Chapter 12

Global Market Opportunity Assessment

Learning Objectives *After studying this chapter, you should be able to:*

12.1 Understand how firms conduct a formal assessment of readiness to internationalize.

12.2 Determine the suitability of products and services for foreign markets.

12.3 Describe the method firms use to screen countries to identify target markets.

12.4 Understand how companies conduct in-depth assessment of industry-specific market potential.

12.5 Explain how companies identify and choose foreign business partners.

12.6 Determine how managers estimate a company's sales potential.

Estimating Demand in Emerging Markets

Estimating the demand for products or services in emerging markets and developing economies is a challenging task for managers. These countries have unique commercial environments. They may be limited in terms of reliable data, market research firms, and trained interviewers. Consumers in some of these countries may consider surveys an invasion of privacy. Survey respondents may try to please researchers by telling them what they want to hear rather than providing honest answers to their questions.

Three of the largest emerging markets—China, India, and Brazil—have a combined GDP in excess of $15 trillion. In 2018, more than one-third of all residents of Africa (over 450,000,000 people) were active users of the Internet and approximately 180,000,000 Africans were Facebook subscribers. The Middle East and Africa are among the biggest markets for mobile phone sales, with estimates nearing 200 million users. Automakers are doing substantial business selling economy cars throughout Latin America, South Asia, and Eastern Europe. In short, emerging markets and developing economies are huge markets for products and services.

Estimating demand in such countries requires managers to use innovative research methods to gain insights or data. Let's consider two firms trying to estimate the demand for wallpaper and adhesive bandages in Morocco.

In Morocco, wealthy people tend to live in villas and condominiums and are a target market for wallpaper sales. The government usually measures wallpaper imports by weight and value. Such information is little use for estimating wallpaper sales because firms sell wallpaper by the roll and different designs have different weights.

Source: chuyu/123RF

One wallpaper company examined data from various sources to estimate demand. First, managers reviewed a recent study of the number of water heaters purchased in Morocco. From experience, they knew that if households purchased this modern convenience, they would likely buy wallpaper too. Second, managers reviewed government statistics on domestic wallpaper sales, discretionary income by type of household, and home construction data. Third, they studied the lifestyle of a sample of local consumers and found that Moroccans typically shop for wallpaper to complement wall-to-wall carpets. Among married couples, the wife usually decides on decorations for the home. Customers are usually well-off. They include professionals, merchants, and high-ranking administrators. The company made a reasonable estimate of demand for wallpaper by triangulating data from these sources and using its own judgment.

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

Researchers interviewed bandage salespeople from Curad, Johnson & Johnson, and other firms to gather more information. They visited retail stores to ask about sales, prevailing prices, competitive brands, and consumer attitudes. They found that consumers tend to be price-sensitive and rely on doctors and pharmacists to recommend bandage brands. Researchers also tallied statistics from the United Nations Development Program and other aid agencies that donate medical supplies to developing countries. They eventually arrived at a reasonable estimate of bandage sales by assimilating data from these various sources.

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Written and Oral Communication, Analytical Thinking, Reflective Thinking, and Application of Knowledge

Questions

12-1. Why is it challenging to estimate demand in emerging markets?

12-2. What types of products are in greatest demand in emerging markets?

12-3. Why do researchers often need to use innovative approaches to estimate demand in emerging markets?

SOURCES: Nicolas Hamelin, Meriam Ellouzi, and Andrew Canterbury, "Consumer Ethnocentrism and Country-of-Origin Effects in the Moroccan Market," *Journal of Global Marketing* 24, No. 3 (2011), pp. 228–244; Lyn Amine and S. Tamer Cavusgil, "Demand Estimation in a Developing Country Environment: Difficulties, Techniques, and Examples," *Journal of the Market Research Society* 28, No. 1 (1986), pp. 43–65; Internet World Stats, "Internet Users Statistics for Africa," 2018, www.internetworldstats.com; Erik Simanis and Duncan Duke, "Profits at the Bottom of the Pyramid," *Harvard Business Review,* October 2014, pp. 86–93; U.S. Department of Commerce, *Doing Business in Morocco: Country Commercial Guide 2017*, www.export.gov; World Bank, *Global Economic Prospects* (Washington, DC: World Bank, January 2018).

Management choices determine the future of the firm. Making good choices depends on having objective evidence and hard data about how best to configure value-chain activities and about what products and services to offer and where to offer them. The more managers know about an opportunity, the better equipped they will be to exploit it. This is particularly true in international business, which usually entails more uncertainty than domestic business.[1] To navigate foreign markets skillfully, managers require substantial information about potential threats and opportunities and how to conduct business abroad.[2] Managers devise strategies as part of planned actions to optimize the firm's competitive advantages. Planning involves estimating, forecasting, and problem solving and therefore requires substantial information inputs.

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

Central to a firm's research is identifying and defining the best business opportunities in the global marketplace. A **global market opportunity** is a favorable combination of circumstances, locations, and timing that offers prospects for exporting, investing, sourcing, or partnering in foreign markets. Under such conditions, the firm may perceive opportunities to:

- Sell its products and services.
- Establish factories or other production facilities to produce offerings more cheaply or competently.
- Procure raw materials, components, or services at lower cost or of better quality.
- Enter beneficial collaborations with foreign partners.

Global market opportunities can enhance company performance, often far beyond what the firm can achieve in its home market.[3]

In this chapter, we discuss six key tasks that managers should perform to define and pursue global market opportunities. Exhibit 12.1 illustrates the tasks, objectives, and procedures associated with each task. The process is especially appropriate for pursuing marketing or collaborative venture opportunities abroad. The six tasks are:

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

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

Task	Objective	Procedure
1. Analyze organizational readiness to internationalize	To provide an objective assessment of the company's preparedness to engage in international business activity.	● Examine company strengths and weaknesses, relative to international business, by evaluating the availability in the firm of key factors, such as: — appropriate financial and tangible resources — relevant skills and competencies — commitment by senior management to international expansion ● Take action to eliminate deficiencies in the firm that hinder achieving company goals.
2. Assess the suitability of the firm's products and services for foreign markets	To conduct a systematic assessment of the suitability of the firm's products and services for international customers; to evaluate the degree of fit between the product or service and foreign customer needs.	● For each possible target market, identify those factors that may hinder market potential. Determine how the product or service may need to be adapted for each market. Specifically, for each potential market, assess the firm's products and services with regard to such factors as: — foreign customer characteristics and preferences — relevant laws and regulations — requirements of channel intermediaries — characteristics of competitors' offerings
3. Screen countries to identify target markets	To reduce the number of countries that warrant in-depth investigation as potential target markets to a manageable few.	● Identify the five or six country markets that hold the best potential for the firm by assessing each candidate country market with regard to such criteria as: — size and growth rate — "market intensity" (customers' buying power) — "consumption capacity" (size and growth rate of the middle class) — receptivity to imports — infrastructure for doing business — degree of economic freedom — country risk
4. Assess industry market potential	To estimate the most likely share of industry sales within each target country; to investigate and evaluate any potential barriers to market entry.	● Develop 3- to 5-year forecast of industry sales for each target market. Specifically, assess industry market potential in each market by examining such criteria as: — market size and growth rate — relevant trends in the industry — degree of competitive intensity — tariff and nontariff trade barriers — relevant standards and regulations — availability and sophistication of local distribution intermediaries — specific customer requirements and preferences — industry-specific market potential indicators — industry-specific market entry barriers

(*continued*)

EXHIBIT 12.1

Key Tasks in Global Market Opportunity Assessment

5. Choose foreign business partners	To decide on the type of foreign business partner, clarify ideal partner qualifications, and determine appropriate market entry strategy.	• Determine what value-adding activities must be performed by foreign business partners. • Based on needed value-adding activities, determine the most desirable attributes in foreign business partners. • Assess and select foreign business partners. That is, evaluate each potential business partner based on criteria such as: — specific industry expertise — commitment to the international venture — access to local distribution channels — financial strength — technical expertise — quality of staff — appropriate facilities and infrastructure
6. Estimate company sales potential	To estimate the most likely share of industry sales the company can achieve, over a period of time, for each target market.	• Develop 3- to 5-year forecast of company sales in each target market. Estimate the potential to sell the firm's product or service, based on criteria such as: — capabilities of partners — access to distribution — competitive intensity — pricing and financing — market penetration timetable of the firm — risk tolerance of senior managers • Determine the factors that will influence company sales potential

EXHIBIT 12.1

Key Tasks in Global Market Opportunity Assessment (*Continued*)

12.1 Understand how firms conduct a formal assessment of readiness to internationalize.

Analyzing Organizational Readiness to Internationalize

Before undertaking an international venture, the firm should conduct a formal assessment of its readiness to internationalize. An evaluation of organizational capabilities is useful both for companies new to international business and for those with considerable experience. Such a self-audit is like a SWOT analysis—that is, an evaluation of the firm's strengths, weaknesses, opportunities, and threats.

When assessing the firm's readiness to internationalize, managers examine their organization to determine the degree to which it has the motivation, resources, and skills necessary to engage in international business successfully. In such an assessment, managers measure the firm's

- Degree of international experience.
- Goals and objectives it envisions for internationalization.
- Quantity and quality of skills, capabilities, and resources available for internationalization.
- Actual and potential support the firm's network of relationships provides.

If one or more key resources is lacking, management must acquire or develop them *before* allowing the contemplated venture to go forward. Organizational culture plays a key role because key employees should possess the motivation and commitment to expand the firm's activities into foreign markets.

Managers also examine conditions in the external business environment by studying opportunities and threats in target markets. They research the specific needs and preferences of buyers as well as the nature of competing products and the risks inherent in such markets.

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

- *What do we hope to gain from international business?* Objectives might include increasing sales or profits, following key customers who locate abroad, challenging competitors in their home markets, or pursuing a global strategy of establishing production and marketing operations at various locations worldwide.
- *Is international expansion consistent with other firm goals now or in the future?* The firm should evaluate and manage internationalization in the context of its mission and business plan to ensure that it represents the best use of company resources.
- *What demands will internationalization place on firm resources*, such as management, human resources, and finance as well as production and marketing capacity? How will the firm meet such demands? Management must ensure that it has sufficient production and marketing capacity to serve foreign markets. Channel members become frustrated when inadequate capacity prevents the firm from fulfilling customer orders abroad.
- *What is the basis of the firm's competitive advantage?* Companies seek competitive advantages by doing things better than their competitors. Competitive advantages can be based on strong R&D, superior input goods, cost-effective or innovative manufacturing capacity, skillful marketing, highly effective distribution channels, or other capabilities.

