

# ANALYSIS, SELECTION AND RANKING OF FOREIGN MARKETS. A COMPREHENSIVE APPROACH

LIVIU NEAMȚU

ASSOCIATE PROFESSOR PH.D., DEPARTMENT OF MANAGEMENT, MARKETING AND BUSINESS ADMINISTRATION, "CONSTANTIN BRANCUSI" UNIVERSITY FROM TARGU-JIU, professor.neamtu@yahoo.com:

ADINA CLAUDIA NEAMȚU

PROFESSOR PH.D., DEPARTMENT OF MANAGEMENT, MARKETING AND BUSINESS ADMINISTRATION, "CONSTANTIN BRANCUSI" UNIVERSITY FROM TARGU-JIU, neamtual@yahoo.com

## Abstract

*Choosing the appropriate markets for growth and development is essential for a company that wishes expanding businesses through international economic exchanges. But in this business case foreign markets research is not sufficient even though is an important chapter in the decision technology and an indispensable condition for achieving firm's objectives. If in marketing on the national market this market is defined requiring no more than its prospection and segmentation, in the case of the international market outside the research process there is a need of a selection of markets and their classification. Companies that have this intention know little or nothing about the conditions offered by a new market or another. Therefore, they must go, step by step, through a complex analysis process, multilevel- type, composed of selection and ranking of markets followed by the proper research through exploration and segmentation, which can lead to choosing the most profitable markets. In this regard, within this study, we propose a multi-criteria model for selection and ranking of international development markets, allowing companies access to those markets which are in compliance with the company's development strategy.*

**Key-words:** international, market, analysis, selection, ranking,

**Clasificare JEL :** F20, F23, M16, M30, M31

## 1. Introduction

Foreign markets study has the main role the correlation of international expansion with the company's strategic system formulated at the time of expansion and development. In many cases forced firms expanding into new markets may bring a decrease in return on equity/capital and assets in the medium term having an effect in lowering yields capital and corporate value. This is a reason strong enough to make companies more closely to the markets they want to enter, focusing more towards processes of selection and ranking of international markets ahead of direct market research.

External market research covers a very wide range of issues, processes and phenomena. Thus, the object of research is, on the one hand, some general market dimensions such as capacity, the import and export potential and volume, space extension of the market, his structure, image etc. [1], [2], [3], and, on the other hand, are subject to investigation the two essential components of any market, supply and demand respectively, considered both separately and in relations of mutual influence quantitatively and qualitatively [4], [5].

External market research for selection operating markets is the systematic knowledge of the volume and structure of demand and supply, qualitative and quantitative links evaluation of these in the past and at the present, and on this basis the forecast development of these markets.

Researching the market to rank it seeks to describe, evaluate, explain the events, processes and phenomena of each market, the foresight of their development, which decisively determine the degree of market integration in international networks of business and highlights how the market can be integrated into the business system of the company.

If these conclusions and recommendations are scientifically and clearly derived, they will be useful to decision makers. Otherwise, their contribution is diminished, and can help to substantiate erroneous decisions.

To achieve a more effective manner for all its functions, external market research must have an organized character. This requirement involves respecting the research process, assigning a budget to ensure adequate institutional and organizational framework and using a highly, and sufficient in number, professional staff.

## 2. Multi-criteria analysis and selection of external markets

In the selection of markets who gives him business opportunities, company should carry out his analysis on several steps. In these phases are successively eliminated markets that do not meet the criteria used. [6]

### 2.1. The selection of potential markets.

The selection process of potential international markets is oriented towards the study of specific phenomena and processes to countries and groups of countries, studying the markets for the diverse goods and evaluating market opportunities for sale or supply. [7]

At this stage some markets are eliminated, taking into account the preferences of management due to business approaches set established under the overall strategy. Here are important in the decision, elements such as:

- The mission, resources, and company competitive advantage;
- The nature of the product, and the company's product line;
- Company's experience and attitude of management staff;
- Company's objectives for the production and sales.

This analysis serves to reduce the number of potential target markets. To assess and eliminate potential markets unattractive we propose to be used a model based on a set of specific indicators:

a) *Removal of markets without long term potential*, process that is based on the techniques for identifying early or latent market demand. The main indicator used is the *Capacity of the Market*. The overall size of the market capacity is the theoretical production and demand of goods, regardless of trading conditions, and can be determined in terms of the total absorption capacity and imports, respectively, in terms of overall production capacity and export in third markets.

*Import Capacity* ( $C_i$ ) is the part of the absorption capacity of the market which has the source of coverage goods from abroad. It can be measured as follows:

$$C_i = N_{it} \times I_{it} \quad (1)$$

Where:

$N_{it}$  - number of importers (consumers) of goods imported theoretical.

