

Criteria for evaluating new markets

Criteria for evaluating the geographical market in general

Key figures

- Development of population
- Development of GDP
- Development of GDP per capita

Legal restrictions for economic activities

- Possible legal forms
- Conditions for profit repatriation
- Conditions for sales (e.g. local production)
- Operations risks

Society

- Political system
- Ethnic and religious groups
- Languages
- Demographic structure
- Cultural distance
- Political risks

Infrastructure

- Traffic infrastructure
- Telecommunications infrastructure
- Health care system

Criteria for evaluating industry markets inside the geographical market

Key figures

- Development of quantities in total and per sub-market
- Development of prices in total and per sub-market
- Development of market volume in total and per sub-market

Market system

- Players
- Flows of products and services
- Flows of information

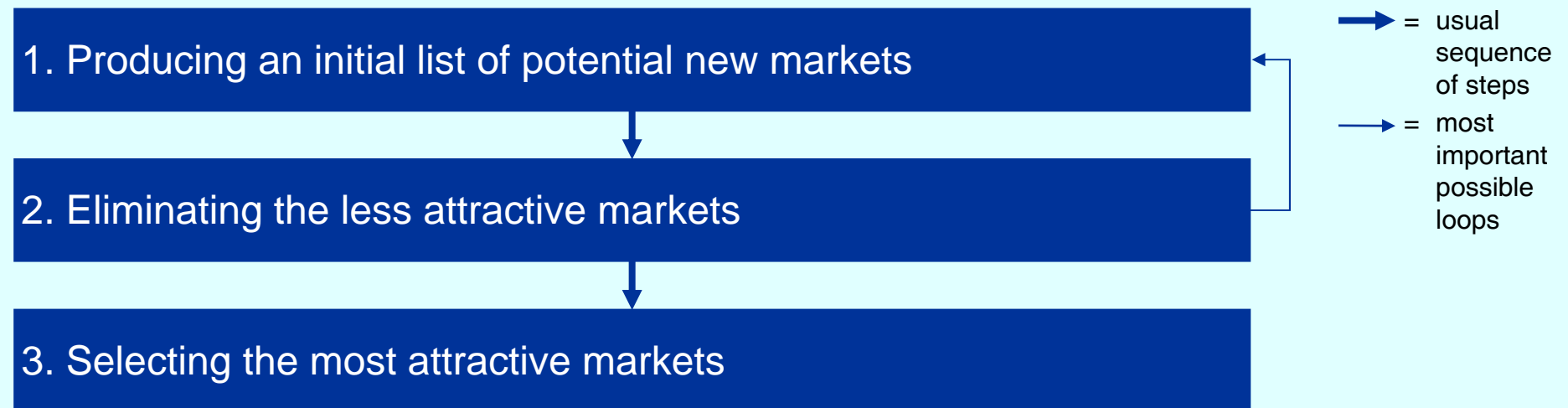
Producers and traders

- Sub-markets
- National and international competitors
- Wholesalers and retailers
- Competitive intensity

Customers

- Customer segments
- Link between customer segments and sub-markets; industry segments
- Demand similarity

Process for evaluating new markets



China's BERI ratings 2001 to 2007

Year	Combined score	Political risk index	Operations risk index	Remittance and repatriation factor
2001	57	56	49	66
2002	58	56	50	67
2003	58	56	50	69
2004	59	56	51	70
2005	60	56	52	71
2006	61	57	53	72
2007	61	57	53	73

(BERI, 2009)

Capacity shares of Holcim, Lafarge and Cemex in selected markets in 1999

Country	Holcim	Lafarge	Cemex	Total
Argentina	38%	11%	0%	49%
Canada	19%	33%	0%	52%
France	13%	34%	0%	47%
Indonesia	0%	3%	44%	47%
Mexico	19%	4%	65%	88%
Philippines	38%	21%	22%	81%
South Africa	36%	26%	0%	62%
Spain	10%	19%	27%	56%
Venezuela	25%	24%	41%	90%

