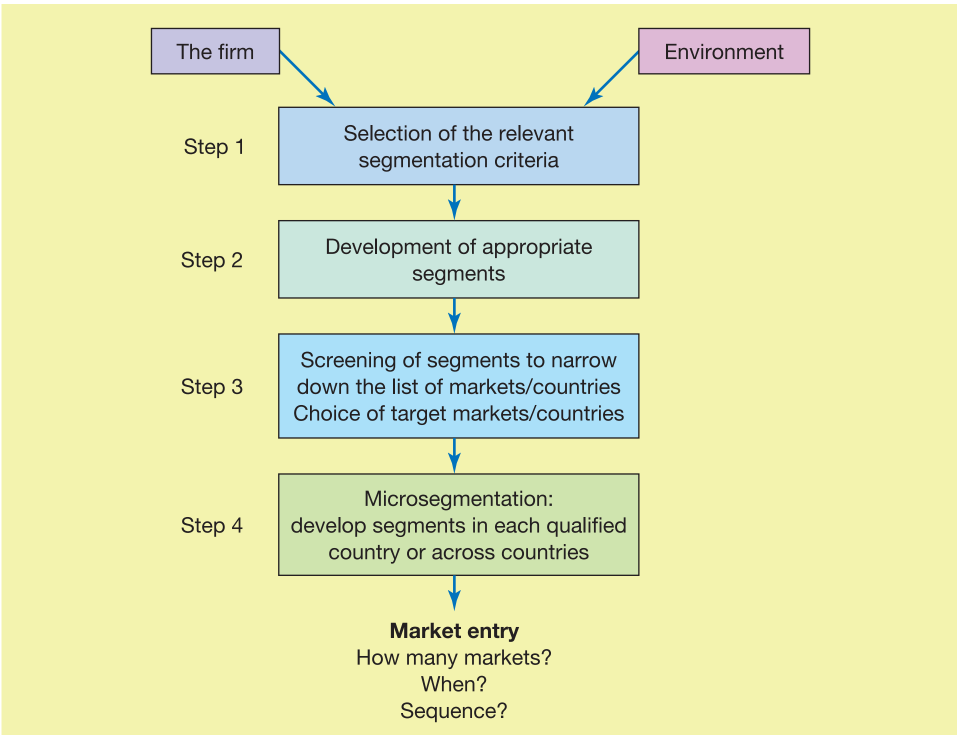
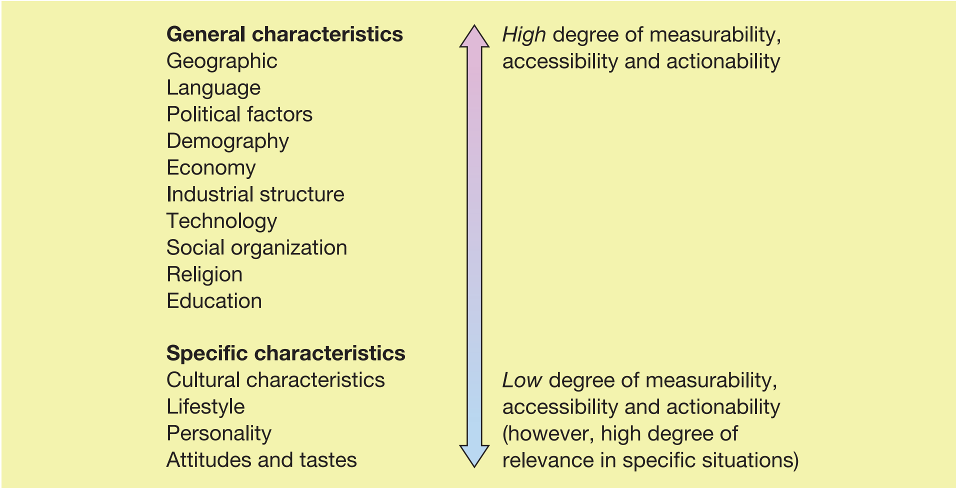


Figure 8.3 The basis of international market segmentation



- *accessibility*: the degree to which the resulting segments can be effectively reached and served;
- *substantiality/profitability*: the degree to which segments are sufficiently large and/or profitable;
- *actionability*: the degree to which the organization has sufficient resources to formulate effective marketing programmes and 'make things happen'.

A high degree of measurability and accessibility indicates more general characteristics as criteria (at the top of Figure 8.3) and vice versa.

It is important to realize that more than one measure can be used simultaneously in the segmentation process.

In Chapters 6 and 7 the different segmentation criteria in the international environment were discussed and structured according to the following PEST approach:

- political/legal;
- economic;
- social/cultural;
- technological.

We will now describe in more detail the general and specific criteria mentioned in Figure 8.3.

General characteristics

Geographic location

The location of the market can be critical in terms of segmenting world markets. Scandinavian countries or Middle Eastern countries may be clustered not only according to their geographic proximity, but also according to other types of similarity. However, the geographic location alone could be a critical factor. For instance, air conditioning needs in some of the Arab countries could make a manufacturer consider these countries as specific clusters.

Language

Language has been described as the mirror of the culture. On one level its implications for the international marketer are self-evident: advertising must be translated; brand names must be vetted for international acceptability; business negotiations must often be conducted through expensive interpreters or through the yet more expensive acquisition of a foreign translator. In the latter case genuine fluency is essential; persuasion and contract negotiation present enough difficulties even in a mother tongue.

Less obvious is the fact that foreign language may imply different patterns of thought and different customer motivations. In such cases a knowledge – again, a good knowledge – of the language will do more than facilitate communication; it provides automatic insight into the relevant culture.

Political factors

Countries may be grouped and world markets segmented according to broad political characteristics. Until recently the Iron Curtain was the basis of one such division. In general terms, the degree of power that the central government has may be the general criterion for segmentation. It is possible, for instance, that a company is producing certain chemicals but that, due to government regulations, many of the world markets may be considered too difficult to enter.

Demography

Demographics is a critical basis for segmentation. For instance, it is often necessary to analyse population characteristics in terms of the proportion of elderly people or children in the total population.

If the country's population is getting older and the number of infants per thousand is declining, which is the case in some European countries, a baby food company would not consider entering that country. In Europe birth rates are tumbling and life spans lengthening. Baby-based industries from toys to foods and nappies face sharp competition. Consumer electronics and housing may also be affected.

Economy

As the earlier studies have indicated, economic development level could be a critical variable for international market segmentation. Electric dishwashers or washer–dryers require a certain level of economic development. There is not a good market for these products in India. However, in western European countries these products are becoming almost a basic necessity. On the basis of the level of economic development certain specific consumption patterns emerge. Societies with high personal income spend more time and money on services, education and recreation. Thus it may be possible to arrange certain income groups from different countries into certain clusters.

Industrial structure

A country's industrial structure is depicted by the characteristics of its business population. One country may have many small retailers; another country may rely on a large number of department stores for retail distribution. One country may be thriving on small manufacturers; another may have very concentrated and large-scale manufacturing activity. The type of competition that exists at the wholesale level may be the critical specific factor for clustering international markets. The international marketer may wish to work with a series of strong wholesalers.

Technology

The degree of technological advancement or the degree of agricultural technology may easily be the basis for segmentation. A software company planning to enter international markets may wish to segment them on the basis of the number of PCs per thousand of the population. It may not be worthwhile for this company to enter markets below a certain number of PCs per thousand of the population. For example, it may find Pakistan, Iran and most Arab countries, all of Africa and all of eastern Europe less than satisfactory for entry.

Social organization

The family is an important purchasing group in any society. In Europe marketers are accustomed to either the so-called nuclear family, with father, mother and children all living together under one roof, or, increasingly as society changes, the single-parent family. In other countries the key unit is the extended family, with three or four generations all in the same house.

In the United States, for instance, socioeconomic groupings have been used extensively as segmentation tools. A six-category classification is used: upper upper class, lower upper, upper middle, lower middle, upper lower and lower lower. The US high-income professionals are relegated to the lower upper class, described as those 'who have earned their position rather than inherited it', the *nouveaux riches*.

In contrast, it would have been hard to find useful socioeconomic groupings in Russia beyond white-collar worker, blue-collar worker and farm worker.

Religion

Religious customs are a major factor in marketing. The most obvious example, perhaps, is the Christian tradition of present giving at Christmas, yet even in this simple matter pitfalls lie in wait for the international marketer: in some Christian countries the traditional exchange of presents takes place not on Christmas Day but on other days in December or early January.

The impact of religion on marketing becomes most evident in the case of Islam. Islamic laws, based on the Koran, provide guidance for a whole range of human activities, including economic activity.

Education

Educational levels are of importance to the international marketer from two main standpoints: the economic potential of the youth market and, in developing countries, the level of literacy.

Educational systems vary a lot from country to country. The compensation for on-the-job training also varies a great deal. As a result the economic potential of the youth market is very different from country to country.

In most industrialized countries literacy levels are close to 100 per cent and the whole range of communications media is open to the marketer. In developing countries literacy rates can be as low as 25 per cent, and in one or two 15 per cent or less, although at such low levels the figures can be no more than estimates. In those same countries television sets and even radios are economically beyond the reach of most of the population, although communal television sets are sometimes available. The consumer marketer faces a real challenge in deciding on promotional policies in these countries, and the use of visual material is more relevant.

Specific characteristics

Cultural characteristics

Cultural characteristics may play a significant role in segmenting world markets. To take advantage of global markets or global segments firms require a thorough understanding of what drives customer behaviour in different markets. They must learn to detect the extent to which similarities exist or can be achieved through marketing activities. The cultural behaviour of the members of a given society is constantly shaped by a set of dynamic variables that can also be used as segmentation criteria: language, religion, values and attitudes, material elements and technology, aesthetics, education and social institutions. These different elements were dealt with more extensively in Chapters 6 and 7.

Lifestyles

Typically activity, interest and opinion research is used as the tool for analysing lifestyles. However, such a research tool has not quite been developed for international purposes. Perhaps certain consumption habits or practices may be used as an indication of the lifestyle that is being studied. Food consumption habits can be used as one such general indicator. Types of food eaten can easily indicate lifestyles that an international food company should be ready to consider. For example, Indian-style hot curries are not likely to be very popular in Germany given its rather bland cooking. Very hot Arab dishes are not likely to be very popular in western Europe.

Personality

Personality is reflected in certain types of behaviour. A general characteristic may be temper, so that segmentation may be based on the general temper of people. Latin Americans or Mediterranean people are known to have certain personality traits. Perhaps those traits are a suitable basis for the segmentation of world markets. One example is the tendency to haggle. In pricing, for instance, the international firm will have to use a substantial degree of flexibility where haggling is widespread. Haggling in a country such as Turkey is almost a national pastime. In the underground bazaars of Istanbul the vendor would be almost offended if the customer accepted the first asking price.

Attitudes, tastes or predispositions

These are all complex concepts, but it is reasonable to say that they can be utilized for segmentation. Status symbols can be used as indicators of what some people in a culture consider would enhance their own self-concept as well as their perception among other people.

Step 3: Screening of markets/countries

This screening process can be divided in two:

1 *Preliminary screening*. This is where markets/countries are screened primarily according to external screening criteria (the state of the market). In the case of SMEs the limited internal resources (e.g. financial resources) must also be taken into account. There will be a number of countries that can be excluded in advance as potential markets.
2 *Fine-grained screening*. This is where the firm's competitive power (and special competences) in the different markets can be taken into account.

Preliminary screening

The number of markets is reduced by 'coarse-grained', macro-oriented screening methods based on criteria such as the following:

- restrictions in the export of goods from one country to another;
- gross national product per capita;
- cars owned per 1,000 of the population;
- government spending as a percentage of GNP;
- population per hospital bed.

BERI
Business Environment Risk Index – a useful tool in the coarse-grained, macrooriented screening of international markets.

When screening countries it is particularly important to assess the political risk of entering a country. Over recent years marketers have developed various indices to help assess the risk factors in the evaluation of potential market opportunities. One of these indices is the Business Environment Risk Index (**BERI**).

BERI measures the general quality of a country's business climate. Launched in 1972, it was developed by Frederich Haner of the University of Delaware in the United States. It has since expanded into country-specific forecasts and country risk forecasts for international lenders, but its basic service is the Global Subscription Service. This assesses countries several times a year on different economic, political and financial factors on a scale from 0 to 4. The overall index ranges from 0 to 100 (see Table 8.1).

The BERI index has been questioned as a general management decision tool and should therefore be supplemented by in-depth country reports before final market entry decisions are made.

Among other macro-oriented screening methods is the *shift-share approach* (Green and Allaway, 1985; Papadopoulos and Denis, 1988; Papadopoulos *et al*., 2002). This

Table 8.1 Criteria included in the overall BERI index

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

[a] 0 = unacceptable; 1 = poor; 2 = average conditions; 3 = above average conditions; 4 = superior conditions.
[b] Total points: >80 favourable environment for investors, advanced economy. 70–79 not so favourable, but still an advanced economy. 55–69 an immature economy with investment potential, probably an NIC. 40–54 a high-risk country, probably an LDC. Quality of management has to be superior to realize potential. <40 very high risk. Would only commit capital if some extraordinary justification.

approach is based upon the identification of relative changes in international import shares among various countries. The average growth rate of imports for a particular product for a 'basket' of countries is calculated and then each country's actual growth rate is compared with the average growth rate. The difference, called the 'net shift', identifies growing or declining markets. This procedure has the advantage that it takes into account both the absolute level of a country's imports and their relative growth rate. On the other hand, it examines only those criteria and does not take into account other macro-oriented criteria.

'Fine-grained' screening

As the BERI index focuses only on the political risk of entering new markets a broader approach that includes the competences of the firm is often needed.

For this purpose a powerful aid to the identification of the 'best opportunity' target countries is the application of the market attractiveness/competitive strength matrix (Figure 8.4). This market portfolio model replaces the two single dimensions in the BCG growth–share matrix with two composite dimensions applied to global marketing issues. Measures on these two dimensions are built up from a large number of possible variables, as listed in Table 8.2. In the following, one of the important dimensions will be described and commented upon.

