

TOWARDS AN INTEGRATIVE APPROACH TO IMS:

THE CASE OF CENTRAL AND EASTERN EUROPE

BY

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ABSTRACT

The second half of this century has seen a gradual shift in the orientation of world business. Increased globalisation, the shrinking of national boundaries and the search for competitive advantage have added an international dimension to the concept of business. Yet, despite the overwhelming increase in international activity in recent years, research pertaining to International Market Selection (IMS) is still underdeveloped. This research is an attempt to fill part of the gap in this area.

The objective of this research is to ascertain whether existing models of IMS can be used to determine the opportunities that may exist for firms in the emerging markets of Central and Eastern Europe.

The fall of the Communist regimes in Central and Eastern Europe in 1989 opened up previously untapped markets to Western investors. However, real or perceived, the risks associated with the transition from communism to democracy and from centralised to market economics has deterred many investors. Chapter One of this thesis chronicles the changes that have occurred in two former East bloc countries, Hungary and the Czech Republic. This Chapter also discusses the effect of reform on the marketing function in these transitional countries and its implications for IMS research.

Chapter Two introduces the concept of IMS and the obstacles to IMS which are particularly pronounced in the case of Central and Eastern European markets. The body of this Chapter is concerned with classifying and evaluating existing IMS methodologies, which fall into two broad categories - Quantitative Techniques and Qualitative Techniques. In reviewing both the quantitative and qualitative techniques the author will assess their applicability and relevance to firms considering the selection of Central and Eastern European markets.

Chapter Three outlines the research methodology adopted in this thesis. The objectives and exploratory nature of this research are discussed initially. This is followed by a discussion of the research design which includes the data collection

and measurement techniques. Chapter Three concludes with a discussion of the limitations which are imposed upon this exploratory research.

Chapter Four comprises a Case Study analysis of the international development and IMS techniques of one of the world's truly global companies - Guinness. In discussing the international development of the company since 1981 the author assesses the impact of company-specific factors on market selection. In particular, the IMS procedures used by United Distillers, the spirits arm of Guinness, to evaluate Central and Eastern European markets is contrasted with those of the Seagrams Group. The criteria and variables used by these companies to evaluate Central and Eastern European markets and their selection procedures are compared to those suggested in the literature.

In Chapter Five the findings of this research namely:

- (a) that both quantitative and qualitative techniques are required to evaluate Central and Eastern European markets; and
- (b) that company-specific factors need to be considered in an IMS framework from the outset;

are applied and the author develops an Integrative IMS model which takes into consideration both the needs of the firm and the idiosyncratic nature of emerging markets. The reasons why an Integrative Model is required are discussed and the structure of this model is outlined.

CHAPTER 1

CENTRAL AND EASTERN EUROPE AND THE INTERNATIONAL MARKET SELECTION ISSUE

The rate of change has increased so much our imaginations can't keep up.

Snow, C.P.

1.1 THE EMERGENCE OF CENTRAL AND EASTERN EUROPEAN MARKETS

1.1.1 The Emergence of Central and Eastern Europe: An Investment Perspective

The fall of the Berlin Wall and the Communist regimes in Eastern Europe in 1989 led to widespread speculation about the possible potential for Western firms in the markets of Central and Eastern Europe. The re-unification of East and West Germany and the beginning of the transition process in many other economies were positive indicators that Central and Eastern European markets were set to adapt and prosper.

Since 1989 the inflows of Foreign Direct Investment (FDI) into these emerging markets has risen rapidly from virtually zero in 1988 to an estimated US\$ 4.6 billion in 1993. However, in comparative terms their percentage share of total FDI for all non-developed countries, at 8%, is still relatively small (European Economy, 1994).

One of the reasons for their small share of total FDI (into non-developed markets) is that the transition process, which got under way in earnest in many economies in 1990, threw up huge complexities. Economic instability, which is a by-product of transition, acted as a deterrent to many potential investors. Some large investors, such as Coca Cola and Volkswagen - and, in an Irish context, Avonmore - were not deterred by what were regarded as the transitory effects of economic shock therapy.

However, in general, small and medium sized enterprises continue to hold back from investing in Central and Eastern Europe. A recent study by Deloitte Touche Tohmatsu (1992) of over 200 small to medium sized firms, from 24 developed economies, offers an explanation for this reluctance to invest. Despite the fact that 50% of firms surveyed were interested in investing in these emerging markets, the survey found that the lack of information about Central and Eastern European economies and the effects of transition prevented many small and medium size enterprises from investing in this area.

Much has been written in the popular press about the problems of reform in the former Soviet Union. To some extent this coverage may have distracted attention from other Central and Eastern European markets who have made many significant attempts at reform. This chapter aims to redress this imbalance by providing an insight into the transition experiences of two former East bloc nations, Hungary and what is now the Czech Republic (formerly part of Czechoslovakia and then the Czech and Slovak Federal Republics, CSFR). In so doing the chapter will analyse the causes and effects of reform and its implications, from a marketing perspective, for potential investors.

The concluding section of the chapter will also raise the relevance of applying existing International Market Selection (IMS) methodologies to these markets-in-transition. In chapter 2, this issue will be explored in greater detail.

1.1.2 Chapter Presentation

In section 1.2.1 the author discusses the mood surrounding the transition in these countries, while section 1.2.2 examines the obstacles to that transition which have occurred since 1989. Section 1.3 outlines the nature of reform in both Hungary and the Czech and Slovak Republics and includes an overview of the reform process (section 1.3.1), a discussion of stabilisation and liberalisation policies (sections 1.3.2 and 1.3.3) and an overview of the restructuring process (section 1.3.4). Next the author will examine the implications of this reform for marketing functions (section 1.4.1), and more importantly the implications of this reform for IMS theory and research (section 1.4.2).

1.2 THE TRANSITION PROCESS: A CASE STUDY OF HUNGARY AND THE CZECH REPUBLIC

1.2.1 An Overview of the Transition Process

Since the 'Autumn Revolution' in 1989 much debate has arisen as to the natural path of progression for Central and Eastern Europe. However, the debate surrounding the transition from centrally planned to market economies

has been confounded (Csaba, 1991). The primary reason for this is a lack of understanding of the realities of life in a command economy and a naivete about the complex distortions that such a system effuses (Soos, 1980; Winiecki, 1988). Since it is not the purpose of this thesis to deal with the mechanics of distortions it is enough to note that a command economy produces mutated conduct in both individuals and organisations functioning in that economy.

The overthrow of the communist regime was a consequence of the discontent with the old Soviet-type system. The transition to market economies is associated in the public mind with the creation of more efficient, just and operative systems, in contrast to those left behind (Myant, 1991). This has led to pressure in political circles for swift and uncompromising change. Contrary to some expectations that the Central and Eastern European economies might opt for a social market economy, resembling Scandinavia (Rider, 1992), political leaders have been quick to dismiss any notions of squaring the circle. The Czech Prime Minister Klaus stated that his sights were firmly set on 'a market economy without adjectives' (Myant, 1991, p.2). Such sentiment was echoed throughout the former East bloc. However, since 1990 the mood surrounding the transition of Central and Eastern European economies from directive to integrative systems has shifted from one of optimism to one of deep depression. Portes (1991) attributes this new 'Europessimism' to the failure of these economies to alter at a speed acceptable to Western expectations. Observers who anticipated a '180 degree turn into a capitalist market economy' overnight were to be disappointed, (Rider, 1992 p.21). At a local level transition has brought with it hardships, such as unemployment and inflation that are new and unfamiliar to the local population. The discontent of many with the swift and uncompromising reforms has been evidenced by the re-election of old Communist Parties in Hungary in May 1994.

There are both external elements and variables inherent in the institutions of the Czech/Slovak and Hungarian systems which have contributed to difficulties with the transition process. Although these countries have

traversed to a market system at different speeds and in different sequences many of the obstacles encountered are familiar to both.

1.2.2 External and Internal Obstacles to the Transition Process

While it is apparent that there are internal and external factors impinging on the reform process, the difficulty lies in determining the exact effect each has had on that process. There are many idiosyncracies inherent in the markets of Central and Eastern Europe. However, a number of characteristics, specific to the former East bloc, have been determined as significant impediments to the transition. Table 1.1 identifies the key internal and external variables which have had an impact on the performance of the Czech/Slovak and Hungarian economies.

Table 1.1 - External and Internal Obstacles to the Transition process

	EXTERNAL		INTERNAL
1.	World Recession	1.	Institutional Framework
2.	Gulf Crisis	2.	Industry Structure
3.	Collapse of the CMEA	3.	Market Institutions and Instruments

Adapted from Hrnčíř, M. and Kláček, J. (1991), in *The Path of Reform in Central and Eastern Europe*, European Economy, Special Edition No.2, p.20-21.

The most obvious obstacle to the transition process has been the world recession which has afflicted both the Eastern and Western world. However, the impact of this recession has greater implications for the former East bloc. For both Hungary and the former CSFR the major push towards liberalising their economies has come at a time when even the most productive Western economies are experiencing poor growth. Furthermore, Eastern economies have had to deal with an additional problem, namely the collapse of the Council for Mutual Economic Aid (CMEA) which was the former socialist trading bloc. In the immediate aftermath of the Velvet Revolution in 1989, trade between the CSFR and COMECON fell by 7% while Hungary's trade

figures fell by 10% (Investing in Eastern Europe and the USSR, 1991). The fall off in CMEA demand was exacerbated by the fact that until 1992 it was not compensated for by any significant increase in trade with the West. As is the case with many Central and Eastern European countries the market for agricultural produce in Europe remains a closed door (Economist, 1993). Yet this is one of the few areas where they could successfully compete with their European counterparts. However, as is shown in Table 1.2 more positive trade developments with OECD countries has occurred since 1989.

Table 1.2 - Hungarian and Czech/Slovak Exports to the OECD

	EXPORTS TO OECD (FOB \$M)			
	1990	1991	1992	1993 (first quarter)
CSFR	4,765	6,515	9,213	1,312
HUNGARY	5,469	6,648	7,845	1,761

Source: EIU, (1993a) Doing Business with Eastern Europe, May, p.6.

The implementation of free trade agreements with the European Free Trade Association (EFTA) has facilitated the growth of Hungarian and Czech exports. This trade is largely made up of semiprocessed and industrial goods. However, Czech and Hungarian trade is largely dependent on German, Austrian and Italian markets which in 1991 were the main destinations for over 65% of Czech and Hungarian exports (EIU, 1993a). Efforts to reform their economies by export-led growth have continually been confounded by Western protectionism. The EC's application to limit exports to the Community of certain Czech steel products in 1991 is a clear illustration of this type of protectionism.

An added complication to the transition process was the Gulf Crisis in 1990 which succeeded in pushing up the price of oil at a time when the former Soviet Union was effectively cutting back its supply of oil to its confederates. The issue was compounded by the fact that Iraq, who owed substantial

amounts, especially to the Czechs, was to pay its debt in oil. The effects of many of these shocks on the market may be transient. Indeed for Hungary, which has been removing itself from the centrally planned system for much longer than its neighbour, the repercussions from these shocks were not as strongly felt. Nonetheless they do provide a vital clue as to some of the causes of the problems being experienced in the transition process. The internal obstacles to the transition process were much greater for the CSFR than for Hungary. Again, the primary reason for this was the gradual adjustment of the Hungarian economy to market conditions. However, both these economies were stuck in the time warp that the Soviet system enforced. All the obstacles cited in Table 1.1 revolve around the problems that central planning created for these economies (Hrncir and Klacek, 1991, pp.20-21). Unlike Hungary, which had begun to develop small enterprises in the early nineteen eighties, the former CSFR economy was comprised of huge, bureaucratic industries, the primary focus being on heavy industry. However, as was the case in the former GDR investment in these enterprises was negligible resulting in inefficient, unproductive monsters. Another problem facing both the Czech and Hungarian governments was the institutional framework inherited from their predecessors. This framework was constructed for a rigidly centralised command economy. Therefore, for decentralisation to become a reality the whole schema had to be dismantled and re-modeled on that of a market economy.

For Western economies, such as Ireland, even the fine tuning of the structure of a market economy has been a slow and difficult process as the need for a report such as Culliton (1992) indicates. However, in the East bloc the move to a market economy had to be initiated at a rapid rate to ensure the survival of these economies. Connected with this was the introduction of market institutions and instruments such as a corporate legal framework, which are taken for granted in our societies. The problem of their creation did not pose the most serious obstacle. The main difficulty was the lack of familiarity with them in both economies. Nell (1984, p.139) sums up this difficulty, 'Economic behaviour takes place in a definite social context.... This means

that the agent must learn to perform all the ordinary social routines, must have learned to speak the language, to recognise the relevant stimuli and to act as expected in his normal roles'.

Thus, while the instruments of reform have been initiated in both the Czech Republic and Hungary the effects of reform have been difficult to detect. The success of reform in both these countries will not be truly visible until individuals operating within the new market framework become familiar with it and until it becomes second nature as in Western economies.

1.3 THE PATH OF REFORM IN HUNGARY AND THE CZECH REPUBLIC

1.3.1 The Process of Reform in Hungary and the Czech Republic

While Hungary has been gradually orientating itself towards a market economy since the late nineteen fifties, the Czech Republic has only just begun to establish itself along that route. However the primary objectives of both economies has been to move towards market economies while maintaining a sense of stability in the process. As suggested by Lipton and Sachs (1990, p.99) these goals are inextricably intertwined:

The transition process is a seamless web. Structural reforms cannot work without a working price system; a working price system cannot be put into place without ending excess demand and creating a convertible currency; and a credit squeeze and tight macroeconomic policy cannot be sustained unless prices are realistic, so there is a rational basis for deciding which firms should be allowed to close. At the same time, for real structural adjustment to take place under the pressures of tight demand, the macro-economic shock must be accompanied by other measures, including selling off of state assets, freeing up the private sector, establishing procedures for bankruptcy, preparing a social safety net and undertaking tax reform....

