

# EXPORT STRATEGY BASED ON MARKET RESEARCH

Octavian-Liviu OLARU\*

## Abstract

*A strategy is a general plan aimed to develop a business. Even export firm that wants to develop and prosper needs some form of strategy. A company's strategic fit with the trading environment has to be continuously reconsidered because it is likely to erode. Managers should be well informed in order to develop their judgment and understanding of the driving forces that shape the business environment. The greatest mistakes are made by exporters who think they know a foreign market as well as they know their local one, only to find after an ill-fated export launch, that they do not.*

**Keywords:** *strategy, business environment, export, foreign market*

## 1. Introduction

Business firms operate in an increasingly global world. The world economy is no longer monopolized by the developed countries. Without Africa, Asia, Latin America or Eastern Europe there can be no globalization. Since economic growth in developing and emerging economies remains higher than growth in advanced countries, it is probable that within the next two decades the global economic map will change more than it has done over the last 20 years. This will mean a fundamental change in the global corporate landscape.

An important aspect of the globalization process is the rapid change in regulations affecting the international marketing environment. The world trading system is constantly spinning out new opportunities and creating new threats. Certain tariffs and quotas are removed but new technical norms, phytosanitary measures and anti-dumping actions are rendering the export trade more difficult for companies all over the world. While numerous subsidies are being eliminated and the bureaucracy of customs procedures curtailed, new rules on intellectual property rights, certification requirements or complex domestic regulations require export managers to respond to new regulatory challenges.

In the above mentioned conditions, managers of small and medium-sized enterprises (SMEs) are particularly affected by this complexity of the regulatory context. The complications of customs procedures, documentation requirements, technical standards, sanitary norms, administrative practices and unofficial dealings surrounding the application of various regulations are high on the list of managerial export concerns. Combining these facts of life with the frequent requests for just-in-time delivery, enlarged product responsibility, more services around exported products results in too great a competitive effort for many exporters in developing and transition economies.

The aim of this paper is to identify the critical issues facing managers in this system, consider their operational and strategic implications for business firms and suggest techniques and approaches for dealing with the regulatory challenge in global markets.

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\* Professor, PhD, Faculty of Economic Studies, "Nicolae Titulescu" University of Bucharest (livolaru@yahoo.com).

## 2. Need of information search and marketing analysis

The greatest mistakes are made by exporters who think they know a foreign market as well as they know their local one, only to find after an ill-fated export launch, that they do not.

Preliminary market research is needed when choosing a new market. A systematic, detailed and constantly updated intelligence network is required to support ongoing export operations. In most cases the company's client (importer) is the best source of market information. Market research is also required when the exporting firm wishes to take a more active role in its export development.

Any marketing study has to begin with an internal diagnosis of the export company itself. Only when managers are clear in their minds about their firms' relative strengths and weaknesses in production, financing, human resources, technology and export experience, may they study prospective export markets with respect to regulation, the competition, possible customers and other characteristics.

Most countries maintain statutory or semi-public institutions, Trade Promotion Organizations (TPO), providing marketing information and assistance to exporters and offering a wide range of export incentives. Managers interested in initiating an export trade with new markets should begin their research by exploring the documentation and the assistance opportunities provided by such government bodies.

Typically, the information on regulation is an integral part of more extensive foreign market study which deals with market access; domestic regulations and sales practices; supply, demand and end-use analysis; pricing; distribution; communication; sales promotion. That study involves the use of both secondary data (official documentation, mass media reports and online sources) and primary sources such as official documentation, interviews with the authorities or experts, and field research in the foreign market.

The conditions of a company's market access may differ from those of its foreign competitors because of preferential trading agreements, discriminatory sanitary measures or other factors. The study has to evaluate the total cost of distance and the regulatory environment in the export market, taking into account such factors as transportation and insurance costs, customs tariffs and other import charges, quotas, special rules and prohibitions.

The domestic costs of market entry such as the costs of product testing and certification, the cost of maintaining a local presence if required by law, the cost of obtaining permits or registration of trademarks should all be considered.

Potential exporters will have to search for data defining their status within a given market, i.e. data on national treatment, harmonization and mutual recognition of standards, and the like. Many aspects will be covered by bilateral arrangements between the exporting and importing countries.