Figure 8.4 The market attractiveness/competitive strength matrix

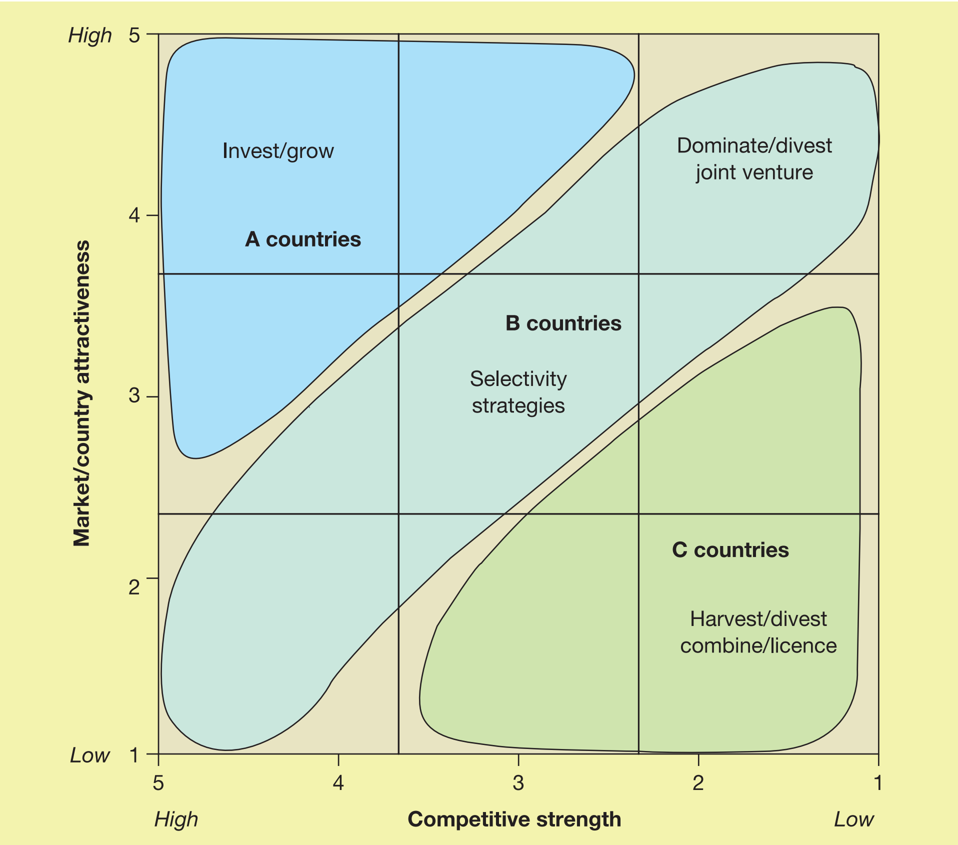


Table 8.2 Dimensions of market/country attractiveness and competitive strength

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

Market size

The total market volume per year for a certain country/market can be calculated as:

Production (of a product in a country)
+ import
− export
= theoretical market size
+/− changes in stock size
= effective market size

Production, import and export figures can usually be found in the specific country's statistics, if it is a standardized product with an identifiable customs position.

A more precise location of a particular country (in Figure 8.4) may be determined by using the questionnaire in Figure 8.5.

As seen from Figure 8.4 one of the results of this process is a prioritzied classification of countries/markets into distinct categories:

- *A countries*. These are the primary markets (i.e. the key markets), which offer the best opportunities for long-term strategic development. Here companies may want to establish a permanent presence and should therefore embark on a thorough research programme.
- *B countries*. These are the secondary markets, where opportunities are identified but political or economic risk is perceived as being too high to make long-term irrevocable commitments. These markets would be handled in a more pragmatic way due to the potential risks identified. A comprehensive marketing information system would be needed.
- *C countries*. These are the tertiary or 'catch what you can' markets. They will be perceived as high risk, and so the allocation of resources will be minimal. Objectives in such countries would be short term and opportunistic; companies would give no real commitment. No significant research would be carried out.

Figure 8.5 **Underlying questionnaire for locating countries on a market attractiveness/competitive strength matrix**

Time of analysis:
Analysis of product area:
In country:

A. Market attractiveness

	1 Very poor	2 Poor	3 Medium	4 Good	5 Very good	% Weight factor	Result (grading × weight)
Market size							
Market growth							
Buying structure							
Prices							
Buying power							
Market access							
Competitive intensity							
Political/economic risks							
etc.							
Total						100	

Market attractiveness = Result : 100 = ...

B. Relative competitive strength
with regard to the strongest competitor = ...

	1 Very poor	2 Poor	3 Medium	4 Good	5 Very good	% Weight factor	Result (grading × weight)
Products fit to market demands							
Prices and conditions							
Market presence							
Marketing							
Communication							
Obtainable market share							
Financial results							
etc.							
Total						100	

Relative competitive strength = Result : 100 = ...

Step 4: Develop subsegments in each qualified country and across countries

Once the prime markets have been identified firms then use standard techniques to segment markets within countries, using variables such as the following:

- demographic/economic factors;
- lifestyles;
- consumer motivations;
- geography;
- buyer behaviour;
- psychographics, etc.

Thus the prime segmentation basis is geographic (by country) and the secondary is within countries. The problem here is that, depending on the information basis, it may be difficult to formulate fully secondary segmentation bases. Furthermore, such an approach can run the risk of leading to a differentiated marketing approach, which may leave the company with a very fragmented international strategy.

The drawback of traditional approaches lies in the difficulty of applying them consistently across markets. If a company is to try to achieve a consistent and controlled marketing strategy across all its markets it needs a transnational approach to its segmentation strategy.

It can be argued that companies competing internationally should segment markets on the basis of consumers, not countries. Segmentation by purely geographical factors leads to national stereotyping. It ignores the differences between customers within a nation and ignores similarities across boundaries.

Cluster analysis can be used to identify meaningful cross-national segments, each of which is expected to evoke a similar response to any marketing mix strategy. Figure 8.6 shows an attempt to segment the western European market into six clusters.

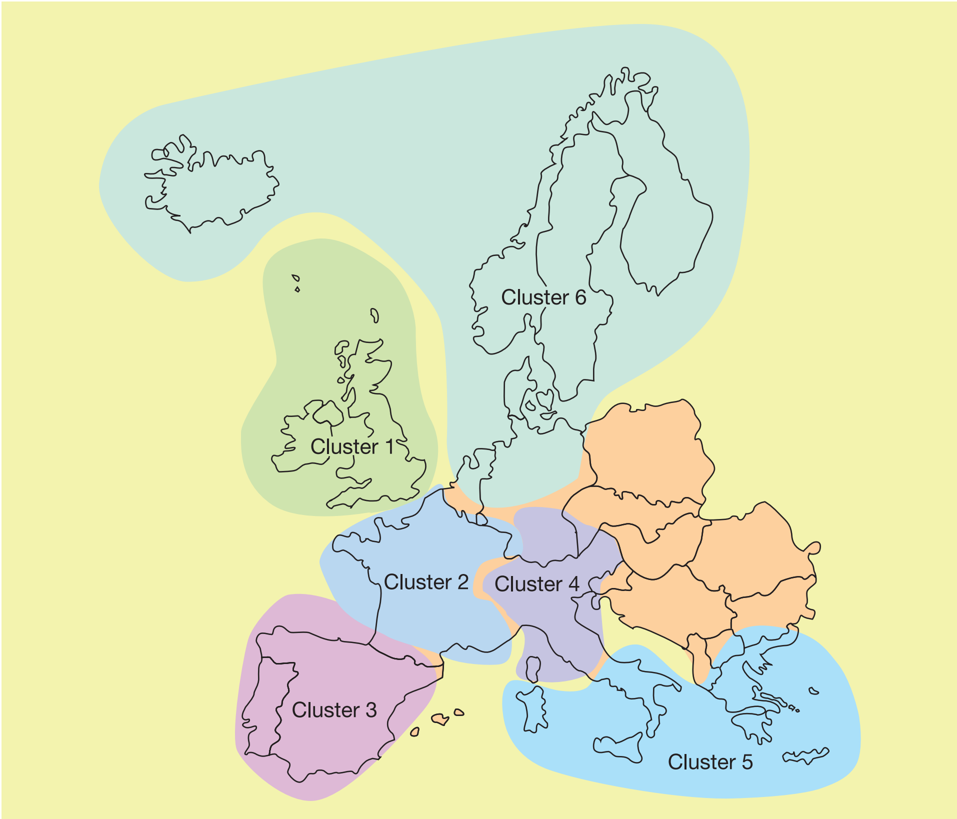
Once the firm has chosen a certain country as a target market the next stage in the micro segmentation process is to decide with which products or services the company wishes to become active in the individual countries. Here it is necessary to make a careful market segmentation, especially in the larger and more important foreign markets, in order to be in a position to exhaust the market potential in a differentiated manner (Figure 8.7).

In this context it is necessary to draw attention to a specific strategic procedure, which is oriented worldwide towards similar market segments. Here it is not the country-specific market attractiveness that influences the decision on specific markets, but the recognition of the existence of similar structures of demand and similar consumer habits in segments (and perhaps only in small segments) of different markets.

An illustration of the whole international market segmentation/screening process (steps 1–4 in Figure 8.2) is seen in Figure 8.8.

The model in Figure 8.8 begins by regarding the world market as the potential market for a firm's product. However, if the firm only regards western Europe as a possible market, then the firm may start the screening process at this lower level. The six western European clusters are based on the transnational clustering in Figure 8.6. The further down in the model, the greater the use of primary data (personal interviews, field research, etc.), as well as screening from internal criteria. Furthermore, the firm may discover a *high market potential* in some geographic segments. However, this is not the same as a *high sales potential* for the firm's product. There may be some restrictions (e.g. trade barriers) on the exporting of products to a particular country. Also the management of the company may have a certain policy to select only markets

Figure 8.6 Transnational clustering of the western European market



Source: Welford and Prescott, 1996. *European Business: An issue-based approach*, 3rd Edition. Reprinted by permission of Pearson Education Ltd.

Figure 8.7 Micromarket segmentation

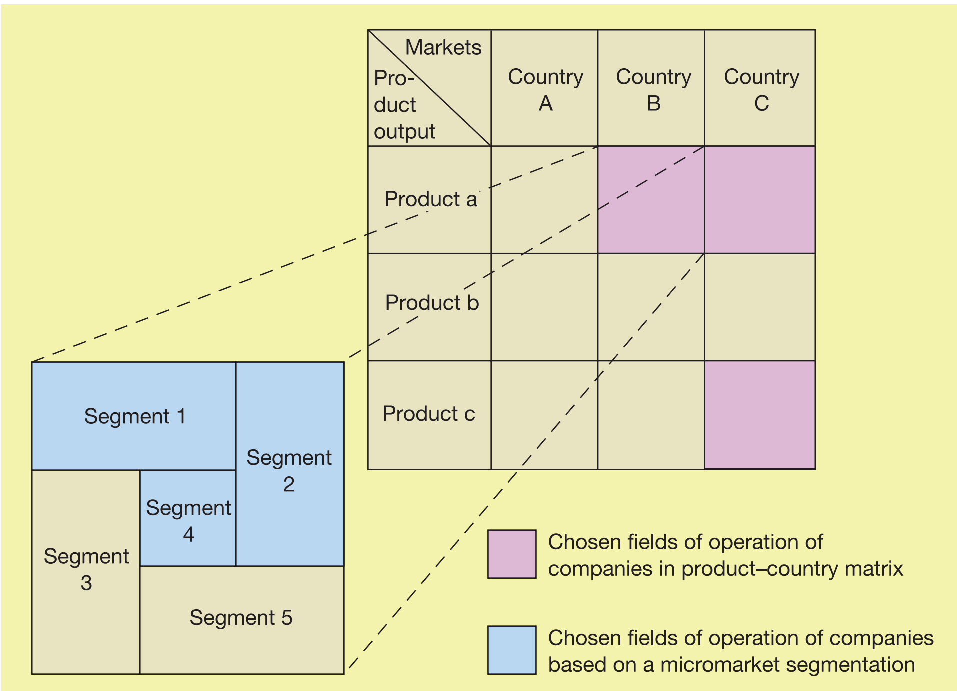
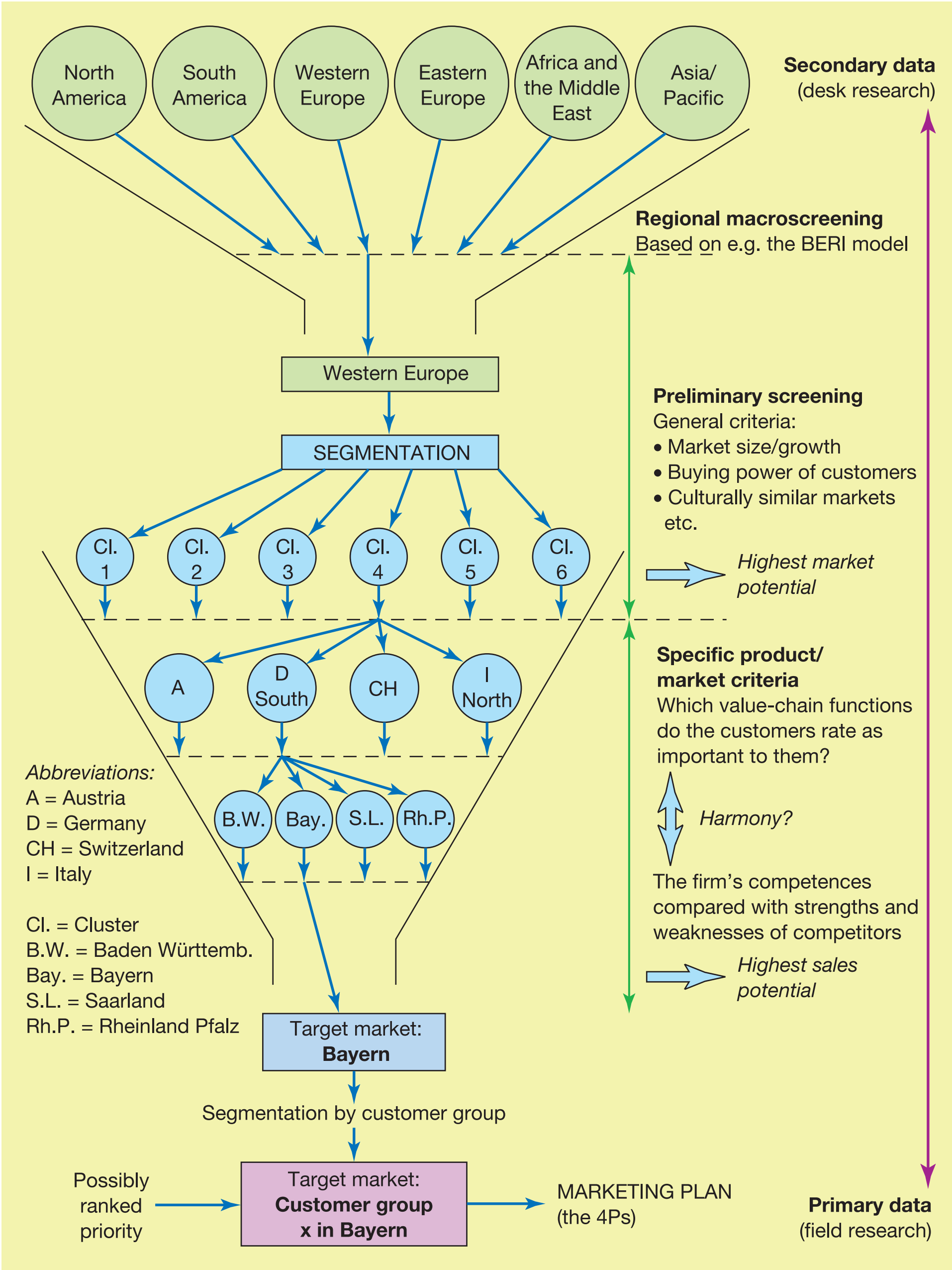


Figure 8.8 **The international market segmentation/screening process: an example of the proactive and systematic approach**



that are culturally similar to the home market. This may exclude far distant countries from being selected as target markets, though they may have a high market potential. Furthermore, to be able to transform a high market potential into a high sales potential, there must be a harmony between the firm's competences (internal criteria) and the value-chain functions that customers rate as important to them. Only in this situation will a customer regard the firm as a possible supplier, equal to other possible suppliers. In other words, in making the IMS, the firm must seek synergy between the possible new target market and its own strengths, objectives, and strategy. The

Exhibit 8.1 Konica Minolta Solutions Europe B.V. makes an International Market Screening for its laser printers[1]

The Konica Minolta Group in Europe (www.konicaminolta.eu) has operations in 23 countries throughout Europe. The total number of employees in the woldwide Konica Minolta Group is approximately 34,000. These companies directly market Konica Minolta products, primarily image information and optical products but also industrial instruments. They offer rapid-response services in line with customer needs. Konica Minolta's marketing network has subsequently grown to include 33 subsidiaries around the world. Around 80 per cent of sales are generated outside Japan.