This characterisation of the transition process outlines not only the most important elements involved, but the degree of symbiosis needed for the reform to work. It also evokes another important issue, namely, the sequencing of reforms in both the Czech Republic and Hungary. This particular issue has received much attention in the literature relating to

transition. Portes (1991, p.7) and Hrnčir and Kláček (1991, pp.19-20) have suggested that macroeconomic stability is central to the success of the reform process, and that this is perhaps the most important starting point of reform. Przeworski (1991, p.136) in dealing with the concept of reform in Eastern Europe, defines the objectives of any such reform as the organisation of an economy that 'rationally allocates resources and in which the State is financially solvent'. Different tools are required to attain each of these objectives. The rationalisation of resources is synonymous with creating new markets through a privatisation process. However, in order to create a functioning market, competitive forces need to be established. Consequently both Hungary and the Czech Republic have initiated the mass legislation required to create a competitive environment. The second part of the formula which requires State solvency is associated with the need for macroeconomic stabilisation. Prudent policies are essential to reduce public expenditure and increase revenues. Hungary, the first off the starting block, may have gained some advantage in the initiation of market economics. However, the Czech Republic has a more prudent financial and monetary history (Portes, 1991, p.6). While it may be difficult to draw a parallel between these two countries in terms of their experiences and approaches it still remains that the essence of their reforms are the same:

- i) Stability-orientated fiscal, monetary and budgetary policies which involve the liberalisation of prices, imports and currency convertibility.
- ii) The transformation of the existing system into a market economy through privatisation and the creation of a competitive structure in industry, including the initiation of a new tax regime to facilitate the functioning of a market system.

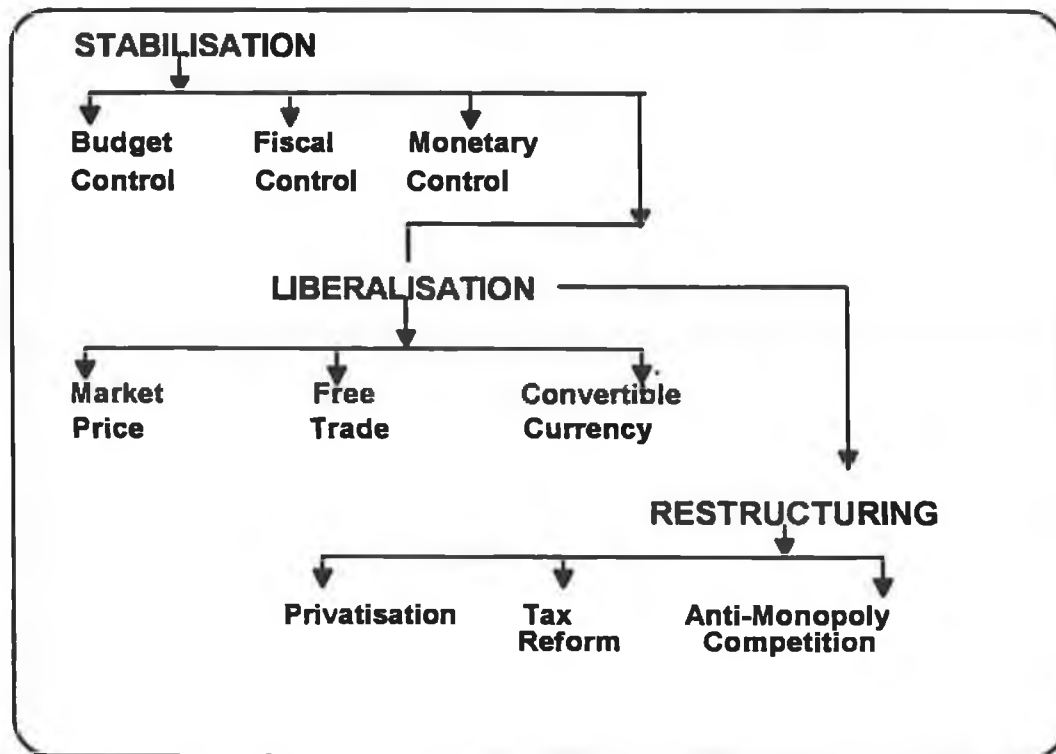
1.3.2 Stabilisation, Liberalisation and Restructuring

Macroeconomic stabilisation is an integral part of the transition package... [I]nstitutional and systematic changes and in particular progress in altering the behaviour of economic agents are conditioned through the degree of success achieved in macroeconomic stabilisation.

Hrnčir and Kláček, (1991, p.19).

A number of interlinked items are involved in the process of stabilisation and liberalisation as Figure 1.1 illustrates. The basic prerequisite for any reform strategy is a move towards stable currency and financial and monetary discipline. Aligned to this is the need for de-monopolisation of the market which is linked to supply and demand. The primary objective of de-monopolisation is to encourage a competitive economic environment with varying forms of ownership as well as freedom of access to the economy by both domestic and foreign firms. To achieve this a key role is played by convertible and more realistic currencies. Each of these headings is dealt with below, but it is important to remember that they form part of the overall strategy; they are not separate action items.

Figure 1.1 - Model for Stabilisation, Liberalisation and Restructuring



Source: Adapted from Portes, (1991), Hungarian Ministry of Finance Report, (1992), Hrnčir and Kláček, (1991).

In comparison with many of the former East bloc countries, the macroeconomic outlook in both Hungary and the CSFR at the beginning of the transition process could be viewed as relatively favourable. However, the transition process itself created a 'disequilibrating' effect, the most obvious

example of this being the effect of price liberalisation on inflation (Portes, 1991, p.4). Tight budgetary, monetary and fiscal policies are required to cope with the dislocating effect of price liberalisation.

Another orthodox monetarist mechanism for preventing inflation has been to control money supply, which has been largely influenced by requirements laid down by the International Monetary Fund (IMF). A Western counterpart was, of course, the tight controls pursued for a time in the UK in the late nineteen eighties under the premiership of Margaret Thatcher. A clear example of this approach is to ensure that available credit is closely controlled and that what is available is very expensive. Of course, in the former East bloc economies, a straight comparison with UK policies in the nineteen eighties is not possible for a number of reasons. For example, there was the temptation for domestic enterprises to invest in hard currencies, thus subverting the efforts to establish a stable exchange rate on the international money markets. In addition, the absence of the sanction of bankruptcy meant that some enterprises could continue trading even where they were insolvent and unable to meet the debts which overhung from the Communist era. However, in both Hungary and the Czech Republic, the relatively stable economic situation in both countries resulted in a favourable climate for establishing a realistic hard currency exchange rate. And a Bankruptcy Act was enacted in Hungary in 1992 while a similar law was passed in the CSFR in 1991, although the extent of their enforcement is further discussed below.

1.3.3 The Objectives and Effects of Liberalisation

The freeing of prices is the single most important step of the transition period because it introduces the price mechanism as a substitute to planning for balancing supply and demand.

Roland, (1991 p.58)

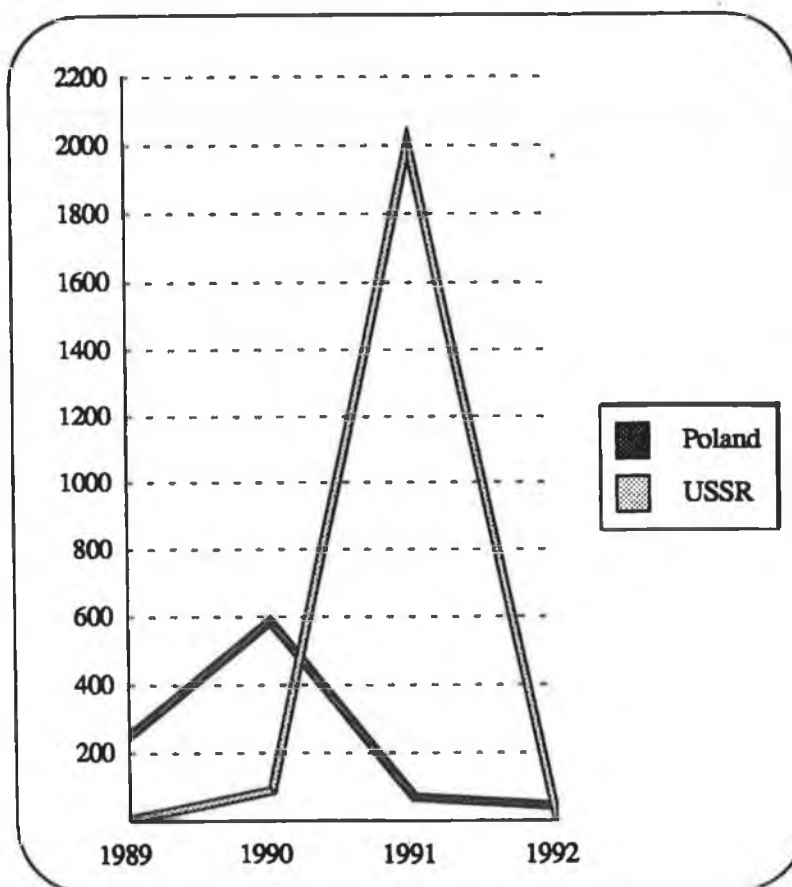
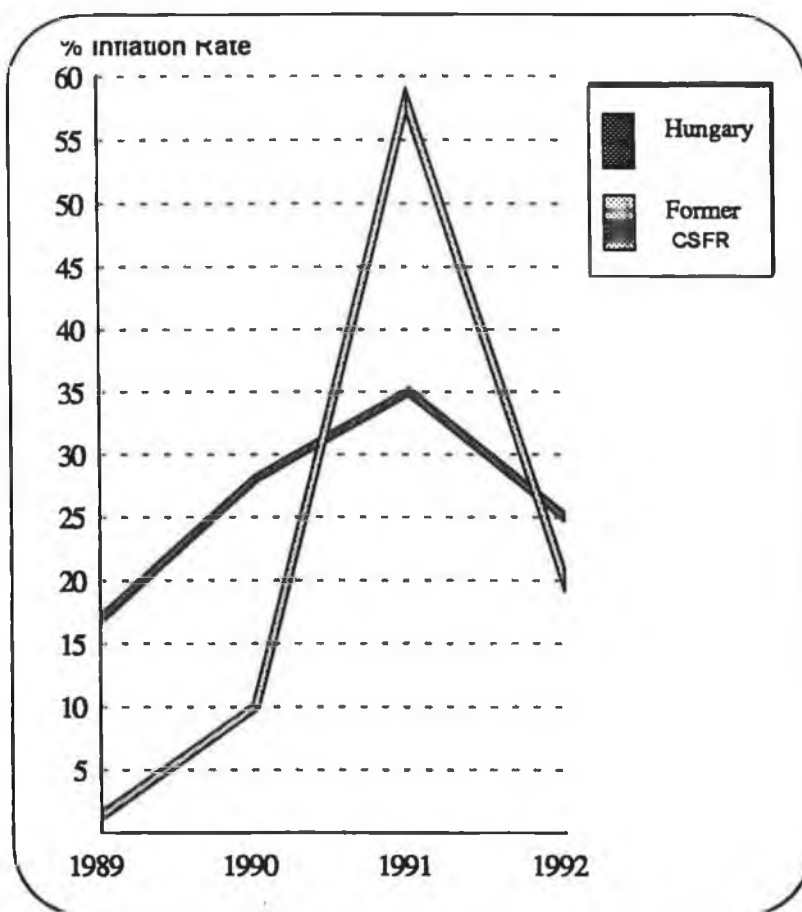
While price liberalisation is an essential constituent of the reform package it was an extremely difficult adjustment to make in Eastern Europe. Having experienced relative price stability for fifty years under the Communist regime, the governments of the Czech Republic and Hungary were impelled to introduce a market mechanism that was bound to bring some hardship to

their people. However, price and trade liberalisation and convertibility are all essential to establishing competitive conditions, integrating the economies into the world economy and hence helping to reinforce the transition. Both the Czech and Hungarian governments inherited the complexities of tax and subsidy rates on retail prices from the distorted Soviet system. The removal of these subsidies was the preceding step to price liberalisation which progressed at a rapid rate. By the end of 1991, 85% of prices had been liberalised in both the economies along with the freeing of imports and the introduction of limited currency convertibility at a very low exchange rate.

However, as can be seen from Figure 1.2, price liberalisation resulted in a massive upward spiral in inflation. This by-product of the transition process may have acted as a deterrent to potential investors and fanned the flames of 'Europessimism'. However, the effects of price liberalisation differed from economy to economy. In the case of Hungary and the former CSFR inflation peaked in 1991 at 50% and 40% respectively when price liberalisation reached its climax. The damaging effect of liberalisation was to some extent offset by the tight monetary and fiscal policies adopted by the governments of the former CSFR and Hungary. Poland on the other hand, which adopted a shock therapy approach to reform, suffered from hyperinflation which peaked in 1990 at 558%.

It is also, perhaps, useful to place the Hungarian and Czech economies in context with that of Russia. In 1992, Russian inflation was running at the rate of approximately 2,000%. Corresponding figures for Hungary and the Czech Republic for the same year, as can be seen from Figure 1.2, are 25% and 21% respectively. While comparisons are always otiose, it can be said that, if there is to be any 'Europessimism' it should not be applied with the same level of depression to Hungary and the Czech Republic.

Figure 1.2 - The Effect of Price Liberalisation on Inflation



Sources: OECD Report, (1992) *Developments in Selected Non-OECD Areas*, p.123
 EIU, (1993b), *Doing Business with Eastern Europe: Comparative Statistics*, p.I-25.

The inflationary effect has to some extent been offset by the introduction of convertible currencies, although this stage of the reform process is far from complete. The exchange rate for Hungary is adopted from a weighted basket of the ECU and the US dollar currencies while that of the Czech Republic is based on a basket of five currencies composed of the Deutschmark, US Dollar, Austrian Schilling and Swiss and French francs. In agreement with the IMF both countries operate an active exchange rate policy and their currencies are adjusted throughout the year to reflect the rate of inflation. However, neither of these economies has as yet reached a state of full convertibility. Currently internal convertibility, which allows domestic residents (including joint venture enterprises) to buy and sell foreign currencies, is in place. This allows the aforementioned individuals to freely exchange local currencies for convertible currencies. However, the push towards full convertibility and the levels at which a market-determined exchange rate will stabilise, as well as the extent of effective devaluation involved, will have crucial implications for Irish investors.

