Overseas Market Research

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Learning Objectives

1. Efficient ways to induce potential customers to be interested in the students' selected items based on their comparative advantages over competitive items in the target market;
2. Factors to be considered when attracting potential customers to the (assumed to be selected) items in the exporting market, compared with the factors to be considered in the domestic market where students' (assumed) companies are well recognized by the customers;
3. Functions and importance of established international business networks, based on mutual reliance in conducting international trade particularly with newly developed items;
4. Strategies for the cultivation of new markets abroad, with an item which is newly developed and not yet commercialized in the domestic market compared with the case of existing products which have been successfully commercialized in the domestic market;

The first step in any international trade negotiation, or any business venture, for that matter, is obtaining a good understanding of the market to assess viability and potential success. An exporter will then analyze the potential competitiveness of the exports, select a target market, conduct market research, find the best method to reach the target market overseas, and make a thorough credit inquiry to select the proper importer.

2.1 Overseas Market Research

Market research is defined as a "component of marketing research whereby a specific market is identified and its size and other characteristics are measured." Overseas market research is this process occurring outside of a firm's home country, which can face a new set of boundaries such as language, culture, data collection, networking, and differences in business laws and requirements. For

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proper market research, an exporter needs to have a basic understanding of all aspects of the country that may affect the desirability and success of exporting, such as politics, economics, culture, history, scientific technology, climate, and language. An exporter who has done proper market research would know not to sell in-house heating systems in the Congo or pork in Syria. Based on this basic understanding about the target market, an assessment of the competitors, prices, customers and distribution structures should be made.

If, upon completing scientific research, results show that the product does not have any advantages over current competitors' products, or that product diversification is too slender to assure a high possibility of success, the exporter will have to reassess whether or not the export is viable in its current state. If the export is not assessed to be viable in the target market, changes will need to be made to the plan. One of the easiest ways to gain a basic understanding of a country's import and export situation is to look at statistical analyses of exports and imports. By analyzing the records of exports and imports at a country level, one can gain knowledge as to when items were exported and which countries they were exported to. Once the proper import countries have been determined, an exporter might be able to make lists of buyers of specific items, which can become the first procession for successful product marketing.

2.1.1 Contents

2.1.1.1 Target Market

The target market is the particular market segment on which a marketing activity is focused. Essentially, this is to whom the goods are intended to be sold. Particulars of the contents of the target market include: selection of target areas; understanding commercial practices of target countries; current situation of import and export of isolated products; climate and geographical conditions; import management systems (item management system, customs clearance, tariffs, foreign exchange, etc.); stability of currency and economic situation; transportation and communication (especially logistics facilities such as harbors and airports); etc.

2.1.1.2 Market Demand

Demand is a need or desire for a certain good or service supported by the capacity to purchase it. Demand analysis is an aspect of research that studies the sales generated by goods or service to determine the factors for its success or failure. Particulars of demand analysis are included: research into market potential; situation of supply and demand of the products (its own production, import quantity, and demand); estimate of market growth rates; research into market development; etc.

2.1.1.3 Consumer Research

Consumer research is conducted to assess the preferences, motivations, and buying behavior of the target market through observation, surveys, interviews, and pushcarts. A pushcart refers to the test-selling of one's intended product by

tentatively exporting only a small amount of the item to be sold to verify the response. Considerations in consumer research include: population, its preferences and living standards; distribution of consumers by area and demographics such as age and income; purchasing motivation, place, means, time, quantity, and ability; satisfaction of goods and future change of consumers' tastes; etc.

2.1.1.4 Competitors

Any company that is in the same industry or offers like or competing products is a competitor. Thorough competitor analysis is one of the most important factors in success. Considerations in researching competitors include: competitors in countries designated as export targets, competitive products, prices, and price movements; marketing strategies of competitors; advantages and disadvantages of competitors; export prices of competitors, export quantity, and advantages of export competition; etc.

2.1.1.5 Products

To conduct a systematic research into products, the characteristics of a good or service must be examined to determine the qualities that make those goods or services desirable. Considerations in research into products include: kinds, quality, and size of demanded products; yield of local country, selling quantity, and ratio of exports and imports; quality comparison between local products and imported products; research of color, design, size, style, function, and packing of major local imports; etc.