Konica Minolta Printing Solutions Europe B.V. is a wholly-owned subsidiary of Konica Minolta Holding, Inc. in Tokyo, Japan. It is an innovative developer, manufacturer and supplier of document printing solutions. The product line includes colour and monochrome laser printers (see Figure 8.9), associated supplies and accessories. These products can be applied for general office, electronic publishing, graphic design, advanced imaging and home office applications.

Konica Minolta Printing Solutions Europe B.V. is located in Nieuwegein, The Netherlands. It was established in 1977 and currently has 350 employees. It distributes products through a worldwide network of e-commerce, reseller, retail and distribution partners and is responsible for the so-called EMEA area – Europe, Middle East and Africa.

The most important competitors in laser printers are: Hewlett Packard (market leader), Lexmark, Oki, Epson, Canon, Samsung, Dell and Xerox.

Explaining the screening filters

The filters were used to identify the right export area. The IMS-model shows the screening process with the filters numbered at the side to the right. Each filter is described individually:

Filter 1: Regional macro screening

Konica Minolta Printing Solution in Nieuwegein focuses its business exclusively on the Europe, Middle East and Africa (EMEA). The company has the knowledge to export to these continents and within these areas it is knowledgable about marketing across different cultures, norms and values.

Filter 2: Preliminary market screening

This part of the screening is based on the preference of Konica Minolta. Konica Minolta wants to concentrate on the countries near the Netherlands, i.e. European countries. These countries are also interesting because of high potential markets.

Figure 8.9 The laser printer range of Konica Minolta

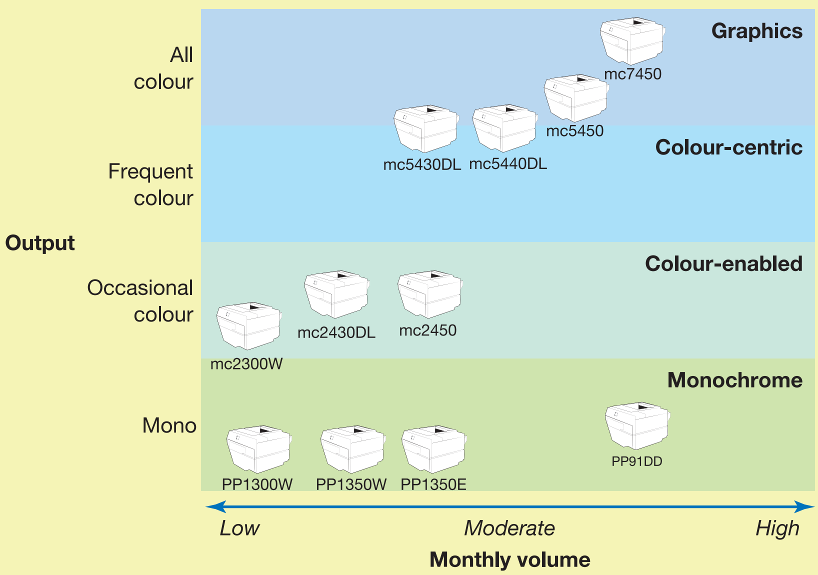
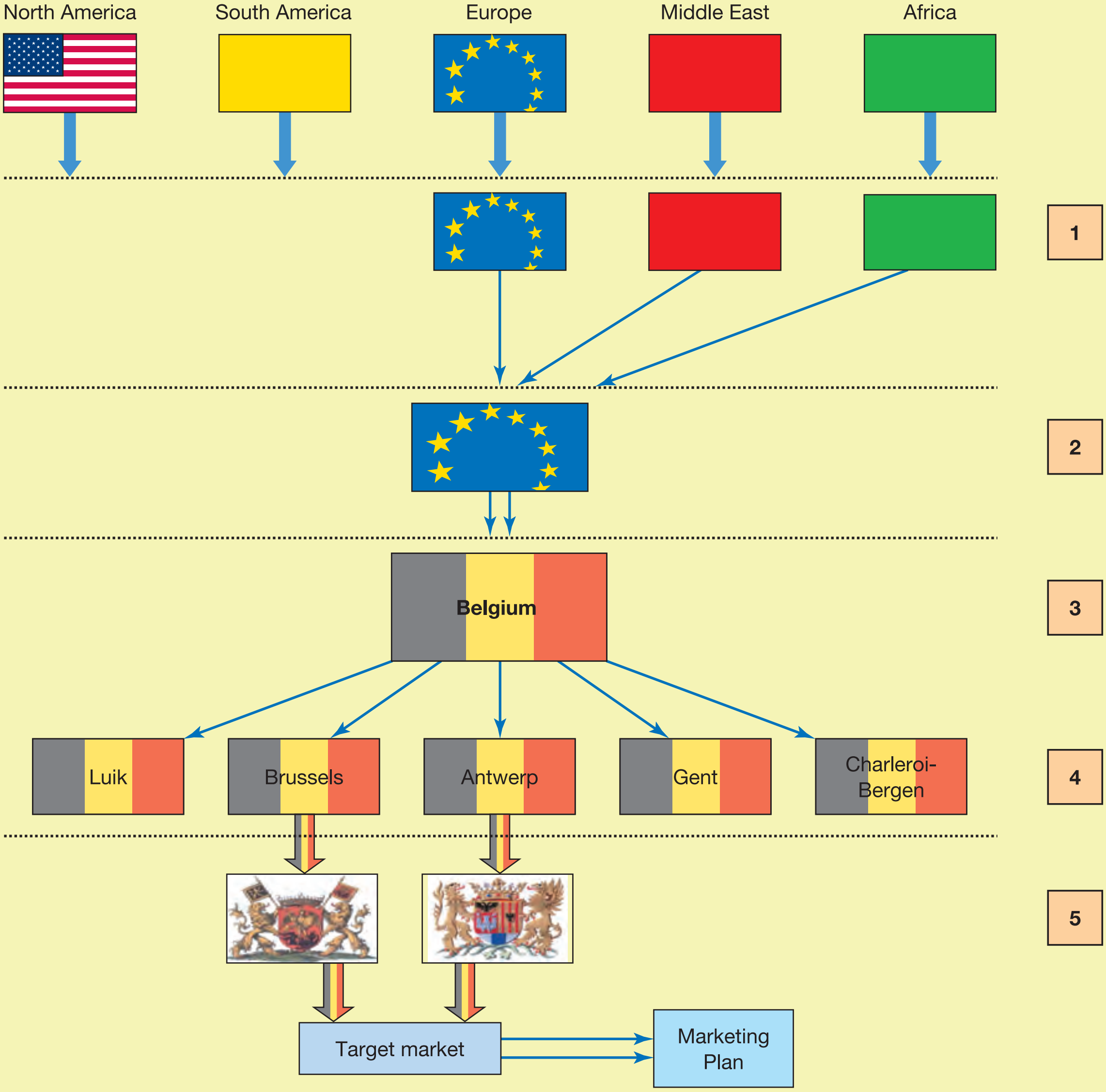


Figure 8.10 The IMS process of Konica Minolta Printing Solutions, Europe



Filter 3: Specific country screening

This part of the screening is also based on Konica Minolta's preference. The company wants to invest its time and money in Belgium, but the main problem in this market is that Konica Minolta has too little knowledge of the most important distribution channel, the 'business users'. These Belgium users have the highest potential for Konica Minolta.

Filter 4: Specific market screening

Konica Minolta selected the largest industrial areas in Belgium – Antwerp, Brussels, Charleroi-Bergen, Gent, Luik – because of their huge profit potential.

Filter 5: City market screening

The city regions Antwerp and Brussels have the most activity in comparison to the other industrial areas in Belgium. Therefore these two city regions have the largest concentration of market potential for the Konica Minolta printers. Despite the fact that competition in these two city regions is also very tough, Antwerp and Brussels are chosen as the top priorities for the further specific marketing planning.

Exhibit 8.1 continued

Conclusion

The conclusion of the IMS above is that the Brussels and Antwerp region has the highest potential as an export area for Konica Minolta. These two cities have a lot of activities and they complement each other. Antwerp has a lot of education institutions and wholesalers and Brussels is an international city. As the decision-making heart of Europe, Brussels has become an international capital, where worldwide opinion leaders meet to influence and do business.

[1] The exhibit does not necessarily reflect the current strategy of Konica Minolta Printing Solutions Europe B.V.

Source (and special thanks to): Fontys University Eindhoven – Department of Marketing Management; BA Project, 'From Sales to Customer Relation Management', prepared by Roderick Akihary, Jan van Raamsdonk, Kim van Oostwaard, Sylwia Wróblewska, Martijn Hassouna and Natascha Ramautar, Tutor, Geert Timmers, Docent, Fontys University Eindhoven, College Year 2005/2006. A special thank to Konica Minolta Printing Solutions Europe for contributing the photos.

firm's choice of new international markets is very much influenced by the existence of complementary markets and marketing skills gained in these markets.

In general, Figure 8.8 is based on proactive and systematic decision-making behaviour by the firm. This is not always a realistic condition, especially not in SMEs, where a *pragmatic approach* is required. Often firms are not able to segment from their own criteria but must expect to be evaluated and chosen (as subsuppliers) by much larger firms. The pragmatic approach to IMS can also give rise to the firm choosing customers and markets with a background similar to the managers' own personal network and cultural background. Contingencies, serendipity and 'management feel' play an important role in both early and late phases of IMS. In a qualitative study of Australian firms Rahman (2003) found, that an important factor that firms take into consideration at the final stage of evaluating the attractiveness of foreign markets is 'management feel'. One of the companies said:

> At the end of the day much of the decision depends on the management's feel about the market. There will always be some uncertainties in the market, particularly when you are deciding about the future, and international markets are no exception in this regard. So, we managers will have to make the decision within the limited information available to us, and 'gut feel' plays a big role in that (Rahman, 2003, p. 124).

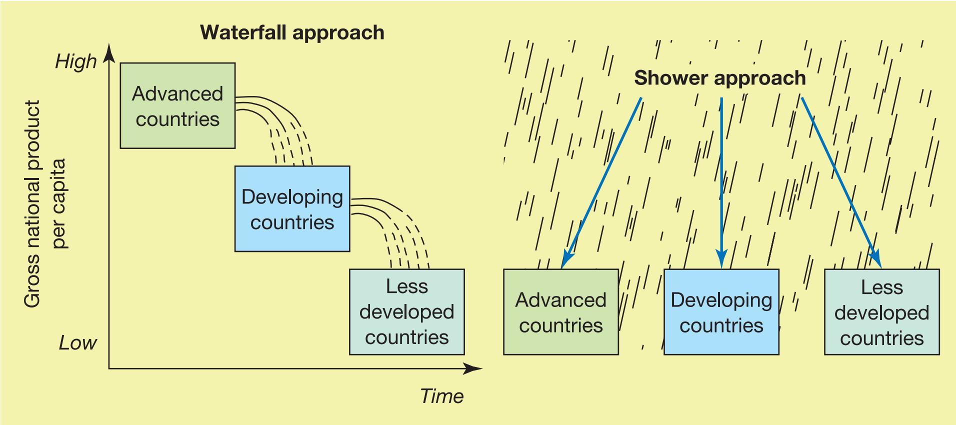
8.4 Market expansion strategies

The choice of a market expansion strategy is a key decision in export marketing. First, different patterns are likely to cause development of different competitive conditions in different markets over time. For example, a fast rate of growth into new markets characterized by short product life cycles can create entry barriers towards competitors and give rise to higher profitability. On the other hand, a purposeful selection of relatively few markets for more intensive development can create higher market shares, implying stronger competitive positions.

In designing their strategy firms have to answer two underlying questions:

1 Will they enter markets incrementally (the waterfall approach) or simultaneously (the shower approach) (see Figure 8.11)?
2 Will entry be concentrated or diversified across international markets?

Figure 8.11 The incremental strategy (waterfall approach) and simultaneous strategy (the shower approach)



Source: *Global Marketing Management*, by Keegan, Warren J. © Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Incremental versus simultaneous entry

A firm may decide to enter international markets on an incremental or experimental basis, entering first a single key market in order to build up experience in international operations, and then subsequently entering other markets one after the other. Alternatively, a firm may decide to enter a number of markets simultaneously in order to leverage its core competence and resources rapidly across a broader market base. (Read about Sanex's shower approach in Exhibit 8.2.)

For the big global company the two strategies can be translated into the concept of the *international product life cycle* (Vernon, 1966), as illustrated in Figure 8.9. See also Figure 15.6, later.

Exhibit 8.2 Sanex's aggressive search for cross-border niches: an example of the diversification approach

Sanex was developed as a liquid personal soap in 1984. Its success was established quickly – within a year it had gained market leadership in Spain. Soon afterwards it was bought by the US consumer giant Sara Lee, which has four main product sectors:

1 packaged meats and bakery products;
2 personal products;
3 coffee and groceries;
4 household and personal care products.

Source: © Sanex Global Brand.

The market basis for Sanex was the growing shower gel market in Europe. Consumers were moving from the ritual of bathing to the more hygienic routine of showering. The Sanex concept of healthy skin fitted perfectly with this trend. The word 'Sanex' is derived from sano, which is Spanish for 'healthy'. The idea behind the positioning was to build up a cross-border (European) concept of health in consumers' minds. This positioning strategy was in contrast to the positioning of the established players such as Procter & Gamble, Unilever, Colgate-Palmolive and Henkel. They were marketing their products under the cosmetic umbrella with strong perfume and colours, and high levels of detergents, supported by the sort of advertising familiar in the cosmetic industry, using beautiful women and exotic surroundings.

The market expansion strategy of Sanex was to launch the product simultaneously on a number of European markets (the 'shower approach' in Figure 8.11). The idea behind this strategy was that Sanex should obtain a

Exhibit 8.2 continued

'first-mover advantage', which meant that the big competitors did not have time to copy the product concept before Sanex had product extensions ready for international market launching. The concept of Sanex's shower gel was well understood in most countries, but the potential for the brand would be different. If the habit of showering was well established, the opportunity for Sanex would be better. But in the United Kingdom, for example, baths are still very important, although the frequency of showering has increased. In another big potential market, the United States, people use bars of soap, although they have recently begun to switch to liquid soap.