Trade liberalisation plays an important role in the creation of competitive markets, primarily because the domestic market is relatively small for effective competition without the impetus of foreign players (Fornalczyk, 1992, p.61). However, the liberalisation of trade creates a dilemma for the policy makers of Eastern Europe as, in most cases, indigenous industry is not yet strong enough to face the onslaught of foreign competition. Without this competition, however, there is no motivation for domestic competition to become more productive and efficient. Consequently, the Czech Republic and Hungary have initiated the de-monopolisation process of foreign trade.

This process began in earnest in both economies in 1989 and has been aided by three major developments. Firstly, both countries signed an Association Agreement with the EC in 1991. This acted as a catalyst for the freeing up of trade, as one of the preconditions of Association is the gradual implementation of free trade rules. With an eye to relations with the EC and EFTA, the idea of a free trade zone covering the 'Visegrad States' (Hungary, Czech and Slovak Republics and Poland) is also taking shape. Finally, and

most significantly for foreign players, changes in COCOM (Co-ordinating Committee on Export Controls) has meant that the number of items on the prohibition and licence list has been reduced from one hundred and twenty to ten.

The effect of trade liberalisation was evident in Hungary from the end of 1991. Over 30,000 domestic firms were involved in some form of import/export activity at this time, in contrast to 2,000 companies in 1989 (Hungarian Ministry of Finance Report, 1992). The radical change that has taken place in both Hungary and the Czech Republic is essentially the result of a re-orientation of trade from the former COMECON area, but it is also an upshot of the decrease that had occurred in domestic demand. To counteract this trend, both the Czech and Hungarian governments have set their sights on export-led economic growth. The success of their efforts can be seen in Table 1.3.

Table 1.3 - Czech and Hungarian Trade with the EU
(**\$ million**)

	HUNGARY		CZECHOSLOVAKIA	
COUNTRY	IMPORT	EXPORT	IMPORT	EXPORT
BENILUX	430.8	332.4	375.6	418.8
DENMARK	65.9	49.1	75.5	87.4
FRANCE	318.0	420.0	493.2	378.0
GERMANY	2,547.6	2,582.4	3,002.4	3,071.0
GREECE	40.0	105.4	45.7	117.8
IRELAND	16.4	6.8	12.8	22.6
ITALY	632.4	841.2	454.8	618.0
PORTUGAL	4.6	5.6	4.8	16.6
SPAIN	46.2	88.7	52.0	108.5
UK	244.0	183.6	228.0	183.6

Source: EIU, May, 1993, *Doing Business with Eastern Europe, Comparative Statistics*, No.150, p.IV-5.

The Hungarian Ministry of International Economic Relations (MIER) has achieved almost total liberalisation with over 90% of Hungarian imports now exempt from any form of licencing. They have also lowered the average customs tariff to 13%. These reforms have had some effect on Irish exporters. In 1991 Ireland accounted for a 0.15% share of Hungarian imports. This signified a 1.7% increase in Irish exports to Hungary over 1990 (Business International, Dec 1992).

The implementation of free trade took off in the CSFR in 1991 with the introduction of The Commercial Code and The Act on Small Business. These provide for all legal and natural persons to be registered as businesses, which are now allowed to trade directly with foreign counterparts rather than going through a government Foreign Trade Organisation (FTO), as was formerly the case. In addition, the provisions of the Hard Currency Law (1992) grant firms the right to obtain the foreign currency required for foreign trade operations. However, while significant progress has been made in the liberalisation of trade, the Czech government still has a licensing arrangement in place for the import and export of certain items. In order to import or export any of these items, an import or export licence must be obtained from the Federal Ministry of Foreign Trade. Table 1.4 outlines the list of goods for which an export licence is needed. The most notable sector influenced by this procedure is the food and live animals sector, which has seen a decline in both exports from and imports into the former CSFR. What is, however, of particular interest is the steady rise in demand for consumer goods. OECD sales of consumer goods to this area increased from 6.9% to 11.7% between 1988 and 1991, despite their higher price (Business International No.145, 1992, p.IV-17). One explanation for this is the 'psychological effect - people wish to be associated with the West by using Western goods and consuming Western Products.' (Business International, 1992 p.IV-17.)

In the medium term the main goal of the Czech Republic must be to bring its foreign trade in line with that of the EC. This objective will become all the

more important as the Czech Republic has its cap firmly set on integration into the EU at the earliest possible date, (Economist, 1993).

Table 1.4 - SITC Product Group Descriptions

Group 0	Food and live animals
Group 1	Beverages and tobacco
Group 2	Crude minerals, inedible except fuels
Group 3	Mineral fuels, lubricants and related materials
Group 4	Animal and vegetable oils, fats and waxes
Group 5	Chemicals and related goods
Group 6	Manufactured goods
Group 7	Machinery and transport equipment
Group 8	Miscellaneous and manufactured articles
Group 9	Other unclassified commodities and transactions

Source: Business International, (1992) *Doing Business in Eastern Europe*, EIU Publications, No 145, December, p.IV-17

1.3.4 Restructuring

Monopolisation of Czech and Hungarian markets is a throwback to the old Soviet-type system. Highly centralised production was the foundation of this system (Fornalczyk, 1992 p.58). However, such practices are now obsolete in the socialist economies in transition. Policy makers in these economies have been faced with the task of introducing a competitive environment through their liberalisation efforts, but most importantly through the restructuring of the economy. In many ways the privatisation process provides a tangible, concrete and visible form to the people that a decentralisation process is underway, reflecting the philosophical view that pluralist ownership is a precondition of political democracy (Aslund 1991, p.19,). It also provides a means of inaugurating many of the characteristics of capitalist economies such as competition, creativity, motivation and expansion which cannot

thrive under State ownership. However, the success of privatisation is contingent upon a strong regulatory and institutional framework which governs the process. This presupposes that the instruments common to a market economy are there to facilitate this process, as is the case with privatisation programmes undertaken in the UK. The relative newness of these instruments in the former East bloc economies 'require great care to be taken in determining the place of privatisation in the sequence of new policies' (Grosfeld and Hare, 1991, p.131).

As was previously mentioned Hungary experienced a small degree of privatisation in the early nineteen eighties under their communist regime. However, the proliferation of private businesses was mainly confined to small enterprises. It was not until 1989 that the Transformation Law was enacted encouraging the privatisation of State-owned property. This process was further enhanced by the setting up of the State Property Agency (SPA) and the re-opening of the Budapest Stock Exchange in 1990. The contribution of the private sector to GDP, which ran at 30% in 1992, evidences the success of this programme, (Hungarian Ministry of Finance Report, 1992). Further testimony to this is the fact that almost 1,000 State enterprises are currently either privatised or in a process of privatisation. However, privatisation demand still remains comparatively low. According to the Hungarian Ministry of Finance a 'factor which acts as a drag on the process is that new ownership attitudes and values take some time to come to the fore' (Hungarian Ministry of Finance Report, 1992, p.4). The privatisation process has, however, been slowed down by a number of structural and institutional factors:

- i) The institutional and legislative procedures governing privatisation lagged behind the initiation of the privatisation process.
- ii) Policies to stimulate the involvement of domestic capital, such as low interest rates, were not present.
- iii) The emphasis on a decentralised method of privatisation should have been established in the initial stages.

iv) The enactment of tough anti-monopoly law was sluggish.

Since 1992 the government has taken a course of action to stimulate strong domestic investment. Financial instruments such as credit notes, leasing and payment by instalments were introduced to accelerate the process. Similarly the privatisation offer was expanded through decentralisation and the introduction of privatisation portfolios. As part of the government's effort at institutional change one of the main items on its agenda for 1993 was the creation of new tools and facilities to invigorate capital and money markets. In a sense what the government attempted to do was to establish an environment in which full scale privatisation could be achieved.

The problems that have been experienced in the Hungarian case reflect the validity of Grosfeld and Hare's, (1991) comments. The importance of the sequencing of legislative and institutional reform in relation to privatisation cannot be underrated. If the government can establish the correct market environment through legislative and institutional change then we should see a rapid acceleration of the privatisation process in Hungary.

The privatisation process in the former CSFR, in contrast to that of Hungary, was much slower off the mark. Unlike Hungary, the Czech government had to start from scratch in 1989 as nothing had been done to decentralise or encourage private enterprise prior to this date. Consequently, all of the legislation required for the process had to be formulated. In addition, the private sector in the Czech Republic was the smallest of the 'Visegrad States'. However, these were not the only obstacles to privatisation. The privatisation issue was further complicated by the inclusion of a Law of Restitution (1990). The purpose of this legislation was to restore lands and property, nationalised in the Soviet era, to their rightful owners. While this decision may have been both morally and politically correct it slowed up the privatisation process significantly.

The first wave of privatisation, got underway in 1992. The process of privatisation involved the allocation of 200 million shares for 1,491 companies, (Sietz, 1992, p.97). Of the total shares available 67% had been placed with individuals or investment privatisation funds (IPF) by the end of 1992, 40% of which rest in the hands of the ten largest IPFs, raising fears about the control of companies. The second wave of privatisation began in 1993, using more orthodox methods, such as competitive bidding, bidding at auction and buying shares on the stock exchange (EIU, 1992 p.9). However, the split of Czechoslovakia in 1993 into the Czech and Slovak Republics complicated the privatisation process even further. Many Western investors feared that the split would have negative effects on the Czech Republic, and have consequently adopted a cautious approach to investment.

While the privatisation process provides an acceptable means of breaking down the monopolistic structures by the Czechs and Hungarians, it would be short-sighted to believe that it is the only structural change required. The author would point out that the problems associated with State monopolies are not unique to the former East bloc States. The privatisation of Irish State monopolies, for example Irish Sugar (now Greencore Plc), and the structural changes in Aer Lingus, were seen to be necessary in an increasingly competitive post-1992 single market. While the argument for privatisation has obviously won out there are potential political and social costs, such as rationalisation/job losses, which involve making difficult decisions in the short term. The intense debate on the implementation of Culliton (1992) also illustrates this point. However, it is clear that such actions are required if these State monopolies are not only to survive in the short term, but in the long term to be permitted to compete in what will be an increasingly anti-monopoly European environment. In the case of Eastern Europe, and specifically the economies in question, strong measures need to be taken regarding the closure of non-profitable enterprises and the introduction of bankruptcy.

Although Bankruptcy Acts have been enacted in both the former CSFR (1991) and Hungary (1992), it is difficult to determine the extent to which they have been enforced. Naturally, it is difficult to enforce such measures in a time when unemployment is rising, something that is seen to be a phenomenon of the new market system. However, bankruptcies are necessary to 'ameliorate shortages within industry by rapidly cutting demand in loss making enterprises and, more generally, by discouraging the hoarding motive in demand that creates a crowding out effect on the private sector' (Csaba, 1991 p.59). Thus, if the fruits of reform are to be reaped, tough decisions must be made on the issue of closures rather than sweeping the problem under the carpet.

1.4 CENTRAL AND EASTERN EUROPE AND THE IMS ISSUE

1.4.1 The Implications of Reform for Marketing Functions

Samli, (1984, 1986), characterises the movement from a command to a market economy in terms of vertical and horizontal linkages (see Table 1.5). A command economy is dominated by vertical linkages, whereby orders and directions come from the top. Conversely, the demand or market economy has horizontal linkages which provide information from the marketplace up. In transition from a command to a market economy there is also a transition from an emphasis on vertical linkages characteristic of a directive system to an emphasis on horizontal linkages, representative of an integrative system: Samli, (1984). The pre-revolutionary era of the nineteen eighties saw some economic reform which moved Central and Eastern Europe along the directive-integrative continuum. However, the transition efforts of the nineteen nineties, which involve the decentralisation of both the economy and enterprise, have created a further shift along this path.

Table 1.5***Marketing Functions in a Command Versus a Market Economy***

	The Functional Area	Directive System (Command)	Integrative System (Market)
1.	The Market	Strictly sellers market No competition No market linkages between enterprises	Zero sum / Buyers market High level of competition Market linkages are dominant
2.	Marketing Research Information	Macro marketing information needed for detailed planning	Micro marketing information needed to make decisions
3.	Product	Standardised product features throughout market	Some differentiation and segmentation depending on the characteristics of the sub-market
4.	Distribution	National monopolies	Competition among firms
5.	Advertising	Product advertising with ideological overtones	Enterprise advertising
6.	Price	Centrally administered	Enterprise administered

Source: Samli, (1984), Comparative Marketing Systems in Eastern Europe: An Illustration of Marketing Evolution in Comparative Marketing Systems.

For Western companies considering entry into these markets it is important that their view of Eastern Europe is not one of a backward market. As Table 1.5 suggests the move towards an integrative system will bring with it a change in the performance of marketing functions. As these changes become more pronounced and domestic firms become more competitive in the marketing arena, Western firms who are competing or wish to compete in the market will have to re-think their evaluation of these markets.

There is a tendency for Western companies to think about the changes in Eastern Europe solely in terms of whether economic reforms are 'on target' or 'off target'. However, in considering the potential of Eastern European markets and in particular the Czech and Hungarian market it is important not

to become myopic. While economic conditions are a vital clue to the changing conditions of Eastern European markets there are other important areas that may require greater consideration.

1.4.2 Central and Eastern Europe and the IMS Issue

In general we are obsessed with the quantifiable. In the case of IMS many of the models, which will be discussed in Chapter 2, deal purely with quantifiable indicators of market potential which can be obtained from secondary sources, such as GNP, number of cars per capita or levels of steel production. The last of these indicators is probably the most interesting, because in the markets of Central and Eastern Europe, which are distorted by the old Soviet industrial-military complex, this indicator would score quite highly. However, levels of steel production do not accurately measure market potential. For firms considering Central and Eastern European markets, issues such as affordability and attitudes towards a specific product are more likely to determine market potential. This serves to illustrate the danger of an over-reliance on quantitative measures of market potential, especially in Central and Eastern European markets.

In the case of these economies, however, the complexity of the IMS task is exacerbated by the idiosyncratic nature of these markets and the effects of transition. For instance, distribution structures, which were extremely centralised until 1989, have become fragmented. Consumer spending power has been badly affected by price liberalisations, making the issue of affordability extremely important (EIU, 1993b).