Market research should be conducted to answer mainly the following questions:

- How does the general price level in the export country compare with that of the exporter's domestic market?
- How has the average product price evolved in recent years?
- What are the distribution costs and customs duties, taxes and other charges paid on imported and local products?
- What are the cost advantages (disadvantages) of local producers with respect to regulation?
- What is the nature of the competition in the export market? For instance, how does the price leader behave, what are the rules against cartelization, what is acceptable pricing behaviour in the opinion of local competitors?
- What are the normal margins charged by distributors of like products and the

legal provisions applying to them?

- What are the highest and the lowest price that can be charged for the export product? (The answer to this should be based on field research.)
- How do the export market's rules on pricing differ from those in the firm's home market?

The regulatory network may require a diversified pricing strategy for the exporter to arrive at the same retail price in a number of countries. An initial market study will usually rely on secondary data but a solid pricing analysis based on modern price-testing techniques may be needed before larger-scale direct exports are initiated.

Those engaging in direct marketing should also consider following communication and promotion issues:

- What marketing and trade promotion approaches have proven most effective in the past for the products concerned?
- What are the most important trade fairs in which the export firm might consider participating?
- Is there any public support available in the exporting country for that purpose?
- What communication channels should the exporter use and what are the legal restrictions that should be taken into consideration?
- What is the cost of alternative communication and promotion strategies? The target audience should be evaluated and the message to be delivered should be formulated coherently.
- What are the basic rules on communication and promotion and how do those rules differ from those in the exporter's domestic market?

### **3. Trade information services provided to the business community by a TPO**

The quality of business decisions taken by a company depends on pertinent, reliable and timely information. Exporters need to stay current in their awareness and understanding of market developments and trade opportunities in order to maintain their positions or establish edges over their competition. A TPO should pay close attention to the trade information needs of exporters and have appropriate mechanisms for acquiring such information systematically and disseminating it in a timely way. Moreover, a TPO provides basic and useful support to the export community by offering methodologies and procedures for the product export potential identification and if facilitating the match maker between the export offer and import demand.

There are three steps in the methodology for product identification:

- Prepare the product-market framework.
- Determine export potential of local industries.
- Make a pre-selection.
- Make a survey of the export supply.

A useful and practical approach is to adopt the product-market framework for an export promotion program. As the term suggests, each program concentrates on a specific product or group of products. Activities are directed mainly at helping the specific sector or a selected group of companies to gain entry into certain markets.

The advantage of this approach is that it makes a relatively low demand on the workforce and on financial resources, which may be limited in some developing countries. The product-market framework means allocating resources to focused activities for maximum impact designed to achieve export targets. Three features of this approach are:

- Products are identified for the purpose of designing a marketing strategy for a

specific sector, including all necessary action and support activities that help generate or increase exports.

- A program based on the product-market framework can address specific concerns of the sector, putting into evidence particularly obstacles to export growth, and providing the basis for coordinated or co-operative actions, including joint export promotion and marketing activities.
- The program can help individual companies to develop their own marketing strategies and program and to identify specific areas where support or assistance is required.

Planning and implementing a program with a product market framework could be done by a central export coordinating body, although institutions and organizations from both the public and private sectors might also participate.

The significant role of the TPO is to lay the groundwork in preparing the program and to do the necessary studies to identify the products to be promoted in target markets.

In many cases, companies looking forward to export do not have a clear idea of what products to promote in international markets. This leads to haphazard trade promotion efforts, often as a reaction to inquiries made by foreign buyers, with uncoordinated, ineffective export assistance. Identifying priority export products is necessary to maximize the impact of all activities and efforts aimed at achieving national export targets.

In carrying out the activities in the field, a TPO should not work in isolation from the business community. A TPO must be ready to adjust the scope and nature of its services according to the requirements of the export sector.

In most cases, however, additional measures are needed, and the following recommendations can be considered:

- TPO staff concerned with manufacturers and exporters should maintain frequent contacts with them, and information obtained should be recorded systematically on standard forms. TPO staff should respond to all requests, in order to improve confidence in TPO-business relations.
- Working groups should be established to study, design and implement specific promotional programs, and activities. Working groups should include key representatives from relevant sectors in ways that take their points of view into consideration.
- Industry advisory groups/committees should be established under the sponsorship of the TPO and act as a feedback mechanism to provide the TPO with inputs for implementing industry-specific promotional program and activities. These committees should include key representatives from relevant sectors, and their points of view should be taken into consideration.
- The staff of the TPO should keep in close contact with export associations, sectoral groups and organizations and chambers of commerce and industry. Such contacts are the most effective channels of communication with the business sectors in many countries.
- The TPO should organize market and industry seminars to disseminate information as frequently as possible, in order to motivate the business sector towards greater involvement in the export trade.
- The TPO should have consultations, dialogues, and workshops with the business community to discuss external trade impediments affecting their exports to overseas markets. These views could be incorporated in lobbying representations and market access negotiations, either on a bilateral or multilateral basis.
- The TPO should also have periodic dialogues with the transportation and

logistic sectors about ways to enhance the effectiveness of the trade administration system.