$I_{it}$  - import per inhabitant, firm, institution.

*Export capacity* ( $C_e$ ) is part of the overall production capacity of a market that is intended to be sold on other markets. The quantitative expression, it may take the form of:

$$C_e = \sum_{i=1}^n C_p - \sum_{j=1}^m N_{ec} \quad (2)$$

Where:

$C_e$  - production capacity;

$N_{ec}$  - national demand that can be covered both from themselves and from import;

$i = 1, 2, \dots, n$  - number of producers;

$j = 1, 2, \dots, m$  - number of national consumer.

b) *Removal of markets without medium term potential*, that takes into account techniques such as: analysis of demand model, international product life cycle, price elasticity of demand for their product, multiple factors index. Based on these can formulate indicators of market potential. The *Market Potential* is probable volume of the market and can be expressed as total potential, absorption potential and demand potential.

The *Absorption Potential* from import ( $P_i$ ) in the case of a product can be determined as follows:

$$P_i = N_{ip} \times I_{ip} \times P_{ip} \quad (3)$$

Where:

$N_{ip}$  - number of potential importers;

$I_{ip}$  - probable average volume of imports;

$P_{ip}$  - estimate average import price.

*Exportation Potential* ( $P_e$ ) covers the part of offering potential of a market that is intended for export:

$$P_e = N_{ep} \times C_{ep} \times P_{ep} \quad (4)$$

Where:

$N_{ep}$  - number of producers (offerers) for exports;

$C_{ep}$  - probable production capacity of each offerer;

$P_{ep}$  - estimated average export price;

c) *Removal of markets without short term potential*, using techniques to identify manifested demand and cost - benefit analysis;

*Market volume* is a quantitative assessment of its size. Market volume is an indicator that shows all goods and services sold, purchased, effectively consumed or treated as. Part of that is the volume of goods from foreign markets, which brings into question the *Import Market Volume* ( $V_i$ ), which for a product can be expressed as follows:

$$V_i = N_{ic} \times I_{ic} \times P_{ic} \quad (5)$$

Where:

$N_{ic}$  - number of importers (consumers from imports);

$I_{ic}$  - average unit of import (consumption);

$P_{ic}$  - import price.

## 2.2. The selection of available markets.

In this second stage is performed a selection based on business environment and specific characteristics to these markets. This stage involves an analysis that compares the marketing opportunities offered by each market.

Selection process of available markets identifies those markets which allow an easy going business relative to business policy of the company and the minimal requirements of the industry it belongs. According to the authors in the field, this process fulfills several functions: description, evaluation and explanation of events, processes and phenomena of each market, providing their evolution, which depends greatly on the accuracy and results of the research [8], [9]. Following the approaches from the literature we suggest four selection levels of available markets:

- Markets removed due to political reasons or legal regulations;
- Market removed due to evaluations regarding technological and economic ability of markets;
- Markets removed due to available resources and supply issues;
- Markets eliminated due to social factors and lack of marketing opportunities that can be exploited.

Analysis of the operational environment must be done in three ways:

- general dimensions: political elements, legal, technological, economic, environmental (resource), sociocultural (PEST evaluating); relations between them; the individual and combined effects of these relations on the key components of the firm's competitive environment (markets, customers, competitors, dealers, supplier, facilitators and public);
- Trends of these dimensions of business environment for the coming years. This part of the evaluation is comparable to the business environment forecast made on the domestic market, when the company is planning activities for the coming years. The major difference is the importance given to different elements of the business environment and their dynamic relations;

- Variables that represent major obstacles to access to that market and their effects on the firm's competitive advantages and on the modalities of doing business.

### 2.3. The selection of effective markets.

At this stage are analyzed elements of structure, function and dynamics of markets.

**a. Structural analysis and market trends.** The task of simultaneous analysis of environmental size on multiple markets with very different characteristics may seem a formidable task. Fortunately, it can be made easier by judicious selection for analysis of environment issues that are important in business competitiveness. For example, marketing staff of a manufacturer of consumption goods will focus on disposable income, distribution of wealth, family and individual's lifestyle, new family formation rate, and distribution systems and media availability. A producer of industrial goods will be more concern for the technological development of the market, the number and location of industrial buyers, their cost structure and sales staff availability. Also for simplicity, the analysis of marketing opportunities may consider clustering the elements of the business environment according to a set of criteria that have value for the company. There are three commonly used criteria for grouping markets: geographical proximity, income (GDP/capita) and stage of economic development and sociocultural characteristics.

The selection of markets will depend on the types of products that the company exports or internal considerations such as organization of international business operations and location of production facilities.