On the other hand, there are other significant attributes of these markets, which may not be quantifiable, but which should be scrutinised. The Czech Republic and Hungary are fast moving to becoming Western-style markets. Consumer demand for quality Western products in these markets is high, despite the strain which price liberalisation has put on income. In fact, in historical terms what is happening is that these States are re-emerging as Western-style markets, after about a half century of the 'Communist experiment'.

The recent tumultuous events in Central and Eastern Europe have thrown into sharp relief some of the difficulties with existing IMS methodologies. In particular their reliance on quantifiable indicators raises a question about their applicability to the markets of Central and Eastern Europe and, indeed, to many other emerging markets, such as China, India and the developing economies of Latin America.

Much of the literature on IMS has focused on the correct methodology which should be used when selecting international markets. To date few studies have mentioned, much less discussed, the implications of these methodologies. This subject will be discussed in Chapter 2. In particular, the problems associated with the use of secondary data will be discussed. These problems, which relate to the comparability and availability of secondary data, are particularly pronounced in the emerging economies of Central and Eastern Europe.

CHAPTER 2

IMS MODELS AND THEIR APPLICABILITY TO THE EMERGING MARKETS OF CENTRAL AND EASTERN EUROPE

The first step is to measure whatever can be easily measured. This is OK as far as it goes. The second step is to disregard that which can't easily be measured or give it an arbitrary quantitative value. This is artificial and misleading. The third step is to presume what can't be measured easily isn't important. This is blindness. The fourth step is to say that which can't easily be measured doesn't exist. This is suicide.

Yankelovich, (1974)

2.1 THE IMS PROCESS DEFINED

2.1.1 An Outline of Chapter Presentation

Some of the most important decisions in planning marketing strategy are those related to the choice of a market or markets to serve. All else follows. Choice of a market is a choice of a customer, and of the competitive, technical, political and social environments in which one elects to compete. It is not an easily reversed decision; having made the choice the company develops skills and resources around the market it has elected to serve. It builds a set of relationships with customers that are at once a major source of strength and a major commitment.

Corey (1975)

As this quotation states the IMS decision is extremely important to the internationalising firm. The increased importance of this area is evidenced by the proliferation of articles relating to IMS in marketing literature spanning the last four decades. An array of techniques, aimed at improving the selection efforts of the firm, has been proposed throughout the literature. The primary objective of these techniques is to put forward a systematic means or framework which firms can use to determine the potential or opportunities that exist in foreign markets.

However, much confusion still exists as to the precise boundaries of IMS. In section 2.1.2 of this chapter the author will define IMS and outline the objectives and the purpose of the IMS process. The following section, 2.1.3, examines the obstacles to IMS.

The next section, 2.2, offers a classification of existing IMS techniques. These are delineated by typology into two categories, quantitative and qualitative, in section 2.2.1.

In section 2.3 the quantitative techniques of IMS are categorised. These techniques, the Market Grouping techniques and the Market Estimation techniques, are both discussed and evaluated in further detail in sections 2.4

and 2.5. Where relevant, the author's criticisms of these techniques and the problems of applying them to the former East bloc are included.

The Qualitative technique of IMS is discussed in section 2.6. In this section the author outlines the advantages and disadvantages of qualitative techniques with special reference to their applicability to the emerging markets of Central and Eastern Europe.

Finally, a number of caveats regarding the application of these techniques to internationalising firms and the markets of Central and Eastern Europe are discussed in section 2.7.

2.1.2 IMS and the IMS Process Defined

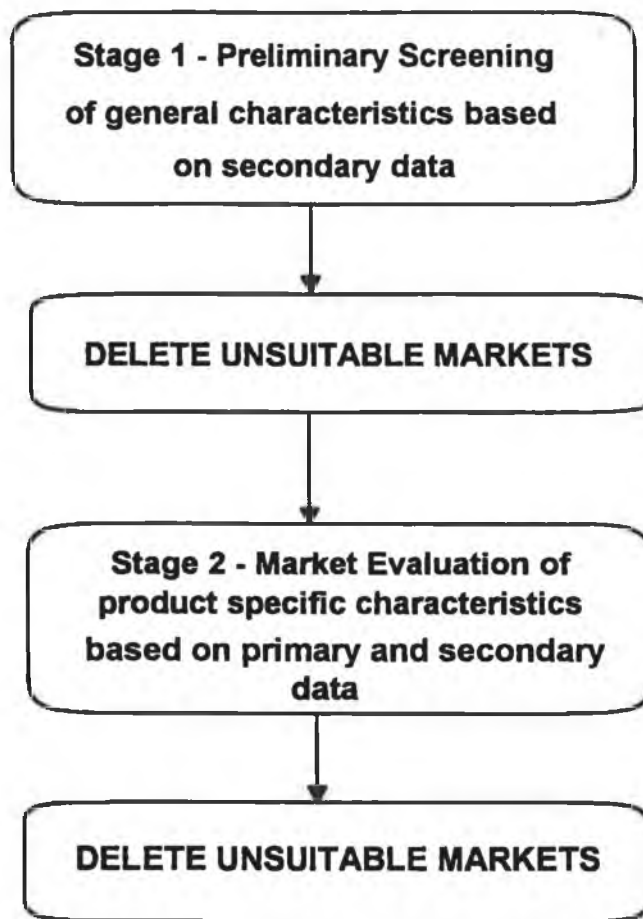
IMS can be defined as the development of an 'efficient and effective method of selecting a foreign target market(s)... The IMS process would normally follow the firm's decision to start or expand international operations, and precede the final in-depth assessment of a specific market just prior to entry' (Papadopoulos and Denis, 1988, p.38). IMS is, above all else, concerned with isolating those markets that represent the best opportunities for a firm and its products. The choice of the right market is important because of the monetary and psychological costs which may ensue if companies fail in their international efforts (Bradley, 1991). Not only are the costs of market entry lost, but the opportunity to penetrate a more lucrative market will be missed.

The difficulty for the firm lies in choosing an appropriate target market from a myriad of uniquely individual, and often fragmented, number of world markets. In order to simplify the selection process, authors on the subject of IMS have suggested a filtration framework for IMS. This approach to IMS is defined by Jeannet and Hennessey, (1988, p.137) as a systematic process 'that involves gathering relevant information on each country and filtering out the less desirable countries'. Markets are evaluated firstly on the basis of general attractiveness using secondary data and, secondly, on the basis of product specific indicators. The author provides a simple representation of the principle of this approach in Figure 2.1.

However, in order to be able to differentiate desirable countries or markets from less desirable markets, crucial factors or criteria must be selected to evaluate international markets. The selection of appropriate criteria and the techniques applied to analyse them is the crux of the IMS issue. Many of the quantitative models of IMS which will be discussed in section 2.3 use only quantifiable secondary indicators to evaluate international markets during the Preliminary Screening stages. Thus for example countries might be evaluated, and subsequently deleted, from the selection process on the basis of indicators such as GNP, steel production or the number of cars per capita among others. Therefore, markets which might be appropriate for a particular firm and its products are deleted from the selection before any relevant analysis is undertaken.

This chapter examines the variables and criteria used in existing IMS models from two points of reference. Firstly, the author considers whether the variables used in existing models can actually measure the attractiveness or opportunities that exist in the newly formed market economies of Central and Eastern Europe. Secondly, the author considers the usefulness of these techniques from the perspective of an internationalising firm. In doing so this chapter will highlight some of the inherent limitations of existing models which need to be considered in IMS literature.

Figure 2.1 - IMS: The Process of Filtration



2.1.3 Obstacles to IMS

Much of the literature on IMS has focused on the correct methodology which should be used when selecting international markets. To date few studies have mentioned, much less discussed, some of the obstacles to the IMS process. The author has introduced a discussion of this aspect of IMS at an early stage in this thesis, not to deter the process of systematic market selection, but to heighten awareness of the problems and obstacles which be must be overcome by firms who engage in IMS research, especially into emerging and developing economies.

Two main problems with IMS research will be outlined in this section. The first problem relates to the type of approach the company adopts to IMS. As with many other decisions it is often impossible to view market selection in

an entirely objective manner. Subjective judgements, often made through lack of knowledge or information about markets, can influence the selection process and result in the choice of a market that is comfortable rather than optimal. Thus selection can often be affected by outside influences and occur in a non-systematic manner.

The second obstacle to IMS relates to the availability and comparability of international data. During selection, secondary data is frequently employed to evaluate international markets as the cost of collecting primary data for a large number of markets would be prohibitive for most firms. However, there are several problems with secondary data which should be noted, some of which are particularly relevant to the emerging markets of Central and Eastern Europe.

i) *The Non-Systematic Approach to IMS*

Despite the abundance of models, formulae and frameworks developed for IMS, there is substantial evidence to suggest that, in reality, many firms approach the process in a non-systematic manner.

Pinney, (1970), pointed out that government agencies and chambers of commerce play an important part in shaping the path a company may take en route to foreign fields. Bilkey, (1978), and Welch and Weidersheim-Paul, (1980), both highlight the role of unsolicited orders as agents of change or the impetus which catapults a company into the international arena. Other authors, such as Papadopoulos and Denis (1988) bear testimony to the fact that the initial market selection decision made by small and medium sized enterprises (SMEs) rarely, if ever, involves systematic research into the most appropriate markets. And while larger companies are more likely to undertake some research into the suitability of foreign markets, Papadopoulos, (1986), suggests that the variables being used by them to analyse foreign markets are limited in scope. Therefore, it appears that the availability of resources does not adequately explain the lack of systematic research prior to internationalisation.

One explanation for the non-systematic approach to IMS, which has received much attention, suggests that the decision to choose one market over another is based on what might be described as 'feel factors', that is, the intuitive perceptions or beliefs of management about foreign markets. Indeed, Papadopoulos and Denis, (1988), refer to these feel factors as 'the non-systematic criteria' used by many firms. Three examples of such feel factors have been documented. Johanson and Vahlne, (1977), note that psychic distance, or uncertainty about foreign markets, will ultimately lead to a choice of market with which the company is already familiar or about which management believes it can readily obtain information. Similarly, Carlson (1975), noted that cultural distance, which refers to the perceived distance between the destination and origin cultures, may lead to potential markets being disregarded before any proper research is established. Finally, Sethi (1971) identified geographic distance as a relevant feel factor, a point which was, until quite recently, readily in evidence in the reluctance of many Irish exporters to look beyond the UK market.

Obstacles such as cultural and psychic distance may create a problem because the firm or its employees know little about a given market. These feel factors create a clear dilemma. If management base their selection of international markets on these factors, ultimately they may choose sub-optimal markets.

In order to overcome this dilemma Root, (1987) advocates that preliminary screening be applied to all countries to prevent feel factors from prejudging markets that may in fact offer possible opportunities. The preliminary screening stage requires that the company evaluates international markets on the basis of readily available general macro-indicators - demographic, economic, political and socio-cultural - to determine the possible potential of the market. In doing so the company can see quite clearly which countries may possess a favourable environment for doing business and those which do not.

The argument in favour of this approach is strong. The preliminary screening stage offers the firm an opportunity to find out more about the country in question, which may result in perceived distances being bridged. And the argument in favour of preliminary screening is strengthened in the case of newly developing markets, for example in Hungary and the Czech Republic, where companies may find that they know little about the working of the market. Of course, this argument presupposes that the correct choice of variables will be used to evaluate international markets.

ii) *Availability and Comparability of International Market Data.*

Since many IMS techniques rely on secondary data, it is important to note some fundamental problems associated with using secondary data. There may simply be a lack of data about a particular foreign market and there may also be a question mark over the comparability of the data that is available.

On the question of availability, Kinsey, (1988), highlighted the difficulty of finding information about less developed markets where statistical collection methods are not on a par with the industrialised West. In order to overcome this predicament, a number of techniques to estimate or approximate market potential have been suggested, (Moyer, 1968; Samli, 1977). However, as will be discussed later in this chapter, these Market Estimation techniques have certain inherent flaws.

The question of incomparability is a particularly acute issue when dealing with secondary data. Barnes, (1980, p.90) stated that:

International demographic, economic and social indicators available to the marketer are chronically blunt for marketing purposes. They nevertheless form the statistical skeleton upon which nearly every marketing research is built, despite the fact that many of these indicators are fallible as regards international comparability and relevance to marketing to an extent that makes them not just irrelevant but positively misleading.

The author would note that this criticism of market indicators highlights a fundamental problem associated with international market research. This problem strikes at the core of IMS theory, namely the choice of variables used to evaluate international markets. Despite repeated calls to include more market specific variables into the selection process, only product-specific variables have received any real attention. Other important variables such as consumer, price, promotion and distribution related variables have been ignored because they are comparatively more difficult to measure. However, even with indicators that are more readily available such as economic indicators, problems of comparability exist.

It is important to discover precisely why international data presents availability and comparability problems in order to determine the cause of market research problems and offer some solutions. Three particular problems can be identified:

- (a) Distortion of the unit of analysis
- (b) Inappropriate measurement of the unit of analysis
- (c) Variations in the defined subject of analysis.

(A) Distortion of the Unit of Analysis.

The distortion of national statistical and trade data is a recognised problem. These distortions may occur for a variety of reasons. In some cases distortions are the result of poor methods of statistical collection. This is perceived to be a particular problem in less developed nations where the resources for data collection are just not available. Douglas and Craig, (1983) evidence the use of such poor statistical collection methods in the case of China where 'best guesses' are taken by researchers if they believe the respondent does not fully comprehend the question being asked.

The problem of inadequate research is exacerbated by the frequency with which it is carried out. The costs associated with conducting nation-wide research prohibit the constant updating of data in many developing nations.

Consequently many sources of statistical data, such as Business International, base their information on estimates. Thus, in economies in a constant state of growth and flux discrepancies are more likely to arise and the problem of accuracy becomes more crucial.

On occasion, distortions are the effect of intentional subversion on the part of governments, who wish to portray their economies in the most favourable light. In the context of the Cold War, Soviet-generated statistical data would have been treated with reserve by most Western observers. Indeed, such data was looked on as mere propaganda designed for domestic use rather than as reliable indicators of growth. The objective of such propaganda was to keep the cogs of industrialisation turning and to prevent the West from seeing the cracks in an evidently failing system. The continued fall out from the Soviet regime is of significant consequence to both the newly formed nations of Central and Eastern Europe and international market researchers. Distortions, still pervasive in the system, are now coming to light, (European Economy, 1991). Rectification is a slow process.