In a relatively short time Sanex succeeded in developing and launching a broad range of products, including deodorants, colognes and body milk. With 1995 revenues of almost $100 million a year, Sanex is now marketed throughout Europe and the Far East.

Sources: Mazur and Lannon, 1993, p. 23.

Entry on an incremental basis, especially into small markets, may be preferred where a firm lacks experience in foreign markets and wishes to edge gradually into international operations. Information about, and familiarity with, operating in foreign markets are thus acquired step by step. This strategy may be preferable if a company is entering international markets late and faces entrenched local competition. Equally, if a firm is small and has limited resources, or is highly risk averse, it may prefer to enter a single or a limited number of markets and gradually expand in a series of incremental moves rather than making a major commitment to international expansion immediately.

Some companies prefer a rapid entry into world markets in order to seize an emerging opportunity or forestall competition. Rapid entry facilitates early market penetration across a number of markets and enables the firm to build up experience rapidly. It also enables a firm to achieve economies of scale in production and marketing by integrating and consolidating operations across these markets. This may be especially desirable if the product or service involved is innovative or represents a significant technological advance, in order to forestall pre-emption or limitation by other competitors. While increasingly feasible due to developments in global information technology, simultaneous entry into multiple markets typically requires substantial financial and management resources and entails higher operating risk.

The appropriate expansion strategy for the SME

The SME often exploits domestic market opportunities to build up company resources, which later may be used in international markets (Figure 8.12).

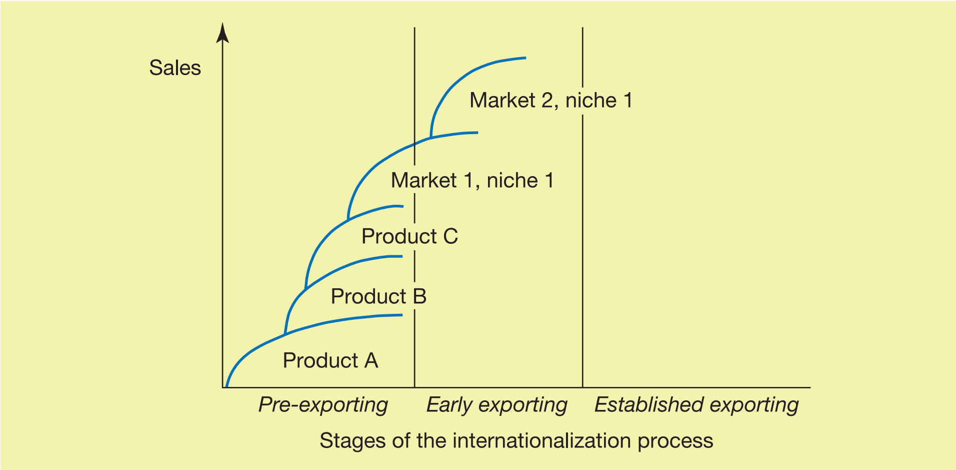
The company strategy for market expansion should be concentrated on the product-market segment where the core competences of the company give it a competitive advantage (here product A, B, C and market 1, 2).

The process might evolve step by step, taking one market at a time, market 1, niche 1, learning from it, and then using it as a bridgehead to transfer that competence to the same niche in the next market (market 2, niche 1). The company may develop its international operations by continuing to develop new markets in a step-by-step process, ensuring consolidation and profitability before moving on.

Concentration versus diversification

The firm must also decide whether to concentrate resources on a limited number of similar markets, or alternatively to diversify across a number of different markets. A company may concentrate its efforts by entering countries that are highly similar in terms of market characteristics and infrastructure to the domestic market. Management

Figure 8.12 Appropriate global marketing strategies for SMEs



Source: Bradley, 1995. *International Marketing Strategy*, 2nd Edition. Reproduced by permission of Pearson Education Ltd.

could also focus on a group of proximate countries. Alternatively, a company may prefer to diversify risk by entering countries that differ in terms of environmental or market characteristics. An economic recession in one country could be counterbalanced by growth in another market. The strength of competition also often varies from one market to another, and profits in a relatively protected or less competitive market may be funnelled into more fiercely competitive markets. Spreading out operations over a broader geographic base, and investing in different regions throughout the world, may also diversify risk, since in some industries markets in different regions are not interdependent (i.e. trends in one region will not spill over into another).

The question of concentrating or diversifying on the country level can be combined with concentration or diversification on the customer (segment) level. The resulting matrix (Figure 8.13) illustrates the four possible strategies.

Figure 8.13 The market expansion matrix

		Market/customer target group	
		Concentration	*Diversification*
Country	*Concentration*	1	2
	Diversification	3	4

Source: Ayal and Zif, 1979, p. 84.

From Figure 8.13 four expansion alternatives can be identified:

1 few customer groups/segments in few countries;
2 many customer groups/segments in few countries;
3 few customer groups/segments in many countries;
4 many customer groups/segments in many countries.

A company can calculate its degree of export concentration and compare it over time or with other firms, using the Herfindahl index. This index is defined as the sum of the squares of the percentage of sales in each foreign country.

$$C = \sum S_i^2 \quad i = 1, 2, 3, 4 \ldots n \text{ countries}$$

where C = the export concentration index of the firm
S_i = exports to country i as a percentage (measured in decimal numbers from 0 to 1) of the firm's total exports

$$\sum S_i = 1$$

Maximum concentration ($C = 1$) occurs when all the export is made to one country only, and minimum concentration ($C = 1/n$) exists when exports are equally distributed over a large number of countries.

The factors favouring country diversification versus concentration are shown in Table 8.3.

8.5 The global product/market portfolio

The corporate portfolio analysis provides an important tool to assess how to allocate resources, not only across geographic areas but also across the different product business (Douglas and Craig, 1995). The global corporate portfolio represents the most aggregate level of analysis and it might consist of operations by product businesses or by geographic areas.

As illustrated in Figure 8.14 (based on the market attractiveness/competitive strength matrix of Figure 8.4), Unilever's most aggregate level of analysis is its different product businesses. With this global corporate portfolio as a starting point, the further analysis of single corporate product business can go in a product dimension, a geographic dimension or a combination of the two.

It appears from the global corporate portfolio in Figure 8.12 that Unilever's 'foods' business is characterized by high market attractiveness and high competitive strengths. However, a more distinct picture of the situation is obtained by analysing underlying levels. This more detailed analysis is often required to give an operational input to specific market-planning decisions.

By combining the product and geographic dimensions it is possible to analyse the global corporate portfolio at the following levels (indicated by the arrows in the example of Figure 8.12):

1 product categories by regions (or vice versa);
2 product categories by countries (or vice versa);
3 regions by brands (or vice versa);
4 countries by brands (or vice versa).

Table 8.3 International market diversification versus market concentration

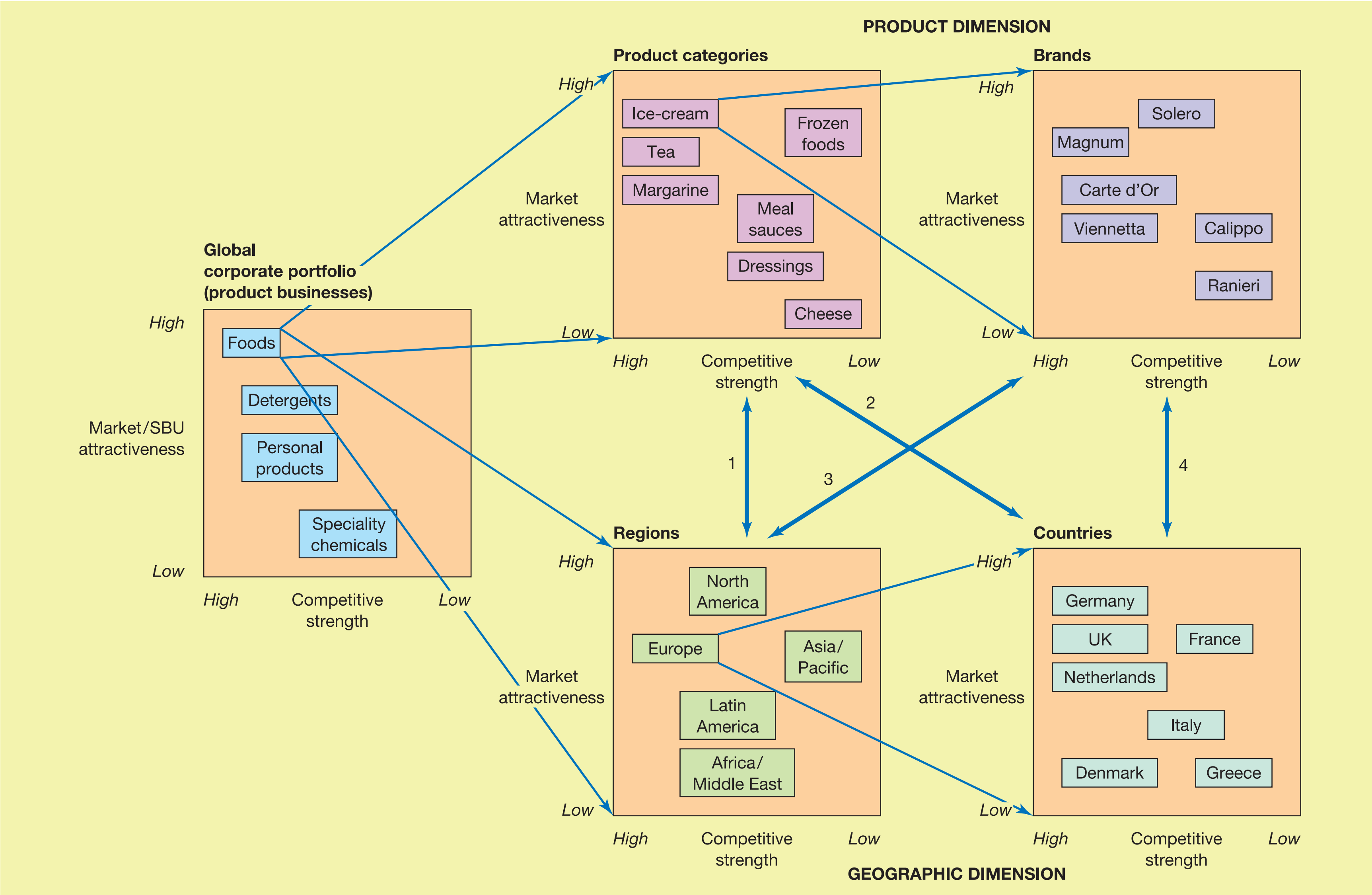
Factors favouring country diversification	Factors favouring country concentration
Company factors	
High management risk consciousness (accept risk)	Low management risk consciousness (risk averse)
Objective of growth through market development	Objective of growth through market penetration
Little market knowledge	Ability to pick 'best' markets
Product factors	
Limited specialist uses	General uses
Low volume	High volume
Non-repeat	Repeat-purchase product
Early or late in product life cycle	Middle of product life cycle
Standard product saleable in many markets	Product requires adaptation to different markets
Radical innovation can trigger new global customer solutions	Incremental innovation – narrow market scope
Market factors	
Small markets – specialized segments	Large markets – high-volume segments
Unstable markets	Stable markets
Many similar markets	Limited number of markets
New or declining markets	Mature markets
Low growth rate in each market	High growth rate in each market
Large markets are very competitive	Large markets are not excessively competitive
Established competitors have large share of key markets	Key markets are divided among many competitors
Low customer loyalty	High customer loyalty
High synergy effects between countries	Low synergy effect between countries
Learning can be transferred across markets	Lack of awareness of global opportunities and threats
Short competitive lead time	Long competitive lead time
Marketing factors	
Low communication costs for additional markets	High communication costs for additional markets
Low order-handling costs for additional markets	High order-handling costs for additional markets
Low physical distribution costs for additional markets	High physical distribution costs for additional markets
Standardized communication in many markets	Communication requires adaptation to different markets

Source: Adapted from Ayal and Zif, 1979; Piercy, 1981; Katsikea *et al.* (2005).

Of course, it is possible to make further detailed analysis of, for example, the country level by analysing different customer groups (e.g. food retailers) in certain countries.

Thus it may be important to assess the interconnectedness of various portfolio units across countries or regions. A customer (e.g. a large food retail chain) may have outlets in other countries, or the large retailers may have formed cross-border alliances in retailing with central purchasing from suppliers (e.g. Unilever) – see also section 17.7 on international retailing.

Figure 8.14 Unilever's global portfolio



8.6 Summary

Especially in SMEs international market selection is simply a reaction to a stimulus provided by a change agent, in the form of an unsolicited order.

A more proactive and systematic approach to IMS entails the following steps:

1 selection of relevant segmentation criteria;
2 development of appropriate segments;
3 screening of segments to narrow down the list of appropriate countries (choice of target);
4 micro segmentation: development of subsegments in each qualified country or across countries.

However, the *pragmatic approach* to IMS is often used successfully by firms. Often coincidences and the personal network of top managers play an important role in the 'selection' of the firm's first export market. In making the IMS, the firm must seek the synergy between the possible new target market and its own strengths, objectives, and strategy. The firm's choice of new international markets is very much influenced by the existence of complementary markets and marketing skills gained in these markets.

After the four steps described above the market expansion strategy of the chosen market is a key decision. In designing this strategy the firm has to answer two underlying questions:

1 Will it enter markets incrementally (the waterfall approach) or simultaneously (the shower approach)?
2 Will entry be concentrated or diversified across international markets?

Corporate portfolio analysis represents an excellent way of combining the international market selection (the geographic dimension) with the product dimension. It is important to assess how to allocate resources across geographic areas/product businesses. However, it is also important to evaluate the interconnectedness of various portfolio units across geographic borders. For example, a particular customer (located in a certain country) may have businesses in several countries.

CASE STUDY 8.1 Philips Lighting: Screening markets in the Middle East

Royal Philips Electronics of the Netherlands is one of the world's biggest electronics companies, as well as the largest in Europe, with 161,500 employees in over 60 countries and sales in 2005 of Euro 30.395 billion.

In 1891 the Dutch mechanical engineer Gerard Philips starts the production of carbon-filament lamps in a former buckskin factory in Eindhoven. Among his first major clients are early electricity companies who are including the provision of lamps in their power supply contracts.

Today Philips is number 1 in the world market for lighting. Philips lighting products (light bulbs and lamps) are found all around the world: not only everywhere in the home, but also in a multitude of professional applications, for example, in 30 per cent of offices, 65 per cent of the world's top airports, 30 per cent of hospitals, 35 per cent of cars and 55 per cent of major football stadiums.

Competition

Philips Lighting is world leader in lighting products manufacturing. Its market shares are 50 per cent in Europe, 36 per cent in North America and 14 per cent in the rest of the world. Since the 80s, Philips has participated intensively to the concentration of this industrial sector by purchasing smaller national companies such as Companie des Lampes (FR), AEG (GE) or Polam Pila (Poland). It has also developed joint ventures with Westinghouse Lamps, Kono Sylvania and EBT China.

