

THE CAPACITY AND COMPETITIVENESS OF THE FIRMS IN INTERNATIONAL BUSINESS – FOUR MODELS OF MARKET APPROACH

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Abstract:

*Firma and companies wish the extension on the international market, but not always are able to serve in an efficient manner, an extended market as a result of the capacity restrictions that these companies register. In rapport with the capacity restrictions, the firm would take into account another dimension of the International market that might posses. The study takes into consideration the adaptation of the firm at one of the four levels of market development, having as result **two major approaches**, each approach offering two action modalities at the level of international business. There results four modalities (ways) of assignment of the resources and activities, depending on the capacity of the company, in rapport with the one of the market and competition.*

Key-words: *international, market, business approach, competition*

1. Introduction

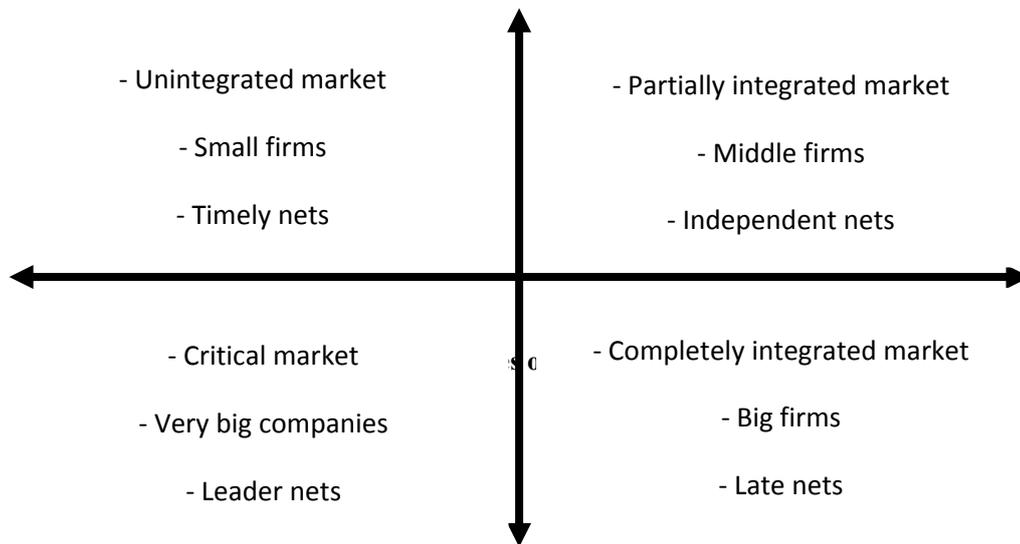
The evaluation realized by the firm in the analysis and decision phase on approach and selection of the external markets allows the procurement of the response to the answers: On what markets should the firm act, where and how? All firms apply the entire scale of means to develop on the international market, in the attempt to extend the sale of their products in the detriment of direct and indirect competitors. However, firms have no capacity of supporting sale systems due to production limits.

International strategic approach means creation, development or entering in new nets of firms and international relations of production and exchange.

In the past have been proposed different patterns of approach of the internationalization process of the firms (Balky, 1978; Cannon and Dawson, 1977). In the last years, there have been registered a series of critiques concerning the pattern of firms internationalization, while numerous firms haven't attended prescribed approaches, especially firms in the high technology sectors, with short cycles of products life. More than that, the increase of the firm outside local or national market and approaches concerning international exchange relations nets, are studies in a larger number of works and specialty approaches, based on the theory of the international business nets (Brandenburg, 1995; Johnsonian Mattson, 1988; Salmi, 2000)

At the basis of business approaches there are **four types of markets** starting from markets with market economy in transition (from the national to the international stage) up to globalizes markets. D. Brandenburg (1995) considers that entering on a foreign market might be obtained by using, by the company, of the business social connections, tending to develop once with the ensemble development of the market. So, the net, from the perspective of an international firm, is a sum of different direct or indirect relations taking into account that actors are connected to other actors.

