

FOREIGN MARKET ANALYSIS

EVALUATING COSTS, BENEFITS, & RISKS

COSTS

Two types of costs are relevant at this point: **direct** and **opportunity**.

OPPORTUNITY

Because a firm has limited resources, entering one market may preclude or delay its entry into another. The profits it would have earned in that second market are its opportunity costs—the organization has forfeited or delayed its opportunity to earn those profits by choosing to enter another market first.

DIRECT

Direct costs are those the firm incurs in entering a new foreign market and include costs associated with setting up a business operation (leasing or buying a facility, for example), transferring managers to run it, and shipping equipment and merchandise.

ADDITIONAL

- lower acquisition and manufacturing costs (if materials or labor are cheap)
- foreclosing of markets to competitors (which limits competitors' ability to earn profits)
- competitive advantage (which allows the firm to keep ahead of or abreast with its competition)
- access to new technology
- the opportunity to achieve synergy with other operations.

BENEFITS

Entering a new market presumably offers a firm many potential benefits; otherwise, why do it? Among the most obvious potential benefits are the expected **sales** and **profits** from the market.

RISKS

Generally, a firm entering a new market incurs the risks of exchange rate fluctuations, additional operating complexity, and direct financial losses resulting from inaccurate assessment of market potential.

This list of factors a firm must consider when assessing foreign markets may seem burdensome. Nonetheless, successful international businesses carefully analyze these factors to uncover and exploit any and all opportunities available to them.