Outdoor advertising for Philips Lighting in Iraq (Bagdad)

Source: Photo taken by one of the Philips distributors, Leadstay.

GE

General Electric Lighting (GEL) holds a 50 per cent share of the US market but had only a 2 per cent market share in Europe in 1988. In order to reach a 30 per cent market share in 2010, GEL has acquired several European national companies as Tungsram (Czechoslovakia), Thorn Emi (UK), Sivi (IT) and Linder Licht (GE). In 1994 GEL built a logistic unit in France to supply France, Germany, Benelux, Switzerland, Italy and Austria. It now intends to reduce prices in connection with supermarket chains.

OSRAM

A 100 per cent subsidiary of the giant German holding SIEMENS, OSRAM achieves a 86 per cent share of its turnover by exporting (46 per cent in North America, 41 per cent in EU, 6 per cent in South America and 6 per cent in Asia). Strategy for the next coming years is to increase Asian market shares by doubling its turnover in Asia.

Other significant manufacturers are Sylvania Lighting International and Panasonic.

Philips Lighting market screening in Middle East

At the beginning of the twenty-first century Philips needed a coherent marketing strategy for the whole Middle East region. The first task was to select the most attractive markets in the region. Over the years Philips has developed a model which shows a correlation between a country's demand for lighting and its GDP per capita. During discussions with agents/distributors in many countries, Philips was completely dependent on its information about market size. If Philips underestimated market size, it missed market opportunities. That was the main reason why this model was developed, so that Philips could cross-check market estimations of its agents/distributors.

Figure 8.15 shows that lighting (demand for lamps and bulbs) is a basic need for a country and as soon as a country starts developing this basic need increases. But as the country's wealth increases the growth in the demand slows down, because at later stages of economic development basic lighting needs are covered, as we can observe in the case of Israel.

Basically, in order to find the most attractive markets Philips Lighting used the model (shown in Figure 8.14 and Table 1) in combination. The demand for lighting per capita has to be multiplied by the number of inhabitants in a country. Israel and Kuwait have the highest GDP/capita but their population size is small. On the other hand Iraq and Iran were (and still are) large markets for lighting, but they are very tough to enter because of their politically chaotic situations.

Figure 8.15 The relationship between the wealth of a country and the demand for lighting

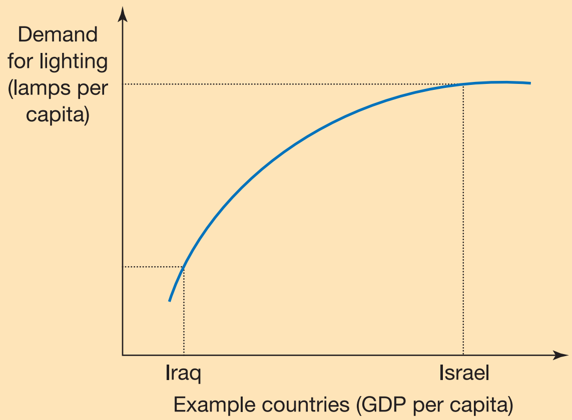


Table 1 Basic demographic data in the Middle East (2003)

Markets	Population (million)	GNP 2003 (% growth)	GNP per cap (US$)
Bahrain	0.6	3.0	8,420
Egypt	61.9	5.0	1,032
Iran	66.0	3.0	1,470
Iraq	19.7	–5.0	558
Israel	5.5	7.1	15,500
Jordan	4.6	5.0	2,159
Kuwait	2.2	3.5	15,670
Lebanon	3.2	4.0	3,845
Libya	5.5	3.5	4,882
Oman	2.4	4.3	6,268
Palestine	2.1	–5.0	430
Qatar	0.6	2.0	13,120
Saudi Ababia	20.6	3.5	5,643
Syria	17.0	6.0	882
UAE	2.5	0.5	17,440
Yemen	15.0	3.0	693
Middle East	229.4	–	–

Source: Wim Wils, Eindhoven, Fontys Export Day, 13 October 2004.

However, the Philips Lighting Middle East managers did not use market size as the only market selection criterion for priority, but the models were used as a starting point for discussions with agents and distributors in the countries. If the Philips sales in large lighting markets were very low, this would indicate a low Philips market share (unless the market size was also low). This would lead to a discussion with the local agents and distributors about how to increase the local Philips market shares in cooperation with the local distributor.

Sources: Power Point presentation from Wim Wils, Eindhoven, Fontys Export Day, 13 October 2004; www.philips.com.

Questions

1 Discuss the appropriateness of the screening model used in this case.

2 Suggest another screening model that could be relevant for Philips Lighting to use in the Middle East.

CASE STUDY 8.2 Mac Baren Tobacco Company: Internationalizing the water pipe business

Mac Baren Tobacco Company (abbreviated MBTC) has been a family owned tobacco company for four generations and today is the largest family-owned tobacco company in Denmark, employing about 130 employees.

Overall, the most successful international product of MBTC has been its water pipe tobacco brand, Mixture, which is now sold in 64 countries. The first pack of Mixture was introduced as far back as 1958, and was the result of several years of product development. Today Mixture is one of the world's best-selling water pipe tobacco brands and its main foreign markets are Germany, Holland and Switzerland. Among growth markets for Mac Baren are the United States, Asia and eastern Europe.

The market for pipe tobacco

In 2004 pipe tobacco amounted to just 2 per cent of world value sales of tobacco. A significant proportion of the smoking tobacco sector in Africa and the Middle East consists of pipe tobacco, much of which is concentrated in Saudi Arabia, the leading market for smoking tobacco in the region. In general, pipe tobacco is expected to decline over the next five years, as pipe smoking is generally considered to be a niche activity and quite old fashioned, and is not generally considered to be a substitute for cigarettes. As such, it is not expected that there will be enough new pipe smokers to replace those that die over time. In less developed countries (e.g. Vietnam), consumption of pipe tobacco is gradually being displaced by the increasing availability of factory made cigarettes, which appeal to those with higher incomes in terms of convenience and status. In those countries pipe smoking has now become mainly the preserve of lower-income groups and those in rural areas (Euromonitor).

Due to ongoing health awareness campaigns, and the banning of smoking in public places, smoking is becoming an increasingly anti-social habit and the dangers of passive smoking are being stressed. The European Union passed legislation to impose a total ban on all forms of advertising and sponsorship from July 2001, although certain transitional arrangements were allowed at the discretion of individual countries.

As a result of the current restraints that tobacco manufacturers are facing in terms of legislative pressures regarding tar and nicotine restrictions, new product development is becoming an increasing source of focus for manufacturers to develop their competitive advantage. Growing health awareness amongst smokers is also spurring some manufacturers to develop a 'healthier' smoke.

Of course, the Mac Baren Tobacco company has long been aware of legislative developments, and recently it has decided to enter a new business: the water pipe industry.

Background on the 'water pipe' tradition

First it was coffee bars – quiet places where people could socialize over a superb cup of coffee or cappucino. Then came internet cafés and cigar bars, with a more specialized appeal. Now, some of America's and Europe's trendy gathering places are 'hookah bars.' These are cafés, patterned after Middle East lounges, where people gather to smoke fruit-flavored tobacco from water pipes.

Water-pipe or hookah smoking is known by various names including narghile, aggileh, goza, hubble-bubble, and shisha. Actually, there are so many different names for this unique smoking device, which is essentially a tall, ornately-decorated and carefully-prepared water pipe. Egyptians call it shisha; Lebanese refer to it as nargila; and in English, it is hookah.

This deep-rooted cultural practice of smoking a water pipe has now become an almost integral part of the Arabs' social life and culture and is rapidly growing in popularity all over the world. It began hundreds of years before the invasion of the big American cigarette companies and is one of the most common lifestyles in the Arab world. Some say it originated in Turkey over 500 years ago, some say it originated in Syria, others claim it originated in India.

After falling out of favour, the popularity of hookahs started to increase again in the Middle East in the late 1990s and spread to big cities and college towns in the United States and Europe. In a hookah, tobacco is heated by charcoal, and the resulting smoke is passed through a water-filled chamber, cooling the smoke before it reaches the smoker. Some water pipe users believe that this method of smoking tobacco delivers less tar and nicotine than regular cigarette smoking and has fewer adverse health effects because of the filtering effect of the water. However, other research results on the health effects of water pipe smoking indicates that it can contribute to coronary heart disease and different cancers.

Hookahs used to be associated with marijuana, opium dens and progressive rock. But legitimate hookah bars started appearing in California in the late 1990s and, despite the anti-smoking surge and smoking bans in bars and pubs, they were appearing on the scene, especially in college towns.

For hundreds of years, Middle Eastern people have flocked to this exotic water pipe to smoke fruit-flavored tobacco, talk and watch the world pass by. Though the most popular flavour is apple, others include strawberry, pineapple, apricot, grape, rose, mint, and even cappuccino!

A hookah consists of a hollow glass (sometimes clay or brass) base which is filled with water, a vertical pipe topped with a clay bowl for shisha and coals, and usually a colourful hose. When one sucks on the hose, the smoke is drawn down the pipe and through the water, which cools and filters it. This also produces a peaceful bubbling sound. Throughout the Arab world, shisha is a traditional accompaniment to friendly gatherings particularly in tearooms, coffeehouses and cafés. This old Arabic tradition has been used for centuries to smoke away the day's stress, while relaxing with friends and family. Friends congregate and sit for hours at a time having shisha while chatting, sipping mint tea and playing chess or backgammon, or listening to Arabic music through the night.

The water pipe is popular not only amongst young people. Shisha is now appreciated by guests of all ages and from all social groupings, including lawyers and doctors. Men and women of the upper classes in the Arab world have been entertaining guests with water pipes for centuries.

Society's perception of shisha smoking has been completely redefined. Shisha smoking, for example, is no longer an exclusively male pastime. Women enjoy the water pipe just as much as men do. The sight of an Arab woman puffing away at a shisha no longer raises any eyebrows. Many women in the Arab world, however, still tend to smoke at home rather than in public.

To older generations in the Middle East, smoking a water pipe is nothing like smoking a cigarette. They believe cigarettes are for nervous, competitive people, people on the run. They say, when you smoke a water pipe, you have time to think. It teaches you patience and tolerance, and gives you an appreciation of good company.

The water pipe – A global trend

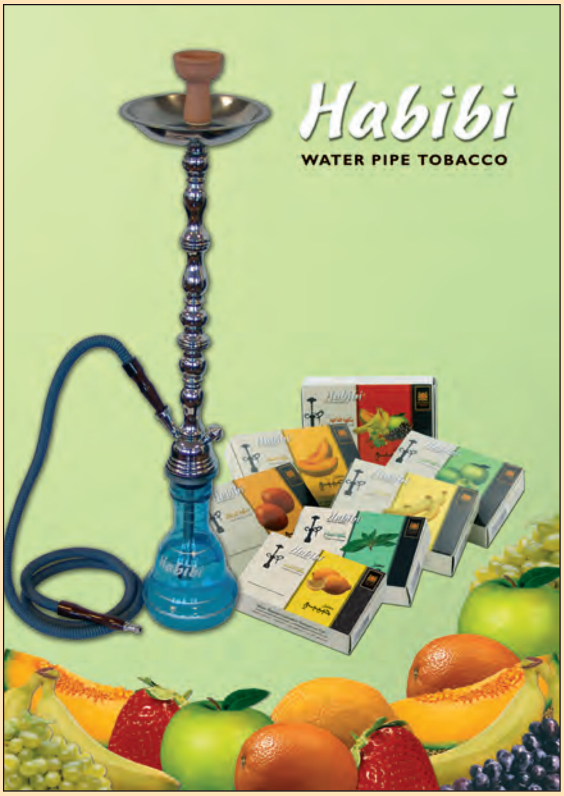
It is estimated that more than 100 million people globally smoke a water pipe on any given day. Its popularity has been mirrored, for example in Israel, where many pubs feature such pipes, and young people can be seen smoking them outdoors and at the beach. In Israel, sharing a water pipe is a way for the nation's Jewish and Arab youth to mesh two cultures, and a survey of 6,000 teenagers found 40 per cent of Jews and 31 per cent of Arabs had smoked a water pipe.

In the United States, hookah smoking is now offered in about 1,000 bars, cafés or restaurants nationwide, many of which feature Middle Eastern food, Arab music videos or belly dancing. Smoking a hookah typically costs \$7 to \$15 in the bars. Water pipes cost between \$50 and \$150 in retail prices. This tradition is posing a new challenge to the anti-tobacco movement in the United States. The smoking rate in the United States has been cut almost in half in the past 40 years. In 1965, about 42 per cent of US adults smoked; by 2003, that was down to about 22 per cent (Koch, 2005).

Competition

The main competitors worldwide in water pipe tobacco are two Egyptian companies:

- Nakhla Tobacco Company: This private-owned company is a water pipe and tobacco specialist, with distributors in all regions of the world (**http://www.nakhla.com/default1.htm**).
- Eastern Tobacco Company (ETC): This company's principal activity is the manufacture and distribution of cigarettes, cigars, and water pipe tobacco, and other associated products for domestic markets and export. ETC is the largest cigarette manufacturer in the Middle East. ETC has a monopoly on domestic production, controlling about 92 per cent of the Egyptian market. ETC exports about 1,300 metric tons of water-pipe tobacco to surrounding countries in the Middle East. Currently ETC has six factories producing water pipe tobacco. The number of employees is about 12,600 and the company is listed on the stock exchange in Cairo (**http://www.easternegypt.com/**).



Shanna storm
Mac Baren Tobacco Company.

About two-thirds of the tobacco consumed in Egypt is in the form of manufactured cigarettes, while the remaining one-third is consumed as water-pipe tobacco.

Mac Baren's entry into the water pipe business – Habibi

In 2002, MBTC set up a joint venture with the Rand Group in Lebanon creating a new company called Mac Baren Levant Tobacco Company with a 50/50 per cent ownership. The main functions of this company is to produce water pipes as well as water pipe tobacco under the brand, Habibi (**http://www.habibi.com.lb/mainpage.html**).

The average international end-price for a water pipe is about €50, whereas a package of water pipe tobacco varies considerably because of different taxes in different countries.

Until now the main markets for Habibi have been Russia and France.

Sources: http://www.ynetnews.com/Ext/Comp/ArticleLayout/CdaArticlePrintPreview/1,2506,L-3108430,00.html, 07.05.2005, Reuters; Koch, W. (2005), 'Hookah trend is puffing along; New popularity of traditional water pipes poses challenge for smoke-free movement', *USA Today*, December 29, p. 3A; http://www.vcu.edu/uns/Releases/2004/april/042604.html; http://www.habibi.com.lb/mainpage.html; http://www.tobaccofreekids.org/campaign/global/casestudies/egypt.pdf.

Questions

1 Is it a wise decision for MBTC to enter the water pipe market?
2 Which screening criteria would you suggest for MBTC's IMS (International Market Selection) process?
3 Which specific markets would you suggest MBTC enter?