(adapted from Bartlett/Beamish, 2011)

Initial list of potential new markets

Geo-graphi-cal market \ Industries	Industry market I	Industry market II	Industry market III
Country A			
Country B			
Region C1 in country C			
Rest of country C			
Country D			
Country group E, F and G			
Country H			

 = potential new markets
  = no potential new market

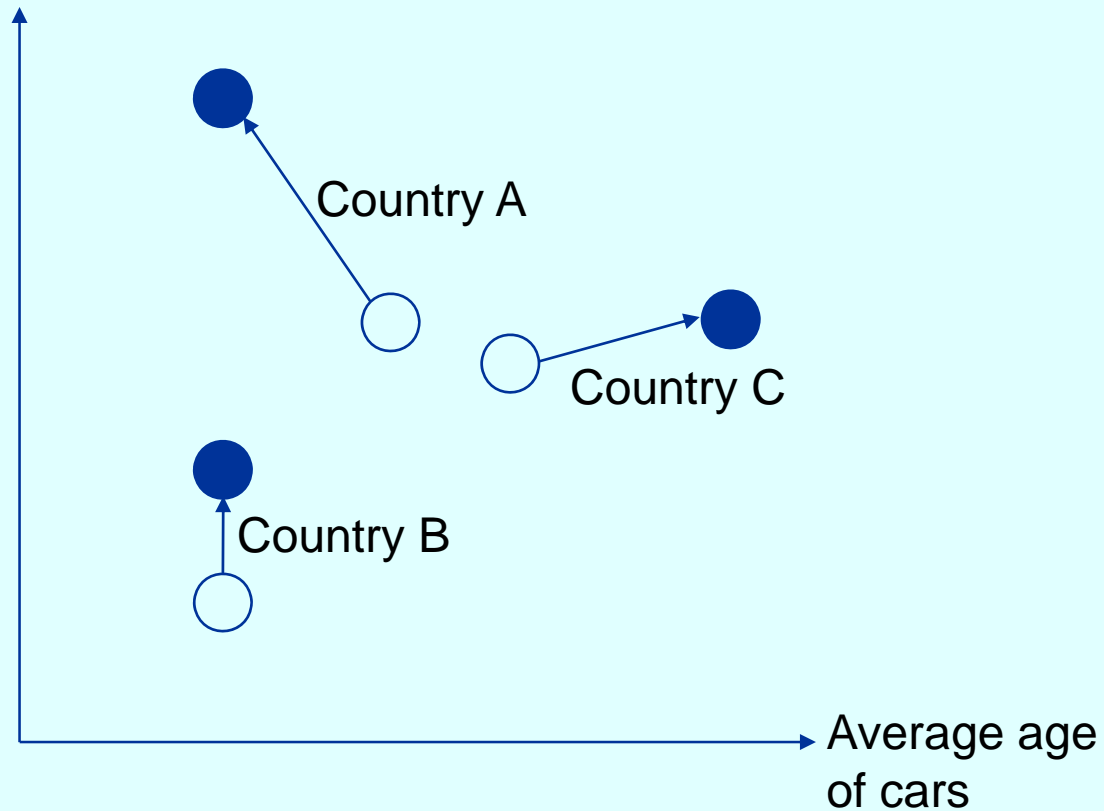
Summary of market data

Industries Geo-graphi- cal market	General information for geographical market						Industry market I			Industry market II			Industry market III		
	GDP per capita	Real annual GDP growth	Political risk Index	Opera- tional risk Index	Profit repatria- tion factor	...	Market size	Size of relevant sub- market	...	Market size	Size of relevant sub- market	...	Market size	Size of relevant sub- market	...
Country A															
Country B															
Region C1 in country C															
Rest of country C															
Country D															
Country group E, F and G															
Country H															