In summary, the TPO should act in response to the needs of the private sector when developing its interface with the world market.

#### **4. Market research activities developed within a TPO**

Since many novice exporters are not qualified or experienced to interpret and make use of this information, the TPO can provide a useful service by offering light analysis in the form of suggestions, pointing out specific opportunities, and identifying potential liaisons. Support and information for this can come from published market data, private trade and market studies, other trade promotion organizations, trade associations, chambers of commerce, diplomatic trade missions, foreign governments, and development and aid organizations.

After identifying the target markets that demonstrate the most potential, a general set of profiles ought to be developed. These help to stimulate ideas and possibilities among producers and potential exporters and can serve to educate and inform them about the characteristics and conditions of those target markets that have the highest potential for their export products. These profiles can inform and influence the TPO's foreign promotional efforts and should, like all trade information, be updated periodically.

Market profiles typically include:

- the general background of the target market (culture, outlook, income levels, marketing conditions);
- the types of imports favored;
- importing patterns, taking into account main trading partners, ten-year trends, and annual seasonality;
- available distribution channels;
- historical price data;
- customs requirements and other import regulations;
- import tariffs;
- relevant trade agreements;
- useful contacts (diplomatic missions, trade bodies, chambers of commerce, etc.).

TPOs can conduct market studies that are considerably more detailed than market profiles. These provide in-depth information about a particular sector or subsector and its characteristics. While such studies cover the macro information available in market profiles their focus tends to be on identifying and defining the characteristics of a select market channel. This includes:

- identifying market participants;
- determining constraints or barriers to entry such as import and legal requirements;
- providing specific tariffs schedules;
- determining the distribution system to be used;
- offering details of typical shipping and payment methods;
- detailing costs and options for shipping;
- identifying the characteristics of the products and their packaging;
- discovering current import statistics for a product including countries of origin, pricing and trends;
- determining potential market volumes and predicted saturation points;

- providing a sales forecast;
- suggesting a pricing strategy;
- suggesting the kind of promotion to be done;
- explaining cultural or seasonal factors;
- providing catalogs and copies of advertisements from competing or related producers, wholesalers, distributors, and retailers;
- listing specific contact information for potential trade partners (importers, distributors, wholesalers, etc.);
- identifying trade newsletters and journals;
- providing a compilation of similar or related market studies;
- obtaining product and packaging samples.

Given the costs involved, these ought to be conducted in response to specific export opportunities and ideally supported by (financially or in terms of study assistance) interested exporters or trade associations. Such studies, especially for less open countries, can be coordinated with diplomatic trade missions but ought to be conducted by experienced, market-oriented professionals familiar with the target market.

Assessments can help to concentrate promotional efforts on a particular product or service when driven by clear market opportunities or the request of an exporter. The specificity of such studies requires that they be designed in close cooperation with the exporter or trade association. Such assessments use market studies as a point of departure and are not only more specifically focused, they also tend to develop interactions with specific market actors. From such interactions, importers and exporters can take over from the TPO to develop their own relationships or partnerships. Through these working links they can then continue to develop appropriate products or services designed to fit market needs. This can include sourcing of other or different raw materials, developing new packaging sizes and designs, and improving or altering product characteristics.

The nature of market studies and assessments i.e. techniques and in-depth on-site research, usually means that they are best conducted by professional marketing firms especially given that many TPOs lack the depth of staff and specific country or sector experience of a dedicated market researcher/analyst.

Both market studies and specific product assessments should include a follow-up or evaluation component to determine their effectiveness. Such evaluation should, at a minimum include interviews with relevant exporters to determine what impact such studies or assessments have had on their plans for export or export quantities.