VIDEO CASE STUDY 8.3

download from www.pearsoned.co.uk/hollensen

Hasbro

Hasbro (**www.hasbro.com**) is a worldwide leader in entertainment products and services, such as GI Joe, the Easy Bake Oven and Monopoly. Hasbro is a $3 billion company with brands in 100 countries, launching 1,000 new products each year. Although the company distributes primarily through big-box retailers such as Wal-Mart and Toys "Я" Us, it also uses alternate distribution channels such as pharmacies and smaller toy stores. In these channels, Hasbro knows that it needs to provide a different product or different packaging to compete.

Questions

1 What are the foundations of Hasbro's global success?
2 What demographic changes and social issues might influence the future global market for toys and games?
3 What are the most important screening criteria for Hasbro in the IMS (International Market Selection)?

For further exercises and cases, see this book's website at www.pearsoned.co.uk/hollense

Questions for discussion

1 Why is screening of foreign markets important? Outline the reasons why many firms do not systematically screen countries/markets.
2 Explore the factors which influence the international market selection process.
3 Discuss the advantages and disadvantages of using only secondary data as screening criteria in the IMS process.
4 What are the advantages and disadvantages of an opportunistic selection of international markets?
5 What are the differences between a global market segment and a national market segment? What are the marketing implications of these differences for a firm serving segments on a worldwide basis?
6 Discuss the possible implications that the firm's choice of geographic expansion strategy may have on the ability of a local marketing manager of a foreign subsidiary to develop and implement marketing programmes.

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CASE STUDY II.1

CarLovers Carwash: Serendipity as a factor in foreign market selection: the case of CarLovers from Australia

Facilities at a CarLovers Carwash

The CarLovers brand was introduced into the Australian market in March 1989 by three Australian and two American businessmen, and was incorporated and fully Australianized in December 1990. The concept was to revolutionize the car-washing industry, which is dominated in most countries by the major petrol companies.

Approximately 20 million people live on the Australian continent, a mass of land roughly the size of the United States. According to Pro Wash, an Australian carwash company, there are presently only 500 automatic carwashes in operation in the country. This leaves a lot of room for growth, and operators are seizing the opportunities that lie in this relatively new market. In comparison, the United States has more than 10,000 automatic car washes in operation.

The Australian carwash industry got its start, as did many, with carwashes at petrol stations about 25 years ago. It was not until 1993 that CarLovers began to build stand-alone washes. While most existing commercial carwashes are owned by individual owners/operators, CarLovers has 100 locations in Australia; half are company owned and half are franchised. Approximately 50 per cent of the CarLovers locations have in-bay automatics, which are the most popular wash option in Australia along with self-serves. In these cases vehicles are washed by attendants at these bays and owners can choose from the menu of washes and other ancillary services that include polish, cleaning of engine, wheels and tyres, interior vacuuming, upholstery shampooing and a complete range of associated products. Some operators are hesitant about letting customers load themselves onto the automatic carwash without an attendant close by. Customer safety is the main reason. However, after one or two carwashes many customers can handle themselves.

So, CarLovers Carwash's principal activities are the development and operation of franchised and company-operated video stores (Video Ezy Australasia) and self-serve and automatic carwashes.

The brand is strong on environmental considerations, with less polluting grease and chemicals being released into public drains, and 80 per cent reclaiming and recycling of all water used in the carwashing process. These public benefits are supplemented by private benefits to consumers, since the laser technology also results in less damage to cars when they are washed. Additionally the facility is easy to use in a bright, clean retailing atmosphere, as opposed to the often greasy facilities and low service priority offered at petrol stations.

Business activities initially laid emphasis on the Australian operations, resulting in 48 car washes by 1995, 14 company owned and 34 franchised. Franchising was seen as an important way to grow the business in the first five years. Since 1995 the number of car washes has increased to about 80, with all additions being company owned.

The original strategy was to develop the concept, prove that it could be multiplied in the mode of McDonald's, and then take it to other countries. *The decision to internationalize* was therefore present at the beginning of the company's life. However, it was more of 'a dream, rather than a grand plan', according to Steve Spencer, managing director of CarLovers International, in an interview for this case study. The McDonald's experience was always an inspirational factor, providing a lesson in developing a good concept, proving it domestically and then going international.

The success of the concept relative to the offer of competitors is clearly evident in the rapid and sustained growth of carwashes. Within a few years it would have been clear that the concept was ready for internationalization. The focus of this case study is the selection of country markets: that is, *which countries to enter in what order*. The managing director of CarLovers made it quite clear that the standard textbook model of market selection (see Figure 8.2 earlier) was *not* used. Business does not work that way, he said. Instead he gives emphasis to opportunities, chance meetings, rejecting the less viable options, and seizing the best opportunities as they present themselves. This is the way business works in practice. The textbook model may be appropriate for larger firms, but for small and medium-sized firms in general, and certainly in the case of CarLovers, the pragmatic model better describes the internationalization process.

To illustrate this process in more detail, here are five steps taken by CarLovers to enter foreign markets:

1 In mid-1993 executives of CarLovers were in the United States holding discussions with their equipment suppliers. This led to a chance meeting with some Mexican businessmen visiting the same supplier. Following discussions with the Mexicans, agreement was reached for them to start a Mexican franchise of the business. One could say that the choice of country (Mexico) and partners was based on chance.

2 A year later, further discussions with business contacts in the United States led to a US franchise being established in Grand Rapids. To avoid council red tape an existing carwash site was used and refitted to the CarLovers design. The success of this operation can be seen in the tripling of turnover at the site. A second US site has since been refitted.

3 In late 1994 an executive from CarLovers held discussions with the Malaysian manager of Caltex and this led to CarLovers introducing two outlets *within* Caltex service stations. The CarLovers brand was not prominent in this arrangement. In this case a particular friendship and business contact in Malaysia determined both the third foreign market to be entered and the partner involved.

4 Later in 1994 further business contacts led to meetings in Kuala Lumpur with representatives from a Malaysian conglomerate called the Berjaya Group. These discussions were so fruitful that the Berjaya Group purchased 24 per cent of the equity of CarLovers. Further equity and more planning led to the January 1997 go-ahead to build four new CarLover carwashes in Malaysia in 1997 and more later.

5 The January 1997 decision also flagged Kuala Lumpur as the training centre for all of the Asian operations. Three countries, Indonesia, the Philippines and Korea, are the priority target markets, followed by China.

   Formal planning has been greater for this wave of foreign entry, perhaps a reflection that CarLovers is now a bigger operation (though still a medium-sized company) and needs to satisfy a large conglomerate partner. The factors leading to the selection of the top three target markets included size of market, degree of development, cost of land, opportunity and the emerging mass of middle-class consumers. These factors are closer to the textbook model of market selection.

These phases of foreign market selection provide great insight into the actual process used by a service-based exporter (though CarLovers also sells some manufactured products as well). *The pragmatic model*, reflecting the cut and thrust of seeking business opportunities, plays an important role in the selection of country, partner, distributor and distribution system (company owned, franchised or concession arrangement). Business contacts and networking are at the heart of this cut and thrust. In many cases, the business relationships were determined first and the choice of target markets came second. However, as a small business gets larger, although serendipity may continue to play a part, it is a smaller part of the target market selection process.

The CarLovers case study is also a good example of the need to be flexible in terms of both entry modes and international marketing programmes. The entry mode for Mexico was less restricted than for the United States, which was strongly influenced by local government regulations. Two different entry modes were used in Malaysia, initially a concession approach and then a fully branded franchised system, to reflect the different nature of the distributors. Slightly different marketing programmes are needed across countries. Although the basic concept of less damage to cars, a clean and pleasant retailing environment and environmental care holds true in most countries, there can be subtle differences that need to be taken into account at the specific country level. For example, the benefit of water conservation is more important in a low-rainfall country such as Australia than in tropical Malaysia.

Postscript/Latest developments

At the beginning of 2003 the biggest shareholder of CarLovers, Malaysian investment company Berjaya Group, launched a share buy-back offer to take the company off the Australian Stock Exchange after several cash injections over the past three years. Berjaya owns 88.44 per cent of CarLovers stock.

CarLovers has performed below expectations since it was listed in January 1994: it lost $6.1 million in the

12 months to 30 April 2002 compared with a AUS.$3.5 million loss in 2000–1. In May 2002, CarLovers sold its 60 per cent share in Video Ezy Australasia to three investment companies for $12.3 million. It used the proceeds to pay off several creditors, including the Australian Taxation Office.

Source: prepared by Bill Merrilees and Dale Miller, Marketing Group, Department of Management, University of Newcastle, Australia. Updated 2003 by Svend Hollensen.

Questions

1 How would you characterize the IMS process in this case compared to the textbook model?

2 What are the general differences in the IMS process between LSEs and SMEs?

3 In this case the management implicitly have some screening criteria in the IMS process. Could there be other relevant screening criteria?

CASE STUDY II.2

The Female Health Company (FHC): The female condom is seeking a foothold in the world market for contraceptive products

It's time to take control. Give your vagina a choice.

Toronto Public Health Department Female Condom Campaign Slogan
Source: FHC 2001 Annual Report

On one of her few days off in Spring 2006, President of FHC, Mary Ann Leeper, is thinking about the great opportunities for the female condom. The potential market for the product of her company, the female condom, is huge, but still FCH has not been making positive net profits during the last few years. Mary Ann is thinking about how to reach FHC's long-term goal: 3 per cent of the 12 billion unit male condom market. She accepts that the product is still relatively young in the world market for contraceptives, but she thinks it must be possible to produce better positive financial results with such a high quality product. The big question is how . . .

Image courtesy of the Female Health Company and Mayer Laboratories, Inc. (www.mayerlabs.com), US distributor of the Female condom.

Background to the contraceptive market

The market for contraceptives has long been heavily influenced by social and political considerations. From the early days of the pill, the growing numbers of abortions and the decision to make the pill freely available in the early 1970s to the emergence of the AIDS threat in the 1980s, this sector has always been more than a mere product category.

Of the 44 million people infected with HIV worldwide an estimated 29 million (or about 70 per cent) are African. In some countries (such as Botswana) more than 20 per cent of the population are infected by HIV. The number of African AIDS orphans was expected to reach 15 million in 2003. Over 30 million people have already died from AIDS – more than the number of deaths from all African wars – and 11,000 new cases are diagnosed every day. The deadly disease is decimating Africa's labour force and seriously impeding the continent's economic recovery and development.

The increase in the pandemic has been linked to such cultural practices as polygamy, female genital mutilation, widow inheritance and sexual practices and behaviour that are culturally imposed in some societies. In Swaziland, for example, the local culture celebrates virility or the *ingwanwa* – a man who engages in multiple sexual encounters, while the female equivalent, *igwandla* is shunned. The AIDS disease is also fuelled by a popular myth that sex with a virgin cures AIDS.

The total market consists of a very broad range of products, with oral contraceptives (the pill) and male condoms the most popular. Other, 'natural' forms of contraception are also practised, such as withdrawal and the safe period. Men and women may also be surgically sterilised.

Contraceptive products are available in pharmacies or general retail outlets, over the counter (OTC), or via prescription. Contraceptive products are also widely distributed in public clinics. In terms of the two leading forms of contraception, the contraceptive pill is available only on prescription, while condoms are widely available in chemists, supermarkets and vending machines, etc. Growth in distribution channels has been a feature of the condom market since the second half of the 1980s in response to the AIDS crisis.

Condom usage has risen substantially over the past six years, while use of the pill has remained broadly stable. The pill remains a popular contraceptive (based upon surveys of women – surveys of men and women show use of condom and pill as about equal).

The product

The female condom is made of polyurethane – a thin but strong material that is resistant to tearing. The female condom consists of a soft, loose-fitting sheath and two flexible O-rings. One of the rings is used to insert the device and helps to hold it in place. The other ring remains outside the vagina after insertion. The female condom lines the vagina, preventing skin from touching skin during intercourse. The female condom is prelubricated and disposable and is intended for use only once. The product offers an additional benefit to the 10–15 per cent of the population that are allergic to latex and who, as a result, may be irritated by latex male condoms.

In 2005, FHC announced that it had completed development of its second generation female condom, FC2. FC2 is made of a nitrile polymer which allows for a more rapid and economical manufacturing process. FC2 has the same physical design, specifications, safety and efficacy profile as the female condom the company presently sells. FC2 has been approved by the European Union and has received the CE mark; is currently under review by the World Health Organization (WHO). FHC is in discussions with the US Food and Drug Administration (FDA) regarding requirements for US distribution.

Because of the modified manufacturing procedure, it is expected that having FC2 available will result in a meaningful reduction in manufacturing costs which will ultimately reduce the cost to customers based on the purchase of sufficient volume. It is FHC's objective to use this opportunity to accelerate market penetration.

FHC and the female condom

The female condom was invented by a Danish physician who obtained a US patent for the product in 1988, and subsequently sold certain rights to the female condom to a US company. The first female condom became available in 1992, since which time more than 50 million have been sold around the world. The female condom is marketed under the name FC female condom in the United States, Femidom in the United Kingdom, and Myfemy in other markets, such as Japan.

The Female Health Company manufactures, markets and sells the female condom, the only approved product under a woman's control. FHC is based in Chicago, but has production in London. FHC's UK manufacturing subsidiary received a Queen's Award for enterprise in April 2002, in recognition of international trade achievements. FHC owns worldwide rights to the female condom, including patents that have been issued in a number of countries. The problem in many less developed countries (such as many in Africa) is that most men do not want to use condoms and, when it comes to sexual relationships, women do not have power to negotiate. In many cultures it is accepted that men can do what they like, so the female condom is a way of empowering and protecting women in those countries.

The female condom can prevent unintended pregnancy and sexually transmitted diseases (STDs), including HIV/AIDS. It is the only HIV/AIDS product specifically developed and approved by regulatory agencies in the United States, the European Union, Japan and the People's Republic of China, among others, since the epidemic began about 20 years ago, for the prevention of the transmission of HIV/AIDS through sexual contact.

The product is currently sold or available in various venues including commercial (private sector) outlets, public sector clinics and research programmes in over 75 countries. It is commercially marketed in 21 countries, including the United States, the United Kingdom, Canada, France and Japan. However, the female condom is mainly sold to the global public sector. In the United States it is marketed to city and state public health clinics as well as not-for-profit organizations. Following several years of testing the efficacy and acceptability of the female condom, in 1996 FHC entered into a three-year agreement with the Joint United Nations Programme on AIDS (UNAIDS), which has subsequently been extended. Under the agreement UNAIDS facilitates the availability and distribution of the female condom in the developing world and the FHC will sell the product to developing countries at a reduced price based on the total number of units purchased. The current price per unit is approximately £0.40, or €0.52. Pursuant to this agreement, the product is currently available in over 80 countries with major UN health programmes in about ten countries including Zimbabwe, Tanzania, Brazil, Uganda, South Africa, Namibia, Ghana and Haiti.

Studies have shown that female condoms are reused up to five times. WHO has noted procedure that should be used regarding the washing and preparation of the female condom if it is going to be reused, on its website. WHO, UNAIDS and FHC all make the statement that the female condom should only be reused when a new one is not available.