Firms and capitals might face, this way, **four variants of the external markets** (figure 1) existing the necessity to classify markets in rapport with their importance in the ensemble strategy of the firm. Another purpose connected to the desire to cover most of the markets in conditions of maximum efficiency, obtaining higher incomes in the conditions of more and more reduced costs. The effect of these classifications and characterization of the markets would favor the development of the capitals and the increase of the business on the international market, as central element of interest for titular of interest on these businesses (stakeholders). International markets are in several strategically positions by their specific being specific with predilection to a certain approach of international marketing (Tony and Walters, 1993)



2. Methodology of market approach

Starting from the existence of four types of external markets, firms might approach international market in rapport with the area of the market and its volume, existing a rapport of reverse proportionality between intensive and extensive approach, at the moment of establishing the mission of the company.

a) Intensive approach. A first modality is that of intensive approach, connected to the orientation of the firm to categories of consumers having a certain need or a specific category of needs, distributed non-homogenously as part of the international market. In the same time, the orientation of the firm on the market would be also towards different classes or types of consumption with different attitudes in rapport with the value of the products. We might say on such orientation that it is an intensive type, based on the fact that there are numerous usages of the product or of the technology that have not been put into practice. This volume orientation would observe on one side the increase of the physical volume of consumption for a product and on the other part the increase of the individual consumption value.

This approach is also specific to the business fields with a higher innovation degree having no fix markets but ones in evolution, which cannot be delimited in an effective manner. But, no matter the business field, the innovation capacity and the desire or tendency of the investor to innovation involves such an approach. Some fields have a reduced capacity of innovation, being defined as global or fragmented business, being less predisposed to such approaches meanwhile other younger industries excel in such orientation.

From another point of view, more concentrated firms with an hierarchical and collaboration managerial structures between internal structures, able to act on internal markets being represented by intermediaries on the external ones, have a greater capacity of innovation and are more flexible, being advantaged more that such a modality of the international market. These not being interested by the direct activity on the markets with a much extended area, have a greater internal communication capacity. The approach does not compel to the delimitation of segments which might be different from country to country, for the delimitation of some types and consumption categories, generally valid on all markets.

A third aspect supporting this modality of approach of the international market is the specific of the concurrency, which is very powerful under the aspect of the number of firms and business types developed by this. Based on some favorable economic and technological factors and of some sufficient natural and human resources, but also of some legal and political restrictions and also social – cultural concerning the external markets, there appear excessively solicitant fragmentation in that field of activity, determining the orientation on potential markets. The fields of activity of this type are by their specific some competitive markets with a high intensity of the indirect competition based on derivate products.

This type of firm's orientation on external markets is named ethnocentric approach. Therefore, a firm with an activity focused on internal market or on external markets presents an **ethnocentric approach** on a so-called international market, where the area of the market is limited to external markets which are similar from the geographical and economic point of view, taking into account the capacity for a *theoretical market*.

$$P_t = c_t \times n$$

where:

P_t = theoretical market

c_t = theoretical individual consumption volume

n = population number

b. Mixed, predominantly intensive manner. A second approach of the external markets is based on the mixed philosophy of development which is also intensive and extensive of the firm's market. Market orientation is therefore predominantly intensive, being based first of all on market able to manifest an increase of the consumption volume of the population and of organizational consumers, offering on these markets products with integrated usages, having a superior quality.

In this sense, it is all about a request of derivate and complementary type, determining the characteristics of the product or of the final service.

This type of business would have as basis orientation towards a market formed of consumer's categories and segments. This way, a very high importance is that of the demographical and natural factors, together with the cultural and social ones and their influences on consumption patterns of the markets transforming a potential request in an effective one.

These factors determine a research oriented on numerous consumption needs and consumption utilities. Demographical and natural factors would generate, at the request level, some specific needs, in rapport with different categories of population, needs which might be satisfied by a product or technology which has not been available to consumers up to that moment. The social-cultural factors determine the diversification of the options or utilities associated to a product in rapport with the personality and self –consciousness of different segments of consumers.

In the context of the above mentioned, this approach should be based on the election of the external markets which represent similar characteristics of the population from the demographical and cultural point of view. Often it is called cultural approach of the international markets.

The cultural poles as part of the international market are sometimes dispersed, which makes difficult the management of the activities, appealing to systems for licensing and franchising of the activity.

We also speak about a diffuse and segmented request as part of the market, which makes difficult the activity, being necessary its concentration as part of the area of the market and the use of an intensive distribution system with numerous business partners.

It is the market most oriented towards value, determining firms to grant a special attention to customers and to the quality of products.

As a specific of the competition, we can talk about business sectors combined with the activity fields where there are numerous participants, middle and big size firms determining the game of the market. These participants are vectors for the increase of the market, forming a monopolist type market. These fields are powerfully increasing, being used the impulse of some increasing poles formed by powerful competitors of the market. Therewith, market presents frequent tendencies of activity focusing and collaboration between competitors, forming strategic alliance as part of the business field.