Diagnostic tools help managers audit the firm's readiness to internationalize. One of the best known is CORE (COmpany Readiness to Export, developed by Tamer Cavusgil in the 1990s; see www.globalEDGE.msu.edu). CORE has been widely adopted by individual firms, consultants, and the U.S. Department of Commerce. Because it was developed from extensive research on factors that contribute to successful exporting, it is also an ideal tutorial for self-learning and training.

CORE asks managers questions about their organizational resources, skills, and motivation to assess the firm's readiness to engage in exporting successfully. It generates assessments of both organizational and product readiness to identify the useful assets managers have and the additional ones they need to make internationalization succeed. The assessment emphasizes exporting because it is the typical entry mode for most newly internationalizing firms.

Source: Sorbis/Shutterstock

Products that sell well at home are among those most likely to succeed abroad, such as popular fast food.

Assessing the Suitability of Products and Services for Foreign Markets

12.2 Determine the suitability of products and services for foreign markets.

Once management has confirmed the firm's readiness to internationalize, it next determines the suitability of its products and services for foreign markets. Most companies produce a portfolio of offerings, some or all of which may be suitable for selling abroad. In other cases, firms develop products specifically for promising international markets.

One of the simplest ways to find out whether a product or service will sell abroad is to ask intermediaries in the target market about likely local demand for it. Managers also might attend an industry trade fair in the target market and interview prospective customers or distributors. Because trade fairs often draw participants from entire regions, such as Asia or Europe, this approach is efficient for learning about the market potential of several countries at once. Larger firms typically hire global market research firms to evaluate the suitability of their products or

Products or services with the best international prospects tend to have one or more of the following characteristics:

- *Sell well in the domestic market.* Offerings received well at home are likely to succeed abroad, especially where similar needs and conditions exist.
- *Cater to universal needs.* For example, buyers worldwide demand personal care products, medical devices, and banking services. International sales may be promising if the product or service is unique or has important features that are appealing to foreign customers and are hard for foreign firms to duplicate.
- *Address a need not well served in particular foreign markets.* Potential may exist in countries where the product or service does not currently exist or where demand is just starting to emerge.
- *Address a new or emergent need abroad.* Demand for some products and services may arise suddenly from a disaster or emergent trend. In Haiti, for example, an earthquake created an urgent need for easy-to-build housing. In emerging markets, growing affluence is spurring demand for restaurants and hospitality services.

To deepen knowledge about the international market potential of a product or service, managers should obtain answers to the following questions:

- *Who initiates purchasing?* Homemakers are usually the chief decision makers for household products. Professional buyers make purchases on behalf of firms.
- *Who uses the product or service?* Children consume various products, but their parents may be the actual buyers. Employees consume products bought by the firms where they work.
- *Why do people buy the product or service?* What specific needs does it fulfill? Such needs vary worldwide. In advanced economies, for example, consumers use Honda's gas-powered generators for recreational purposes; in developing economies households buy them for everyday heating and lighting.
- *Where do people purchase the product or service?* Once the researcher understands where the offering is typically purchased, it is useful to visit likely vendors to assess sales potential, whether the good should be adapted for the market, and how best to price, promote, and distribute it.
- *What economic, cultural, geographic, and other factors in the target market may limit sales?* Countries vary substantially in terms of buyer income levels, preferences, climate, and other factors that can inhibit or facilitate purchasing behavior.

services for international sales. Large MNEs undertake systematic research to assess sales potential of their offerings in specific foreign markets.

In China, numerous companies are pursuing opportunities to serve the emerging health care market. Demand for medications, medical devices, and health care services is booming due to an aging population, a growing middle class able to afford these treatments, and widespread dissatisfaction with existing health care options. Pharmaceutical firms such as Bayer HealthCare and Novo Nordisk count China among their top markets with enormous growth potential. Medical equipment firms such as GE Healthcare and Philips are targeting numerous opportunities to serve the country's emergent hospital market. Johnson & Johnson and Medtronic have established R&D centers and manufacturing sites to understand and exploit blossoming opportunities better. In total, China is expected to reach $1 trillion in total health care spending by 2020.

Screening Countries to Identify Target Markets

12.3 Describe the method firms use to screen countries to identify target markets.

Screening to identify the best countries is an essential task. It is especially important in the early stages of internationalization. For most firms, it is also the most time-consuming part of opportunity assessment. Failure to choose the right countries not only results in financial loss; it also incurs opportunity costs, tying up resources the firm might have used more profitably elsewhere.

Exhibit 12.2 depicts the McKinsey Global Institute's Global Connectedness Index. This tool ranks countries with respect to their inflows and outflows of goods, services, finance, people, and data and communication. For example, Singapore is the world's most connected country in terms of goods trade. Ireland ranks highest on trade in services and finance. The Netherlands is the world's most connected nation regarding cross-border data flows. The United States is the top country in international flows of people, including students, travelers, and migrants. The Global Connectedness Index reveals how digital platforms are changing the economics of doing business internationally. Highly connected countries offer opportunities with global scale and provide businesses with a huge base of potential customers and effective ways to reach them. Digital technologies reduce the complexity and cost of internationalization. In this way, highly connected countries also become platforms for launching born global firms and other start-ups that seek opportunities around the world. Digital platforms support small business internationalization in developing economies. The ability of small firms to reach global audiences supports national economic growth.

Exporting, foreign direct investment (FDI), and sourcing each requires a different set of screening criteria. Let's see why.

Screening Countries for Exporting

Exporters first examine such criteria as population, income, demographic characteristics, government stability, and nature of the general business environment in individual countries. Statistics that span several years help determine which markets are growing and which are shrinking. The exporter can buy research reports from market research firms that provide assessments and key

		Rankings on Specific Connectedness Criteria				
Rank	Country	Goods	Services	Finance	People	Data
1	Singapore	1	2	2	12	6
2	Netherlands	3	3	6	21	1
3	United States	7	7	3	1	7
4	Germany	2	4	8	3	2
5	Ireland	32	1	1	28	9
6	United Kingdom	13	5	5	6	3
7	China	4	16	4	82	38
8	France	11	8	9	7	4
9	Belgium	5	6	33	33	8
10	Saudi Arabia	20	28	27	2	53
11	United Arab Emirates	6	23	17	4	46
12	Switzerland	12	11	10	17	13
13	Canada	16	22	11	11	18
14	Russia	21	25	18	5	25
15	Spain	25	13	19	14	16
16	South Korea	8	12	28	50	44

EXHIBIT 12.2

Global Connectedness Index

Note: A lower number indicates a higher ranking in the index.

Sources: Based on McKinsey Global Institute, *Digital Globalization: The New Era of Global Flows*, 2016, www.mckinsey.com; Laura D'Andrea Tyson and Susan Lund, "Globalization Isn't in Retreat. It's Just Gone Digital," *World Economic Forum,* February 21, 2017, www.weforum.org.

Source: jeayesy/123RF

When deciding on target markets, internationalizing firms often choose regional hubs, which serve as critical entry points for important national or regional markets. Pictured here is Hong Kong, an important entry hub for China.

statistics on specific markets. National governments provide much useful information. Many provide some research services free of charge or at very low cost. In the United States, for example, the Department of Commerce (www.export.gov) conducts and publishes numerous market surveys. Examples include *The Water Supply and Wastewater Treatment Market in China*, *Automotive Parts and Equipment Industry Guide in France*, and *Country Commercial Guide for Brazil*.

Some firms target countries that are psychically near—that is, countries similar to the home country in culture, legal environment, and other factors. Such countries fit management's comfort zone. Australian firms often choose Britain, New Zealand, or the United States as their first foreign market. As managerial experience, knowledge, and confidence grow, firms expand into more complex and culturally distant markets, such as China or Japan.

Other firms are more venturesome and target nontraditional, higher-risk countries. The born-global companies exemplify this trend. Ongoing globalization, as well as advances in communication and transportation technologies, have reduced the foreignness of most countries, hence the cost and risk of entering them. Even small firms now routinely reach out to culturally distant countries, including emerging markets and developing economies.

Information needed for country screening varies by product type or industry. In marketing consumer electronics, for example, the researcher emphasizes countries with large populations, discretionary income, and ample electricity. For farming equipment, the best targets are countries with substantial agricultural land and farmers. Health insurance companies target countries with many doctors and hospitals and the means to purchase health insurance.

Often, the firm may target a geographical region or a group of countries rather than individual countries. This approach is usually more cost effective, particularly in markets with similar characteristics. The European Union includes 27 countries that are relatively similar in income levels, regulations, and infrastructure. When entering Europe, firms often devise a pan-European strategy that considers many EU member countries simultaneously rather than planning separate efforts in individual countries.

In other cases, the firm may target so-called *gateway countries*, or regional hubs, that serve as entry points to nearby or affiliated markets. Singapore is the gateway to Southeast Asian countries, Hong Kong is an important gateway to China. Turkey is a good platform for the central Asian republics. Firms base their operations in a gateway country so they can serve the larger adjacent region.

Growing national GDP is among the most important indicators of capacity to purchase products and services. Exhibit 12.3 portrays the world's most promising export markets based on aggregate GDP growth. The exhibit highlights the countries most expected to grow their GDPs through 2020 and their expected incremental contribution to world GDP. China is in the lead. It was expected to contribute $14,337 billion or more than 15 percent of the rise in global GDP by 2020. Note that several countries in the exhibit are emerging markets. Brazil, Russia, India, and China, known collectively as the BRIC countries, show remarkable potential as target markets in coming years. They were expected to contribute about one-quarter of the total increase in world GDP by 2020.

SCREENING METHODOLOGY FOR POTENTIAL COUNTRY MARKETS It is expensive and impractical to target all the nearly 200 countries worldwide. Management must choose markets that offer the best prospects. Two basic methods for doing this are *gradual elimination* and *indexing and ranking*.