Global market potential and FHC sales

It is estimated the global annual market for male condoms is 12 billion units (see also Case 9.2). The major segments are in the global public sector, the United States, Japan, India and the People's Republic of China. However, the majority of all acts of sexual intercourse, excluding those intended to result in pregnancy, are completed without protection. As a result it is estimated that the potential market for barrier contraceptives is much larger than the identified male condom market.

Currently it is estimated that more than 8 billion male condoms are distributed worldwide by the public sector each year. The rest, 4 billion male condoms, is estimated to go through the traditional retailing systems. The female condom is seen as an important addition to prevention strategies by the public sector because studies show that its availability decreases the amount of unprotected sex by as much as one-third over offering only a male condom.

FHC expects to derive the vast majority, if not all, of its future revenue from the female condom, its sole current product. While management believe the global potential for the female condom is significant, the product is in the early stages of commercialization. To date, sales of the female condom have not been sufficient to cover the company's operating costs.

FHC's total net revenue in 2005 was approximately $11,161 million, but with operating losses of $1.3 million.

The competitive situation

FHC's female condom participates in the same market as male condoms but is not seen as directly competing with male condoms. Rather, the FHC believes that providing female condoms is additional in terms of prevention and choice. Latex male condoms cost less and have brand names that are more widely recognized than the female condom. In addition, male condoms are generally manufactured and marketed by companies with significantly greater financial resources than FHC.

A new direct competitor has arrived at the scene: Medtech Products (MP) Ltd is a condom company with a manufacturing facility in Chennai, India, which has developed the V/A – Feminine Condom, MP's version of a latex female condom. The manufacturing process has a CE mark for distribution in Europe and is available in German stores. Additionally, Indian Drug Controller approval was received in January 2003. The product has not received FDA approval nor has it been listed as an essential product by WHO.

The Indian case

In July 2006 FHC announced the first purchase of the FC Female Condom by the Indian government for use in its HIV/AIDS prevention programmes. The number of HIV/AIDS victims in India is the largest of any nation and is growing rapidly. While still being less than 1 per cent of its 1 billion plus population, the government is aggressively developing prevention programmes to preclude what has occurred in Sub-Saharan Africa where HIV/AIDS victims exceed 20 per cent of the population in some countries. As a consequence of the growing Indian market, in July 2006 FHC made an agreement with Hindustan Latex Limited (HLL) to manufacture FHC's second generation female condom (FC-2) in India. HLL is an Indian government company (www.hindlatex.com) with an annual male condom manufacturing capacity of 1 billion units. In addition to sales to the Indian government, HLL is launching the female condom to consumers using the trade-name Confidom (www.confidom.com) on a city-by-city basis. It is now available in Bangalore and Chennai, with a series of additional city launches planned and will soon be available online.

Questions

1 How would you explain FHC's internationalization process up to now?

2 What are the main cultural barriers for expanding global sales of the female condom?

3 Which screening criteria would you use if FHC had plans to expand into new developing markets?

4 How can FHC increase its profitability?

CASE STUDY II.3

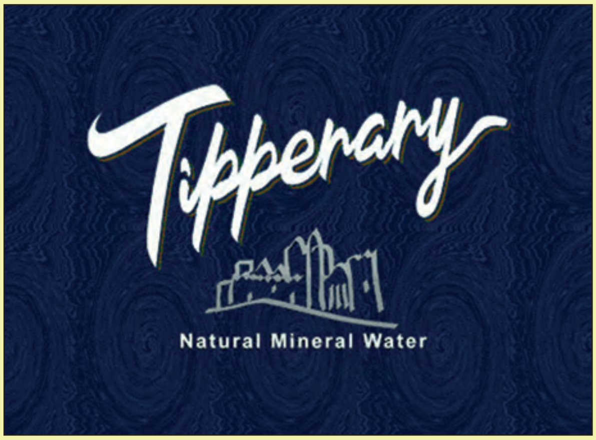
Tipperary Mineral Water Company: Market selection inside/outside Europe

The Irish firm Tipperary Mineral Water Company (TMWC) was founded in 1986 by Patrick and Nicholas Cooney. It has since developed into a major national brand in the £40 million Irish mineral water market, with about 15 per cent market share there. The market share outside Ireland is very small.

In 2005 the 60 employees in the company generated a total turnover of about €7 million. The net profit was €0.3 million.

TMWC is a part of the Gleeson Group, which has a solid base in the Irish drinks market and ranks among the top 200 companies in Ireland. As a consequence TMWC has a solid and sound financial background.

Tipperary mineral water (sparkling and still) is available in a range of packaging options including 200 ml, 500 ml, 1 litre, 1.5 litre and 2 litre bottles. All bottles are recyclable and all labels bear the recyclable symbol. The product range has been extended into the office and leisure market, with 19 litre Tipperary Cooler Dispensers for offices (you can see the product range at www.tipperary-water.ie/tippindex.html).



Mineral water in Ireland

General acceptance of bottled water as an alternative to alcohol when socializing is a relatively recent phenomenon in Ireland and Britain. However, it has long been a way of life in continental Europe and the United States. This has as much to do with historical traditions as the quality of tap water. France has a tradition of drinking bottled water going back to Roman times. French consumers today use different brands on different occasions and have a highly developed palate for water, which could be said for most continental countries.

Ireland is therefore at an early stage of development as regards the consumption of bottled water. Few consumers can distinguish between alternative brands and sales of sparkling water are greater than still water. In Europe and the United States bottled water is part of the way of life and sales of still water greatly outweigh sales of sparkling water, with much substitution of bottled for tap water.

Consumption per capita of bottled water in Ireland is perhaps 8 litres per capita per annum, with the United Kingdom consuming 14 litres. However, consumption per capita in France is 118 litres per capita per annum, with Germany averaging 75, and the United States about 30.

Tipperary as a brand name abroad gains instant recognition from the song ‘It’s a long way from Tipperary’, which is one of the most international of songs. It was particularly popular during the First and Second World Wars as a marching song and was broadcast to a worldwide cinema audience through Movietone news reports.

The location of Ireland to source bottled water is a good idea in that Ireland is generally perceived as green, unspoiled and lacking in industrialization or pollution.

The European market for mineral water

The following examines the retail market for mineral water in six major markets: France, Italy, the United Kingdom, Germany, Spain and Benelux (Belgium, the Netherlands and Luxembourg). Sales through 'horeca' (hotels, restaurants and catering establishments) are for the main part excluded.

Mineral water originates from a pure earth source and contains healthy constituents such as minerals and trace elements. It must be bottled at source and must not undergo any form of treatment except that of separating the iron from sulphur to avoid any discoloration or smell. Nothing may be added or taken away from the water, except carbon dioxide to make sparkling water. Mineral water has benefited from the shift away from alcohol consumption due to stricter drink-drive laws and health awareness generally. Greater concern over the quality of municipal tap water supplies has also underpinned rising demand for mineral water.

Table 1 shows the total market values of mineral water in the major European markets. The mineral water market is broken down into the following sectors:

- still;
- sparkling;
- flavoured.

Still water is the dominant sector in the mineral water market, offering a direct, healthy alternative to tap water. Sparkling water demand is more meal/occasion specific, and the digestive properties on offer mean that sparkling water tends to attract a higher margin. Flavoured water remains a negligible influence on most markets, but is the most dynamic sector where sales exist.

An increased spread of distribution outlets and wider availability have exposed mineral water to a greater audience. So mineral water has established a commodity status in several countries and this is increasingly affecting trends apparent in the market. As a consequence the mineral water market is characterized by high levels of private label penetration.

Table 1 Value sales of mineral waters in US dollars by country, 1997

Country	US$ (millions)
Germany	3,491
Italy	2,421
France	2,087
UK	657
Spain	415
Benelux	354

Source: Based on date from *Euromonitor*.

Competitive situation in the European mineral water market

The global bottled water market underwent dramatic changes in terms of brand ownership in 1992, when the Swiss food giant Nestlé bought all Perrier's mineral water brands except Volvic, which was sold to BSN (now known as Groupe Danone). Today Nestlé (with brands such as Perrier and Vittel) and Danone (with brands including Evian and Volvic) are the leading mineral water producers, both in Europe and throughout the world. The market shares of the manufacturers in the major markets are shown in Table 3.

Domestic producers continue to have a significant presence, despite increasing consolidation, in France (Groupe Neptune with Castel), Italy (San Benedetto), Spain (Vichy Catlan) and Benelux (Spadel from

Table 3 Volume and value of all mineral waters by country

	Per capita volume 1997 (litres)	Total value 1997 (US$ million)	% change 1993/1997 (US$ value)	Per capita value 1997 (US$)
Argentina	13.1	300	46.6	8.40
Australia	8.4	133	48.6	7.20
Brazil	8.9	1,244	219.9	7.78
Canada	18.6	436	44.6	14.39
Chile	5.2	46	33.3	3.13
China	0.4	447	48.9	0.36
Colombia	14.2	755	92.5	20.87
Hong Kong, China	7.1	47	40.5	7.21
India	0.0	12	923.6	0.01
Indonesia	4.1	270	52.9	1.34
Israel	22.8	117	71.0	20.13
Japan	5.4	757	60.3	6.01
Malaysia	1.2	28	28.0	1.30
Mexico	4.6	365	39.3	3.79
New Zealand	2.3	9	53.7	2.46
Philippines	3.3	136	170.8	1.85
Singapore	7.0	47	97.1	15.16
South Africa	0.3	17	165.6	0.38
South Korea	11.5	408	48.5	8.87
Taiwan	7.6	149	83.7	6.95
Thailand	0.0	1	54.1	0.01
Turkey	2.6	165	56.0	2.59
USA	34.7	8,567	48.8	31.98
Venezuela	5.7	86	88.2	3.72
Vietnam	0.5	26	991.9	0.33

Source: Based on data from *Consumer International*, 1999.

Table 2 Characteristics of four major mineral water markets (sales in hotels, restaurants and catering are not included), 1999

	UK		France		Germany		US	
Market sectors (millions litres)	*Type* Flavoured Still Carbonated Total	 33 518 290 841	*Type* Flavoured Still Carbonated Total	 125 5,750 1,120 6,995	*Type* Flavoured Still Carbonated Total	 63 2,308 3,758 6,129	*Type* Flavoured Still Carbonated Total	 139 4,709 2,315 7,163
Market shares (%)	*Companies (brands)* Premier Waters Ltd Perrier Vittel (UK) Ltd Eden Valley Mineral Water Co. Ltd Highland Ltd Strathmore Ltd Spadel (UK) Ltd Coca-Cola Schweppes Beverages Ltd Ballygowan Ltd Private label Other Total	 17 9 5 5 2 1 1 1 45 14 100	*Companies (brands)* Group Danone (Evian) Perrier Vittel SA Groupe Neptune SA St Amand Private label Other Total	 40 26 12 2 8 12 100	*Companies (brands)* Gerolsteiner Brunnen GmbH & Co Die Blauen Quelien Mineral- und Heilbrune AG Mineralbrunnen berkingen-Teinach AG Visla Brunnen Apollinaris Schweppes GmbH & Co. Coca-Cola Schweppes Beverages Ltd Frankenbrunnen Rheinfelsquell Richard Haringer Getränke Private label Other Total	 11 6 4 3 3 3 2 2 2 3 61 100	*Companies (brands)* Nestlé SA (Perrier, Poland Spring) Group Danone SA (Evian) PepsiCo McKesson BHOC Suntory Ltd Private label Other Total	 19 10 5 4 2 26 34 100
Distribution of mineral water and comments (%)	*Channels* Supermarkets/hypermarkets Other stores Small food outlets General merchandisers Outdoor Vending machine Other Total In the supermarkets/hypermarkets J. Sainsbury and Tesco are the two leading mineral water retailers. As demand grows, mineral water is starting to be delivered to British homes by milkmen.	 69 13 9 4 3 1 1 100	*Channels* Supermarkets/hypermarkets General merchandiser Small food outlets Other stores Outdoor Vending machine Total The three giants of the hypermarket operators are Carrefour, Leclerc and Intermarché, the latter being mainly large supermarkets. Wholesalers are under threat as large supermarkets and hypermarkets are increasingly dealing directly with manufacturers. Very hot summer weather will drive impulse sales through local outlets.	 75 15 5 2 2 1 100	*Channels* Supermarkets/hypermarkets Specialist bulk stores Traditional food retailers Discount stores Other Total Unlike other food markets, traditional retailers hold a comparatively high share of the distribution breakdown (17%) because mineral water is seen as an everyday essential item. Discount stores are of particular importance for the distribution of carbonated mineral water, predominantly selling private label products.	 39 32 17 8 4 100	*Channels* Supermarkets/hypermarkets Small food outlets/superettes Vending machine General merchandisers Other stores Outdoor Total Private label sales accounted for over 26% of volume sales distribution in 1999, reflecting the strength of major supermarket/hypermarket retailers, Vending is a convenient, clean way for consumers to obtain water.	 43 21 15 11 8 2 100
Comments on consumer profiles	Private label products have benefited from the fact that mineral water is a fairly homogenous product, making pricing the most important consideration for many consumers. Mineral water is consumed more by women than by men in the UK. This is particularly noticeable with sparkling water where consumption by females is almost twice the level of male consumption. Consumers in higher income socioeconomic groups drink much more mineral water than lower earners.		According to a study carried out by Credoc (a consumer research body) in 1998, 35.6% of French households refused to drink tap water. The low share of the carbonated type is due to the fact that most French people continue to drink still water with meals. Flavoured waters, particularly the sparking variety, can compete more directly with soft drinks and therefore appeal to a younger market. The emergence and popularity of the five litre bottles demonstrates that more and more people are using mineral water not only for drinking, but also for preparation of tea, coffee and in cooling.		The Germans are the fourth largest group of mineral water consumers in Europe behind the Italians, French and Belgians with a per capita consumption of 97 litres in 1999. The trend towards a healthy lifestyle is responsible for the recent surge in the number of teenagers who drink mineral water. Climate also plays an important role in the consumption of mineral water with 85% of Bavarians drinking it regularly, compared to 72% of their northern counterparts.		Mineral water consumption is higher among women than it is among men, as the former tend to be more conscious about their eating habits and the latest health trends. Consumers between the ages of 35 and 44 consume mineral water more frequently than consumers in other age groups. Consumption is related to household income, as usage is higher in wealthier households. Consumption is lowest among consumers aged 65 and over, a group that has not accepted the concept of paying for water, when tap water is free.	

Belgium is the market leader with 29 per cent of total value sales in 1997).

As an international marketing consultant you are contacted by the management group of TMWC. They want you to prepare a report in which you give well-founded solutions to the following tasks.

