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EXPORT MARKET STRATEGY

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ABSTRACT

This paper presents a summary of relevant literature in the field of export market strategy. The author studies export market strategy under three headings.

Under Determinants of Export Activity the author discusses Triggering of Internationalization, Psychic distance and Commitment.

Under Marketing strategies: Interaction System, the author discusses three types of situations where the buyer and seller have to interact continuously and seller-buyer stability.

Finally, the author discusses the influence tactics used in buyer-seller relations which have been studied under three dimensions, namely, need uncertainty, market uncertainty and transaction uncertainty.

India exports not only traditional products but also manufactured products. Some of the manufactured products are being exported with the benefit of foreign collaboration. Some of the new trends in export include the establishing of turnkey projects in other developing countries as well as undertaking construction projects. All these trends would require a new orientation regarding the strategies that India can adopt. Due to the paucity of data on India's experience, we are presenting a summary of relevant literature in this area. Export marketing strategy can be studied under the following headings:

1. Determinants of Export Activity
2. Marketing Strategies: Interaction System
3. Tactical Moves.

1. DETERMINANTS OF EXPORT ACTIVITY

One of the factors affecting export activity is the characteristics of the firm. Characteristics of the firm are determined by the type of product lines and packages of services it has. The initial information which may stimulate export of the firm's products are market size and location of the firm in the domestic market. Market size can be studied from two dimensions - size of demand and geographic distribution of the market. The location of the firm will determine the firm's environment, i.e., information flow and exchange of information (Finn Wiedersheim-Paul, Lawrence S. Welch, Hans Christer Olsan-1977/1).

1.1 Triggering of Internationalization

The Internationalization process of a domestic firm will partly be determined by the preparedness for the export start. A survey of units in Australia indicates that a majority of companies had inter-state trade before entering foreign markets. They took nearly twice the time to begin exporting as compared to selling inter-State. The export stimuli represented by 'Triggering Cues' might be endogenous or exogenous. The endogenous factors include:

i. "Product uniqueness,
ii. Excess capacity in the resources of Management, ...,
iii. Expansion and Security goals ....."[2]

Any of these factors in single or in combination would provide the export stimulus for would-be exporters. The exogenous export stimuli arise out of:

i. "Fortuitous orders from foreign customers
ii. Market opportunities
iii. Competition
iv. Government export stimulation measures"[3]

These factors have to be combined with a perception of the stimuli by the decision-makers. The values and international orientation of the decision-makers may have a positive impact on the firm's pre-export activity. The perception of risk and uncertainty also has impact on the export stimuli.

The behavioural factors of the firm may also be influenced by the type of production, technology and the time of entry. The type of production can be classified as follows:

i. Standard Producers
ii. Inventor
iii. Technology firms

The type of markets may be competition, oligopoly and monopoly.

This two-dimension approach may determine the direction and velocity of chance of activities (O.Erland and F.Wiedersheim-Paul - 1977/3)[4] instead of its traditional dimension of products and market system. The international utilisation strategy of a firm is determined by the following factors:

i. Higher product activities due to technological knowledge or market knowledge or both

ii. Seeking new products to adapt to existing market

iii. Seeking new market directions to match existing products

iv. Improving the existing organisation and effective utilisation of resources.

The factor analysis applied to Swedish data has provided the following tentative conclusions: The technological complexity is based on the factors of patent application in Sweden (1965-66) per 1,000 employees and first patent application abroad. Most of these are large companies in the technological sense. Market orientation is based on the following factors:

i. Number of producing subsidiaries abroad in 1966

ii. Number of countries with producing subsidiaries abroad in 1966.

The third factor is based on a percentage of the first patent application in Sweden resulting application abroad and the number of countries for patent application originating from first application in Sweden. Factor 1, indicates advanced technology, Factor 2, market orientation and Factor 3, technological horizon. These three factors had a major bearing in the internalisation process of Swedish companies.

1.2 Psychic Distance

In the internationalisation process, the traditional physical distance as measured by transportation cost, tariff and non-tariff barriers, has been studied extensively. However, recent studies indicate that the psychic distance may have a disturbing influence on the flow of information which may effect foreign trade. The factors considered for flow of information between the exporting firm and its markets are (J.E. Vahlne & F. Wiedersheim Paul - 1977/2)[5]:

i. Information on the needs of foreign market
ii. Product information from the firm to the market
iii. The flow of orders
iv. The delivery of orders and
v. The flow of payments to the firm.