2.1.1.6 Distribution Routes

The distribution route or channel is the path through which goods and services flow from the seller to the consumer, and the flow of money that accompanies it. The flow of a good in its simplest path is directly from a vendor to a consumer. More commonly, there are intermediaries along the way, such as wholesalers, distributors, agents, and retailers. At each stage in the transaction, the cost increases so that each player can receive a cut for his efforts. Considerations in researching distribution routes are as follows: distribution structure of the products (distribution type, market leader, margin rate by step); research into trade practices of the products; research into the distribution area; research into seasonality, that is, high-demand season and low-demand season of the products (some products are more susceptible to seasonality than others); etc.

2.1.1.7 Pricing

The market value or exchange value of products is largely determined by supply and demand. Considerations in researching price are as follows: research into the price of exports and imports within the area; price comparisons between local products and imports; trends in price fluctuation by season; price differences between the high-demand and low-demand season; etc.

2.1.1.8 Promotions

Promotion is the marketing activity of a product or service occurring through publicity or advertising. Considerations regarding promotion include the following: research into local advertisement, sales promotions, and P.R. (public relations); research into utilization of agencies and establishment of local subsidiaries; etc.

2.1.2 Reaching Potential Buyers

2.1.2.1 Market Segmentation

This is the process of defining and dividing a large market into clearly identifiable segments each having specified needs, wants, or demand characteristics. The objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment. Few firms are large enough to supply the needs of an entire market, and other smaller companies tend to break down the total market into segments and then choose the relevant parts of the market the firm is best equipped to handle.

2.1.2.2 Target Markets

After market segmentation has been decided, a firm needs to realize the best methods to reach its target market. The firm will develop specific marketing activities to create exposure and product awareness tailored to that specific market.

2.1.2.3 Finding Specific Customers

After target marketing, an exporting firm will hope to receive inquiries and responses from its promotion. The first line of customers consists of importers, and the second line consists of department stores, retailers, and vendors. Due to the Internet, it is easier to get products directly to the final customer than in the past, allowing for the exporter or producer to avoid the costs of the middlemen who often force them to sell their products at lower prices.

2.2 Overseas Exhibitions

One of the most effective ways to find buyers is to attend exhibitions (fairs, or expos), because an exporter can interact face-to-face with many potential buyers at once, and easily make public their companies and items based on general pamphlets, presentations, and a strong first impression. This is never enough to be considered as a thorough inquiry, but it can serve as a good starting point. By meeting potential buyers, exporters can also create interest about their products among similar importers or others networked with contacted potential buyers.

Oftentimes, an exhibition is a gathering of companies in an exhibition hall where each of them pays the hall for an allotted amount of space to set up a company display. Spots need to be reserved ahead of time, and can vary in size depending on the amount a company wants to pay for the space. Contracting a spot well ahead of

time also allows firms to pick a location that they predict will see plenty of foot traffic, and therefore more visibility of their products, such as a spot close to the main entrance. Some displays of established companies are quite elaborate and require trucks to unload large props, while others are quite simple, consisting of a table, a couple of chairs, posters and pamphlets. Sufficient preparations are required for a meaningful exhibition to be staged.

Although setting up a booth at an exhibition is the most beneficial way to get exposure to contacts at exhibitions, doing this repetitively can be costly for small companies or individuals. Consequently making a comparative analysis between actual attendance at an exhibition and a simple visit to an exhibition is necessary.

On the one hand, when an exporter takes part in the exhibition, it can: save time in finding appropriate partners; save costs in sales promotions of exhibited items; induce interested companies to be potential buyers; provide opportunities to obtain information; and provide opportunities to learn trends in new technology, human networks, and advanced models.

When a firm's representative simply visits an exhibition, on the other hand, it can: help the firm to understand the transition of products; help the firm to learn about new products and new technology; help the firm learn changes in styles/fads; help the firm learn trends and marketing schemes of competitors; and help firms analyze the tastes of importers.

2.2.1 Preparation

It is important to note that all exhibitions are not the same and may not be relevant to a firm's products. For example, there might be a massive and globally recognized expo in Dubai on green technology and technological advancement, but if you are an exporter of sportswear, it is doubtful that you should be spending your time attending this particular expo because of a lack of potential interest. Another precursor to attending an exhibition is for a firm to determine its purpose in participating, whether it is to find potential buyers, to strengthen relationships with existing buyers, to undertake market research, to collect information, or to assess the response from consumers.

The target market should also be determined after understanding features of the firm's own products and researching market conditions to find the most profitable transactions. A target market determination will consist of multiple considerations, such as quality of the products, ability to pay for products, desire for products, political situation, trends, and fads.