**b. Functional analysis of existing market barriers**

There are two general available types of barriers and a set of barriers that are substantially different from domestic market. The first two types are entry barriers of market (export restrictions, currency controls, taxation of capital decreases, restrictions on foreign investment, etc.) and exit barriers (import charges, import quotas, import foreign currency deposits, government policies on investment etc.). The third refers to the barriers for presence in the market (access to the storage facility, sales staff availability, management staff availability, etc.).

**c. Cyclical and dynamic analysis**

Highlighting cyclical situation, dynamic relations and imbalances between factors of dynamics and future trends shall be made with indicators, a largest group of significant elements of conjuncture. Conjectural indicators show temporal links. Given this characteristic, they are:

- *advanced indicators*, which characterize the evolution of faster components of conjuncture than its overall dynamics, preceding it (the rate of investments, constructions, orders and contracts);
- *simultaneously indicators*, evolving at the same time with overall evolution rate in frame of cyclical situation (national income, industrial production indices, the prices, sales);
- *late indicators*, reaching the maximum or minimum after the general conjectural state exceeded that level (interest rates, fluctuations in exchange rates, stocks).

If you monitor the conjuncture and such indicator has value Y at time t,  $\Delta Y$  is the change to the interval t + T, and T is a period of time (weeks, months) based on circumstantial variables (X), trend variables (Z) and structural variables (S) that form this indicator. Conjuncture trend can be expressed as follows:

$$\Delta Y = a\Delta X + b\Delta Z + c\Delta S + E_t \quad (5)$$

Where:

$E_t$  is cyclical component;  
a, b, c – coefficients.

In principle, market research conjuncture monitor the market on short-term (monthly, quarterly, annually), but it may extend over the medium term. To determine short-term trend, we assume that bZ and cS are negligible, the model becoming:

$$\Delta Y = a \Delta X + E_t$$

When studying conjuncture changes in the medium term, X and S are negligible compared to Z.

**d. Operational analysis.**

It is especially needed for global companies that have several manufacturing facilities located in different places. The company must assess the problem from two perspectives:

- Sources of supply alternatives for target market when penetration is desired. The decision depends on factors such as product characteristics (weight and volume of deliveries), high transport costs, distances, entry barriers.
- Delivery alternatives by which companies must select the appropriate delivery system that depends on factors such as desired delivery time, cost and availability of transport and existing infrastructure.

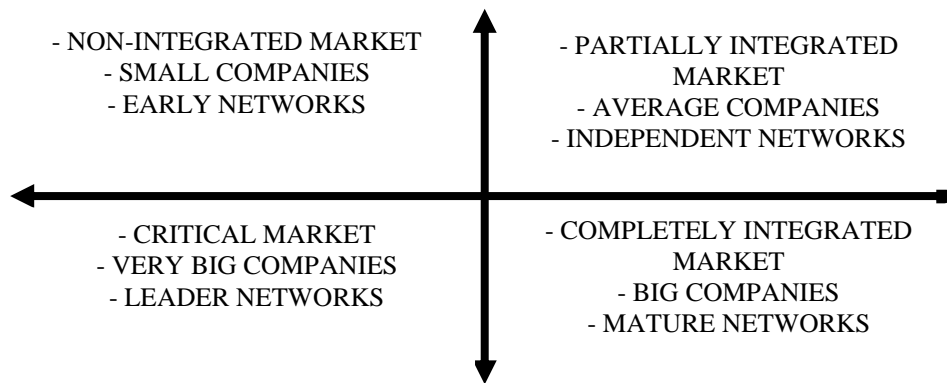
### 3. Ranking development markets

Based on the research and selection process, selected markets will be grouped into four types of markets in relation the specific of business and entry and operate required arrangements. D. Blankenburg [10] considers that the entry in a foreign market is obtained by the companies using social business connections tending to develop only at the same time with the ensemble development of the market. Thus, the market, from the perspective of an international company, is a sum of different direct and indirect relations considering that the actors are connected to other actors.

Into a market it develops technological, cognitive, time, social, economic and juridical relations between companies, in order to create connections to business networks.

Therefore, companies and capitals may face four types of the foreign markets (see figure 1), being forced to classify markets depending on their importance in the ensemble strategy of the company. The effect of these hierarchy and characterizations of the markets will favour the development of the capitals and the increase of the business on the international market as a central interest element for the stakeholders of this business. [6]

Figure 1. Types of business markets



a) A first strategic position of the international markets may be considered the one of the markets having a reduced capacity of absorbing the capitals by forming a category of the *export markets* or of the *non-integrated markets*. Therefore, these markets are characterized by a big diffusion of capitals but also of the categories of consumers having a weak structure and grouping of the demand and of the offer. In these conditions, it is not enough to develop certain proper production and distribution facilities, being enough to product in frame of the adjacent markets and the import on these markets of those sorts of products on which we can delimit a supported demand that may create a subsequent available market. The companies acting on international market integrate these markets by achieving exports using production and supplying bases placed in the neighboured markets.

b) A second market category is represented by the *partially integrated markets*. They are generally markets where the demand is only formed, it is only needed the diversification of this consumption and the enlargement of the product range or the activity fields the company may develop on these markets.