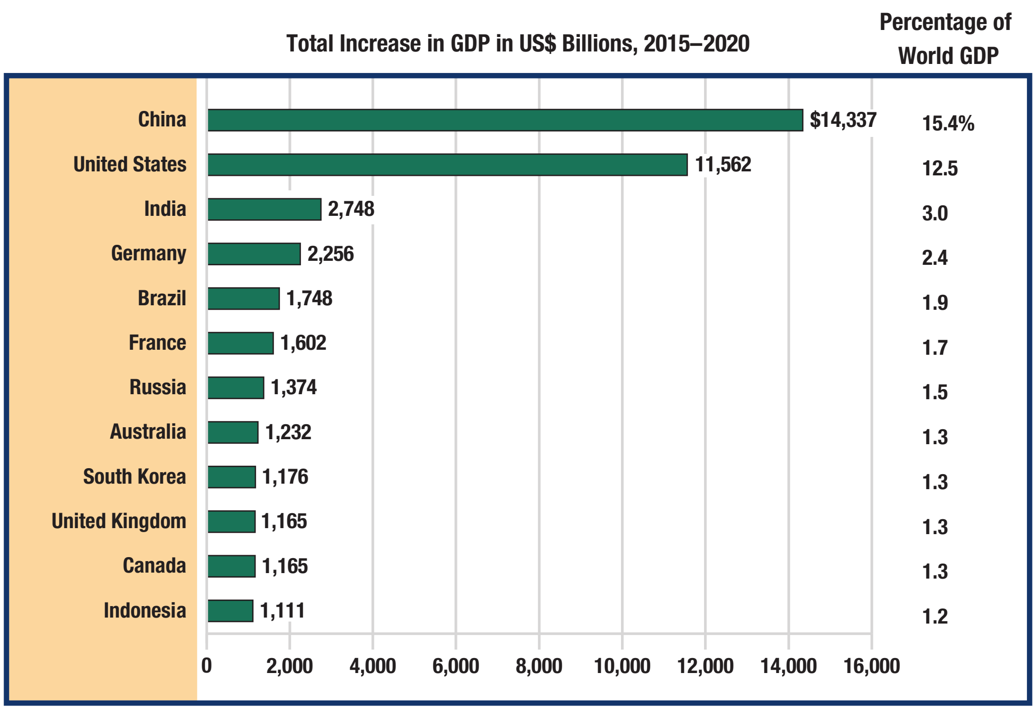

EXHIBIT 12.3

Most Promising Export Markets in Incremental Contribution to World GDP, 2015–2020 (percent and dollar volume in US$ billions)

Source: Based on World Economic Outlook Databases, International Monetary Fund, at www.imf.org, 2018.

Gradual elimination The researcher who uses *gradual elimination* starts with a large number of prospective target countries and gradually narrows the choices by examining increasingly specific information. As indicated in Exhibit 12.1, the researcher aims to reduce the number of countries that warrant in-depth investigation as potential target markets to a manageable five or six. Because research is expensive, it is essential to eliminate unattractive markets quickly. Targeting a less-crowded economy with a product that is not yet widely available may be more profitable than targeting saturated and more competitive markets in Europe, Japan, and North America.

In the early stages, the researcher first obtains general information on macro-level indicators such as population, income, and economic growth before delving into specific information. GlobalEDGE™ (www.globalEDGE.msu.edu) and numerous other sources provide broad screening data. The researcher then employs more specific indicators, such as import statistics, to narrow the choices. Import statistics help reveal the size of the market, the presence of competitors, and the market's viability for new sales. The researcher should also examine the level of the country's exports because some countries, such as Panama and Singapore, function as major transit points for international shipments and may not be actual product users.

Indexing and ranking A second method for choosing the most promising foreign markets is *indexing and ranking*, in which the researcher assigns scores to countries based on their overall market attractiveness. For each country, the researcher first identifies a comprehensive set of market-potential indicators and then uses one or more of them to represent a variable. Weights are assigned to each variable to establish its relative importance. The more important a variable, the greater its weight. The researcher uses the resulting weighted scores to rank the countries.

ASSESSING THE EXPORT POTENTIAL OF EMERGING MARKETS China, India, and numerous other emerging markets offer enormous potential. For example, John Deere & Company saw an opportunity to sell small tractors to India's 300 million small farmers. After conducting extensive research, the firm developed four small tractor models for the market and is now doing significant business there.[4]

The indexing and ranking method for identifying promising markets is illustrated by the Market Potential Index, developed by Tamer Cavusgil[5] and featured at globalEDGE™ (www.globalEDGE.msu.edu).[6] Presented in Exhibit 12.4, the index ranks countries on a assortment of variables. From this, a manager would conclude that China, Hong Kong, and India

Country	Rank	Overall Score	Market Size	Market Growth Rate	Market Intensity	Market Consumption Capacity	Commercial Infrastructure	Market Receptivity	Economic Freedom	Country Risk
China	1	100	100	78	1	100	98	5	26	65
Hong Kong	2	51	2	40	95	45	100	100	100	82
India	3	48	37	68	33	69	52	4	42	62
Canada	4	44	8	46	68	73	46	68	75	86
Japan	5	44	18	31	63	100	69	7	66	92
Singapore	6	43	2	59	68	46	74	89	69	86
Germany	7	39	10	36	64	90	63	16	70	97
United Kingdom	8	37	7	34	76	85	67	13	73	84
Qatar	9	36	1	85	100	56	48	30	46	62
Switzerland	10	35	2	34	78	73	54	38	78	100
South Korea	11	35	9	50	46	80	50	18	65	86
Belgium	12	33	2	30	57	76	60	47	64	92
Netherlands	13	33	3	31	50	74	63	41	72	92
United Arab Emirates	14	33	2	59	71	57	58	46	47	65
France	15	32	9	31	60	83	57	11	57	92
Australia	16	31	5	43	67	68	51	12	77	92
Ireland	17	31	1	52	29	65	46	49	73	86
Norway	18	29	2	37	69	74	43	15	70	97
Austria	19	29	2	34	61	73	53	17	69	97
Sweden	20	29	3	40	51	71	50	14	71	97

EXHIBIT 12.4

Market Potential Index, 2017

Note: Only the top 20 countries are provided here; consult www.globalEDGE.msu.edu for a more complete list.
Source: Market Potential Index (MPI) – 2017, globalEDGE™ (www.globalEDGE.msu.edu).

are attractive markets. China has steadily risen in the index over time, as have India and the United Arab Emirates. The data are also helpful for decisions on entry by FDI and for sourcing.

Exhibit 12.5 defines the variables and relative weights in the index. The assigned weights can be adjusted up or down to fit the unique characteristics of any industry. For example, in evaluating market size, food industry firms attach more weight to market size, whereas firms in the telecommunications equipment industry emphasize infrastructure and country risk. The researcher can add variables or countries to refine the tool for greater precision.

The size and growth rate of the middle class are often critical indicators of promising targets. The *middle class* is measured by the share of national income available to middle-income households. These consumers are good prospects for most firms because the wealthier class in most emerging markets is relatively small and the poorest segment has little disposable income. The size of the middle class as a percentage of world population has consistently increased over time, thanks to rising affluence in emerging markets and developing economies. Recent research indicates the global middle class will continue to expand over time. Most of this increase will arise in the Asia Pacific region, especially China.[7] Note, however, that measures of per-capita income may underestimate the true potential of emerging markets due to imprecise measurement methods and the existence in many countries of a large, informal economy.

The relative size of the middle class, and the pace of its growth, also indicate how national income is distributed in a country. If income distribution is very unequal, the size of the middle class will be limited and the market will be less attractive.

In Exhibit 12.4, an analysis of the rankings for each of the dimensions reveals some interesting patterns. China scores highest in market size but much lower in terms of market intensity

Dimension	Definition	Weight	Measures Used
Market size	Country's population	25/100	Urban population Electricity consumption
Market intensity	Buying power of the country's residents	15/100	GNI per capita Private consumption as a percentage of GDP
Market growth rate	Pace of industrialization and economic development	12.5/100	Compound annual growth rate of primary energy use Compound annual growth rate of GDP
Market consumption capacity	Size and growth rate of the country's middle class	12.5/100	Consumer expenditure Income share of middle class Household annual disposable income of middle class
Commercial infrastructure	Ease of access to marketing, distribution, and communication channels	10/100	Available airline seats Cellular mobile subscribers Households with Internet access International Internet bandwidth Logistics performance index Paved road density Population per retail outlet
Market receptivity	Extent of country's openness to imports	10/100	Per-capita imports from the United States Trade as a percentage of GDP
Economic freedom	Degree to which the country has liberalized its economy	7.5/100	Economic freedom index Political freedom index
Country risk	Level of political risk	7.5/100	Business risk rating Country risk rating Political risk rating

EXHIBIT 12.5

Variables Used in the Market Potential Index

Source: Market Potential Index—2017, globalEDGE™ (www.globaledge.msu.edu/mpi).

and market receptivity. This reveals there are always *trade-offs* in selecting target countries. No single country is attractive on all dimensions. Along with desirable features, the researcher also must contend with less desirable ones. For example, both Singapore and Hong Kong are favorable in terms of market receptivity, but they are city-states with small populations.

According to the index in Exhibit 12.4, most of the top countries are in Asia. In recent years, they have made tremendous strides in market liberalization, industrialization, and modernization. South Korea has grown tenfold in the past 40 years. South Korean firms have become world leaders in many industries such as shipbuilding, telecommunications, and consumer electronics. They use pioneering technologies years ahead of their competitors and are overtaking other countries in broadband and mobile technologies. Asia's rapid economic development is one of the remarkable features of contemporary globalization.[8]

Country rankings like those in Exhibit 12.4 are not static; they evolve in the wake of macroeconomic events or country-specific developments. Although India ranks relatively high, its ranking may fall if a future government reverses market liberalization. The introduction of modern banking systems and legal infrastructure should increase Russia's attractiveness as an export market. Japan, once the largest economy in Asia, has endured economic stagnation in recent years.

The variables suggested by ranking indicators are only a general guide for identifying promising countries in the early stages of research. After identifying a few high potential markets, the researcher must do more detailed analyses. Eventually, the researcher will supplement the indicators for specific industries. For medical equipment, for example, the researcher must gather specific data on healthcare expenditures and the number of physicians and hospital beds per capita. Firms in the financial services sector require specific data on commercial risk, interest rates, and density of banks. Depending on the industry, researchers may also apply different weights to each market-potential indicator. Population size is relatively less important for a firm that markets yachts than for one that sells footwear.