□ = potential new markets ☒ = no potential new market

Comparison of three car part markets


Number
of cars





○ = current situation
● = expected position in five years

Remaining markets after the first round

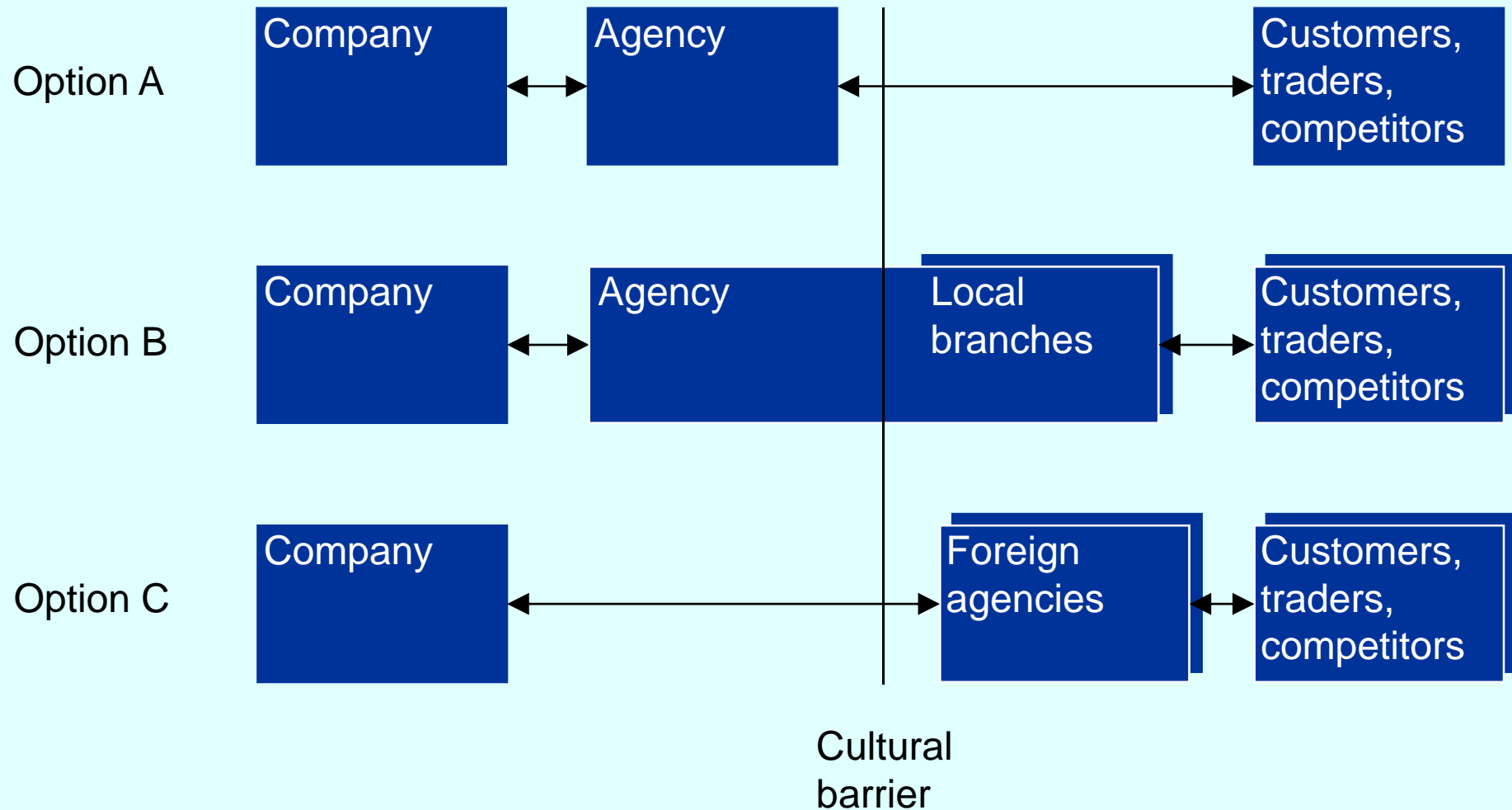
Industries Geo-graphi- cal market	General information for geographical market						Industry market I			Industry market II			Industry market III		
	GDP per capita	Real annual GDP growth	Political Risk Index	Operational risk Index	Profit repatriation factor	...	Market size	Size of relevant sub-market	...	Market size	Size of relevant sub-market	...	Market size	Size of relevant sub-market	...
Country A															
Country B															
Region C1 in country C															
Rest of country C															
Country D															
Country group E, F and G															
Country H															