Even if the production is generally accomplished on other markets or by means of the partners in this market, there are also direct investments inside it, especially at the level of the commercial and auxiliary facilities represented by the agencies of the company, logistics, auxiliary production etc. The main working ways are represented by types of partial delocalisation of business such as franchising or licensing, but also operationally by commercial agencies and production subcontracting and supplying contracts and service performances.

c) *Completely integrated markets* represent very important markets for the international business, being markets where the company will pass to direct investments and to portfolio investments in the respective fields and that are able to support the main activity. Being strategic markets, companies will tend to allocate more and more capital, both their own and the one of some strategic partners in these markets. Many times, these markets are regionally integrated, accomplishing products by the participation of several neighboured markets. From these completely integrated markets, we achieve exports towards third states in the area, whose markets are more weakly integrated.

d) The *critical markets* represent the maximum developing level of a market. These markets are considered as being national markets under the direct leading of the company headquarters. From these markets, it is provided the maximum of profits and incomes of the company, being markets on which the success and also the survival of the company depend. The falls of some critical markets may generate the bankruptcy of certain global companies. All the critical markets placed in the company portfolio are integrated in what the companies

call a basic or central market. These are constituted as a unitary whole, as a unique market on which unitary marketing policies and strategies develop.

The company production is accomplished in an integrated way, being about its specialization on products and markets. Thus, in order to share the risks, each activity may be administrated separately and, at the same time, identically for every perfectly integrated foreign market. In order to accomplish the production, we will choose those markets providing cheap sources of raw materials and energy, but also cheap, but qualified manpower. At the same time, these basic production markets will have to provide an easy access to technology with costs as reduced as possible.

#### 4. Conclusions

Large extent of the area and volume, extremely fragmented and complex structure, very diverse market relations, unpredictable dynamic and diversity between one market to another and different shown phenomena require different analysis and approaches for international market in comparison with domestic market.

Position that a company can have on the international market depends largely on market size for its field of activity, but effectively selection of operating markets providing success in the process of penetration, successful implantation and medium and long term development of the company.

In relation with those presented company may consider international market size holds. The need for ranking the selected markets is given by appraisalment of their specificity as production market or consumer market for each of the selected markets. Also the operating mode for each of these markets will be different. Also the operating mode for each of these markets will be different. Company will consider each market separately, according to the two major approaches that exist in international business: adaptive approach and planned approach. In the case of adaptive approach the company will choose the type of operating based on environmental dominant factors on the international market. But, in the case of planned approach the operations will be developed in relation to corporate dominant factors and the culture and specificity of the company. Generally big companies favorite approach on the international market is the planned approach and the adaptive approach is followed by the smaller sized companies. Poorly integrated markets also require an adaptive approach more dynamic while integrated and critical markets require rather a planned approach.

#### 5. Bibliography

- [1] Dixit, A. – Entry and Exit Decisions Under Uncertainty. Journal of Political Economy, Vol. 97, No.3, pp. 620-638, 1989.
- [2] Alkhafaji, A. F. - Competitive Global Management. St. Lucie. Press, Delary Beach, Florida, 1995.
- [3] Doole, I., Lowe, R. - International Marketing Strategy: Analysis, development and implementation. Thomson Learning, London, 2004.
- [4] Johnston, S., Beaton, H. - Foundations of International Marketing. International Thomson Business Press, London, 1998.
- [5] Hollensen, S. - Global Marketing. A Decision-oriented Approach. Prentice Hall, New-York, 2004.
- [6] Neamțu, L., Neamtu, A. - International Affairs. International Management and Marketing, Academica Brancusi Publishing, Targu-Jiu, 2010.
- [7] Krugman, P. – Geography and Trade. MIT Press, Cambridge, Masachusets, 1992.
- [8] Majaro, S. - International Marketing: A Strategic Approach to World Markets. Routledge, London, 1982.
- [9] Andersen, P. H.; Strandskov, J. - International market selection. Journal of Marketing, Vol. 11. No 3. pp. 65-84, 1998
- [10] Blankenburg, D. - Network approach to Foreign Market Entry, In Wilson, D.T and Moller, K. (Eds), Business Marketing: An Interaction and Network Perspective, Kluwer Academic Publishers, Dordrecht, 1995.