Of course, propaganda is not the only cause of distorted statistical data. In a country such as Ireland, economies of scale are also a factor in producing what may be somewhat unreliable data. For this reason, the EU has (under Directive 89/130/EEC) provided funding to the smaller member States, such as Ireland, Greece and Portugal, to help standardise statistical collection methods. In recognition of the difficulties involved, this process is expected to take until 1995 to be fully effective. When one considers that this timetable has been set for relatively well developed market economies it is hardly surprising that we should be wary of statistical information emanating from the former Soviet bloc.

(B) Inappropriate Measurement of the Unit of Analysis.

An evaluation of socio-economic indicators is often suggested to be the most appropriate starting point for international market research, (Douglas and Craig, 1983). It is generally accepted that such variables are a useful point of reference because of their relative availability and their applicability to market size.

However, many of the common variables used for this purpose may be misrepresentative, (Barnes, 1980). Barnes argues that because these statistics have been compiled for a purpose other than marketing they do not in fact correctly measure what they claim to measure in marketing terms. He applies this argument to several general socio-economic indicators. However, for the purpose of this thesis it is appropriate to apply Barnes' argument to indicators which measure individual prosperity, such as GNP and GDP as they are universally used as indicators of market potential. In particular, they form the basis for the preliminary analysis of developing economies, such as Hungary and the Czech Republic, where 'soft' data (information on consumer attitudes) is not readily available.

Indicators of individual prosperity are most commonly measured on the basis of exchange rates, (Barnes, 1980). To all intents and purposes this appears to provide a uniform measure of analysis and to solve the problem of variations discussed earlier. However, measuring GNP or GDP in this manner creates another problem of international comparability. The purpose of these statistics is to establish the value of a nation's currency. However, in reality the true value of a currency is its worth to the individual user in a given country. Thus, significant differences between the actual value of the currency to an individual and the value which is calculated on the basis of exchange rates are bound to arise, especially in the case of less developed economies. The problem is exacerbated if significant fluctuations in exchange rates are a common occurrence. Kravis, (1978) estimated that in the case of Kenya, real GDP - expressed in terms of purchasing power - was three times greater than that which was published on the basis of exchange rates. The purpose of highlighting such a point is not to deter the use of statistical calculations of GDP. It does, however, serve as a warning. The estimation of market potential on the basis of statistical data alone is unlikely to yield a true estimation of market opportunity and, consequently, may result in firms pursuing markets which will not maximise their potential.

(C) Variations in the defined Subject of Analysis.

Another obstacle associated with conducting international marketing research is the lack of uniformity in the definition of the subject being analysed. In many instances subjects are analysed according to a localised definition, which varies from country to country. Bartos, (1989) examined the statistical conflict which arose due to the diversity of definitions applied to the term 'woman' across nations. The common definition of a woman is taken to be any female over the age of fifteen. However, in Mexico twelve year old girls are deemed to be women. In Brazil the age for analytical purposes is ten, the USA sixteen and in Italy is taken to be fourteen. The results of such definitional discrepancies led to conflict on the issue of women in the labour force, (see Table 2.1) as various statistical bodies approached the definition of women from a different point of reference. The EU has been instrumental in introducing some degree of standardisation into its statistics. For example, the TARIC, an industrial classification scheme, has been introduced to standardise figures across the European Union. However, unless this uniformity can be implemented on a world wide basis, incomparability still remains a problem for international researchers.

Table 2.1 What Percentage of Women are in the Labour Force?

SOURCES	A	B	C	D	E	F
USA (1985)	55	63	54	-	-	-
CANADA (1981)	52	62	61	-	46	-
UK (1981)	46	59	57	-	-	49
AUSTRALIA (1981)	46	53	52	-	-	-
FED REP OF GERMANY (1980)	39	49	49	-	-	-
ITALY (1981)	33	41	41	-	-	-
VENEZUELA (1984)	31	-	24	21	-	-
MEXICO (1980)	28	-	-	17	-	-
BRAZIL (1980)	27	-	39	20	-	-

Source: Bartos, R. (1989), "International Demographic Data? Incomparable!", *Marketing and Research Today*, Vol.17, No.4, p.207.

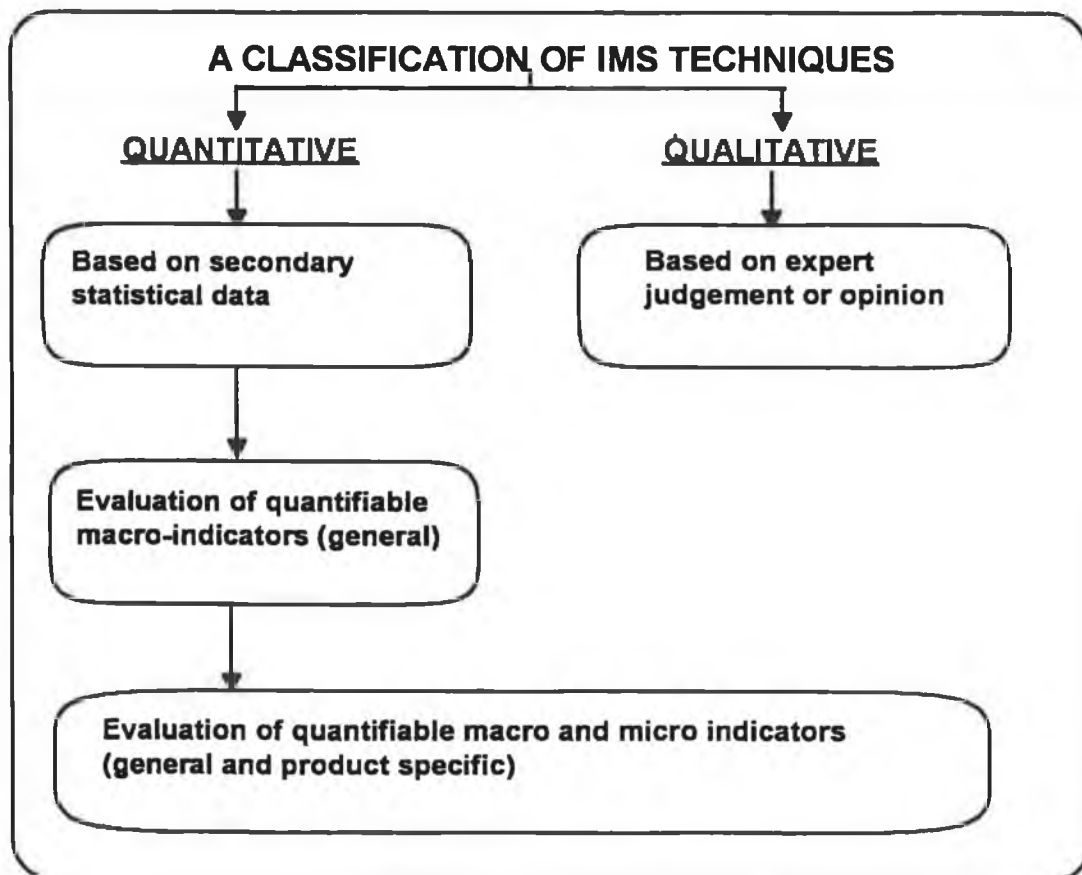
* A-Census, B-OECD, C-International Demographics, D-Statistical Abstract Latin America, E-Statistics Canada, F-Annual Abstract of Statistics UK.

2.2 TOWARDS A COMPOSITE MODEL OF IMS TECHNIQUES

2.2.1 Classification of IMS Techniques

Marketing literature relating to IMS has seen an evolution over a number of years. Much debate has taken place as to the most appropriate approach to the IMS process. Papadopoulos and Denis, (1988) have identified two broad categories of approach - qualitative and quantitative - which are summarised by the author in Figure 2.2. They define the quantitative approach as the evaluation of international markets on the basis of secondary statistical data. In contrast, the qualitative approach involves the 'gathering and analysis of qualitative information', that is, choosing a market on the basis of the decision maker's judgement or with the assistance of expert knowledge and opinion (Papadopoulos and Denis, 1988, p.38). For the purpose of discussion in this thesis, both methods will be dealt with separately. Ultimately, in considering the market potential of the Central and Eastern European markets, both methods will be required.

Figure 2.2



The classification outlined by the author in Figure 2.2 proposed methods of IMS which run the gamut from those which focus purely on quantifiable macro-indicators of market potential, through those which seek to include in the formula more product-specific elements, such as consumer characteristics, to those which suggest a more qualitative approach to selection. The primary concern of this literature review is to examine critically existing methods of IMS along two dimensions, namely, the type of approach adopted by them and the variables used to evaluate international markets.

1. The type of approach adopted:

Some IMS techniques focus on purely general market characteristics, such as GNP or population size, while others incorporate specific market characteristics, such as product and consumer characteristics. It is necessary to determine if an accurate estimation of market potential can be gained by examining purely general market characteristics or whether more market specific data needs to be included in the framework.

2. Variables used to evaluate international markets:

A vast array of variables, differing between the techniques, are employed to evaluate international markets. This thesis will question the relevance of the variables used in some instances and also determine whether existing variables used are broad enough in scope to truly gauge the potential of international markets. Because of the singular emphasis of this thesis on the markets of Central and Eastern Europe, much of the following criticisms relate to the inability of the techniques proposed to incorporate successfully these divergent markets into their formulae.

2.3 THE QUANTITATIVE APPROACH TO INTERNATIONAL MARKET SELECTION

2.3.1 Quantitative Methods of IMS

The most widely documented method of IMS is the Quantitative approach. This approach to the selection issue advocates the use and manipulation of

various statistical techniques to analyse markets, based on secondary data. Douglas and Craig, (1983) propose three main uses for secondary data:

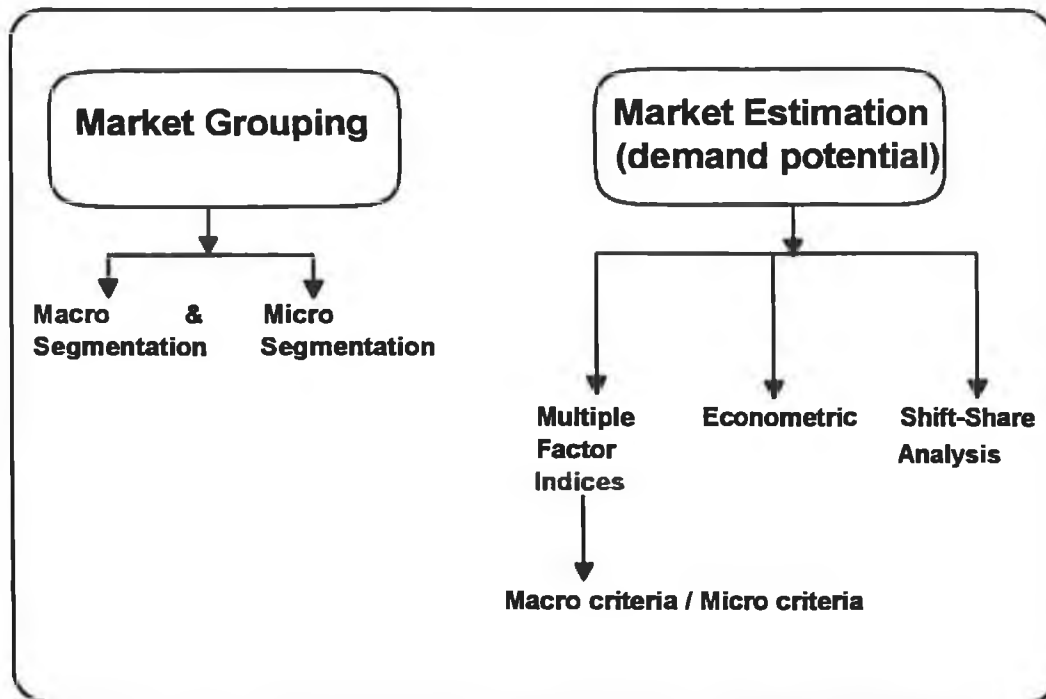
- i) It can be used to give an indication of the likely potential, risks and costs of operating in various markets.
- ii) Once screening has filtered out those countries which represent real opportunities it can be applied to determine quantifiable estimates of market demand and size.
- iii) Such data also provides a means of scanning for changes in the marketing environment.

Papadopoulos and Denis, (1988) provide an overview of the various quantitative approaches to IMS which have been proffered by authors on the subject. Using the Papadopoulos and Denis classification depicted in Figure 2.3 the author has condensed these quantitative approaches into two broad typologies, the Market Grouping method and the Market Estimation method.

There are two main differences between these approaches. First, the Market Grouping methods cluster or rank countries on the basis of similarity to each other while the Market Estimation methods aim at differentiating markets on the basis of their potential. Second, the Market Grouping methods seek to determine the attractiveness of international markets solely from the perspective of the investor, without examining the levels of demand for the company's product. By contrast, the Market Estimation methods base their evaluation of international markets on the determined levels of demand for a particular product or industry.

Figure 2.3

Quantitative Approaches to International Market Selection



Source: Adapted from Papadopoulos and Denis, (1988), "Inventory, Taxonomy and Assessment of Methods for International Market selection", *International Marketing Review*, Vol.5, No.3, Autumn, p.40.

2.4 THE MARKET GROUPING METHOD .

2.4.1 An Overview of the Market Grouping Method

One of the major obstacles to IMS is the diversity and heterogeneity of international markets. The fundamental concern of those involved with creating models for foreign market selection is the creation of a schematic classification of countries, in order to make some sense out of the complex selection task. Market Grouping offers one method of making sense of the diverse nature of foreign markets, by means of ranking or clustering. The primary purpose of clustering is to identify similar entities or groups from the characteristics they possess. By clustering, countries can be identified and classified so that every country in each cluster is similar with respect to some predetermined selection criteria. The fundamental base for categorisation is related to the type of variables or indicators being used to segment the market. These variables fall into two broad categories - Micro and Macro

indicators. It is on the basis of this classification that the Market Grouping method will be discussed.