 = potential new markets

 = no potential new market

 = eliminated in the first round

Managing the cultural barrier in international market research



(adapted from Cateora/Gilly/Graham, 2009)

The five cultural indices of Hofstede for Switzerland, Germany, France and China

Countries \ Indices					
	Power distance index	Individualism index	Masculinity index	Uncertainty avoidance index	Long term orientation index
French - speaking Switzerland	70	64	58	70	40
German - speaking Switzerland	26	69	72	56	40
Germany	35	67	66	65	31
France	68	71	43	86	39
China	80	20	66	30	118

(Hofstede/Hofstede, 2005)

Cultural differences between regions of Switzerland, Germany, France and China

Indices differences Countries Differences	Differences in power distance	Differences in individualism	Differences in masculinity	Differences in uncertainty avoidance	Differences in long term orientation	Total differences
German - French Switzerland	44	5	14	14	0	77
German Switzerland - Germany	9	2	6	9	9	35
French Switzerland - Germany	35	3	8	5	9	60
German Switzerland - France	42	2	29	30	1	104
French Switzerland - France	2	7	15	16	1	41
German Switzerland - China	54	49	6	26	78	213
French Switzerland - China	10	44	8	40	78	180

Industry segments in the European market for low budget cars

Customer group Product group	Families with low income	Young people buying their first car	Purchasers of a 2nd car	Retired persons	Companies providing company cars	Crafts-men etc.	Car rental + car sharing companies	Farmers
Micro cars			X	X				
Sub-compacts		X	X	X	X	X	X	
Compacts	X	X	X	X	X	X	X	
4-wheel sub-comp.		X	X	X	X	X	X	
4-wheel compacts	X	X	X	X	X	X	X	X
Cheap minivans	X						X	
Cheap cabriolets		X	X	X				
Second hand cars	X	X						X

X = important in terms of volume = industry segments

(Grünig, 2012)

The largest retailers for food and near food

Company	Country of origin	Revenue from food and near food 2004	Revenue from food and near food 2009
Wal-Mart	USA	288	405
Carrefour	France	99	120
Tesco	UK	65	90
Total for top ten	-	839	1,087
Total world market	-	3,500	4,800

Figures in billion USD

(Deloitte, 2011; ETC group, 2005)