Country Screening for Foreign Direct Investment

FDI investments in plant, equipment, and other productive assets are costly and usually undertaken for the long term. Choosing the right targets is critical, and different variables apply than for exporting. For example, with FDI the availability of skilled labor and managerial talent in the target market is often very important.

When investigating the best countries for FDI, researchers consider the following variables:

- Country risk, including regulatory, political, and institutional barriers as well as the quality of intellectual property protections.
- Long-term prospects for growth and returns.
- Cost of doing business, based on the price and availability of commercial infrastructure, tax rates, and wages of local employees.
- Competitive environment and intensity of competition from other firms.
- Government incentives such as tax holidays, subsidized training, grants, or low-interest loans.

When screening countries for FDI, numerous sources provide useful information, such as the United Nations Conference on Trade and Development (UNCTAD; www.unctad.org) and the World Bank (www.worldbank.org). The consulting firm A. T. Kearney prepares the *Foreign Direct Investment Confidence Index* (www.atkearney.com), which tracks how political, economic, and regulatory changes affect the FDI preferences of the world's top 1,000 firms. By surveying executives, the index captures the most important variables for the 65 countries that receive more than 90 percent of global FDI investment. Another consulting firm, Deloitte, offers the *Global Manufacturing Competitiveness Index* (www.deloitte.com), which tracks countries with the most competitive business environments for production operations. The current report notes that China, Germany, and the United States are the most competitive locations for manufacturing operations based on such criteria as labor cost, taxes, and manufacturing intensity.[9]

Country Screening for Manufacturing Competitiveness and Sourcing

Multinational firms establish manufacturing in countries that provide comparative and competitive advantages. Global sourcing and offshoring describe the practice of procuring finished products, intermediate goods, and services from suppliers located abroad. When seeking foreign sources of supply, whether from company-owned operations or external suppliers, managers examine such factors as cost and quality of inputs, stability of exchange rates, supplier reliability, and the presence of a workforce with superior technical skills.

Firms increasingly source services from abroad to obtain various advantages. A. T. Kearney, a consulting firm, compares the factors that make countries attractive as potential locations for offshoring service activities such as IT, business processes, and call centers. The following dimensions are relevant.

- *Financial attractiveness* accounts for compensation costs (average wages), infrastructure costs (for electricity and telecom systems), and tax and regulatory costs (tax burden, corruption, and fluctuating exchange rates).
- *People skills and availability* account for suppliers' experience and skills, labor-force availability, education and language proficiency, and employee-attrition rates.
- *Business environment* assesses economic and political aspects of the country, commercial infrastructure, cultural adaptability, and security of intellectual property.

Assessing Industry Market Potential

12.4 Understand how companies conduct in-depth assessment of industry-specific market potential.

The methods for screening countries discussed so far provide insights on individual markets and reduce the complexity of choosing appropriate foreign locations. Once the number of potential countries has been reduced to a manageable few, the next step is to conduct an in-depth analysis of each. In earlier stages, the researcher examined macro-level indicators. Now, because market potential is industry-specific, the researcher narrows the focus to industry-level indicators.

To estimate industry market potential, managers obtain data and insights on the following variables for each country:

- Size and growth rate of the market and trends in the specific industry.
- Tariff and nontariff trade barriers to market entry.
- Standards and regulations that affect the industry.
- Availability and sophistication of distribution for the firm's offerings in the market.
- Unique customer requirements and preferences.
- Industry-specific market potential indicators.

Industry market potential
An estimate of the likely sales for all firms in a specific industry during a particular period.

Industry market potential is an estimate of the likely sales for all firms in a specific industry during a particular period. It is different from *company sales potential*, the share of industry sales the focal firm itself can expect during a given year. Most firms forecast both industry market potential and company sales potential at least three years into the future.

Estimating industry market potential enables the researcher to refine the analysis and identify the most attractive countries for the firm's product or service. It also provides industry-specific insights and understanding into how the firm needs to adapt its product and marketing approaches.

In addition to generic determinants of demand, each industry sector—from air conditioners

Source: nisanga/123RF

Bicycle manufacturers account for climate in their estimates of demand. What other industry-specific variables might they consider?

Managers use various methods to estimate industry market potential.

- *Simple trend analysis*. This method quantifies the total likely amount of industry market potential by examining aggregate production for the industry as a whole, adding imports from abroad and deducting exports. Trend analysis provides a rough estimate of the size of current industry sales in the country.
- *Monitoring key industry-specific indicators*. The manager examines unique industry drivers of market demand by collecting data from various sources. The earth-moving equipment company Caterpillar examines the volume of announced construction projects, number of issued building permits, growth rate of households, and infrastructure development to anticipate sales of its construction equipment.
- *Monitoring key competitors*. Here, the manager investigates the degree of major competitor activity in the countries of interest. If Caterpillar is considering Chile as a potential market, its managers investigate the current involvement of its main competitor, the Japanese firm Komatsu, in Chile and gather competitive intelligence to anticipate Komatsu's likely future moves in Chile.
- *Following key customers around the world*. Automotive suppliers can anticipate their future markets by monitoring the international expansion of their customers such as Honda or Mercedes-Benz. Caterpillar follows its current customers such as Bechtel and Fluor as they bid for contracts or establish operations in specific markets.
- *Tapping into supplier networks*. Many suppliers serve multiple clients and can be a major source of information about competitors. Firms gain valuable leads from current suppliers by asking them about the activities of competitors as long as the questions are ethical and don't expose competitors' trade secrets and other proprietary information.
- *Attending international trade fairs*. By attending a trade fair in the target country, the manager can learn much about market characteristics and other factors that indicate industry sales potential. Trade fairs also help identify potential distributors and other business partners.

to zippers—has its own *industry-specific potential indicators* or *distinctive drivers of demand*. Marketers of cameras, for example, examine climate-related factors such as the average number of sunny days in a typical year. A manufacturer of heavy machinery might examine the rate of industrialization and dependence on hydroelectricity. A marketer of cooling equipment and industrial filters will consider the number of institutional buyers such as restaurants and hotels. These are all industry-specific market potential indicators.

Source: Dyliana Nikolova/123RF

Demand is growing in Europe for environmental technologies and green products, such as the solar panels on this building in Italy.

The researcher also evaluates factors that affect the marketing and use of the product, such as consumer characteristics, culture, distribution channels, and business practices. Because intellectual property rights vary worldwide, it is important to protect the firm's critical assets by examining regulations, trademark rules, and product liability. The researcher should also investigate subsidy and incentive programs from home and foreign governments that reduce the cost of foreign market entry.

Growth rates tend to be relatively high in new or rapidly innovating industries. The researcher should bear in mind that the product is likely to be in a different phase of its life cycle in each country. Countries in which the product is not currently available or in which competitors have only recently entered are often promising targets.

Data Sources for Estimating Industry Market Potential

For each target country, the manager seeks data that directly or indirectly report levels of industry sales and production and the intensity of exports and imports in the product category of interest. Exhibit 12.6 summarizes sites useful for estimating industry market potential and describes various statistics for conducting market opportunity assessment and other research.

Many countries provide useful information for international market research. In the United States, for example, the market research function at export.gov (www.export.gov) offers specific reports, including:

- *Top Markets* reports that provide extensive industry, country, and market research to pinpoint top export markets and entry strategies.
- *Country Commercial Guides*, which comprehensively profile the political, economic, and commercial environment of some 150 countries.
- *International Company Profiles* that provide information on specific foreign companies.
- *International Partner Search*, which helps find potential agents, distributors or other strategic partners abroad.

Managers often must be creative in finding and consulting resources that shed light on the task at hand. Data and resources in international research are rarely complete or precise. Consider Teltone Inc. The firm wished to enter Mexico with its inexpensive brand of cellular telephones and needed to estimate industry-wide demand. It consulted numerous sources, including reports by the International Telecommunications Union (in Geneva, Switzerland), Export.gov, and several United Nations publications. Managers researched the size of the Mexican upper class and its average income, the nature of support infrastructure for cellular systems in Mexico, and the nature and number of retail stores that could handle cell phones. They also accessed statistics from the National Telecommunications Trade Association on the number of competitors active in Mexico and their sales volumes. From these sources, Teltone was able to make a rough estimate of market size for telephones and prices in Mexico.

Site	Address	Description
globalEDGE™	www.globalEDGE.msu.edu	Data, information, search engines, and diagnostic tools on a full range of international business topics
Export.gov	www.export.gov	Country commercial guides and other United States government resources to support exporting and other international business activities
UK Department for International Trade	www.gov.uk/government/organisations/department-for-international-trade	UK data and resources to support international business
Industry Canada	www.ic.gc.ca	Canada data and resources to support international business
United Nations Conference on Trade and Development (UNCTAD)	www.unctad.org	Country fact sheets and statistics for analysis of international trade, FDI, and economic trends
World Trade Organization (WTO)	www.wto.org	Statistics on tariffs, government intervention, and economic conditions worldwide
World Bank	www.worldbank.org	National and international statistics, financial and technical information, sectoral data, trends in the world economy
World Bank Doing Business	www.doingbusiness.org	Reports on doing business in various countries
International Monetary Fund (IMF)	www.imf.org	Data and statistics on countries and economic and financial indicators
A. T. Kearney	www.atkearney.com	Various indices, including the Foreign Direct Investment Confidence Index

EXHIBIT 12.6

A Sampling of Sites for Conducting International Business Research

You Can Do It RECENT GRAD IN IB

NATASHA BROWN

Natasha's major: Computer information systems
Objectives: Happiness, personal and career growth, travel, and the opportunity to give back
Internships during college: AT&T Network Operations
Jobs held since graduating:

- Technical consultant, Hewlett Packard, Alpharetta, Georgia
- Pre-sales solutions architect, Hewlett Packard Enterprise, New York City
- Consulting resident engineer, Hewlett Packard Enterprise, New York City

Source: Natasha Brown

Natasha Brown always had a strong interest in technology and travel. She is passionate about solving problems and helping others. In college, Natasha sought the advice of mentors, executives, and fellow students. She invested much energy in building a network of contacts and advisors. Eventually she fell in love with her university's "Global Business and Media" program—a one-month study program in Hungary and Turkey. There she visited the local operations of firms such as CNN, Coca-Cola, and Turkcell. She learned about the importance of understanding international cultures on various levels before doing business abroad.