Competitors from the international market come to encounter request with new product variants and formulas, forming gradually powerful product scales. Due to the powerful image as part of the market, competitors achieve a certain authority and monopoly on the request, existing an intense absorption of the market.

Small firms are commonly eliminated gradually from the activity branch, the sector being in a small transition to oligopoly situations, cases in which many states offer support to companies from these industries to main the profile competition of that state on the international market. These types of markets are commonly controlled with some states having tradition in the field. An eloquent example in industry where exists a competition situation of this type and where it aims such an approach is the auto industry.

At the level of the firm entering in such markets and aiming a mixed approach, predominantly intensive, it can be observed certain specific characteristics. This type of approach is characteristic especially for middle firms wanting to become challengers on the international market and working partially on markets similar to the national one.

Most advantageous firms as structure are the ones with functional structure and of functional collaboration, structured on departments of activity, managing in an independent manner the activities and scales of products but with frequent collaboration between these departments. The principal subdivisions of the firm can be distributed either on different markets or integrally maintained on the internal market of the firm.

From the point of view of the way it is see the world market, this modality presents a **multiple centers orientation** establishing an area of the market in rapport with the geographical and cultural specificity. This approach would take into account the volume for a *potential market*.

$$P_p = c_p \times n$$

where:

P_p= potential market

c_p= potential, individual consumption volume

n=population

c. Extensive mener. The third possible approach of the international market is the extensive approach based on the elongation of the consumers segments and the activity area on new groups of buyers.

As a specific of the market on which this firm acts is formed of the totality of the consumption segments from that business field. So, we speak about markets having a great availability of extension in cases when the average term evolution certified an industry increasing towards maturity. In the same time market presents numerous groups of consumers-buyers for whom the product is not yet available. The extensive approach is specific and through this elongation characteristic towards new groups of purchasers or new areas of the market which should be served independently with adapted offers.

This type of international markets would be predominantly under the influence of the cultural factors (social – cultural) and of the institutional ones (legal and political) creating numerous subdivision, of the international markets where the market can act in a homogenous manner. Firms realizing such a strategic system and of international marketing would aim the approach of some regional markets on which should be realized homogenous investments most of times in partnership with producers, service providers or other types of local firms. Should be selected those states presenting the same social political and social culture, resulted from the historical development in the same geographic space. So, we can speak about the Balkan market or area, central European, East-European, Far and Middle East, which can be approached unitary and independently in comparison with the others.

We can name the international market for an increasing field of activity, structured on these principles, as being a spread market where the availability of the buyers is high. The subdivisions of the world market represents target markets on which the companies aim to penetrate. The request on these markets would be represented by replaceable forms of the product in rapport with consumption customs of the population in those regions. This is the reason why it is necessary the realization of the product, directly at the level of that market, for an easier adaptation to the local and regional specific.

As specific of the competition at the level of the offer this approach of international marketing would take into account analyze and selection of the approach in rapport with the fields of activity existing on the international market and some business forms realized by each regional subdivision on the world market. In case the international market is dominated by big and very big companies developing forms of business combined and diverse activities would be observed a massive production focusing and the exchange in a certain field and type of business. World market tends to group firms on business sectors, where to posses bigger and bigger segment allowing the apparition of monopolies and oligopolies.

As firm specific, this approach is proper to the firms possessing big enough resources, able to develop business integrated at regional level. Concurrently, these firms aim to posses important shares of the market having as main purpose the one to become leaders of the world market and to have into the portfolio the greatest part of the consumers on world market. These firms aim a better development of the business from the legal – institutional point of view, on a certain field of activity, with an increase of consumption volume which is quite important.

The organization of these companies would be realized on large geographical areas for which would be distributes, internationally, on numerous regional filial acting often in an independent manner in rapport with the local specific. Between these branches as well as between them and the headquarters of the corporation there are representation and functional rapports.

The functional rapports are determined by the existence as part of these big corporations and of some functional departments on product, conducted by specialists co-operating for a better correlation of the products and their variants as part of the scale in the portfolio.

This approach corresponds to the **regional-central approach** delimiting the market based on political – institutional and social- cultural criteria, the calculated volume being the one for a *available or manifested market*.

$$P_d = c_m \times n$$

where:

P_d = available market

c_m = manifested consumption volume

n =population volume

d. Mixed, predominantly extensive manner. A last modality of selection and approach of the markets is the mixed, predominantly extensive one. This approach takes into account all purchasing situation together with all consumption types practiced on a certain market as part of the international one or predominantly on the world market.