The first three types of information flow may be disturbed by the psychic distance and the last two by the physical flow of goods and payments. They have used the following indicators for measuring psychic distance:

a. Level of economic development in the importing country

b. Economic development difference between the exporting country and the respective importing country

c. Level of education in the importing country

d. Difference in level of education between the exporting and importing country.

e. Differences in 'business language'

f. Differences in culture and 'local language'

g. Existence of previous trade channels between the two countries.

When empirically tested, the hypothesis of psychic distance does have a considerable effect on trade flows.

This concept of psychic distance partly explains India's thrust in recent years; exporting or undertaking turnkey projects and construction activities mainly in Asian and Middle East countries; for example, the majority of our joint ventures are in Malaysia and Kenya. This may be explained partly by the existence of Indian immigrants which lowers the psychic distance between India and these importing countries as compared to, say, Latin America.

1.3 **Commitment**

A stage of internationalisation of a domestic firm is achieved through continuous incremental decisions. Besides the above factors, two other factors determine the extent of internationalisation, namely, resource commitment at any given point of time and the knowledge of foreign markets. The market commitment can be studied by the amount of resources committed and degree of commitment (Jan Johansson and Jan-Erik Vahlne - 1976/1)[6]. The degree of commitment is measured by the difficulty of alternative uses of resources committed to foreign markets. The market knowledge may help the initial decision to exports and subsequently in the evaluation of alternatives (Jan Johansson, Finn Wiedersheim Paul - 1975/2)[7]. The study tries to distinguish the four stages of a firm in its internationalisation process. They are:

1. "No regular export activities
2. Export via, independent representatives (Agent)
3. Sales subsidiary and
4. Production/Manufacturing"[8].

These stages of export operation will determine the degree of commitment or involvement of a firm in the export market. These stages may be interpreted as an "establishment chain" i.e., a company in the first stage with no regular export activities will have less resource commitment than a company in the fourth stage of production and manufacturing of activities.

2.0 MARKETING STRATEGIES - INTERACTION SYSTEM

Before going into the strategy of exporters, it may be necessary to understand the factors which determine worldwide purchasing. In a survey (Harry L. Davis, Gary D. Eppen & Lars-Gunnar Mattson - 1974/1)[9] of 110 companies, both domestic and international, an attempt is made to find the critical factors affecting worldwide purchasing. The companies are classified as:

i. Domestic ... Primary emphasis on national market

ii. Venture minded - foreign manufacturing subsidiary existing

iii. International minded - companies having several sales and manufacturing units abroad.

The first criterion is the product characteristics which influence the purchasing strategy. Most of the raw materials or capital goods are procured from the organised market from a small group of suppliers. This may also be affected by the nature of the purchasing department whether it is centralised or decentralised. The second factor affecting worldwide purchase is the distance between the supplier and buyer. The physical distance may make the foreign supplier at a discount due to transportation costs and uncertainty in delivery times. The third factor is government policies on regulation where most of the countries emphasize on the local content regulation and its specification. The fourth factor is the market-product pressures. The domestic and international-minded firms have the same pattern of strategic factors affecting their purchases while venture-minded companies have a slightly different set of pattern. Particularly in the case of subsidiaries abroad, purchases are made from local suppliers due to the pressure of market, price, standardisation of production lines and the existence of a buyers market. The international sourcing of centralised suppliers' selection would go for global procurment. Alternaively, the decentralised supplier selection of subsidiaries favour local supplies.

2.1 **Structural Fit**

With the above background of purchasing in the international scene, other factors which influence the buying behavior of foreign buyers are the organisational system and the variable interaction between the two firms. This will create an interaction system depending on the three dimensions of complexity and similarity. These interactions play an important role particularly in industrial marketing and project export.

The situational variables are:

The exporting firm produces standardised products in an environment where the buyers and sellers are aware of the market. The interaction system is one to one. There is a very low level of perceived uncertainty. The second situation would be in the case of the sellers market where uncertainty arises out of complicated exchange and market heterogenity. There will be a moderate degree of complexity and a need for social exchange between the buyer and seller. There may be situations where the exporter is selling a complex product which involves the knowledge of problem solving. This is a dynamic situation where the buyer and seller have to interact continuously (see Figure 1).