After the target market is determined, proper transportation methods and means need to be considered. There are two main methods of transporting the display items to the exhibition: The first method is to pay the exhibition host or moving company to transport them for an exporter. The second method is for the exporter to transport the items personally. For the proper transportation of the exhibition items, it is generally required to prepare a carnet document, which is a specific customs document that allows exhibition items to be transported across borders for display

at any sort of exhibition. The carnet document generally exempts the transportation tariff of items from normal import and export regulations imposed by governments. The items can then be sold during or after the exhibition, or imported back to their initial country free of import duties and approval. For the most part, the carnet currently in use for facilitating importing and exporting is termed "ATA Carnet."

The ATA Carnet is an international handbook issued for exemption from import duties and provide a rapid process of customs clearance for the temporary import or bonded transportation of working tools like movie cameras, sample items, and advertisement items, in accordance with the "tariff convention about extortion of temporary import clearance of goods" of the Customs Cooperation Council. If ATA Carnet holders try to clear items for temporary import to countries affiliated to the convention, the items are exempt from tariffs but must be taken out within a certain period of time. If the items are not taken out within a certain period of time, tariffs must be paid due to a breach of the convention agreements, and the institute extending guaranty to the temporary import and issuing the ATA Carnet in that country must pay instead.

2.2.2 Strategy

To ensure strong attendance at the exhibition, the proper exhibition should be screened and selected, the pre-marketing should be made to properly inform potential buyers of the exhibition, and the exhibition booth should be properly designed and installed.

With regard to exhibition selection, a lot of similar exhibitions are held around the world, so an exporter should thoroughly analyze various aspects of exhibition function to ensure that he is compensated with the best value for his money and efforts. There are sometimes more than several hundred exhibitions and several million visitors every year just in one country. The trend to aggressively visit famous foreign exhibitions to better understand the movement of newly developed technologies and marketing strategies of competitors is increasing. Particulars to consider include functions during the session, advertisements and sales plans of hosts, potential items to be displayed, and the estimated number and type of visitors.

With regard to pre-marketing, if potential buyers are not familiar with the exhibition, they will not just go ahead and visit any specific booth. In order to make the specific booth desirable enough for potential buyers to visit, extending personal invitations, making phone calls, and sending letters is needed to attract the appropriate visitors.

The aesthetic appeal of the display is another vital aspect to induce the number of high-quality customers to inquire about the exhibited products. Keep in mind here that bright lights and flashy props might attract attention, but, for example, if they take the focus away from the product they could prove to be counterproductive. An advertiser needs to find the right mix of flare and substance to attract customers' attention, and focus it on the products. Location is just as important as substance.

The entryway may be the best location, but, when it is unavailable, participating exporters should be sure to avoid corners and other low traffic areas.

2.2.3 Follow-Up Management

While consulting with a visitor about the products at an exhibition, an exporter should create a "counseling file" for that visitor, so that he can reference it when he negotiates with the potential buyer in the future. Files that an exporter gathers throughout the exhibition can provide great marketing leads if they are dealt with properly. Interested visitors should be re-contacted, sent thank-you notes for their inquiries, and receive answers to any specific questions that were not sufficiently answered at the exhibition. Keep in mind the fact that the collected information and potential customers are important assets in pursuing sales promotion of company's products.

2.3 Marketing Planning

2.3.1 Introduction

Once an exporting company has selected its target market and determined its basic direction and guidelines for trade, it can begin to form a marketing plan to insure the success of its exports.

First, an exact analysis of the exporter's company must be made. An unrealistic and unduly favorable assessment of its own company toward a more favorable aspect than reality will only hurt the company's venture. In assessing the exporter's company, relevant considerations include: advantages of the products; disadvantages of the products; opportunity factors of the company; threats to the company's business; financial factors, maximum production, and production capacity for the past few years; determined targets and marketing strategy; analysis of four basic factors including products, marketing, management, and information; etc.

Second, for an analysis of the external environment, external factors beyond the firm's control should be considered: world product trends; possibilities for exporting the products; other trends that may affect sales and profits, such as weather, the economy or the price of oil; etc.

Third, for an analysis of competitors, the following two factors should be considered: ① competitors' products compared against the exporter's own products, that is, examination of whether there is a difference between the two products in price, quality, or an innovation that will make the exporter's product succeed; ② market share in the targeted market, that is, examination of whether there is a monopoly making it difficult to crack the market, or whether there are many small companies competing for smaller slices of the market.

Fourth, research into local markets should be thoroughly made by visiting in person, inquiring to market research institutes, attending overseas exhibitions, speaking with customers, etc.