Questions

1 Which country or countries in Europe (outside Ireland) would you recommend TMWC to concentrate on?

2 Which country or countries outside Europe would you recommend TMWC to concentrate on (use Table 3)?

CASE STUDY II.4

Skagen Designs:
Becoming an international player in designed watches

Towards the end of 2006 Charlotte and Henrik Jorst can look back at 15 hectic, but successful years. Their company was founded in an apartment in New York, from where its first marketing efforts took place. The two entrepreneurs started selling relatively expensive watches bearing a logo that American companies might use as company presents. During the Gulf Crisis it was, however, very difficult to sell watches in that price range. Therefore, in 1990 Charlotte and Henrik visited a watch fair in Basel in order to find a manufacturer who was able to produce the watches at a lower cost price. They found a Danish owned company, Comtech Watches, with headquarters in Aarhus and clock-and-watch factory in Hong Kong.

In 1992 Charlotte and Henrik had an annual turnover of US$800,000, primarily through an advertisement on the back page of a big mail-order catalogue for Father's Day. Since then events followed each other in quick succession. In 1995 the chain, Bloomingdale's, included the Skagen Design watches in its assortment and other retail chains like Macy's, Nordstrom and Watch World have followed. In addition, the watches are sold in big gift and design shops.

In 1998 Skagen Designs had an annual turnover of almost US$30 million; in 2005 turnover had increased to approximately US$70 million.

Charlotte and Henrik Jorst considering different watch designs

Skagen designs – the story in brief

1986: Party at Carlsberg. Even if Henrik Jorst has brought his girlfriend, he manages to make Charlotte Kjølbye his neighbour at dinner, and they fall head over heels in love. Shortly after the party Carlsberg sends Henrik to New York. From New York Henrik manages Carlsberg's USA sales. Charlotte stays on for a year and a half in Denmark keeping in close contact with Henrik on the phone.

1986: Charlotte joins Henrik in the United States and reigns as Miss Carlsberg for the summer and fall months. After a Danish colleague sends them a few of his sample corporate watches to sell in the United States, Charlotte and Henrik embark on their dream of starting their own business and begin working in the world of watches. Charlotte and Henrik are married in May.

1990: Henrik quits his job at Carlsberg. Charlotte walks about the streets of New York trying to sell the Danish Jacob Jensen watches to watchmakers. They have hardly any money. Charlotte gives birth to their daughter Christine.

1991: The Jorsts design a few sample corporate watches and exhibit them at the New York Premium and Incentive Show in the Spring. At this fair, several retailers notice the watches and wonder why the two Danes present them as corporate watches and not branded goods. The retailers state that if the watches were available without the corporate logos they would purchase them for their stores. During the summer they produce 800 copies of four different watches with the name *Skagen Denmark*. Few months later all watches are sold out and an additional amount was produced.

1992: Sitting at the dinner table Henrik and Charlotte design 30 different models, all labelled 'Skagen Denmark'. In a New York street Charlotte meets one of the managers from the mail order giant 'The Sharper Image'. She takes a chance, and yes, he features the Skagen watches on the back page of the Father's Day catalogue. Everything is sold out. From the apartment in New York Henrik and Charlotte have a turnover of US$800,000.

1993: There are not many states in the United States where business taxes are almost equal to zero. In Florida and Nevada this is, however, the case. One day they fly to Incline Village at Lake Tahoe – one of the world's best ski resorts. They lose their hearts and buy a house that is much too expensive, but big. The company moves into every room from kitchen cupboards to garage. They still do it all by themselves. Charlotte gives birth to their daughter Camilla.

1995: Five years after starting the company. Now, it becomes *really* big. Bloomingdale's takes the watches on trial. Sold out – on one single day. They engage employees in a small, rented office not far from their home at the lake. After a year the office is too small, and after another year the same happens again.

1998: The Magazine, Inc. puts Skagen Designs on the list of the 250 fastest growing, privately-owned companies. During five years the turnover has increased by almost 1,200 per cent. Finally, the rest of the company moves out of the villa at Lake Tahoe. New headquarters are opened in Reno, Nevada. An office is opened in Denmark to handle European distribution and an additional 80 stores throughout Denmark begin selling the Skagen Denmark line.

1999: The number of employees is approaching 100. Inc. Magazine's 'Inc. 500' lists the company as one of the fastest-growing companies in the United States. Henrik gives Charlotte a horse as present for their ten year wedding anniversary. The family moves from Lake Tahoe to a large house of 650 square metres on the outskirts of Reno. It is situated on the top of a hill with a beautiful view of the Sierra Nevada Mountains. Skagen begins its ongoing presence in major magazines such as *InStyle* and *GQ*. Distribution begins in the United Kingdom.

2000: Distribution begins in Germany and the Netherlands.

2001: Skagen Designs exhibits for the first time at BaselWorld – The Watch and Jewellery Show in Basel, Switzerland.

2002: Distribution begins in additional countries including Finland, Iceland, Ukraine and Kuwait.

2003: More countries join the Skagen Designs team and distribution begins in Belgium, Serbia, Montenegro, United Arab Emirates, Norway, France and Italy.

2004: To handle increasing growth, the European HQ office in Copenhagen moves to a larger facility. The European HQ targets large department stores in Germany and France.

2005: The former Director of Sales & Product Development, Scott Szybala is appointed as President. Scott's responsibilities are to oversee the daily operations as well as the strategic direction for Skagen Designs, reporting directly to Charlotte and Henrik, who continue to be closely involved in the company's product development and sales.

2006: Skagen Designs becomes an official sponsor of Team CSC, one of the best teams in professional cycling, with a record-breaking number of victories. Today, Henrik and Charlotte still approve all products that Skagen designs.

Internal policies

Skagen Designs has its name from the Danish fishing village of Skagen; a popular retreat for artists from around the world. Many say this place has the perfect source of natural light and those who visit find its unique charm to be a mix between nature-given and

Collection of Skagen watches for men (left) and women (right) man-made romanticism. This region has inspired, not only the brand-name, but also the Jorst design philosophy as well. The colours, shapes and simplicity inspire the design team. The design team is on the pulse of current fashions, with regular visits to design centres around the world including Switzerland, Italy, France, New York and Hong Kong. Skagen Design tries to stay true to its classic design philosophy and is never content to follow established trends.

The Skagen Designs' logo symbolizes the meeting of the Skagerak and the Kattegat seas that surround the village of Skagen.

Charlotte and Henrik have divided the work between them as follows. Charlotte is primarily in charge of sales and marketing, while Henrik is in charge of the company's finance and administration.

In the United States the watches are sold at very competitive prices compared with other design watches: typically at a level of US$100–120.

The core competences of Skagen Designs are assessed as follows:

- Development of new watch concepts following the fashion trend with 'the finger on the pulse'.
- Human resource policy – both Charlotte and Henrik use a lot of time walking around and communicating with employees and to let them feel that Skagen Designs is one big team with the same family-oriented values in all parts of the worldwide organization.
- Quick and flexible management decisions.
- New products are introduced five times a year (November, January, March, May and August) providing retailers with seasonal updates and giving consumers the opportunity to update the style for each season.
- Well-developed partnerships with the 'upstream' specialists in the Far East who are in charge of the production at competitive prices.

Marketing the watches

In the United States Skagen Design products are launched through fashion papers like *Vogue*, *InStyle* and *Accessories*. TV shows like 'Jeopardy' and 'Wheel of Fortune' have been sponsored as well as actors in the series 'Ally McBeal' and 'The Practice'.

The company's national advertising is also placed in major industry publications as well as out-of-home advertising opportunities including billboards, buses and phone kiosks to support peak selling periods such as spring fashion, Mother's Day, Father's Day, fall fashion and Christmas.

In 2006 Skagen Designs became an official sponsor of the professional cycling team CSC. Its wins include some of the most prestigious trophies in the sport of cycling, including a second place in the 2005 Tour de France for Ivan Basso as well as Yellow Jerseys for David Zabriskie and Jens Voigt. Skagen Denmark's Team CSC watch collection is comprised of six new styles of performance-inspired, Swiss-made watches featuring ultra lightweight and durable titanium cases and water-resistant leather straps. Two of these new styles, the Ivan Basso Special Edition and the Ivan Basso 'Yellow Jersey' Special Edition, are numbered and endorsed with Basso's signature on the dials and case backs. In Spring 2006 Ivan Basso also won 'Tour of Italy' (Italian Giro) and he was one of the top favourites for the 2006 Tour de France. However, just two days before the start of the Tour de France in July 2006, Ivan Basso and Jan Ullrich were excluded from the Tour because of a doping scandal in Spain.

A watch from the Team CSC Collection

Competitors

As a fashion company Skagen Designs is competing with all the major international companies designing watches – for example, Calvin Klein, Coach, Guess, Gucci, Swatch, Alfex and Jacob Jensen. Most of these companies possess a financial strength many times larger than Skagen Designs.

Questions

As an expert in international marketing Charlotte and Henrik have called you in to get valuable input in connection with the international expansion of Skagen Designs. Therefore, you need to answer the following questions. If necessary, make your own conditions and remember to state the reasons for your answers.

1 What screening criteria should Skagen Designs use in connection with its choice of new markets for its watch collection?

2 Make a specific choice of new markets for Skagen Designs. Table 1 and Table 2 can be used to support your argument.

3 Which 'market entry mode' should Skagen Designs use on the chosen markets?

4 Skagen Designs has launched other product lines (e.g. sun glasses, branded items for the home) with varying success. What should be the guidelines for including other product lines in the Skagen Designs collection?

5 Which criteria should Skagen Designs use for its selection of future sponsor partners?

6 Skagen Designs is considering online sale of its watches. What problems and possibilities do you see for the company in this area? On this basis what are your conclusions?

Table 1 Volume of different watch markets, 2005

	2000	2001	2002	2003	2004	2005	2000–05 (%)
Retail volume in thousands of units							
Belgium	624.98	515.02	714.37	739.44	778.06	819.53	31
France	5,035.20	4,913.47	4,987.27	4,837.80	4,827.73	4,825.53	–4
Germany	7,501.72	7,452.94	8,217.55	10,284.34	10,918.50	9,859.88	31
Italy	5,712.08	5,482.23	5,366.33	5,874.31	6,525.52	6,893.24	20
Netherlands	5,613.00	5,850.00	5,931.00	6,073.00	6,200.00	6,414.00	14
Spain	12,299.70	12,018.98	11,810.19	11,533.47	11,308.69	10,989.01	–11
Sweden	2,491.00	2,565.00	2,641.00	2,719.50	2,800.00	2,884.00	16
United Kingdom	17,800.00	17,900.00	18,100.00	18,400.00	16,000.00	15,500.00	–13
Hungary	1,106.19	1,113.93	1,126.19	1,134.07	1,140.87	1,150.00	4
USA	63,954.47	55,441.04	50,370.68	48,500.85	51,593.56	53,037.50	–17
Mexico	35,690.68	38,721.57	34,946.59	47,598.71	46,780.14	47,851.56	34
China	57,500.00	60,000.00	61,000.00	61,900.00	59,725.00	64,000.00	11
India	33,469.00	35,876.98	38,829.72	41,778.67	47,232.00	52,324.80	56
Japan	9,864.95	9,751.41	9,615.49	9,530.93	9,431.18	9,333.77	–5
Australia	3,189.74	3,505.84	3,604.25	3,817.23	3,920.20	4,001.79	25
South Africa	23,117.73	21,081.80	26,000.23	15,925.30	18,117.89	16,348.31	–29
Number of watches per 1000 people							
Belgium	61.04	50.18	69.29	71.41	74.86	78.62	
France	85.71	83.22	84.04	81.09	80.49	80.04	
Germany	91.30	90.60	99.68	124.59	132.13	119.21	
Italy	99.03	94.78	92.51	101.03	112.03	118.17	
Netherlands	353.82	365.92	368.26	375.06	380.97	392.24	
Spain	309.56	299.56	292.26	284.13	277.52	268.82	
Sweden	281.11	288.76	296.44	304.19	312.12	320.36	
United Kingdom	303.53	303.13	305.59	309.62	268.40	259.19	
Hungary	108.22	109.21	110.68	111.82	112.85	114.08	
USA	232.45	199.78	180.02	171.95	181.46	185.06	
Mexico	363.59	388.41	345.29	463.43	448.98	452.90	
China	45.69	47.31	47.79	48.15	46.11	49.07	
India	33.19	35.00	37.28	39.51	44.00	48.05	
Japan	77.72	76.61	75.45	74.70	73.83	73.00	
Australia	166.54	180.59	183.30	192.60	195.87	198.05	
South Africa	527.18	470.37	569.51	343.00	381.02	336.62	

Source: Adapted from Euromonitor and trade sources/national statistics.

Table 2 Value of different watch markets, 2005

	2000	2001	2002	2003	2004	2005	2000–05 (%)
(US$ million)							
Belgium	23.91	17.06	20.50	26.20	29.51	30.34	27
France	934.22	910.42	945.84	1,097.25	1,205.66	1,205.42	29
Germany	1,429.95	1,519.96	1,762.75	2,699.99	2,846.60	2,954.50	107
Italy	951.62	918.02	934.11	1,103.06	1,215.72	1,311.61	38
Netherlands	189.50	191.64	204.00	250.15	275.03	284.86	50
Spain	804.77	792.48	849.75	1,027.89	1,141.35	1,155.92	44
Sweden	214.69	198.02	218.48	273.54	312.97	318.41	48
United Kingdom	960.77	942.91	1,064.11	1,225.10	1,328.51	1,359.78	42
Hungary	19.56	19.50	21.98	25.40	28.33	29.09	49
USA	7,477.65	6,486.85	6,321.98	6,426.05	7,118.52	7,206.49	–4
Mexico	200.44	246.59	274.57	303.69	353.17	434.30	117
China	405.27	500.66	518.67	544.28	604.10	655.09	62
India	191.37	232.18	288.58	416.40	675.55	975.02	410
Japan	4,560.11	4,109.99	4,077.30	4,493.29	4,916.32	4,901.23	8
Australia	171.92	168.72	181.51	226.99	264.75	281.81	64
South Africa	245.67	221.85	235.62	228.68	323.93	451.58	84
US$ per capita							
Belgium	2.34	1.66	1.99	2.53	2.84	2.91	
France	15.90	15.42	15.94	18.39	20.10	19.99	
Germany	17.40	18.48	21.38	32.71	34.45	35.72	
Italy	16.50	15.87	16.10	18.97	20.87	22.49	
Netherlands	11.95	11.99	12.67	15.45	16.90	17.42	
Spain	20.25	19.75	21.03	25.32	28.01	28.28	
Sweden	24.23	22.29	24.52	30.60	34.89	35.37	
United Kingdom	16.38	15.97	17.97	20.62	22.29	22.74	
Hungary	1.91	1.91	2.16	2.50	2.80	2.89	
USA	27.18	23.38	22.59	22.78	25.04	25.15	
Mexico	2.04	2.47	2.71	2.96	3.39	4.11	
China	0.32	0.39	0.41	0.42	0.47	0.50	
India	0.19	0.23	0.28	0.39	0.63	0.90	
Japan	35.93	32.29	32.00	35.22	38.49	38.33	
Australia	8.98	8.69	9.23	11.45	13.23	13.95	
South Africa	5.60	4.95	5.16	4.93	6.81	9.30	

Source: Adapted from Euromonitor and trade sources/national statistics.