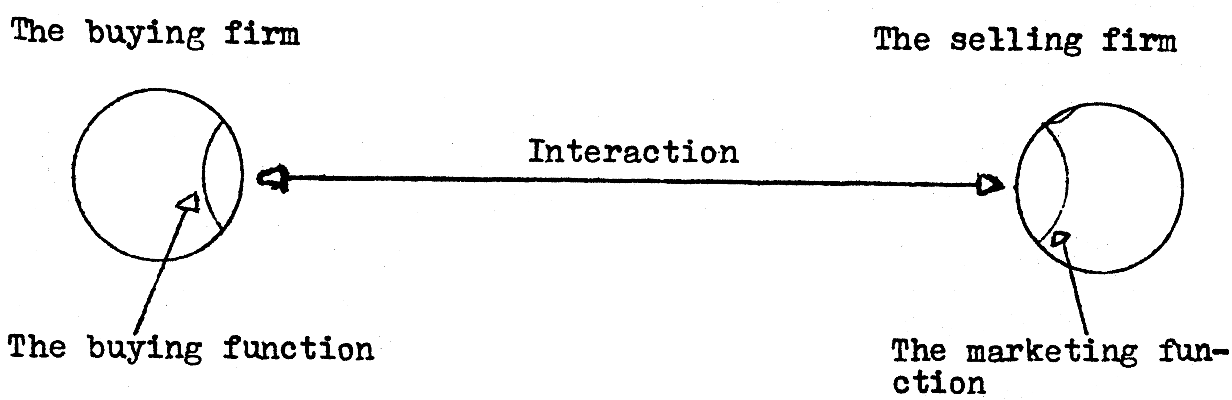
These three situations can be classified (Hakan Hakansson & Class Ostberg - 1975/1)[10] as follows:

1. High uncertainty - communication-oriented marketing organisation (C-organisation)
2. Limited uncertainty - The activity-oriented marketing organisation (The A-organisation).
3. Low certainty - the non-existence of marketing organisation (The N-organisation).

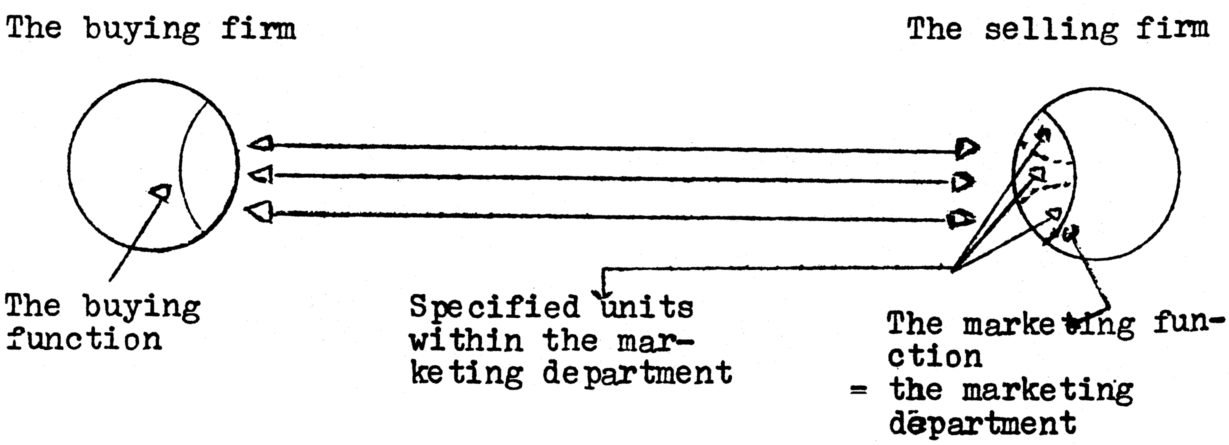
It is studied under five hypotheses:

1. Specialisation - This is measured by the degree of specialised marketing organisation and each person carries out only one market activity such as personnel, promotion etc.
2. Standardisation - This is the degree of procedure and their regularity of occurrence in the organisation.
3. Formalisation - the extent to which rules and procedures exist within the organisation.
4. Centralisation - the locus of authority in decision making.