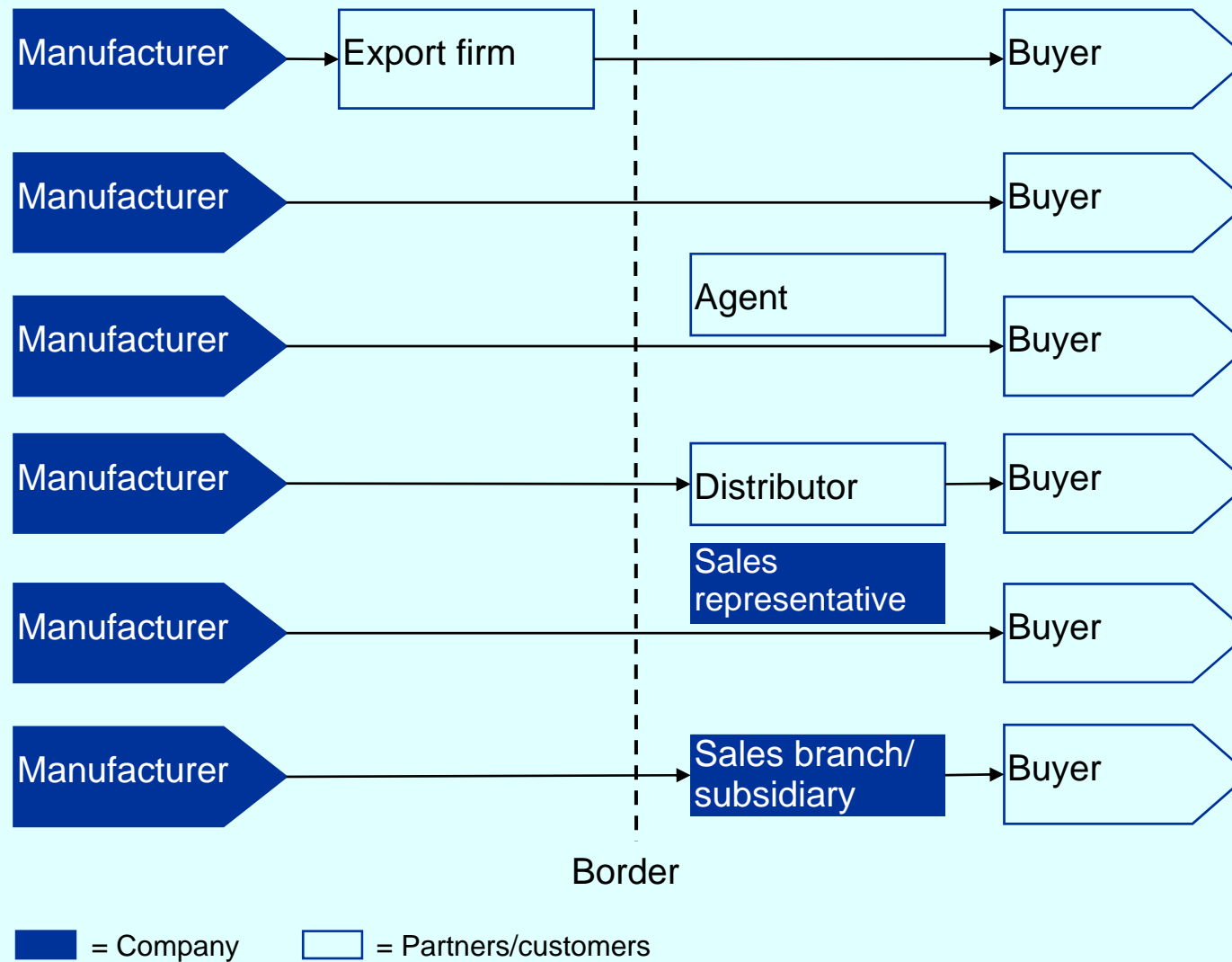
Scoring model for selecting the most attractive markets

Option		Criteria					Overall evaluation	
Geo-graphical market	Industry market	Cultural distance	Size of the target sub-markets	Growth of the target sub-markets	Competitive intensity	Access to distribution channel	Industry market	Geo-graphical market
		Importance of the criteria						
		2	3	2	2	3		
A	I	2	4	3	4	3	39	32
	III	2	2	2	3	3	25	
C1	I	3	2	2	1	2	26	24
	II	3	3	1	2	1	24	
	III	3	1	3	2	1	22	
Rest of C	III	3	2	2	3	1	25	25
E, F + G	I	2	4	2	4	3	37	35.5
	II	2	3	3	3	3	34	
H	I	2	1	2	2	2	21	29.5
	II	2	4	3	2	4	38	