Natasha credits her time in Hungary and Turkey with providing her the most growth in her time at school. Natasha found the trip inspiring. Witnessing the differences in culture and business abroad opened her mind to endless possibilities. She says, "It's a special feeling when international executives take the time to not only meet with you but also inquire about your life. Mirroring those same actions by expressing genuine interest in my current clients and their backgrounds allows them to view me as a trusted advisor and ultimately someone they would want to do work with. All the opportunities I gained on the program gave me more confidence in my studies and who I could be as a professional."

Natasha's Advice

After graduation, Natasha accepted a job at Hewlett Packard Enterprise. Working as a resident engineer, she consulted clients on their network infrastructure and design. Natasha has found that it takes enormous confidence to develop interpersonal relations and teamwork at all levels. Her global business coursework revealed how technology varies around the world but technology also connects people internationally. "My coursework and international travel gave me hands-on experience... It expanded my curiosity and my way of thinking about the world. It also gave me another talking point. Having the experience of seeing diverse and multicultural work environments in major corporations, both domestically and abroad, brings credibility to your story and knowledge. Before long, your clients can expand from domestic to international partners and locations. When you consider all the benefits, studying abroad and taking international business classes are well worth the investment. Every student should consider it." Natasha says that having international experience on her resume enhanced her prospects for securing a position in Hewlett Packard's international operations. She wants to travel overseas again as soon as possible.

Source: Courtesy of Natasha Brown.

The *You Can Do It: Recent Grad in IB* feature profiles Natasha Brown, who was inspired to pursue international opportunities after doing a study abroad program in Hungary and Turkey.

12.5 Explain how companies identify and choose foreign business partners.

Choosing Foreign Business Partners

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

Business partners are critical to international business success. Key partners include distribution-channel intermediaries, facilitators, suppliers, and collaborative venture partners such as joint venture partners, licensees, and franchisees. Once the firm has selected a target market, it must identify the types of partners it needs for its foreign market venture, negotiate terms with them, and support and monitor their conduct.

Exporters tend to collaborate with foreign market intermediaries such as distributors and agents. Firms that choose to sell their intellectual property, such as know-how, trademarks, and copyrights, may work through foreign licensees. These **licensing** partners are independent businesses that apply intellectual property to produce products in their own country.

In **franchising**, the foreign partner is a franchisee, an independent business abroad that acquires rights and skills from the focal firm to conduct operations in its own market (such as in the fast-food or car-rental industries). The focal firm can also internationalize by initiating an **international collaborative venture**, a business activity undertaken jointly with other firms. Such collaborations may be project-based or require equity investments. Other types of international partnerships include global sourcing, contract manufacturing, and supplier partnerships. We describe these in detail in later chapters.

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

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

Criteria for Choosing a Partner

The focal firm must identify the ideal qualifications of potential foreign partners. The firm should seek a good fit in terms of both strategy (common goals and objectives) and resources (complementary core competencies and value-chain activities). It is helpful to anticipate the likely synergy with the prospective partner for the intermediate term, three to six years into the future.

Take the case of Brunswick Corporation (www.brunswick.com), a manufacturer of recreational goods such as boats and bowling equipment. When screening for potential foreign distributors, this firm looks for:

- Financial soundness and resourcefulness to ensure that the venture receives the appropriate level of support initially and in the long run.
- Competent and professional management, with qualified technical and sales staff.
- Solid knowledge of the industry with access to distribution channels and end users in the marketplace.
- Reputation in the marketplace and good connections with local government (political clout is often helpful, especially in emerging markets).
- Commitment, loyalty, and willingness to invest in the venture and grow it over time.

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

Desirable characteristics are not always available in prospective partners. If a company enters a foreign market late, it may have to pick the second-best or even less-qualified partner. The firm should then be ready and able to strengthen the partner's capabilities by transferring appropriate managerial skills, technical know-how, and other resources.

Source: imtmphoto/123RF

Firms seeking a foreign business partner emphasize qualifications, including common goals and competent management.

Searching for Prospective Partners

The process of screening and evaluating business partners can be overwhelming. Commercial banks, consulting firms, and trade journals, as well as country and regional business directories such as *Kompass* and *Dun and Bradstreet*, are helpful in developing a list of partner candidates. National governments offer inexpensive services that assist firms in finding partners in specific markets. The knowledge portal globalEDGE™ (www.globalEDGE.msu.edu) provides additional resources, including diagnostic tools, to help managers systematically choose partner candidates.

Onsite visits and research from independent sources and trade fairs are crucial in the early stages of assessing a partner. Many firms ask prospective partners to prepare a formal business plan before entering an agreement. The quality of the plan illuminates the prospective partner's capabilities and level of commitment.

12.6 Determine how manager's estimate a company's sales potential.

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

Estimating Company Sales Potential

Once managers have identified several promising country markets, verified industry market potential, and assessed the availability of qualified business partners, the next step is to determine **company sales potential** in each country. Company sales potential is an estimate of the share of annual industry sales the firm expects to generate in a particular target market. Estimating it can be especially challenging because of the need to obtain detailed information from the market and make fundamental assumptions to project the firm's revenues and expenses three to five years into the future. Estimates of company sales potential are rarely precise. They usually require the researcher to make judgment calls and think creatively.

When estimating company sales potential in a foreign market, managers collect and review various research findings and assess the following:

- *Intensity of the competitive environment.* Local or third-country competitors are likely to intensify their own marketing efforts when confronted by new entrants. Their actions are often unpredictable and not easily observed.
- *Pricing and financing of sales.* The degree to which pricing and financing are attractive to both customers and channel members is critical to initial entry and ultimate success.
- *Financial resources.* Sufficient capital is a prerequisite for any project. International ventures are often costly.
- *Human resources.* Management must ensure that it has personnel with sufficient capabilities in language, culture, and other areas to do business in target markets.
- *Partner capabilities.* The competencies and resources of foreign partners, including channel intermediaries and facilitators, influence how quickly the firm can enter and generate sales in the market.
- *Access to distribution channels.* The ability to establish and make best use of channel intermediaries and distribution infrastructure in the target market determines sales.
- *Market penetration timetable.* A key decision is whether managers opt for gradual or rapid market entry. Gradual entry gives the firm time to develop and leverage resources and strategies but may cede market share to competitors. Rapid entry can ensure first-mover advantages but also tax the firm's resources and capabilities.
- *Risk tolerance of senior managers.* Results depend on the level of resources top management is willing to commit, which in turn depends on management's tolerance for risk.
- *Special links, contacts, and capabilities of the firm.* The extent of the focal firm's network in the market—its existing relationships with customers, channel members, and suppliers—can strongly affect venture success.
- *Reputation.* The firm can succeed faster in the market if target customers are already familiar with its brand name and reputation.

Estimating company sales typically starts from multiple angles and converges on an ultimate estimate that relies heavily on judgment. Exhibit 12.7 provides a framework to estimate company sales. After combining information about customers, intermediaries, and competition, the researcher decides whether the result points to a reasonable estimate. Managers may make multiple estimates based on best-case, worst-case, and most-likely case scenarios. They will usually make assumptions about the degree of firm effort, price aggressiveness, possible competitive reactions, degree of intermediary effort, and so on. The firm's sales prospects also hinge on factors both controllable by management (such as prices charged to intermediaries and customers) and uncontrollable (such as the intensity of competition). Ultimately, estimating company sales potential is more art than science.

Practical Approaches to Estimating Company Sales Potential

When estimating sales potential, it is best to begin with the factors suggested in Exhibit 12.7.

In developing economies and emerging markets, where information sources are often lacking, two other techniques are useful for estimating company sales potential. These are *analogy* and *proxy indicators*. We illustrated these approaches in the opening case.

- *Analogy*. Using this method, the researcher draws on known statistics from one country to gain insights into the same phenomenon for another, similar country. For example, if the researcher knows the total consumption of citrus drinks in Hungary, then—assuming citrus drink consumption patterns do not vary much in neighboring Romania—a rough estimate of Romania's consumption can be made, adjusting, of course, for the difference in population. If a firm knows X number of bottles of antibiotics are sold in a country with Y number of physicians per thousand people, it can assume the same ratio (of bottles per number of physicians) will apply in a similar country.
- *Proxy indicators*. With proxy indicators, the researcher uses known information about one product category to infer potential about another product category, especially if the two are complementary. A proxy indicator of demand for professional hand tools might be the level of construction activity in the country; for a particular piece of surgical equipment, it might be the total number of surgeries performed.