The N-organization - the exchange concerns a completely standardized product



The A-organization - the exchange concerns a product of moderate complexity



The C-organization - the exchange concern a highly complicated product

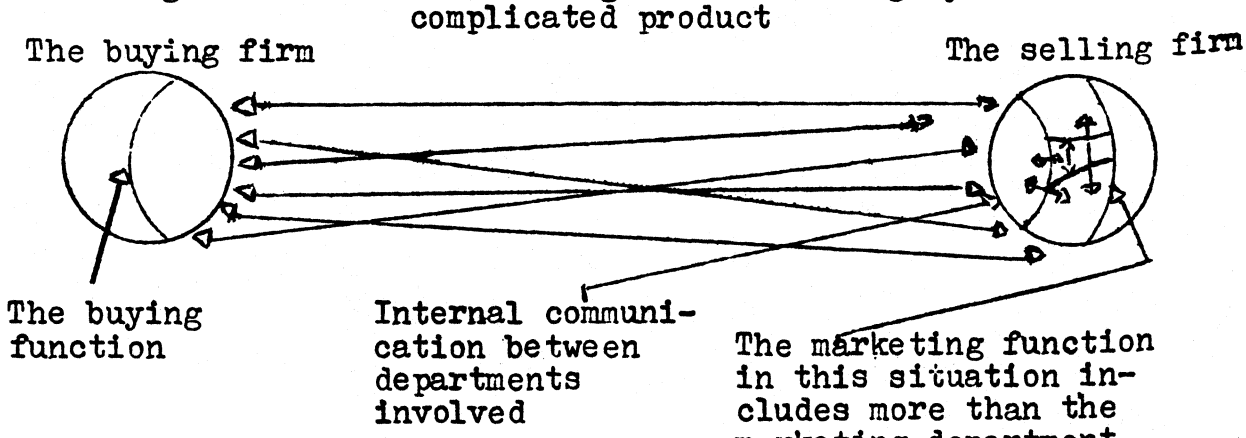


Figure 1. A subsystem including one buyer and one seller in three situations.
Source: Hakan Hakansson, Reprint Series, Industrial Marketing Management, p.120.

5. Configuration - the shape of the organisation and the role structure, the extent of a chain of command within the organisation.

With these five hypotheses, the three types of organization will have the following values: The first category of market organisation involves a high degree of social exchange between buyer and seller. The contact may percolate up to the technician level and may not be localised in a single department. This type of organisation will have moderate specialisation, standardisation and formulation, low centralisation and high configuration (See Table 1).

Table 1

The three Hypothesized Organizations of the Marketing Function

	Low un-certainty (N-org)	Limited Un-certainty (A-org)	High un-certainty (C-org)
Specialization	LOW	HIGH	MODERATE
Standardization	HIGH	HIGH	MODERATE
Formalization	LOW	HIGH	MODERATE
Centralization	HIGH	MODERATE	LOW
Configuration	LOW	MODERATE	HIGH

(Source: Adapted from: H. Haokansson & Claes Ostberg .... op.cit., p.122)

In the limited uncertainty organisation, the first three factors will have high value and the last two moderate values. In the case of low uncertainty organisation there will be low specialisation, formalisation and configuration and high value in standardisation and centralisation.

2.2 **Seller-Buyer Stability**

The interaction between Supplier and Buyer relation in industrial marketing is more stable compared to consumer goods marketing. Once the seller/buyer organisations are structurally fit, the interdependency of them will increase. It will act as an integrated marketing system. The stability in the relation may be for a long duration and information flow between buyer and seller will have a constant flow (Lars-Gunnar Mattsson and Goran Bjorkroth - p73 1976/5).[11]

A few case studies of industrial marketing reveal:

1. "Most of the times, the same suppliers supply as in the year before.

2. Only 1/3rd of the times when changes occur, is it a question of exchanging one supplier for another. Many of these changes take time and both the old and the new supplier supply during this period for one or two years.

3. Over an extended time period, such as a decade, it is hard to distinguish a single characteristic of the over-all stability/change pattern.

4. Buyers seldom switch back and forth between the same suppliers."[12]

This will normally tend to encourage vertical and horizontal integration of the marketing system. The barriers for change in individual supplier/buyer relation is often costly and formidable. In a free market and particularly in the case of consumer goods, the buyer/seller relations are fluid and it is relatively easy to change the transactions between partners from time to time. But in industrial marketing, due to structural stability in the relations, "the adopting system (the buyer) is not part of the innovating system (the seller)" (Lars-Gunnar Mattsson - 1976/11,).[13] The stability of relation between the buyer and seller is not explained by the marketing theories which deal with mostly a single offer. The deal with a single purchase and selling decision. This depends on the product's attributes rather than the firm's attributes. But in the case of a stable relationship, the attribute of the supplying firm will be a more determinant factor than the product as such. Reasons for these stable relations are:

i. It is assumed to indicate the short-run efficiency of the buying firm due to the established business contact.

ii. This will reduce the uncertainty in the long-run and will create a stable relation between the selling and buying firms so that capacity is utilised.

Stable inter-relations may sometimes act as a barrier to innovation. Alternatively, it can also act as a stimulus to innovation if the sellers and buyers integrate the innovation for each other's benefit and have equal confidence in each other.