Scores: 4 = very positive, 3 = positive, 2 = negative, 1 = very negative

Importance of the criteria: 3 = high, 2 = medium, 1 = low

Different alternatives within exporting



Process for evaluating market entry modes

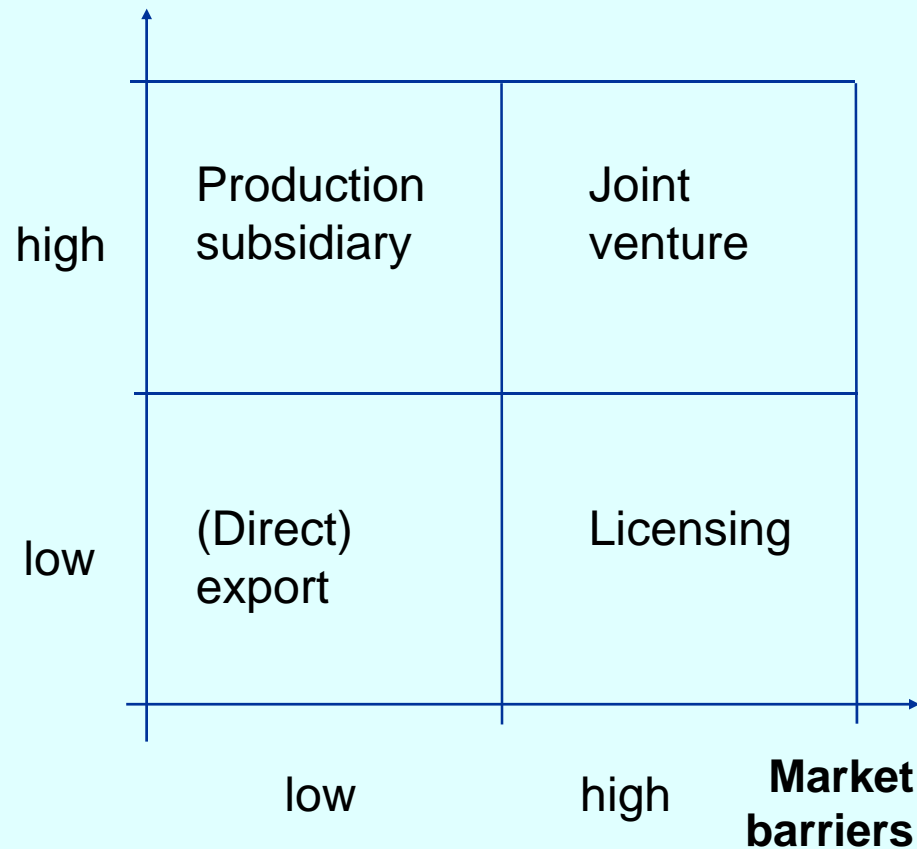
1. Eliminate the less suitable entry modes based on external and internal conditions



2. Select the best suitable entry modes based on a detailed evaluation

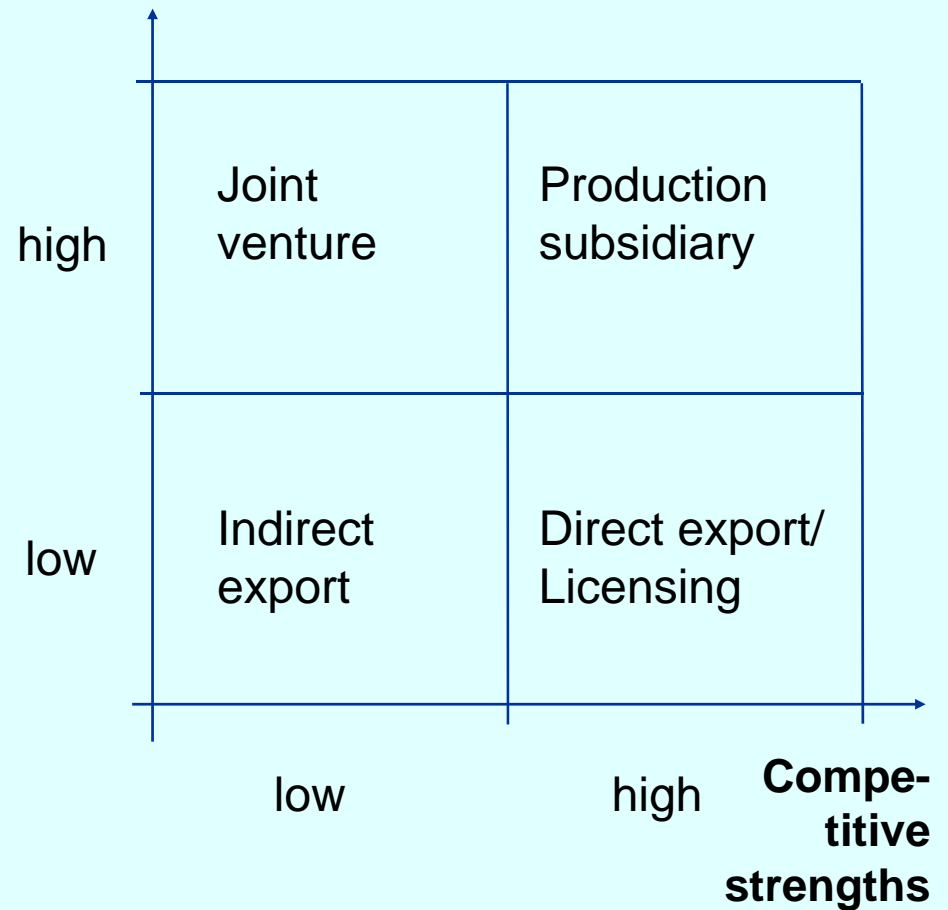
Matching market attributes, internal attributes and entry modes