Taking in view their marketing focus TPOs can be particularly well-suited to assist individual enterprises in designing, developing, and implementing their international marketing plans. For many TPOs this service can be linked to the more general publicity and promotion that they develop and conduct for a country or sector as a whole. Indeed, sometimes enterprise participation can help to defray the TPO's marketing expenses or enable marketing efforts to have a broader scope and reach. Caution should be exercised when selecting marketing or promotional partners to ensure that the TPO's reputation is not compromised and that the opportunity is also transparently available to other qualified enterprises.

## **5. Business strategy based on market studies**

The information contained in a market survey is one of the most important elements to be taken into consideration in drawing up an export strategy.

Most companies have to adapt to the regulatory environment while at the same time attempting to influence that environment whenever feasible. Such companies may thus be seen as biological systems following both reactive strategies (changing themselves) and proactive strategies (influencing the environment) simultaneously.

### ***Reactive strategies***

There are several patterns of business response to a regulatory change in an export market. The firm may either avoid or circumvent a new regulation or it can adapt to it. In certain cases, such as contingency protection, the firm may make concessions to its competitors, or it may build good relations with the people who administer the rules and procedures. The various strategies are not necessarily exclusive and firms usually opt for a mix of approaches.

- *Avoidance.* A firm decides not to export to a given market because of regulatory trade resistance. It prefers to abstain from doing business in an environment that it considers distant, given the firm's corporate culture, business style or expected returns on the cost of market entry. If exports take place they are sporadic or generated by intermediaries acting without the producer's support. Companies sometimes prefer to abandon entry into a certain market because they consider the regulations or the administrative burden imposed unacceptable, or because they prefer to do business elsewhere.

- *Circumvention.* A producer prefers not to get directly involved but favours exporting its products through trading firms. Intermediaries are favoured in order to save the exporter the trouble of dealing with regulatory measures in the import market or to circumvent prohibitions. When domestic regulations (e.g. certification requirements or technical standards) are strict or arbitrary, it may be advantageous to have importers in the export market assuming responsibility for arranging the necessary permits and certificates.

- *Adapting.* This is the most common option. A company analyses the regulatory environment for its export activities, then commits itself to a set of actions that conform to that environment. The mindset is on accepting the regulatory environment as it is, and on seizing new opportunities and responding to new threats. The approach is well illustrated by adjustments in the marketing mix variables such as product concept, transfer pricing, and the like.

- *Appeasement.* In certain situations the level of regulatory barriers may be dependent on the exporter's response strategy and the ability to negotiate business reciprocity arrangements. This is often the case when exporters are confronted with the risk of contingency protection (e.g. anti-dumping and countervailing procedures). Export firms (typically important exporters and challengers to domestic firms) may moderate the reactions of their competitors and of governments through public relations. They are also advised to conduct their business in ways that do not risk the imposition of contingency measures by the authorities in their markets.

### ***Proactive strategies***

A firm's proactive response to the regulatory environment in its trade area may take the form of public relations. This strategy involves dealing with legislators and government officials to promote or defeat trade regulation. PR is most popular with industrial associations or large firms which can justify the substantial expenses of such strategies. Surprisingly enough, even the large organizations tend to underestimate the importance of lobbying and other forms of PR, and use them only as an afterthought. Yet a well-planned PR program constitutes an effective tool for improving the firm's access to foreign markets and may be cheaper than an offsetting marketing action.

## 6. Conclusions

The application of marketing concepts and techniques is often described as a combination of art and science. Decision-making in export marketing is a skill that is developed over time, through practice based on market information and strategy.

A strategy is a general plan for the conduct of business. Every export company that wants to develop and prosper needs some form of strategy. A company's strategic fit with the trading environment has to be continuously reconsidered because it is likely to erode.

Companies face numerous constraints to initiating, developing and sustaining export operations. These constraints may be associated with the characteristics of the managers and the company (internal barriers) or with the environment within which the company operates (external barriers).

In view to surpass the above mentioned external barriers, a company has to benefit:

- At microeconomic level, from a lot of information provided mainly by a national TPO, in view to draw up its own marketing strategy.
- At macroeconomic level, from a national foreign trade promotion strategy.

Creating a national export strategy is by definition an issue involving all relevant players, having to be treated as a national, interdisciplinary and multi-sectoral imperative. A solid national export strategy has to include the effective participation of the ministries of economy, finance and industry, chambers of commerce, as well as experienced members of the national business community.

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