2.4.2 Macro Segmentation: Approaches and Methodologies

The macro-segmentation approaches to IMS are distinctive in that they group 'similar countries in common clusters on the basis of their overall status, and make no attempt at measuring demand levels', (Papadopoulos and Denis, 1988, p.39). In order to determine these homogenous groups, macro-indicators relating to economic, socio-cultural and political factors are used to determine the ranking of world markets. These macro-indicators or variables, such as GDP and per capita income, all have one common feature: they are all easily measured and quantified.

The predominance of these macro-indicators, and especially economic variables, in many of the IMS models featured in this thesis should be noted. One explanation given for their common usage is proffered by Thorelli (1980) and by Cundiff and Hilger (1984). These authors suggest that economic indicators act as surrogate indicators of market potential. However, the author would add that their extensive use can also be attributed to their relative ease of use due to ready availability of economic statistical data. Many of the earlier models of IMS based their evaluation of international markets on macro-criteria or general country indicators. In the following two sections, 2.4.3 and 2.4.4, some of these IMS models are discussed and their relative usefulness is considered.

2.4.3 The Temperature Gradient Classification System

Litvak and Banting's (1968) classification system was formulated ostensibly for the marketing intermediary. The purpose of the study was to identify those environmental variables which directly impinged upon their operations in international markets and, consequently, affected marketing arrangements. They classified countries along a temperature gradient, ranging from hot to moderate to cold, on the basis of seven variables which they felt had a direct

impact on marketing operations. These classification variables were as follows:

- i) *Political Stability*: a government representing the major segment of society, which enjoys its confidence and which has a favourable attitude towards business operations. A "hot" factor when stability is high.
- ii) *Market Opportunity*: a sufficient proportion of consumers with unsatisfied needs for a particular product or service, but with resources to satisfy these needs. A "hot" factor when opportunity is high.
- iii) *Economic Development and Performance*: the level of growth efficiency and stability in an economy. The degree of development was classified according to Rostow (1960) as low, (a "cold" factor), medium, (a "moderate" factor), or high, (a "hot" factor).
- iv) *Cultural Unity*: the degree of shared goals, attitudes, values and interactions between distinct groups within society. A "hot" factor when unity is high.
- v) *Legal Barriers*: the level of regulatory and legal restrictions which profoundly impact upon successful business operations, present or future. A "cold" factor when barriers are high.
- vi) *Physiographic Barriers*: obstacles to business operations resulting from the physical terrain or land forms, such as infrastructure. A "cold" factor when barriers are high.
- vii) *Geo-Cultural Distance*: problems created by geographical distance, language and attitudinal differences and cultural disparities. A "cold" factor when distance is high.

Countries were defined as being hot, moderate or cold based on the researcher's interpretation of the marketing environment of that country, as Table 2.2 indicates. However, the methodological approach of Litvak and Banting to the classification process raises a question about the objectivity of the study. As the study was not formulated to deal with the problems of IMS,

criticism on this basis would be inappropriate. However, it is important to note that subsequent researchers (Goodnow and Hanz, 1972) did capitalise on the contents of the study.

Table 2.2

An Application of the Country Temperature Classification System

Environmental Characteristics	CANADA	GERMANY	BRAZIL	JAPAN
Political Stability	Hot	Hot	Low	Hot
Market Opportunity	Hot	Hot	Moderate	Hot
Economic Development & Performance	Hot	Hot	Low	Hot
Cultural Unity	Moderate	Hot	Moderate	Hot
Legal Barriers	Low	Moderate	Hot	Hot
Physiographic Barriers	Moderate	Low	Hot	Moderate
Geo-Cultural Distance	Low	Moderate	Hot	Hot

Source: Litvak, I.A. and Banting, P.M., (1968), "A Conceptual Framework for International Business Arrangement", in King, R.L. (ed.) *Marketing and the New Science of Planning*, American Marketing Association, Chicago, Ill., pp.440-7.

Sheth and Lutz, (1973) were the first to utilise the Litvak and Banting temperature gradient approach in a market evaluation. Their work centered around improving the methodological base by which countries were analysed and, subsequently, graded. In doing so they sought to address four main shortcomings in the Litvak and Banting model, namely:

- i) The arbitrary and subjective classification of countries as being either cold, moderate or hot.
- ii) The lack of any analytical framework to translate values into the hot-cold gradient.
- iii) The use of market opportunity as a predictor variable. As this particular factor was confined to the use of primary, industry-specific data Sheth and

Lutz felt that it was incongruous with the six other factors which were based on secondary data.

iv) The lack of weighting attached to each of the environmental factors.

Apart from discarding market opportunity as a classification factor, Sheth and Lutz sought to eliminate some of the guesswork from the Litvak and Banting (1968) model by attributing, for the most part, quantifiable variables to each of the six environmental factors. The variables chosen for this purpose are indicated in Table 2.3.

Table 2.3

Variables Chosen to Measure the Environmental Characteristics of International Markets

FACTORS		VARIABLES
1.	Political Stability	<ul style="list-style-type: none"> • Governmental stability • Freedom from group opposition • Political incultivation
2.	Cultural Unity	<ul style="list-style-type: none"> • Religious, racial and linguistic homogeneity
3.	Economic Development & Performance	<ul style="list-style-type: none"> • Energy consumption in Mgw hours • Economic Development
4.	Legal Barriers	<ul style="list-style-type: none"> • Level of imports and exports, (\$) • Level of tariffs on imports, as a % of the value of imports
5.	Physiographic Barriers	<ul style="list-style-type: none"> • Measured by surface and ariel methods of transportation
6.	Geographic Barriers	<ul style="list-style-type: none"> • Air distance from US • Degree of Westernisation

Source: Sheth, J.N., and Lutz, R.J., (1973), "A Multivariate Model of Multinational Business Expansion, in *Multinational Business Operations*, (Sethi, S. and Sheth, J.N. eds), Marketing Management, Goodyear Publ., California.

Through the application of factor analysis, in this case Q factor analysis, a correlation matrix of individual respondents, (countries) was determined.

Table 2.4 shows the outcome of the analysis. The relative positive values reflect the 'hotness' of countries while the relative negative values represent the 'coldness' of countries from the perspective of the US investor. As can be seen from Table 2.4 the more advanced countries are seen to represent greater investment opportunities for US firms. There is nothing startling about this revelation. What is of interest, however, is that Poland is ranked twelfth, that is, a relatively hot country, ahead of Switzerland, Ireland and Australia, amongst others. Given that in 1973, when the study was completed, the communist regime in Poland was particularly hardline and repressive it seems odd that it would be ranked ahead of Ireland, which had just begun membership of the EC, and Australia, which was beginning to develop in real terms as a genuinely hot country. These specific instances reflect a more general problem with the variables used to evaluate international markets, an issue that will be dealt with later in the chapter.

Table 2.4

The Hot-Cold Gradient of International Markets: A US Perspective

COUNTRY	VALUE	COUNTRY	VALUE	COUNTRY	VALUE
US	13.22	Greece	0.16	Guatemala	-0.93
UK	4.60	Hungary	0.05	Liberia	-0.94
W Germany	3.44	Portugal	-0.00	Ceylon	-0.97
Netherlands	2.64	Uruguay	-0.13	Albania	-1.99
Canada	2.01	Yugoslavia	-0.16	Thailand	-1.00
Belgium	2.00	Honduras	-0.16	Mongolia	-1.07
Denmark	1.44	El Salvador	-0.17	Paraguay	-1.13
Italy	1.32	Chile	-0.18	N Korea	-1.16
Taiwan	1.16	India	-0.18	Iran	-1.23
Japan	1.13	Nicaragua	-0.23	Indonesia	-1.23
Sweden	1.13	Cuba	-0.26	S Korea	-1.24
Poland	0.93	Dominican Rep	-0.29	Ethiopia	-1.25
Switzerland	0.86	Romania	-0.29	Cambodia	-1.28
Ireland	0.83	Venezuela	-0.40	Saudi Arabia	-1.31
Argentina	0.81	Panama	-0.41	Syria	-1.32
Australia	0.76	Costa Rica	-0.47	S Africa	-1.33
Norway	0.73	Turkey	-0.47	S Vietnam	-1.37
Austria	0.73	Bulgaria	-0.47	Jordan	-1.42
E Germany	0.72	Ecuador	-0.52	Iraq	-1.44
Mexico	0.58	Libya	-0.60	Burma	-1.52
Finland	0.47	Bolivia	-0.61	Israel	-1.55
Brazil	0.46	Philippines	-0.64	N Vietnam	-1.57
New Zealand	0.40	Egypt	-0.72	Nepal	-1.62
Czechoslovakia	0.33	Peru	-0.73	Afghanistan	-1.68
Spain	0.23	Lebanon	-0.80	Laos	-1.86
Colombia	0.22	Haiti	-0.88	Yemen	-1.99

Source: Sheth, J.N., and Lutz, R.J., (1973), "A Multivariate Model of Multinational Business Expansion, in *International Business Operations*, (Sethi, S. and Sheth, J.N. eds), Marketing Management, Goodyear Publ., California.

2.4.4 Cluster Approaches to IMS

i) *The Liander, Terpstra, Yoshino and Sherbini Approach*

One of the first comprehensive market grouping techniques was developed by Liander et al (1967), furthering the early work of Connors, (1960), and Bartels, (1963). The Liander et al study advanced three approaches to IMS, two of which involved clustering or grouping countries on the basis of selected macro-economic indicators. The third approach which involved the use of Market Estimation techniques will be dealt with in section 2.5.

In broad terms the main difference between the two clustering approaches is related to the type of macro-economic indicators used to classify each country.

The first approach advocated classifying countries along two dimensions - degree of demographic and economic mobility and domestic stability and cohesion. Demographic and economic mobility was determined according to a number of key variables relating to development and industrialisation, communication, transportation, marketing orientation, organisation of population and education and health. Variables taken to disclose indicators of domestic stability and cohesion included cultural homogeneity and fragmentation, deaths from group violence and duration of national identity.

The second grouping method advanced by Liander et al, (1967) classified markets according to their degree of technological development. Each country was evaluated according to a five point scale ranging from most highly developed to developed, semi-developed, underdeveloped and to very underdeveloped. Once countries were classified into one of these five groups they could then be arranged into meaningful clusters of countries, determined through an evaluation of each country's similarity with respect to environmental and societal characteristics such as population growth. Although the Liander et al, approach was, in modern marketing terms, rather basic and was at the time subjected to some criticism, (Sethi and Holton, 1973), it offered a framework for IMS which could be built upon. Subsequent

work by Sethi (1971), Cooke (1972), Wind and Douglas (1972), Sethi and Curry (1973), Sheth and Lutz (1973), Doyle and Gidengil (1977), Samli (1977) and Papadopoulos (1983) have all aimed to improve upon this pioneering study.

ii) *Sethi's Comparative Cluster Analysis*

Sethi, (1971) attempted to further the work of Liander et al, by advancing the methodological base used to cluster markets, while accepting the fundamental principle of clustering countries on the basis of quantifiable indicators. The deviation from the Liander et al approach was in the augmentation of the political, socio-economic, trade, transportation, biological and personal consumption variables used, as is shown in Table 2.5. Furthermore the statistical techniques employed to evaluate data, in this case a BC TRY program of cluster analysis, offered a more sophisticated means of analysis.

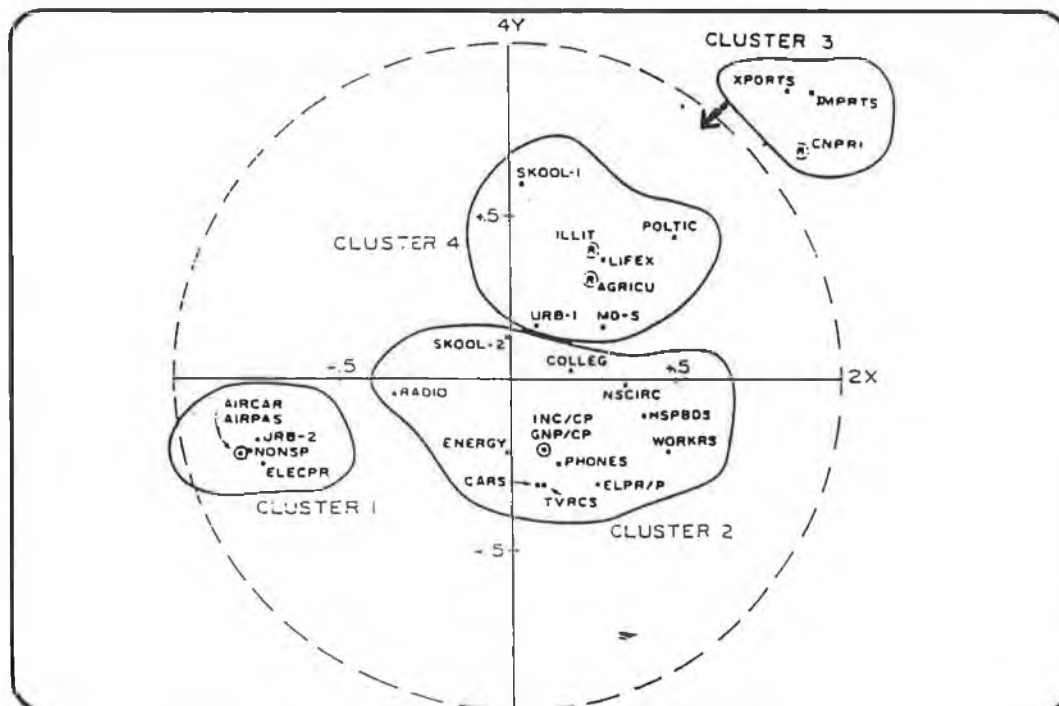
The first step in the program, termed V-Analysis, was to cluster the predetermined variables selected to evaluate markets. The variables, classified according to their 'within group similarities and their between group differences' were defined according to the degree of collinearity between each variable. Those variables with the greatest degree of within group collinearity and between group differences were taken to be the definers of each cluster. This process resulted in four distinct grouping of variables, outlined in Table 2.5. In order to cluster each country into a meaningful group each country was attributed four scores, each a composite of the definers of each cluster. Four O-Types or clusters emerged as a result of this analysis: see Figure 2.4. As can be seen, the result is a rather generalised grouping of countries. The deficiencies of this for market analysis will be dealt with in greater detail at a later stage in the chapter.

