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Complementary approaches to preliminary foreign market opportunity assessment: Country clustering and country ranking

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Abstract

Companies seeking to expand abroad are faced with the complex task of screening and evaluating foreign markets. How can managers define, characterize, and express foreign market opportunity? What makes a good market, an attractive industry environment? National markets differ in terms of market attractiveness, due to variations in the economic and commercial environment, growth rates, political stability, consumption capacity, receptiveness to foreign products, and other factors. This research proposes and illustrates the use of two complementary approaches to preliminary foreign market assessment and selection: country clustering and country ranking. These two methods, in combination, can be extremely useful to managerial decision makers in the early stages of foreign market selection.

Keywords: Country ranking; Clustering; Foreign market selection; Country market assessment

1. Introduction

Marketing across national boundaries has become imperative for long-term company survival and profitability. However, faced with so many countries to evaluate, a business executive can be overwhelmed with the diversity and complexity of alternative market opportunities. There are vast differences among countries in terms of size, income, language, infrastructure, market access, culture, and many other important dimensions. Yet, the differences and similarities among countries are fundamental in determining which markets are suitable for entry.

The issue of delineating and quantifying foreign market opportunity has always been a primary concern for managers, and numerous methods have been presented (e.g., Douglas & Craig, 1983; Harrell & Kiefer, 1981; Helsen, Jedidi, & DeSarbo, 1993; Kale & Sudharshan, 1987). Cavusgil (1985) suggests a three-step process for identifying the overseas markets with the best potential. He recommends a preliminary screening to determine which possibilities warrant further investigation, to be followed by an assessment of industry market potential to estimate aggregate demand, and finally, an analysis of sales potential in light of a company's unique product and circumstances. Whatever the process may be, it is commonly accepted that country screening should be the first step.

International marketers use two primary approaches in screening for attractive markets abroad. First, clustering yields a group of countries with similar commercial, economic, political, and cultural dimensions. These similarities not only help managers compare the countries, but also provide information on possible synergies among markets. The second is ranking countries according to dimensions that are relevant to the international marketer. Ranking essentially rates countries in terms of their overall market attractiveness. When these two methods are combined, the manager can identify a reduced set, or sets, of potentially attractive markets with meaningful similarities. Once the screening is completed, in-depth evaluation is still necessary for foreign market entry and expansion decisions.

2. Background

A number of studies have illustrated the use of clustering and ranking. Some researchers suggest them as a prelimi-

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nary step, while others recommend them for ultimate country selection or market segmentation. Therefore, the value of these two methods has been debated in the literature. Papadopoulos and Denis (1988) provide an extensive review of market selection methods and a critique of each. This section presents a brief background and some examples of clustering and ranking.

2.1. Country clustering

The first significant effort in country clustering was reported in the late 1960s (Liander, Terpstra, Yoshino, & Sherbini, 1967). Among the empirical methods for international market selection, cluster analysis was identified as the most complex. The authors grouped countries according to their similarity in economic development. Although widely acknowledged for its contributions, this research was criticized for its methodological weaknesses (Sethi & Holton, 1969).

In the second significant study in this area, Sethi (1971) argued for the segmentation of world markets based on similar clusters. Only then could uniform sets of marketing decisions be applied either to a group of countries or to particular types of customers in different countries. Instead of geographic proximity as a basis for segmentation, Sethi suggested cultural, political, socioeconomic, and religious indicators. He argued that these factors make international marketing more complex than domestic marketing. Ninety-one countries were grouped according to 29 variables, including transportation, communications, and personal consumption data. Sethi concluded that countries should not be classified on the sole dimension of development but on shared traits, which can be evaluated as strong or weak attributes for business purposes.

Huszagh, Fox, and Day (1985) attempted to identify country clusters with a highly favorable environment for the pursuit of a global marketing strategy. They examined 21 countries classified as major industrial markets by the World Bank, and the final clustering presented five groups. The dimensions used were life expectancy (males), average length of work week, percentage employed in services, consumer price index, unemployment rate, government spending per capita, manufacturing as a percentage of GDP, urbanization, and private spending as a percentage of GNP.

Cavusgil (1990) offered a market-oriented clustering on the basis of population growth, median age, number of children per household, participation of women in the work force, infant mortality rate, life expectancy, and GNP per capita. His classification resulted in five clusters: Dependent Societies, The Seekers, The Climbers, Luxury and Leisure Societies, and The Rocking Chairs. Cavusgil also discussed marketing implications for each cluster and pointed to the fast pace of change, noting that this can alter cluster composition and invited marketers to conduct periodic studies.

An investigation by Sriram and Gopalakrishna (1991) aimed to identify candidates for standardized international advertising campaigns. They suggested clustering based on economic and cultural similarities as well as media availability and usage. Forty countries were grouped into six clusters on that basis. Tixier (1994) examined management and communication styles in Western Europe through wide-ranging interviews. The usual clusters for the Continent are northern Europe, southern Europe, Latin, Anglo–Saxon, Nordic, and Germanic. Tixier revealed there are many nuances, and the traditional categories have numerous exceptions.

The basic shortcoming of clustering approach has been repeatedly identified as an exclusive reliance on aggregate, macro indicators (Cavusgil & Nevin, 1981; Douglas & Craig, 1983; Papadopoulos & Denis, 1988) at the neglect of specific-product/service market indicators. Critics propose that product-specific variables be included, but this is more feasible during the later stages of the market opportunity analysis. These indicators are not readily available as secondary data, and require extensive and costly market research. Therefore, their inclusion is appropriate only when a reduced set of countries has been identified. Furthermore, the criticism may have merit when cluster analysis is being used to identify market segments or ultimate country selection, but a preliminary market assessment based on aggregate data is still a necessary initial step. In addition, Day, Fox, and Huszagh (1988) note that for industrial firms marketing goods in foreign countries, the level of economic development is a major determinant in the demand for industrial inputs. Thus, segmenting the global market on the basis of economic, political, and structural factors has considerable appeal. Finally, in a recent study of the consumer packaged goods industry, Day, Yip, and Christmann (1995) found that environmental conditions have a large effect on subsidiary performance of multinational corporations (MNCs). The authors conclude that an MNC’s ability to choose the right countries for entry and investment should lead to significant competitive advantage. The environmental variables used in the study were level of development, population, inflation, exchange rate instability, tax rate, and political stability.

A second criticism of country clustering centers on the assumption that countries are indivisible, homogeneous units (Jain, 1996; Kale & Sudharshan, 1987). Kale and Sudharsan (1987) contend that within-country heterogeneity is totally ignored. In addition, because similarities among groups of consumers across national boundaries are not considered, possible economies of scale in production, R&D, marketing, and advertising are lost. The authors suggest an intermarket segmentation approach to identify similar consumer segments across borders, but that is mostly applicable to large corporations in consumer markets. Cundiff and Hilger (1984) note that universal needs and similarities in buying processes are far more