2.3 The Vollarath Plan

In the context of a stable supplier/buyer relation in export marketing, one experiment in India was done under the Vollarath Plan (R.K. Singh - 1970)[14]. This was initiated by the West German Government to overcome the continuous trade deficit by India with West Germany in 1966. The West German government deputed Mr. H. Vollarath of the Association of German Machinery Manufacturers (VDMA) to India. After a countrywide visit and discussions with the officials, Mr. Vollarath suggested the following for promoting finished and semi-finished products from India to West germany:

a) Removal of erroneous prejudice regarding Indian efficiency,

b) counselling Indian exporters with regard to export matters - adaptation of their products to Western market requirements.

c) Advising Indian exporters on export marketing such as preparation of offers, selling aid, channels of distribution, participation in Fairs and Exhibitions.

d) Market research particularly on job orders and

e) Quality control and inspection to create confidence in buyers.

The scheme involved the participation of EEPC in India and Plaanunsgruppe Ritter in West Germany. In the first phase, 15 Sales Executives identified (as having export potential), were sent for intensive training in West Germany. During November 1968 to March 1969, a group of experts from West Germany visited India and selected another batch of 18 Sales Executives plus 6 EEPC officials for training in West Germany. During these experiments, it was realized that the Indian exporters have to face stiff competition and that price is not the only determining factor. Other factors which played an important role were reliability in delivery, ready access to spares and services, strictest adherence to importers' specification etc. Subsequently it was envisaged that EEPC would continue this approach for furthering Indian exports.

3.0 TACTICAL MOVES

In the given situation of a Supplier/Buyer stable relationship, a new entrant in the market will have a formidable task. The influence tactics used in buyer/seller relations has been studied under three dimensions of uncertainty, namely, need uncertainty, market uncertainty, and transaction uncertainty (Hakan Hakansson, Jan Johansson, Bjorn Wootz - 1977/1)[15]. The need uncertainty is created when there are difficulties in interpreting the nature of needs for materials, tools, services, etc. Market uncertainty is created when there are many alternative sources of supplies, with heterogenity of suppliers and their change in time. This will create opportunity cost for the buying company in selecting the supplier. Transaction uncertainty mostly deals with physical, legal and other transactions between the seller and buyer. Due to these uncertainties, the typical reaction of the buying firm is as follows:

> "In situations characterized by high need uncertainty decision-makers in the buying firm:
>
> - are relatively more concerned with functional and quality aspects than with price aspects;
> - prefer to interact with suppliers in countries with a small cultural distance;
> - choose to interact with suppliers which have been used earlier (high source loyalty);
> - form a more complex internal communication structure which often involves different kinds of specialists in the decision-making unit;

- form a more complex external communication structure which often involves different kinds of specialists in direct contact with the supplier;

- have relatively more contacts with the supplier which also means a more time-consuming decision process.

High market uncertainty means that decision-makers in the buying firm:

-have contacts with a relatively greater number of suppliers;

-are specialized in relation to these high uncertainty markets.

High transaction uncertainty means that decision-makers in the buying firm:

-more often striving for parallel supliers;

-are more concerned with delivery questions;

-have relatively more contacts with the suppliers before making the final decision."[16]

In such a situation, the selling firms have to sell products as a part of solving the problem of the buying firm. The influence tactics a seller can utilize under these three dimensions of uncertainty, is to try to change the direction of these uncertainties. A descriptive matrix is given in Table 2.

They provide three cases of different tactics introduced by the selling firm to break this stable buyer/seller relations. The summary of these three cases are as follows:

Table 2

Descriptive matrix for influence tactics

Direction Change	Increase	Constant	Reduce
Need uncertainty			
Transaction uncertainty			
Market uncertainty			

(Source adopted from H.Hakansson, et. al.....p.324)

Case 1 <u>Soderberg and Haak</u>

Soderberg and Haak is a producer of structural alloy steel. The market has stable seller/buyer relations. S&H company reduced the need uncertainty and transactional uncertainty but increased the market uncertainty. Its advertisement was directed at creating market uncertainty by introducing new and different alternatives to the areas being affected by the existing suppliers. With this tactic S&H succeeded in entering the market.

Case 2 <u>Asea Synchronous Motor</u>

Asea Synchronous Motor used the influence tactics of increasing need uncertainty by means of emphasising the need-solving ability of the Company. It tried to influence the market uncertainty by emphasizing sales safety and reliability of deliveries. This increase in need uncertainty led the buyer to make a higher technical demand on the seller, which was beneficial to Asea.

Case 3 Asea Quintus Presses

In this case Asea promoted its products by trying to maintain the existing need and market uncertainties while it tried to reduce the transactional uncertainty by emphasizing reliability. It is evident from this case that a new selling company has to identify its strength and understand the buyer's perceived uncertainties on the three dimensions. Asea tried to promote its products on the basis of its own strengths and the weaknesses in the market structure.

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