A firm contemplating a major market entry by FDI should make its market research especially comprehensive. When Germany's popular footwear company Puma targeted India, researchers investigated every detail of the country's in-store offerings and footwear buyer

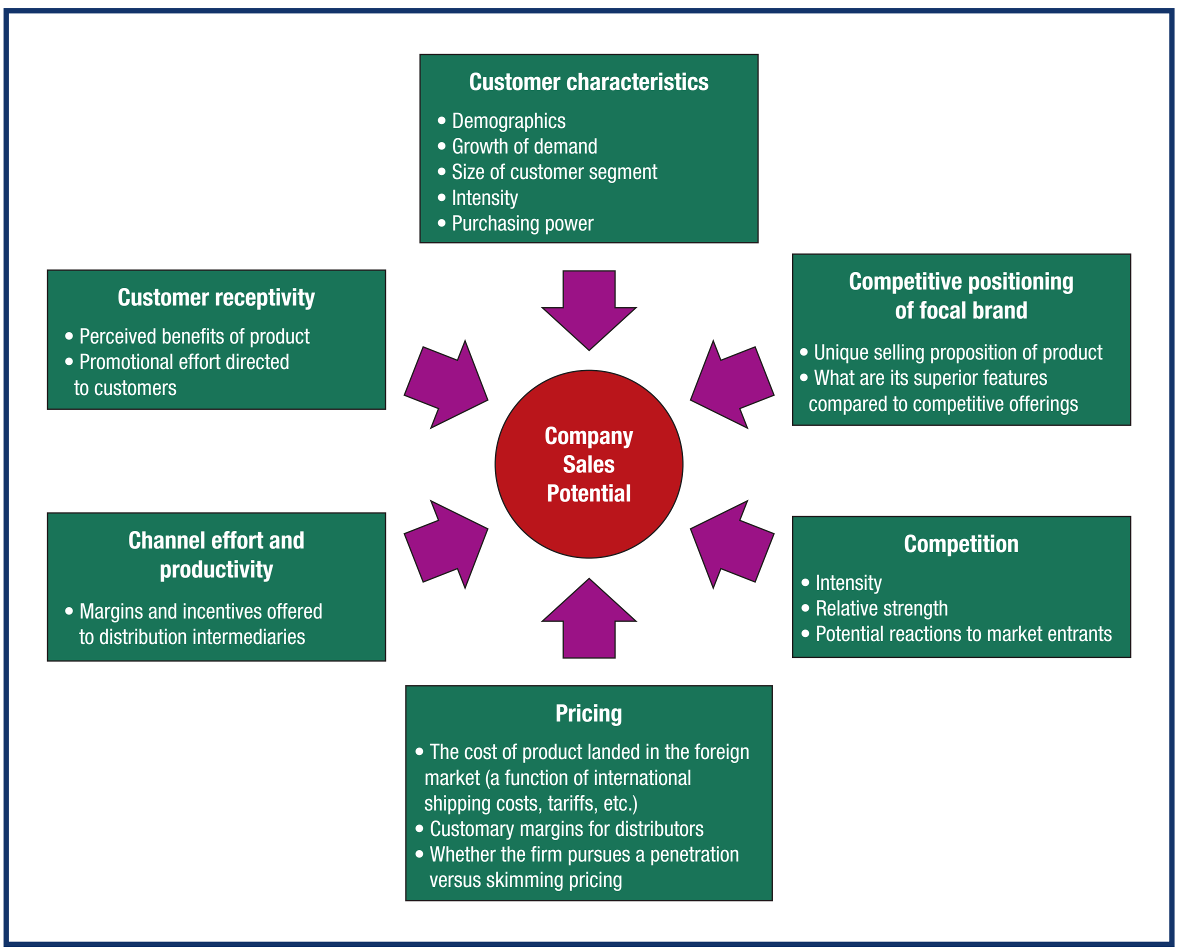

EXHIBIT 12.7

A Framework for Estimating Company Sales Potential in the Foreign Market

behavior. The firm conducted extensive market research with Indian consumers to create shoes that fit local tastes well. Puma focused on distinctive characteristics of Indian consumers. Market researchers conducted surveys, focus groups, and store audits to understand buyer characteristics and needs. Puma then set about to create and offer products accordingly. A key goal was to understand how to acquire and maintain brand loyalty, mainly by keeping customers happy. Puma leveraged information technology, the Internet, and social media to elicit feedback, regarding buyer likes and dislikes. The firm continually monitors trends and evolving customer tastes. Such research has helped make Puma the top athletic footwear seller in India, surpassing rivals Adidas and Nike.[10]

The following activities are especially helpful for estimating company sales potential.

- *Survey of end users and intermediaries*. The firm can survey a sample of customers and distributors to determine the level of potential sales.
- *Trade audits*. Managers may visit retail outlets and question channel members to assess competitors' strengths and price levels. In this approach, managers estimate market potential through the eyes of intermediaries (distributors) responsible for handling the product in the market. The trade audit can also indicate opportunities for alternative distribution approaches and clarify the firm's standing relative to competitors.
- *Competitor assessment*. The firm should benchmark itself against principal competitor(s) in the market and estimate how much sales it can attract away from them. If top competitors are large and powerful, competing head-on might prove too costly. Even in countries dominated by large firms, however, research may reveal untapped or underserved market segments that can be attractive, particularly for smaller firms.
- *Estimates from local partners*. Collaborators such as distributors, franchisees, or licensees already experienced in the market are often best positioned to develop estimates of market share and sales potential.
- *Limited marketing efforts to test the waters*. Some companies may choose to engage in a limited entry in the foreign market—a sort of test market—to gauge sales potential or better understand the market. From these early results, it is possible to forecast longer-term sales.

MyLab Management Watch It!

If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete the video exercise titled Emerging Markets Spotlight on India and Mexico.

In Conclusion

Some firms are attracted to foreign markets by the promise of revenues and profits, others by the prospect of increasing production efficiency. Still others internationalize to subdue competitive pressures or keep pace with rivals. Whatever the rationale, when companies fail in international ventures, it is often because they neglect to conduct a systematic and comprehensive assessment of global market opportunity.[11]

Although we have presented the six tasks of global market opportunity assessment in a sequence, firms do not necessarily pursue them that way. They may pursue two or more simultaneously. The process is dynamic—market conditions change, partner performance fluctuates, and competitive intensity may increase. These events require managers to evaluate their decisions and commitments constantly, remaining open to course changes as circumstances dictate.

Some choices that managers make are interrelated. For example, the choice of a business partner is a function of the country. The type of distributor to use varies from market to market—say, for example, between the Netherlands and Nigeria. The degree of country risk may imply a need for a politically well-connected business partner. In nontraditional markets, such as Vietnam, the firm may need a partner that can serve as both distributor and cultural adviser.

Even the most attractive country cannot compensate for a poor partner. Despite growing availability of information on individual countries, many firms struggle to identify qualified and interested business partners, especially in emerging markets. The most qualified partners may already represent other foreign firms. This necessitates recruiting second- or even third-best candidates and then committing adequate resources to ensure their success.

CLOSING CASE Shifting Ice: Big Changes at Icebreaker

Chance Beginnings

A chance comment in the early 1990s about the difficulty of finding natural-fiber outdoor clothing led New Zealand farmer Brian Brackenridge to start small-scale manufacturing of merino thermal wear. This thermal wear, called Icebreakers, was sold at local retailers. Giving away free product samples at chance meetings turned out to be Brackenridge's best marketing move. One such meeting was with Sir Peter Blake, the famous Kiwi yachtsman who wore the thermal wear for 40 straight days while circumnavigating the globe.

Another chance meeting was with Jeremy Moon in 1994. Moon was immediately smitten and so convinced as to merino's commercial potential he left his market research job, mortgaged his house, bought half of Brackenridge's company and raised seed capital. The next few months were spent in the corporate HQ (his bedroom!) applying the knowledge and skills acquired while studying commerce at university to develop the business plan.

Creating a Natural Niche in the Outdoor Clothing Market

For many years, the outdoor clothing market, especially performance wear, had been dominated by synthetic materials such as polypropylene. This changed with the 1995 release of Icebreaker's first commercial-scale merino underwear, creating a new niche—merino performance outdoor clothing.

Icebreaker's range of men's, women's, and children's outdoor clothing is made from pure NZ merino using technology that combines the wool's natural properties (warmth, odor resistance, biodegradability) with the benefits of synthetics (quick drying, lightweight), creating clear points of differentiation from existing offerings. Icebreaker's layering system allows consumers to adjust layers for all weather and activity conditions.

Instead of the hard adventure "man versus mountain" domination themes usually used to sell outdoor clothing, Icebreaker's brand story centers on natural fibers using a reconnection with nature theme: "man *and* mountain." Sustainability and accountability are woven into branding such as the Baacode, a program allowing consumers to trace the merino used in their purchase.

Icebreaker positioned itself as a technical apparel company selling through specialist outdoor and sports retailers rather than an outdoor sportswear company selling through fashion retailers. While the consumers Icebreaker target look for a combination of technical features and fashion, their priority is performance. Icebreaker relies on knowledgeable sales staff in specialist retailers to ensure consumers fully appreciate the superior technical aspects that justify its premium price.

Icebreaker's Internationalization Strategy

Moon has always looked at Icebreaker in terms of marketing rather than manufacturing, focusing corporate efforts on design while outsourcing manufacturing. In 2005, manufacturing was moved to Shanghai, China, where Icebreaker formed long-term, exclusive relationships with French wool blenders, German spinners, Japanese quality-control specialists, a Chinese textile house, and a Dutch logistics firm.

Icebreaker began exporting to Europe in 1998 and entered the lucrative United States market in 2002, firmly establishing the merino performance outdoor clothing category in its multi-billion-dollar outdoor clothing market. The U.S. market was attractive to Icebreaker not just due to its size, lack of language barriers, and convenient access but also because trends in the U.S. outdoor clothing market are influential in Europe. To penetrate the U.S. market, Icebreaker followed an "epicenter strategy," working directly with top specialty outdoor and sports retailers in resort and vacation areas. Visitors exposed to Icebreaker products while on vacation carried the word back to their home markets, encouraging retailers there to stock Icebreaker products.

The American market is highly competitive, with Icebreaker facing a range of competitors including the international giant Columbia. These brands are successfully established as technically sophisticated for hardcore adventurers while fashionable enough to appeal to urban consumers. However, the appeal of NZ merino did not escape their notice. In 2005, Timberland, U.S.-based footwear and apparel maker acquired Smartwool, a company producing merino socks. Since then Smartwool has expanded into outdoor and everyday apparel made from NZ merino.

From humble beginnings, Icebreaker products are now distributed to specialist retailers in more than 4,700 stores in 50 countries as well as online. Icebreaker chose the distributor model as it allowed them to capitalize on distributors' local knowledge and relationships without significant investment.

Performance outdoor clothing is the fastest growing segment in the global sports clothing market, fueled by increasing interest in outdoor activities and their role in healthy lifestyles as well as the blurring of boundaries between performance wear and everyday wear. Growth in adventure travel has also increased demand, with one in four global travelers engaging in adventure activities.

Although Icebreaker has successfully established itself in Australia, Europe, Canada, and the United States, the question is always "where next?"—it is constantly scanning for opportunities.

Icebreaker Contemplates China

On annual trips to China, Moon had watched disposable incomes increasing and a consumption-hungry middle class emerging.

Moon was aware that emerging markets in Asia and Latin America were forecast to drive future growth in the performance outdoor clothing sector. China's almost 1.4 billion consumers held great appeal for potential expansion.