**Market
attractiveness**



(Zentes, 1993)

**Market
attractiveness**



Scoring model for selecting the market entry mode

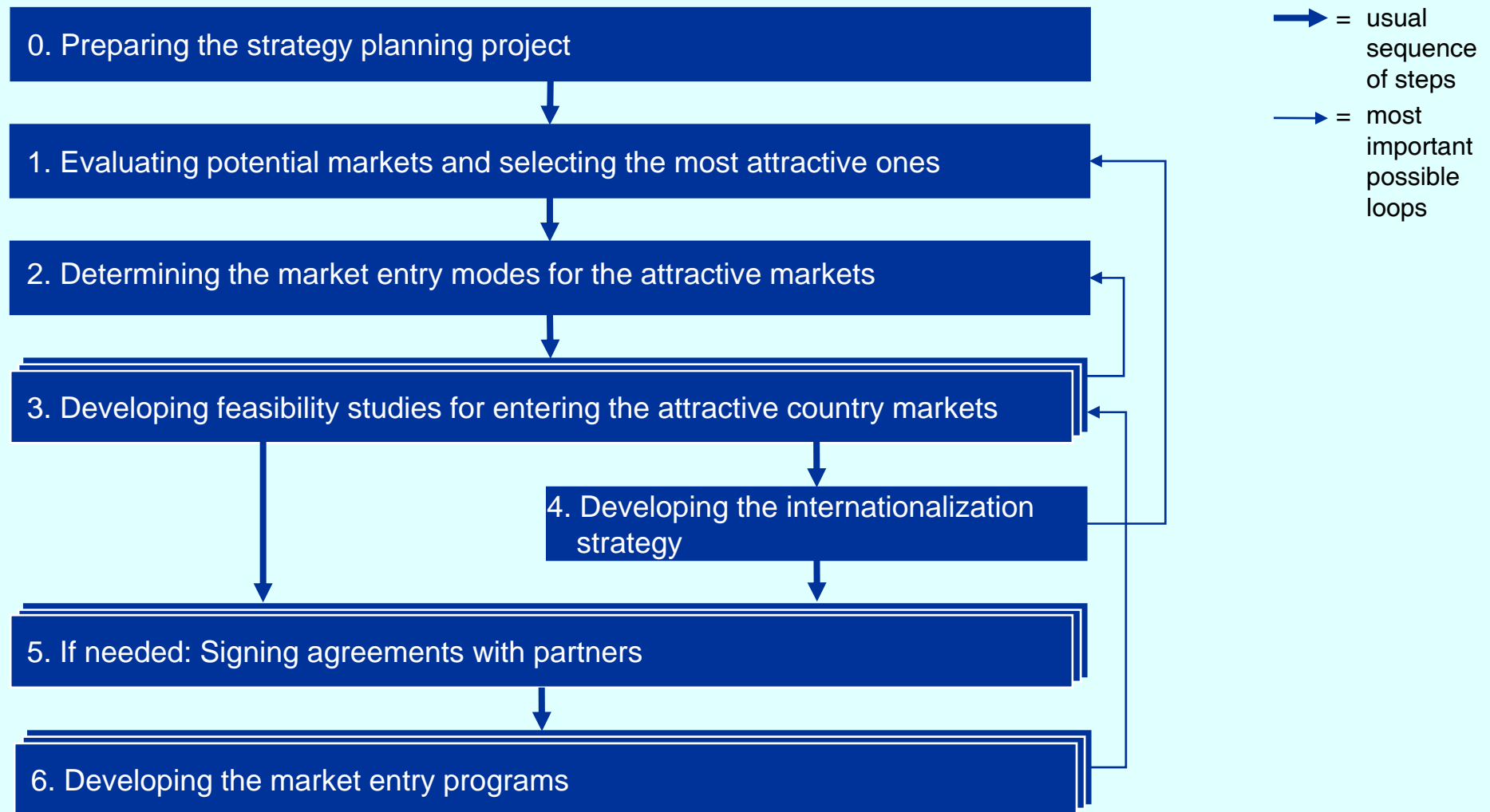
Criteria	Importance of the criteria	Options		
		Export via distributor	Export via sales subsidiary	Licensing
Control over marketing	2	1	4	2
Control over after-sales service	2	2	4	2
Required financial resources	3	4	2	4
Requires management resources	1	4	2	3
Production costs	3	1	1	4
Custom duties to be paid	2	1	1	4
Flexibility to switch entry modes	1	2	3	2
Access to distribution channels	3	4	2	4
Risk of knowledge dissemination	2	2	4	1
Overall evaluation		45	46	59

