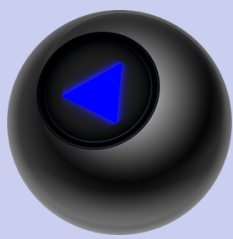


SEEING THE FUTURE

ASSESSING THE POTENTIAL OF ALTERNATIVE MARKETS

MARKET POTENTIAL

Data about population, gross domestic product (GDP), per capita GDP, public infrastructure, etc permit firms to conduct a “quick-and-dirty” screening of various foreign markets. But such data reflect the past, not the future. Firms must also consider the potential for growth in a country’s economy by using both objective and subjective measures.



QUESTIONS:

- How large is the market today?
- How fast is the market growing?
- Key drivers? Are we a match?
- What will the future bring?

Although it accounts for only 2 percent of the world’s GDP, sub-Saharan Africa is attracting much attention as a result of its huge potential. The area has enjoyed an annual growth rate of 5.3 percent in this century,

Google, for instance, is targeting the continent, believing that Africa’s current low Internet penetration rates create enormous growth potential as its infrastructure improves.

LEVELS OF COMPETITION

To assess the competitive environment, it should identify the number and sizes of firms already competing in the target market, their relative market shares, their pricing and distribution strategies, and their relative strengths and weaknesses, both individually and collectively.

Most successful firms continually monitor major markets to exploit opportunities as they become available. This is particularly critical for industries undergoing technological or regulatory changes. The telecommunications industry provides an important example of this phenomenon. Once the home of inefficient, plodding state-owned monopolies, this industry is now the epicenter of the convergence of a variety of new technologies and products — fiber-optics, smartphones, tablets, 4G and 5G cellular service, satellite networks, and so on.

QUESTIONS:

- How many firms in the market today?
- Major strengths + weaknesses?
- How do we compare?
- Collusion + cooperation among competitors?
- Primary channels of distribution?
- These channels open to us?

LEGAL + POLITICAL

A firm contemplating entry into a particular market also needs to understand the host country’s trade policies and its general legal and political environments. Conversely, trade policies or trade barriers may induce a firm to enter a market via FDI. Government stability is an important factor in foreign market assessment.

QUESTIONS:

- Does the govt play nice?
- Trade barriers?
- Local firms favored?
- How bad is the corruption?
- IP laws in place?
- Political conflict?

Consider the political implications of the language used to describe the island of Taiwan. The leadership of the People’s Republic of China (PRC) refuses to recognize the Republic of China (ROC) as an independent nation, viewing Taiwan as a breakaway province. Labeling Taiwan as the Republic of China might discourage sales of this textbook in the PRC; failure to do so might hurt sales in the ROC/Taiwan. Indeed, Delta, Zara, Marriott, and Medtronic ran afoul of the Beijing government when their drop-down menus listed Taiwan as an independent country; the companies quickly published apologies to the PRC’s government and altered their websites.

SOCIOCULTURAL

A firm contemplating entry into a particular market also needs to understand the host country’s trade policies and its general legal and political environments. Conversely, trade policies or trade barriers may induce a firm to enter a market via FDI. Government stability is an important factor in foreign market assessment.

Denmark’s Bang & Olufsen, a well-known stereo system manufacturer, floundered in some markets because its designers stress style rather than function. Japanese competitors, meanwhile, stress function and innovation over style and design. Bang & Olufsen’s Danish managers failed to realize that consumers in markets such as the United States are generally more interested in function than in design and that they are more willing to pay for new technology than for an interesting appearance.

QUESTIONS:

- Is the product compatible with local culture?
- What motivates workers in this culture?
- How educated is the population?
- Demographics?
- Do consumers like foreign brands?