Though research suggested that retail sales in this category had and would continue to experience significant growth in China, Moon was conscious of Icebreaker's niche position. Moon questioned whether Icebreaker could enter China positioned on technical features and distributing through specialist sports retailers. Knowledgeable local sales staff in specialist shops could educate Chinese consumers about Icebreaker's superior technical and performance aspects, with consumers then spreading the word—word of mouth had proven important in other markets. Of issue, however, was whether there were enough retailers to distribute sufficient volume to be viable and if merino could be established as an alternative to synthetics, perceived by many as "modern" and therefore preferable.

Moon also considered whether Icebreaker should take a different approach for the Chinese market. By positioning itself as an outdoor sportswear company, Icebreaker could focus primarily on its fashion attributes: style and luxury. Technical aspects could add to the brand's cachet rather than being the primary focus. This would allow Icebreaker to distribute through China's expanding high-end fashion retail sector, competing with luxury goods such as Prada. Importantly, would design alterations be needed to suit Chinese body types, and would "one with nature" messages connect with Chinese retail buyers and their primarily urban consumer base?

Moon knew from experience that it was a classic mistake to assume markets are homogeneous. The lesson learned from Icebreaker's U.S. experience was that it takes time to determine which sites and regions would be suitable for Icebreaker. Although Icebreaker had experience with China's manufacturing sector, it would be starting at "square one" in terms of marketing and would need to determine how best to distribute.

Country markets don't exist in isolation for international companies but must be considered within the context of the company's overall operations and capacity. If Icebreaker products succeeded in China, would the company be able to supply the volume demanded without compromising its other markets, especially the all-important trend-setting U.S. market, or literally running out of sheep? Would aggressive entry into China, especially if coupled with a change in position and distribution, stretch design, and marketing, confuse the international market and detract from maintaining its market share against aggressive American competitors?

Although the Chinese market was burgeoning for mass market brands, with increasing potential for status brands, the "recreation class" was still comparatively small. Icebreaker was known in China, but it was not as yet a "status" brand. Moon felt the timing was not right and the numbers not yet large enough.

Testing the Waters in Taiwan

However, Icebreaker recognized the competitive need to move into Asia. Recognizing the opportunities in the more modest-sized Asian markets, it opened a company-owned store in Taipei in 2011. Taiwan proved to be a good choice as it had an existing infrastructure of outdoor specialist stores and distributors and consumers with similar tastes and body shapes to Icebreaker's target demographic. While Taiwan's market of 23.3 million consumers is minute compared to China, many exporters overlook real opportunities that it and other modest Asian markets present. Taiwan provided a stepping stone into Asia for Icebreaker. Less than three years after entering, Icebreaker was working with distributors in Taiwan, Hong Kong, and Japan and a retail partner in Singapore.

Big Changes at Icebreaker

The past few years have seen big changes at Icebreaker. In mid-2014, Moon became Executive Chairman and appointed former Air New Zealand CEO Rob Fyfe CEO. Senior leadership changes always raise questions: Was Icebreaker making a move on China or going public? In mid-2017, Fyfe became Chairman and Icebreaker's AU/NZ General Manager Greg Smith took over as CEO. Fyfe's time had been spent positioning Icebreaker to respond to a changing competitive landscape, evolving consumer preferences and changing buying patterns—setting the stage for the biggest change.

In early 2018, Icebreaker was sold to U.S. apparel giant VF Corporation for NZ$288 million—not a bad result for Moon who, along with Fyfe, will stay on. VF operates in over 170 countries, achieving sales of $12 billion from its outdoor, active, work, and jeans brands, including The North Face, Wrangler, and most significantly Smartwool. Icebreaker is seen as an ideal complement to Smartwool, positioning VF as a global leader in the merino category. VF is seen as a way to turn Icebreaker into a truly global brand. With the sale to VF Corp and Icebreaker breaking the Asian ice, so to speak, perhaps it won't be long before Chinese consumers can trace their own Baacodes.

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Written and Oral Communication, Analytical Thinking, Reflective Thinking, Diverse and Multicultural Work Environments, Application of Knowledge, and Interpersonal Relations and Teamwork

Case Questions

12-4. Critically evaluate Icebreaker's existing distribution and positioning strategies from the perspective of continued international expansion.

12-5. For entry into China, what information does Icebreaker need, and how might it obtain the needed data?

12-6. Assess the attractiveness of the Indian market for Icebreaker. Make note of the type and sources of information required for your evaluation.

12-7. Icebreaker is considering expansion but is unsure as to whether Brazil or Argentina hold more potential. Explain how you would assess the market potential for each market.

12-8. Critically evaluate the sale of Icebreaker to VF Corp. What challenges does Icebreaker face?

Sources: www.icebreaker.com; www.icebreaker.co.nz; Allan Brettman, "Jeremy Moon, Co-founder of Merino Brand Icebreaker, Talks Strategy at N. American Headquarters in Portland," www.impact.oregonlive.com, August 19, 2013; *Global Market Review of Performance Outdoor Apparel—Forecasts to 2018*, www.marketresearch.com, December 4, 2012; Petah Marian "Emerging Markets to Drive Performance Outdoor Apparel," www.just-style.com, November 29, 2012; "Icebreaker in the United States," www.nzte.govt.nz, November 12, 2012; Jennifer Black, "Breaking New Ground," www.nzte.govt.nz, March 30, 2012; "Taiwan—Perfect Starting Point," www.nzte.govt.nz, n.d.; Bella Katz, "Leadership Change an Interesting Time," www.stuff.co.nz, June 4, 2014; "New Icebreaker CEO: Greg Smith Takes over Position from Rob Fyfe," www.ipso.com, March 5, 2017; "VR Corporation Completes Icebreaker Takeover," www.insideretail.hk, April 4, 2018; "Icebreaker Sold for $288m to VF Corp," www.insideretail.com.au, April 9, 2018.

This case was written by Jan Charbonneau, University of Tasmania.

END-OF-CHAPTER REVIEW

MyLab Management

Go to **www.pearson.com/mylab/management** to complete the problems marked with this icon ✪.

Key Terms

company sales potential 384
franchising 383
global market opportunity 368
industry market potential 379
international collaborative venture 383
licensing 382

Summary

In this chapter, you learned about:

- **Analyzing organizational readiness to internationalize**

  A **global market opportunity** is a favorable combination of circumstances, locations, or timing that offer prospects for exporting, investing, sourcing, or partnering in foreign markets. The firm may perceive opportunities to sell, establish factories, obtain inputs of lower cost or superior quality, or enter collaborative arrangements with foreign partners that support the focal firm's goals. Managers perform six key tasks in defining and pursuing global market opportunities. As the first task, management assesses the firm's readiness to internationalize. It assesses the strengths and weaknesses in the firm's ability to do international business and the external business environment by conducting formal research on the opportunities and threats that face the firm. The firm must develop resources it lacks. Diagnostic tools, such as CORE (COmpany Readiness to Export), facilitate a self-audit of readiness to internationalize.

- **Assessing the suitability of products and services for foreign markets**

  Products and services that are good candidates for selling abroad sell well in the domestic market, cater to universal needs, address a need not well served in the target market, or address a new or emergent need abroad. Management should ask the following questions: Who initiates purchasing in the market? Who uses the offering? Why do people buy it? Where is the product or service purchased? What economic, cultural, geographic, and other factors can limit sales?

- **Screening countries to identify target markets**

  Whether the firm is engaged in importing (sourcing from abroad), investing, or exporting, the choice of country is critical, particularly in the early stages of internationalization. The best markets are large and fast-growing. The nature of information necessary for country screening varies by product type and industry. There are two basic screening methods: gradual elimination and ranking and indexing.

- **Assessing industry market potential**

  Once a firm reduces the number of potential country targets to five or six, the next step is to conduct in-depth analyses of each. **Industry market potential** is an estimate of the likely sales for all firms in the specific industry for a particular period. Each industry sector also has its own *industry-specific potential indicators*. Among the methods for assessing industry market potential are performing simple trend analysis, monitoring key industry-specific indicators, monitoring key competitors, following key customers around the world, tapping into supplier networks, and attending international trade fairs.

- **Choosing foreign business partners**

  International business partners include distribution channel intermediaries, facilitators, suppliers, joint venture partners, licensees, and franchisees. Some partners undertake **licensing, franchising**, and **international collaborative ventures**. Management in the focal firm must decide the types of partners it needs, identify suitable partner candidates, negotiate the terms of relationships with chosen partners, support the partners, and monitor their performance.

- **Estimating company sales potential**

  Company sales potential is the share of annual industry sales the firm can realistically achieve in the target country. Estimating company sales potential requires the researcher to obtain highly refined market information. Among the most influential determinants of company sales potential are partner capabilities, access to distribution channels in the market, intensity of the competitive environment, pricing and financing of sales, quality of human and financial resources, timetable for market entry, risk tolerance of senior managers, the firm's contacts and capabilities, and its reputation in the market.

Test Your Comprehension

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Analytical Thinking, Written and Oral Communication, Reflective Thinking, Diverse and Multicultural Work Environments, and Application of Knowledge

12-9. How would a business assess the suitability of its products for an overseas market?

12-10. How does a business use diagnostic tools such as CORE?

12-11. Identify the issues managers consider when they analyze organizational readiness to internationalize.

12-12. What questions does an organization that wants in-depth information about the international market potential of a product need to ask?

12-13. What are the typical variables used in indexing and ranking?

12-14. What types of variables should the researcher consider when screening for each of the following: export markets, foreign direct investment, and global sourcing?

12-15. What tasks does assessing industry market potential entail?

12-16. What are the major issues to consider when selecting foreign business partners?

Apply Your Understanding

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Written and Oral Communication, Ethical Understanding and Reasoning, and Reflective Thinking

12-17. Target is a large retailer with about 1,800 stores in the United States but very few in other countries. It has a reputation for merchandising thousands of trendy yet inexpensive products for the home, including apparel, furniture, electronics, toys, and sporting goods. Management wants to open stores in major European cities but will have limited floor space there. Target hires you as a consultant to decide which products to offer in Europe. Write a brief report in which you describe the selection criteria you will use and offer some examples to back up your ideas. Be sure to justify your answer, using the advice and other information included in this chapter.