Scores: 4 = very positive, 3 = positive, 2 = negative, 1 = very negative







Importance of the criteria: 3 = high, 2 = medium, 1 = low

(adapted from Mühlbacher/Dahringer/Leih, 2006)

Process for developing an internationalization strategy for new markets



Market - entry mode combinations as result of Step 2

Most attractive markets		Entry modes		
Geographical markets	Industry markets	Production subsidiary	Sales subsidiary	Distributor
A	I			
	III			
E, F + G	I			
	II			
H	II			

 = selected entry mode


 = entry mode which would fit best

Table of contents of a feasibility study for entering a country market

1. Served industry markets
2. Market entry mode(s)
3. If needed: Partner(s)
4. Marketing plans for the served industry markets
 - 4.1 Industry market A
 - 4.2 Industry market B
5. Resources needed
 - 5.1 Human resources
 - 5.2 Assets
 - 5.3 Working capital
6. Quantitative objectives
 - 6.1 Industry market A
 - 6.2 Industry market B
7. Measures
 - 7.1 Order of entering the industry markets
 - 7.2 Steps and time needed for building up activities in industry market A
 - 7.3 Steps and time needed for building up activities in industry market B
8. Responsibilities
9. Budget
 - 9.1 Expenses including investments
 - 9.2 Revenues
10. Economic evaluation

Net present values of market entry options

Market entry options	Free cash flows									Dis-count rate	NPV
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8		
Market A with wholly owned production subsidiary	-1,500	+150	+200	+250	+250	+250	+250	+250	+750	10%	-58
Market E, F + G with sales subsidiary	-600	+90	+120	+150	+150	+150	+150	+150	+150	9%	+160
Market H with sales subsidiary	-400	+60	+80	+100	+100	+100	+100	+100	+100	8%	+131

Figures in 1,000 EUR

NPV = net present value

Table of contents of an internationalization strategy for new markets

1. Country and industry markets to build up
2. Entry modes and, if needed, partners
3. Quantitative market objectives
4. Timetable
5. Responsibilities
6. Investment budgets and free cash flow targets



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