Fifth, in order to secure a trading partner in the target market, the following factors should be considered: a credit inquiry into the partner should be rigorously undertaken to assess its capacity to trade with; capacity of the partner's role and market share in terms of funds and marketing ability; the partner should be assessed in the importing market; the partner should be assessed in terms of its ability to become a sustainable business partner; the partner should be examined from the viewpoint of its ability to stay ahead of or keep abreast of changing market trends; its ability to be a leader in the market and give the exporting firm's product the greatest viability.

2.3.2 Method of Market Research

The most basic analysis of the means with which to reach overseas markets can be researched through online methods and off-line methods. Online research can be a great tool for saving time and money when the information is available and reliable, because browsing through websites might sometimes reap fruitful results. Government sites can also be useful in obtaining information about public regulation of trade including import restrictions, labeling requirements and tariffs.

At the very least, phone numbers and email addresses can be obtained for people or organizations who can answer questions. The most reliable method is hands-on and physical research conducted by travelling to the expected import country to assess the market in person. Business acquaintances, exhibitions and fairs, domestic organizations, embassies, chambers of commerce, trade-related media and traders' advice facilities can be valuable resources.

2.3.3 Verification of Regulations

2.3.3.1 Customs Regulations

In preparation for customs clearance, it is basically required for the exporter to verify the HS (Harmonized Commodity Description and Coding System) Code of the exported products, because public regulations on exported and imported products including customs clearance are imposed on the basis of the HS Code of the traded goods.

Developed by the World Customs Organization, the HS code is internationally standardized, and offers an all-encompassing method to classify traded products. An HS number has six digits but can have more digits depending on the country. More than 98 percent of world trade markets use the HS code to determine customs tariffs, rules of origin, transport tariffs and statistics, and to monitor controlled goods such as narcotics, chemicals, weapons, ozone layer depleting substances, and goods related to endangered species.

HS Code

The HS (Harmonized Commodity Description and Coding System) is an international system of names and numbers for classifying traded products established by the World Customs Organization and used in determining tariffs on goods moved internationally.

The HS is based on the fundamental principle that goods are classified by the existing status and not according to their stage of fabrication, use, "made in" status or any other such criteria.

The HS nomenclature is logically structured by economic activity or component material. The nomenclature is divided into 21 Sections, and each Section is comprised of one or more Chapters with the entire nomenclature being comprised of 97 Chapters.

World Customs Organization

"The World Customs Organization (WCO) is the only intergovernmental organization exclusively focused on customs matters. With its worldwide membership, the WCO is now recognized as the voice of the global customs community. It is particularly noted for its work in areas covering the development of global standards, the simplification and harmonization of customs procedures, trade supply chain security, the facilitation of international trade, the enhancement of customs enforcement and compliance activities, anti-counterfeiting and piracy initiatives, public-private partnerships, integrity promotion, and sustainable global customs capacity building programs. The WCO also maintains the international Harmonized System goods nomenclature, and administers the technical aspects of the WTO Agreements on Customs Valuation and Rules of Origin."

Source: http://www.wcoomd.org/home_about_us.htm

2.3.3.2 Export and Import

This refers to getting accurate information about tariffs, customs clearances, and other regulations and laws before proceeding with export activities. In the case of exporting to the United States, a valuable resource is the homepage of the ITA (International Trade Administration) – part of the United States Department of Commerce, from which firms can get useful information about current trading issues, the nation, specific industries, etc.

The ITA is an organization created largely to support US industries in their trading activities, but in doing so, it has created a valuable source of information for anyone with plans to trade with the US. Another source of valuable information is the ITC (International Trade Commission) which has compiled a database of US

tariffs. The ITC website shows actual records of exports to, and imports from the US, rates of trade increase and decrease annually, and the latest accumulated records by HS, SIC and SITC. For example, you can find records of exports and imports of HS 6 in the US organized by price.

International Trade Commission

"The United States International Trade Commission (ITC) is an independent, quasijudicial Federal agency with broad investigative responsibilities on matters of trade. The agency investigates the effects of dumped and subsidized imports on domestic industries and conducts global safeguard investigations. The Commission also adjudicates cases involving imports that allegedly infringe intellectual property rights. Through such proceedings, the agency facilitates a rules-based international trading system. The Commission also serves as a federal resource where trade data and other trade policy-related information are gathered and analyzed. The information and analysis are provided to the President, the Office of the United States Trade Representative (USTR), and Congress to facilitate the development of sound and informed U.S. trade policy. The Commission makes most of its information and analysis available to the public to promote understanding of international trade issues.