12-18. Upon graduation, you are hired by Pullman Corporation, a manufacturer of accessories for luxury cars. Management wants you to conduct research to locate foreign markets with the best sales potential. You discover that markets are fairly saturated in advanced economies, but you are aware of numerous *emerging markets* that the industry has overlooked. Using your knowledge of Exhibit 12.4, Market Potential Index, develop a list of the top five emerging markets that Pullman should target. Be sure to justify your choice, based on indicators from this chapter such as market size, market growth rate, market intensity, and market consumption capacity.

12-19. *Ethical Dilemma:* Steven Sanchez is the export manager at Leon Industries, a manufacturer of office furnishings. He has identified Russia as a promising market and decides to attend a furniture trade fair in Moscow. As he prepares for the fair, a consultant suggests hiring two female models in revealing clothing to work the company's booth. The consultant says the models will create buzz and increase Leon's visibility at the crowded fair. Sanchez is skeptical and seeks advice from two colleagues. One colleague says the idea "amounts to exploiting women and could invite sexual harassment charges... It is sex discrimination. The booth workers' gender and good looks are a condition for their employment." Another colleague tells Sanchez that hiring the models is no problem. He says those who oppose such a practice "are stereotyping women as fragile people who cannot decide what's best for themselves." Besides, he continues, "Russia is a male-dominated society and people are not offended by such practices." What do you think? Using the ethical framework in Chapter 4, analyze the issue and make a recommendation.

globalEDGE

INTERNET EXERCISES

Access globalEDGE™ at www.globalEDGE.msu.edu

AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Information Technology, Analytical Thinking, Written and Oral Communication, Diverse and Multicultural Work environments, Reflective Thinking, and Application of Knowledge

12-20. China is a huge, attractive market with growing affluence. Before exporting to China, most firms conduct market research to understand the Chinese market better. Two useful research sites are the China Business Information Center (CBIC; www.export.gov/china) and UK Department for International Trade (www.gov.uk/government/organisations/department-for-international-trade). At the CBIC, for example, firms can find out whether they are China-ready. They can access trade leads and read current news about business in China. Suppose you are hired by a firm that wants to begin exporting to China three products: (a) breakfast cereal, (b) popular music on CDs, and (c) laptop computers. For each of these product categories, using the preceding websites and globalEDGE™, prepare a list of the information that the firm should gather prior to making a decision to export to China.

12-21. Walmart is a huge retailer but gets only about a quarter of its sales from outside the United States. Coles is one of the largest retailers in Australia and gets very little of its sales outside Australia. Assess the international retailing sector using online resources such as globalEDGE™ and A. T. Kearney (www.atkearney.com). Based on your research: (a) What factors should these top retailers consider in choosing countries for internationalizing their operations? (b) What are the best markets for these firms to target for foreign expansion? (c) What types of questions should management at each firm ask in assessing its readiness to internationalize?

12-22. The U.S. Bureau of the Census tracks foreign trade statistics. Visit the site at www.census.gov/foreign-trade and find the most recent versions of the "Profile of U.S. Exporting Companies" report by entering this title in the search engine. Peruse the report and address the following questions: (a) What types of firms export from the United States? That is, what is the breakdown by company type of U.S. exporters? For example, are the exporters mainly large or small firms? Do they operate mainly in the manufacturing, agricultural, or services sectors? (b) What is the role of small and medium-sized exporters in U.S. trade? What percent of U.S. exporters are these types of firms, and for what proportion of total exports do they account? (c) What countries are the three favorite targets of U.S. exporters? According to the report, what factors make these countries the top markets for U.S. firms?

CKR Tangible Process Tool Exercise™

Assessing Markets for Cancer Insurance

A life-threatening disease, cancer is often expensive and difficult to treat. Medications and therapies can prove very costly. Worldwide, people buy health insurance to pay for medical care. In other cases, governments provide tax-funded health insurance. However, a typical insurance policy may be insufficient to cover the high cost of treating cancer fully.

Insurance companies such as American International Group (AIG) and AFLAC specialize in supplemental policies to cover specialized cancer care. When they market health insurance abroad, such firms identify markets with the best prospects for sales. Managers conduct research on the available choices.

In this exercise, assume you work for a health insurance company like AIG or AFLAC. Your task is to assess various countries and identify the most promising one to target for sales of supplemental cancer insurance. You will examine variables that help estimate the size of industry sales in each of three possible target countries. Your assessment will be based on industry-specific indicators of demand for cancer insurance.

Background

Worldwide, few people have adequate health insurance against cancer. Thus, people often purchase supplemental health insurance. The market for cancer insurance around the world is very substantial.

Health insurance companies such as AIG and AFLAC specialize in supplemental policies to cover specialized cancer care. Supplemental cancer insurance is usually sold through insurance agents and insurance brokers. A typical agent establishes a sales office that customers can easily visit. Occasionally, agents contact potential customers directly by telephone or in their homes to sell insurance. Insurance is sometimes sold over the Internet.

To complete this exercise, go to MyLab Management (www.pearson.com/mylab/management) and click on **Career Toolbox**.

Endnotes

1. Yanto Chandra, "A Time-Based Process Model of International Entrepreneurial Opportunity Evaluation," *Journal of International Business Studies* 48, No. 4 (2017), pp. 423–451; Peter Liesch, Lawrence Welch, and Peter Buckley, "Risk and Uncertainty in Internationalisation and International Entrepreneurship Studies," *Management International Review* 51, No. 6 (2011), pp. 851–873.
2. L. Bryan and D. Farrell, "Leading Through Uncertainty," *McKinsey Quarterly*, December 2008, www.mckinseyquarterly.com; Peter J. Buckley, Peter Enderwick, and Adam Cross, *International Business* (Oxford, UK: Oxford University Press, 2018).
3. Buck, Enderwick, and Cross, 2018; Chandra, 2017; Sara Sarasvathy, K. Kumar, Jeffrey York, and Suresh Bhagavatula, "An Effectual Approach to International Entrepreneurship: Overlaps, Challenges, and Provocative Possibilities," *Entrepreneurship Theory & Practice* 38, No. 1 (2014), pp. 71–93.
4. Shruti Singh and Ganesh Nagarajan, "Small Is Beautiful for John Deere," *Bloomberg Businessweek*, September 26, 2011, pp. 33–34; Trefis Team, "John Deere Aims For Greater Share In Indian Tractor Market," *Forbes,* July 19, 2016, www.forbes.com.
5. S. Tamer Cavusgil, "Measuring the Potential of Emerging Markets: An Indexing Approach," *Business Horizons* 40 (January–February 1997), pp. 87–91, globalEDGE™, *Market Potential Index (MPI)—2017* (East Lansing, MI: Michigan State University, 2018), www.globaledge.msu.edu/mpi.
6. GlobalEDGE™, 2018.
7. Homi Kharas, *The Unprecedented Expansion of the Global Middle Class* (Washington, DC: Brookings Institution, 2017); Olga Kravets and Ozlem Sandikci, "Competently Ordinary: New Middle Class Consumers in the Emerging Markets," *Journal of Marketing* 78, July (2014), pp. 125–140.
8. Lee Chi-Ho, "Korea's IT Industry in Transition," *SERI Quarterly*, January 2012, pp. 22–29; by Nobuhiko Fuwa, Akira Kohsaka, and Shujiro Urata, *The Routledge Handbook of Asian Economic Development* (New York: Routledge, 2018).
9. Deloitte, *2016 Global Manufacturing Competitiveness Index,* www.deloitte.com.
10. C. Morency, "Inside India's Booming Sportswear Market," *BOF*, February 15, 2017, www.businessoffashion.com; Singh, R., "Smart Marketing and Prudent Attitude Took Puma to the Top of the Sports Shoe Heap," *Economic Times*, June 10, 2015, http://economictimes.indiatimes.com; Taruka Srivastav, "How Puma Entered India as a Latecomer and Still Became a Leading Sportswear Brand," *The Drum,* December 5, 2017, www.the-drum.com.
11. Alvin Burns, Ann Veeck, and Ronald Bush, *Marketing Research* (New York: Pearson, 2017); Peter Enderwick, "The Imperative of Global Environmental Scanning," *Insights* 11, No. 1 (2011), pp. 12–15.

Part 4 | Entering and Working in International Markets

Chapter 13

Exporting and Global Sourcing

Learning Objectives *After studying this chapter, you should be able to:*

13.1 Understand exporting as a foreign market entry strategy.

13.2 Describe how to manage export-import transactions.

13.3 Explain identifying and working with foreign intermediaries.

13.4 Understand outsourcing, global sourcing, and offshoring.

13.5 Describe the benefits and risks of global sourcing.

13.6 Understand global sourcing strategies and supply-chain management.

Maersk and the Global Container Business

Despite huge technological change over recent decades, including advances in aviation technology, some 90 percent of traded goods are still shipped in large standard-sized containers. Indeed, the shipping container itself is one of the key innovations of the past century. Invented by U.S. trucking magnate Malcolm McLean in 1956, containers meant that goods were no longer shipped loose in wooden crates. This allowed goods to be shipped in huge volumes, slashing costs for exporters. It has driven global sourcing and offshoring of production and led to the globalization of supply chains, resulting in sharp reductions in production costs and prices to consumers.

Container shipping companies are key intermediaries in the exporting process and have made this an extremely attractive market entry strategy. The giant of this sector is Maersk Line—in 2018, it transported some 21 percent of global seaborne container freight. Founded in Denmark in 1904, Maersk is a conglomerate with activities across the transport and energy sector, subsidiaries and offices in over 130 countries, and some 88,000 employees.

The resilience of the shipping container in an era of very rapid technological change is a testimony to its dramatic impact on export–import transactions. Nonetheless, the sector is vulnerable to downturns in global trade and fluctuating oil prices. Indeed, Maersk consolidated its dominant position as an intermediary for exporters during the financial crisis. It exploited its size to take advantage of overcapacity and buy ships at a discount and to optimize route networks. This allows it to operate at the lowest possible costs, passing on some of these efficiencies to customers through reduced prices and forcing rivals to operate at a loss to compete.

However, this resilience does not necessarily mean that the dominance of container shipping will continue. Enormous cargo ships emit huge amounts of greenhouse gases and are likely to come under increasing pressure to be more environmentally friendly. Indeed, pressure to be more fuel-efficient is affecting the speed at which vessels travel, which is slowing down shipping times considerably.

Although Maersk's management shares the sector's general pessimism about the future of container shipping,