Table 2.5 - Variables used for Cluster Analysis of World Markets

Cluster 1 Production & Transport	Cluster 2 Personal Consumption	Cluster 3 Trade	Cluster 4 Health & Education
<ul style="list-style-type: none"> • Air passengers • Air cargo • Electricity Production • Urbanisation (Pop > 100,000) • No of newspapers 	<ul style="list-style-type: none"> • GNP per capita • Per capita income • Per capita ownership of TVs, cars and phones • Per capita energy consumption • No of hospital beds per capita • Newspaper circulation • Per capita ownership of radios • Workers 	<ul style="list-style-type: none"> • Imports • Exports • Consumer price index 	<ul style="list-style-type: none"> • Life expectancy • No of MDs • Adult illiteracy • Per capita school enrollment (15-14 years) • % of pop in agriculture • Per capita enrollment in school and college (15+ years)

Source: Adapted from Sethi, S., (1971), "Comparative Cluster Analysis for World Markets", Journal of Marketing Research, Vol.13, pp.348-54.

Figure 2.4 - Sethi's Span Diagram of Cluster Outcomes



Source: Sethi, P., (1971), "Comparative Cluster Analysis for World Markets", Journal of Marketing Research, Vol. 13, pp.348-54.

iii) *Doyle and Gidengil's Market Grouping Methodology*

Doyle and Gidengil's, (1977) study is included in this literature review for two fundamental reasons. Firstly, because of its citation in IMS literature and, secondly, as it serves to demonstrate the importance of choosing pertinent variables or bases for analysing international markets.

The Doyle and Gidengil analysis of market typologies seeks to address the apparent flaws inherent in previous clustering methodologies, particularly relating to similarity measures and clustering techniques. Like Papadopoulos, (1983), they noted the importance of using product-specific variables in any analysis of international markets, in order to gain a more accurate reflection of market characteristics. Given the importance they attached to these product-specific variables it is somewhat surprising that they were not included in their study. This resulted in a purely general overview of foreign market potential.

Instead 26 variables were chosen 'to measure the essential market characteristics of 85 of the world's major economies', (Doyle and Gidengil, 1977, p.231). Table 2.6 provides a listing of these essential variables correlated with economic development, industrialisation, distribution, urbanisation and trade factors. In addition the study failed to incorporate political and cultural indicators of market potential, which they acknowledged could be indicative of some 'essential market characteristics'. These omissions were, they said, due to lack of reliable data.

Table 2.6 - Doyle and Gidengil's Market Characteristic Variables

1.	Population/million
2.	Past 5 years % increase in population
3.	Population density
4.	Cement Production, Kg/per capita
5.	Electric Energy Production, Mil. Kwh/per capita
6.	Energy Consumption, Kg/per capita
7.	Steel Consumption, Kg/per capita
8.	No of passenger cars/per 1000 population
9.	No of commercial vehicles / per 1000 population
10.	Mfg as a % of domestic product
11.	Civil Aviation passenger / Km 1000s
12.	Civil Aviation freight /Ton Km
13.	No of population / per hospital bed
14.	No of population / per physician
15.	No of telephones / per 100 population
16.	No of radio sets / per 1000 population
17.	No of TV sets / per 1000 population
18.	No of daily newspapers sold / per 1000 population
19.	GDP per capita
20.	Consumption of printing and writing paper Kg per capita
21.	Total Exports as a % of GDP
22.	Total Exports as a % of GDP
23.	Agriculture as a % of GDP
24.	Wholesale and Retail trade as a % of GDP
25.	% of school and enrolment of 14 year olds
26.	University enrolment / per 1000 population

Source: Doyle, P., and Gidengil, Z., (1977), "A Strategic Approach to International Market Selection", *Proceedings of the American Marketing Association*, AMA, Chicago, Ill., p.,232.

Having determined the relationship between the major variables, outlined in Table 2.6, the factor score for each object or country was obtained. In order to cluster these objects into meaningful groups Wishart's, (1969) CLUSTAN programme for numerical analysis was employed. The distinction between this technique and previous clustering methodologies merits discussion. Wishart's mode analysis attempts to discover natural country groupings. Natural clusters or groupings are characterised as regions containing a high density of points which are separated from other clusters (with a high density of points) by low density regions. Thus, by definition, Wishart's mode analysis 'conforms to this concept of natural clusters since it isolates only as many clusters as there are modes, unlike other hierarchical methods which yield all groupings from $n-1$ clusters down to two clusters, even if no natural groupings are in fact present' (Doyle and Gidengil, 1977, p.233).

The results of this analysis are outlined in Table 2.7. A cursory scan over the evidence alone is enough to alert the reader to the problems associated with this type of analysis. Cluster 10 may be of particular interest to the Irish reader as it provides an insight into Ireland's 'natural grouping' in world markets. This alone evidences the possible limitations of this model as a significant predictor of world markets. However, the general limitations of Market Grouping will be dealt with in the following section of this chapter, section 2.4.5.

Table 2.7 - Grouping of 85 countries by Mode Analysis

CLUSTER 1	CLUSTER 4	CLUSTER 7	CLUSTER 11
Afghanistan	Burma	Egypt	India
Central African Rep	Chile	Iran	Indonesia
Ethiopia	Columbia	Turkey	Pakistan
Ghana	Paraguay		Phillipines
Haiti	Peru	CLUSTER 8	
Kenya	Argentina	France	
Malawi	Brazil	German Fed Rep	
Nigeria	Mexico	Italy	
Uganda	Thailand	Japan	
Korea	Uruguay	UK	
Saudi Arabia		USA	
CLUSTER 2	CLUSTER 5	Canada	
Algeria	Costa Rica	Netherlands	
Bolivia	Dominican Rep	Spain	
Ecquador	Guatemala		
Iraq	Jordan	CLUSTER 9	
Panama	Nicaragua	Gabon	
S Africa	Syria	Honduras'	
Venezuela	El Salvador	Tunisia	
	Lebanon	Zaire	
CLUSTER 3	CLUSTER 6	Tanzania	
Bulgaria	Austria	Kuwait	
Czechoslovakia	Denmark	Libya	
German Dem Rep	Finland	Morocco	
Greece	Norway	CLUSTER 10	
Hungary	Sweden	Guyana	
Poland	Switzerland	Malaysia	
Romania	Australia	Zambia	
Portugal	Belgium	Hong Kong	
Yugoslavia	Israel	Ireland	
	New Zealand	Jamacia	

Source: Doyle, P. and Gidengil, Z., op. cit., p.233.

iv) The Demographic Approach to IMS: An Alternative Clustering Methodology

A more recent approach to IMS is the market orientated approach adopted by Cavusgil, (1985a). Classification of world markets is again based on secondary macro-indicators, but in this study there is a shift away from using economic indicators only to measure market potential. In this case, Cavusgil defines market potential in terms of variables such as age, education and the degree of urbanisation in a specific country. Five clusters, namely, Dependant, Seeker, Climber, Luxury and Leisure and Rocking Chair are defined on the basis of demographic information, outlined in Table 2.8.

However, while this approach outlines the general characteristics of each group of markets it is deficient in the sense that it fails to provide valuable market or industry specific information required of any analysis of international markets.

Table 2.8 - Cavusgil's Market Orientated Clustering of World Markets

CLUSTER	DEMOGRAPHIC MAKE UP
<u>Dependent Societies</u> Most countries in Africa, Asia and a few in South America	Pop growth: 3% Median Age 16 Children 5+ Infant Mortality: 1:10 Life Expectancy: 40 yrs GNP per capita: < \$300
<u>Seekers</u> Most countries in Latin America and some in Asia	Pop growth: 1.5 - 2.5% Median Age 20 Children 4+ Infant Mortality: 1:10 Life Expectancy: 60 yrs GNP per capita: < \$900
<u>Climbers</u> Brazil, Venezuela, Portugal, Mexico, Taiwan, Malaysia, Turkey, S Korea	Pop growth: Under 1.5% Median Age Higher than 20 Children 2 to 3 GNP per capita: < \$2,000
<u>Luxury and Leisure</u> US, Canada, Japan, UK, Australia	Zero or little pop growth Median Age: 30+ Children: 2 Life Expectancy: Max Longevity GNP per capita: < \$8,000
<u>The Rocking Chairs</u> W Germany, Switzerland, Luxembourg and the Netherlands	Fertility below replacement level Children: <2 Median Age: 37 Life Expectancy: Peak GNP per capita: > \$10,000

Source: Adapted from Cavusgil, S.T., (1985a), "A Market Orientated Clustering of Countries", in *International Marketing Strategy*, Thorelli, H.B. and Becker, H., (Eds.), Pergamon Press, Oxford.

2.4.5 Limitations of the Macro Segmentation Approach

The macro-grouping method attempted to solve many of the problems of IMS. It offered a systematic means of condensing the vast array of world markets into supposedly homogenous groups, which could be considered similar in terms of their market characteristics. However, a cursory glance over the evidence to date suggests that there are obvious limits to the applicability of these models:

- i) They are limited by the general weakness of secondary data.
- ii) They suffer from incomparability as different variables are used to measure the same criteria.
- iii) Their analysis of world markets relies totally on determining general market characteristics rather than producing a situation-specific analysis.

Each of these points will now be discussed in turn by the author.

i) *General weakness of secondary data.*

There are a number of problems associated with the collection of accurate and relevant data for comparative purposes. As discussed in section 2.1.3, this is especially true in the case of emerging and developing economies, such as those of Central and Eastern Europe. In the case of the Doyle and Gidengil study (1977) the lack of available, reliable data is cited as a reason for excluding important measures of market potential. They state that the inclusion of political and cultural factors in their study, though important, was impossible due to the unavailability of this data.

It is interesting, however, to note that only one source, namely the U.N. Statistical Yearbook, was used for their study, obviously complying with the maxim 'measure whatever can be easily measured'. Unless the researcher is willing to undertake an exhaustive search for pertinent information the findings are bound not only to be limited, but in some cases inaccurate and misleading.

ii) *Lack of Uniform Assessment*

Serious deficiencies arise due to an over-reliance on macro-indicators to determine the essential characteristics of each market. The result is that the Japanese market is considered to be similar to the Icelandic market, (Sethi, 1971, p.352) and the Irish market is considered to display the same characteristics as the market in Guyana, (Doyle and Gidengil, 1977, p.233). Such comparisons must stretch even the most imaginative mind.

To a large extent these models have relied on macro-economic data to make their comparisons. This trend emerged in the Liander et al, (1967) study which used levels of economic development as an indicator of market attractiveness. Consequently, subsequent researchers, who have attempted to advance the Liander et al model, have relied to a greater or lesser extent on the same approach. Yet as Day, Fox and Huszagh note:

There is no definitive measure of economic development; rather it can only be inferred from one or more indicators of economic growth, which vary from the traditional indicator, GNP per capita, to indicators of living standards....

Therefore, each researcher may rely on different indicators to measure levels of economic development. The choice of variables used will determine the placement of a country within a cluster or group. This explains why the same country may be placed in different clusters, depending on the similarity between the variables used by the researcher to classify the market, as Table 2.9 indicates.

Table 2.9 - Variations in the Classification of the Japanese Market

Sethi (1971)	Doyle and Gidengil (1977)
Norway	France
Belgium	German Fed Rep
Denmark	Italy
Iceland	Japan
New Zealand	UK
Switzerland	USA
Austria	Canada
UK	Netherlands
Australia	Spain
W Germany	
Netherlands	
Finland	
Japan	
France	
Canada	

Source: Adapted from Sethi, S., (1971), "Comparative Cluster Analysis for World Markets", *Journal of Marketing Research*, Vol.8, August, 348-54, and Doyle, P. and Gidengil, Z.B., (1977), "A Strategic Approach to International Market Selection", *Proceedings of the American Marketing Association*, AMA, Chicago, Ill, pp.230-4.

Another explanation for the variation in classification of countries, based on levels of economic development, is proposed by Cundiff and Hilger, (1984). They suggest that differences between intra-country levels of development pose significant classification problems and may lead to the same country being classified into different groupings, depending on the researcher's use of variables to define developed and less developed. For example the East coast of Ireland is significantly different in terms of its degree of economic development than the West coast. However, if the degree of urbanisation in a country is used to suggest economic development the whole of Ireland might be classified as a less developed or third world country. This is both inaccurate and misleading. However, a dilemma as to which stage of

development Ireland belongs may arise because of the lack of a uniform definition of the variables which determine economic development.

iii) *Over-generalisation of the selection issue.*

A third problem with the use of these macro-indicators to evaluate markets is that the data used is related to the general market rather than to the specific market, Wind and Douglas, (1972). That is to say, the macro-models of IMS tend to look at overall country indicators but they ignore information relating to the specific product to be purchased and the consumer who is most likely to want the product. Examples of these specific indicators include such variables as consumption patterns, attitude towards the product, attitude towards the country of origin, competitive offerings and limitations on trade. One explanation for this is the wealth of data available on general country socio-economic, demographic and geographic indicators and the difficulties associated with collecting product and consumer specific information.

Yet, empirical research has proven that there is a vast difference in the ranking of countries within clusters when product-specific variables are included in the evaluation. For example, Papadopoulos, (1983) conducted a study based on the Liander et al approach to IMS using beer as the product under consideration and taking Europe as the unit of analysis. Using only general country indicators Norway came first in the cluster ranking and Great Britain came thirteenth. On the basis of this information one would suppose that the Norwegian market represented the best possible opportunity for beer sales. However, general country indicators will not take into account the monopolistic governmental control exerted over sales of alcohol in Norway. By basing the evaluation on product-specific variables, however, the results were significantly changed. Great Britain was ranked first and Norway fourteenth. The author would suggest that this example establishes the argument for the inclusion of market specific or product-specific indicators into the formula.