The mission of the Commission is to ① administer U.S. trade remedy laws within its mandate in a fair and objective manner; ② provide the President, USTR, and Congress with independent analysis, information, and support on matters of tariffs, international trade, and U.S. competitiveness; and ③ maintain the Harmonized Tariff Schedule of the United States (HTS)."

Source: http://www.usitc.gov/

Standard Industrial Classification

The Standard Industrial Classification (SIC) was established in 1937, as the United States government system for classifying industries by a four-digit code, which was, in 1997, supplanted by the six-digit North American Industry Classification System.

Standard International Trade Classification (**SITC**) is a classification of goods maintained by the United Nations, which is used to classify the exports and imports of a country to compare with different countries and years.

Under SITC, goods are grouped reflecting factors: ① the materials used in production; ② the processing stage; ③ market practices and uses of the products; ④ the importance of the commodities in terms of world trade; and ⑤ technological changes.

2.3.4 Credit Inquiry

International trade comes with the added difficulties of differences in language, customs, culture and law, and therefore it is often difficult to determine whether a potential trade partner will be faithful in honoring the agreement. Realizing only too late the fact that a chosen trade partner is immoral can often cost the trader unredeemable amounts of time and money to recover from the difficult situation. One of the methods of determining whether the deal will go through as planned is to run a credit inquiry.

A credit inquiry is usually made focusing on three factors, namely the potential partner's character, capital and capacity:

The first aspect to review is the potential partner's character, the most difficult part of making an assessment of the partner's credit. If a firm fails to properly determine the partner's character, it can face detrimental results. Character refers to the sense of morality, faithfulness, reputation, and overall attitude of an individual or person representing the partnering firm. An exporter is recommended to review the partner's character from the viewpoint of whether this is a real person with whom you could maintain a long-term and serious business relationship.

The second aspect to review is the potential partner's capital ability, which verifies whether or not the trader has enough funds to make the contracted payments. The importer does not have to be rich himself, but his company needs to have the ability to make payments through capital on-hand, projected cash flows or borrowed money. If the importer has a poor credit rating, that is a sign that he has defaulted on payments before, and should raise a red flag.

The third aspect to review is the potential partner's capacity to activate the trade. This is a measure of the importer's ability to successfully sell an exporter's products. It is done by analyzing the company's history, annual sales, the type of corporation (private or publically traded), experience, marketing rights and abilities, and balance sheet. It is important to make sure that the importer has successfully been growing and developing, or is equipped with sufficient capacity, as indicated by factual evidence. Trading with a company that files liquidation, for example, would not be very advantageous to anyone's business.

In obtaining this information, the importer himself might be the worst source. To ensure getting reliable information, an exporter needs to research the importer, enquire to his relating banks, business partners, and other references that can give insight into the company's credibility or credit. Sometimes special agencies such as Dun & Bradstreet Information Service can be used. If the potential importer is a publically traded company, it will be subject to stricter transparency rules and it will be easier to find financial details.

Dun & Bradstreet Information Service

Dun & Bradstreet(DNB, D&B) is a public company which supplies information on businesses and corporations for use in credit decisions, B2B marketing and supply chain management, which is headquartered in New Jersey, USA

Credit inquiries can be obtained through banks by using the method of a bank reference or a trade-related organization, which is called a trade reference. Of course, these organizations only provide the actual credit standing, and therefore the other factors including capacity and character need to be measured separately.

Assignment

1. Selecting the target market through making the comparative assessments of different markets divided into EU countries, African countries, Far-east Arian countries, Middle-east Asian countries, Central Asian countries, and American countries. This should focus on the most efficient enforcement of concluded contracts depending on the particular characteristics of the specified markets, including the specific business customs and behaviors.
2. Finding out the appropriate buyers, send a circular letter, make an invitation to offer, and make an offer for the formation of contract.
3. Examination of the trade barriers that you have faced in pursuing international business transactions, or the potential trade barriers which are expected to be established in the export markets, making consideration of the specified characters of the potential export products.
4. Communications and negotiations with your counterpart to establish branch offices and subsidiaries abroad according to your plan to expand your selected items' market, beginning from the stage of market research. After the communications and negotiations, you are free to choose them as the branch offices or subsidiaries, or just as your general business partner, considering the cost and benefit from the market as well as the characters of the selected goods.

Supplemental Reading

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