Under the aspect of the request on international market, this is generally very focused and homogenous under the impulse of generalization of a common life modality, at the level of all markets and generalization of a universal, consumption class of value. This request becomes, to a great extent, specialized, without value differences between products on the background of a generalized technology. The request is under the influence of some dominant factors of institutional and development type (economic and technological). The request presents an effective character in case all consumers on the specific market possess resources necessary for the supply of the products and prove the same modality of consumption.

These forms of the international market certify business and activity fields where request is limited with stagnation tendencies, the intensive solution being connected to the value increase of the products and re-stimulation of the consumption. The extensive increase can be realized by attracting new consumers to the field of activity and the products of the company with the aid of some new forms of activity, close to the way of life and purchase of the population.

Competition orientation for such an approach modality would be towards a business field or activity field throughout specific forma of specialization. As part of the field, firms approach different forms of integration of the geographical – regional markets and of the consumption classes. Success is granted to a greatest extent by the business type and the modality of developing the business and less by the business field. Generally speaking, in case the world market is focused at the level of a business field, generally there would be leader firms with extended selling networks, creating monopoly alongside them would appear small firms which, due to the flexibility and the possibility of reducing costs, would generate new value levels. These small firms, commonly focused nationally on the international market would tend to erode, gradually, the position of great international firms offering alternative business types, based on alternative technologies independent of the old types of businesses.

Firms desiring the entrances into this type of approach are the ones with capital possibilities and great elongation resources. Also, this extension would be supported by the capacity to build business centers and profit, capable of self-suggesting and develop by relationships of hierarchical representation. The firm’s culture is a global one, businesses not having a local or national specific, these firms being capable of producing on any market of the world, to reduce costs based on a production specialization. This culture being translated in one of a group, being numerous strategic business units between which there are representation relationships and certain process departments, developed at the level of these units, talking about a certain hierarchy of these strategic units.

This approach modality of the international market involves a high delimited area by a **geocentric orientation**, the volume calculated being the one for an *effective market*.

$$P_e = c_e \times n_e$$

where:

P_e = effective market

c_e = consumption volume

n_e =effective number of consumers

3. Conclusions

The analyze of the approach variants of the international businesses, discussed previously, allow the observation that there exists a number of characteristics taken into consideration in the decision concerning the way of national extension, like: risk, costs, offered control, organizational flexibility. Approaches imposed by these criteria would determine ulterior also some strategy for market penetration and forms of concrete realization.

Observing the elements common to all approaches and international practice in the field, **we would classify** and analyze the categories of the operation forms on the international market, being based on the principles of the approach from simple to complex and on essential criteria defining each strategic alternative.

The main modalities used by firms for penetration on the external market, are the ones presented in figure no. 2.

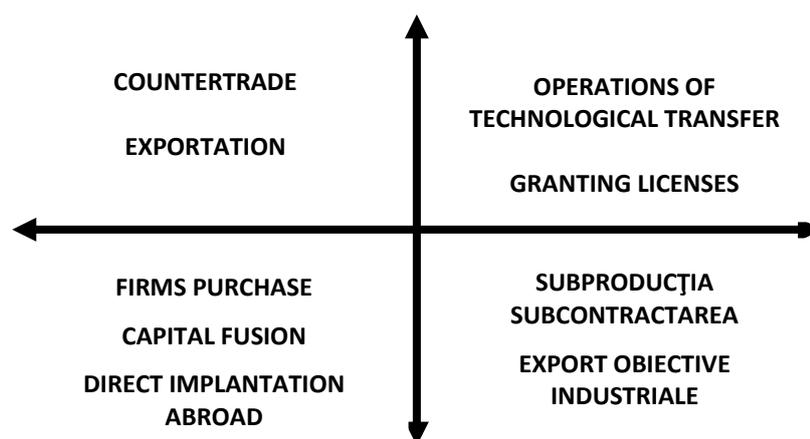


Figure no.2. International operation forms afferent to business approaches

These criteria are: involvement degree, supposed risk, degree offered and possible profit. Depending on the mentioned elements, the strategies of penetration on the international market are the following:

- Exportation, with its two forms: indirect exportation and direct exportation and groups of marketing for exportation;
- Operation forms associated or contracting arrangements. Associated arrangements can be met when the company has a certain competitive advantage, but is no longer capable to capitalize by itself, generally because of the necessary resources;
- Strategic international alliances, mixed firms, complex dynamic networks;
- Direct and capital investments abroad representing the strategic alternative for penetration on the international market, which represents the highest degree of involvement, risk and profit.

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