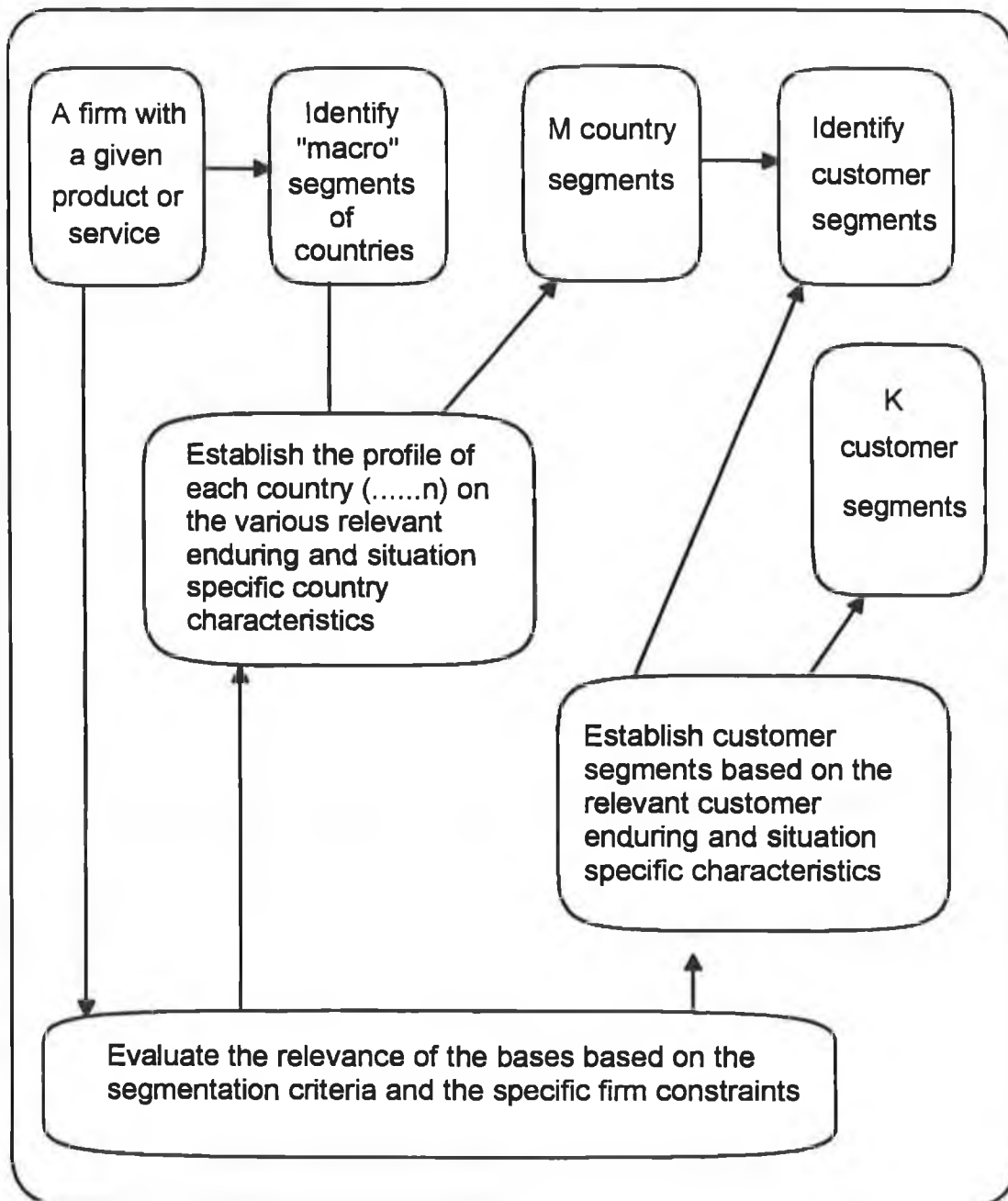
2.4.6 Market Grouping based on Macro and Micro-Indicators

It is apparant from the discussion of the limitations of the macro-grouping approach that evaluation of market potential based solely on measureable or quantifiable macro-indicators, without consideration of other pertinent aspects of the market, such as product-specific and consumer-specific variables, will lead to a skewed and partial view of the market opportunity. Wind and Douglas (1972) and Douglas and Craig (1982) have sought to redress these inadequacies.

The Wind and Douglas, (1972) model of IMS was different from previous models in that it was the first of its kind to propose a hierarchical segmentation approach to the selection issue, where both country (macro) and product-specific (micro) characteristics were taken into consideration. Figure 2.5 provides an illustration of this approach. They also advocated an evaluation of the market along two dimensions, namely, general-enduring and situation-specific market characteristics.

Figure 2.5

The Hierarchy of Segments Approach to International Market Segmentation



Source: Wind, Y. and Douglas, S., (1972), "International Market Segmentation", European Journal of Marketing, Vol.6, No.1, pp.17-25.

The distinction between these two is clearly defined by Wind and Douglas (1972, p.19):

General characteristics do not vary across purchase situations, and include at the consumer level demographic, socio-economic and psychological characteristics. Situation-specific characteristics are those that vary with the individual purchase situation or particular product such as brand loyalty, frequency of purchase and attitude towards a given brand.

Previous market grouping methods had concentrated, to the exclusion of all else, on general country characteristics. This model sought to rectify this imbalance by incorporating product-specific elements into the framework. The hierarchical approach to market selection involved two phases. The first required an evaluation of the macro or country characteristics. Countries where legal or political requirements represented significant barriers to entry could be deleted at this stage of the process. Next, these macro segments could be broken down further on the basis of customer or micro characteristics.

While this approach dealt with the problem of over-generalisation, it created another dilemma, that is, what variables should be used to segment the market? According to Wind and Douglas the variables used to evaluate international markets could be based on the variables used to segment the domestic market. An example of these variables at a general customer level might include demographic and socioeconomic characteristics and/or personality and lifestyle characteristics. Specific customer characteristics might be measured by such variables as product usage and purchase patterns, consumption patterns and/or attitudes towards the product. The problem with this suggestion, however, was raised by Wind and Douglas in their study. They accepted that 'most international companies do not follow a conscious strategy of segmentation, let alone engage in segmentation research...' (Wind and Douglas, 1972, p.20.) Therefore, firms might not have a specific set of segmentation variables which could be used to evaluate international markets. The study outlined some variables which might be considered for this purpose, shown in Table 2.10. However, the author would note that this

list is not exhaustive as it clearly does not take into account other important variables related to strategic considerations, such as pricing, promotion and distribution decisions which the firm may need to take into consideration when evaluating international markets.

Table 2.10

***A Classification Scheme of Various Bases for
International Market Segmentation***

	ENDURING CHARACTERISTICS	SITUATION-SPECIFIC CHARACTERISTICS
COUNTRY CHARACTERISTICS	Geographic location Demographic and population characteristics Socioeconomic cultural patterns Political patterns	Economic and legal constraints Market conditions Product bound culture and lifestyle characteristics
CUSTOMER CHARACTERISTICS	Demographic characteristics: age, sex, lifestyle Socioeconomic personality and lifestyle characteristics	Consumption patterns Loyalty patterns Buying situations Attitudes (perception and preferences)

Source: Wind and Douglas, (1972), "International Market Segmentation", European Journal of Marketing, Vol.6, No.1, pp.17-25.

2.4.7 Limitations of the Macro-Micro Approach

The macro-micro grouping method was the first of the IMS techniques to consider evaluating factors, in this case product-specific factors, which would directly impact on the firm's success in international markets. In doing so it started the trend away from the beauty contest approach to IMS, where countries were rated on overall attractiveness rather than on their market potential. But while Wind and Douglas (1972) recognised that selection efforts needed to be tailored to the firm's international objectives and offerings, their study failed to translate this concept into a framework for IMS.

Furthermore, the study emphasised the importance of product-specific factors, but did not consider the fact that firms also need to consider price-related, distribution-related and promotion-related variables when considering international markets. Therefore, two particular criticisms can be made of this approach:

- i) failure to incorporate company-specific factors
- ii) the exclusion of important strategic considerations such as pricing and distribution.

These two criticisms will be discussed in turn by the author.

i) Ignoring Company-Specific Factors

When considering international markets, firms bring to the selection decision a unique mix of objectives and offerings upon which they evaluate potential international markets. The criteria used to select international markets are not only based on considerations such as market size and growth but also on the firm's internationalising objectives and resources and their individual market offerings. This point is clearly illustrated by Papadopoulos (1986) who considers the selection procedures of small and medium sized enterprises and the impact of company objectives on the selection decision. In the Papadopoulos (1986) study three cases are considered:

- i) where the objective of the firm is survival;
- ii) where the objective of the firm is long term growth;
- iii) where the objective of the firm is volume sales;

In the first case scenario, where the firm's internationalisation is for reasons of survival, Papadopoulos suggests that the firm will be looking towards markets that are easy to penetrate but which hold long term sales potential. In the second instance where the objective is one of long term growth the relevant markets are 'those where a strategic foothold can be obtained and where future growth rates are expected to be high' (Papadopoulos, 1986, p.143). In the third example the markets that the firm will be interested in are

those which are easy to penetrate in the short term but which do not necessarily have long term growth potential.

Thus as Papadopoulos (1986) suggests the firm will evaluate international markets with respect to its own objectives, and not purely on the basis of macro and micro indicators of market potential. However, this element of the selection decision, while mentioned in IMS studies, has been ignored by many IMS models to date.

ii) *Exclusion of Pricing and Distribution Related Variables*

The Wind and Douglas approach to IMS outlined above was the first IMS technique to incorporate product-specific variables into the selection formula. However, Wind and Douglas (1972) limited their discussion to purely product-specific elements, disregarding other strategic aspects such as pricing, promotion and distribution.

The problem with this approach is that it assumes that the firm is concerned only with product-specific information. In fact firms selecting international markets are concerned not only with product related criteria but also with pricing and distribution related criteria (Cavusgil, 1985). In particular, firms evaluate the distribution arrangements in foreign markets and the sensitivity of potential markets to price. This would seem to suggest that firms evaluate international markets on the basis of company-specific criteria which will directly impact on the success of their efforts in international markets. However, this aspect of the IMS decision is not considered in the macro-micro models.

The macro-micro models of IMS have attempted to redress some of the limitations of the macro models, such as over generalisation. However, the fact that they too ignore company-specific factors which impact upon the selection decision is an indictment of their usefulness and applicability to firms selecting international markets.

2.5 MARKET ESTIMATION METHODS

2.5.1 A Comparative Explanation of Market Estimation Methods

As mentioned earlier in this Chapter (section 2.2), the principal difference between the two quantitative approaches to IMS is that Market Estimation methods are concerned with measuring levels of demand for particular products or industries in world markets. In contrast Market Grouping methods specifically aim to measure the overall ranking of world markets on the basis of general market characteristics. The market estimation approaches can be divided into three broad typologies, (See Figure 2.3) which will be discussed individually below.

- (a) The Multiple Factor Indices Approach;
- (b) Econometric Methods; and
- (c) Shift-Share Analysis.

2.5.2 The Multiple Factor Indices Approach

Moyer, (1968, p.357) describes multiple factor indices as 'measures of potential by indirection, using as proxies variables that intuition or statistical analysis reveal to be closely correlated with the potential for the product under review'. As with the market grouping methods, the type of criteria and the variables chosen to evaluate the market differentiate each approach. Again these can be classified according to two broad typologies - macro-criteria and micro-criteria. It is along these lines of classification that the multiple factor indices approach will be discussed.

i) Market Estimation based on Macro-Criteria

In the domestic market context, multiple factor indices selected on the basis of a combination of experience and reference to statistical material are a common method used to estimate sales potential. Liander et al, (1967), were among the first to apply this type of approach to the international arena. They chose two criteria, namely the degree of economic development and internal stability and cohesion, to estimate the potential of international markets.

Others who have developed this method have expanded on this range of criteria to include indicators such as population size, consumption, steel usage or the number of cars per household (for example, Moyer, 1968; Samli, 1977; Douglas and Craig 1983). These writers have recommended that, in addition, firms draw up their own list of criteria and variables on the basis of their knowledge or judgement.

A number of authors have applied the macro-criteria approach to the estimation of market potential, (Conners, 1960; Dickensheets, 1963; Liander et al, 1967; Moyer, 1968). However, the model of most relevance to this review was carried out by Samli, (1977). His model specifically applied the multiple factor indices approach to Eastern European, albeit at a time when the Iron Curtain still hung.

Samli's (1977) model attempted to estimate the market potential of Eastern European countries on the basis of two criteria, market quality and size of the market. Table 2.11 gives the variables used by the author to measure these criteria.

Table 2.11

Variables used to determine the Potential of Eastern European Markets

CRITERIA	DETERMINANTS	VARIABLES
1. Market Size	————	<ul style="list-style-type: none"> • Population
2. Market Quality	Degree of economic development	<ul style="list-style-type: none"> • Steel consumption • Kilowatt hrs produced • Income • Employment in manufacturing
	Quality of life	<ul style="list-style-type: none"> • Car registration • Phones in use • TVs in use • Radios in use

Source: Adapted from Samli, A.C., (1977), "An Approach for Estimating Market Potential in East Europe", *Journal of International Business Studies*, Fall-Winter, p.49.

Both the market size and the market quality indices were calculated by obtaining a market figure for each of the nine variables and expressing it as a percentage of the equivalent US figure. Thus, purely for the purpose of argument, assuming the Czech population is 10 million and the US population is 100 million it would follow that the Czech market size index would correspond to .10 or 10%. A similar calculation was made for each of the eight market quality variables and the mean was taken as the market quality index for each country. By multiplying the market quality index by the market size index, the market potential of each country from a US firm's perspective could be calculated, as Table 2.12 shows. Thus for example the Czechoslovakian market was comparable to 2% of the US market in terms of both size and quality.

Table 2.12

Market Potential of Eastern Europe as a % of the U.S.

Countries	Total Population as % of the U.S. x Quality factor = Market Potential
Bulgaria	$4.09 \times 20.14 = .82$
Czechoslovakia	$6.92 \times 34.44 = 2.38$
East Germany	$8.07 \times 37.08 = 2.99$
Hungary	$4.95 \times 22.89 = 1.13$
Poland	$15.85 \times 24.56 = 3.89$
Romania	$9.89 \times 18.92 = 1.87$
Yugoslavia	$9.95 \times 15.22 = 1.51$

Source: Samli, A.C., (1977, p.51), op.cit.

Two particular comments may be made on the applicability of this approach in the post-1989 context. First, Samli's 1977 research into the potential of Eastern Europe was undertaken at a time when there was minimal data of any description available in the West about these markets. Second, while more

general market information is now available, there remains some skepticism in Western minds about the reliability of secondary data.

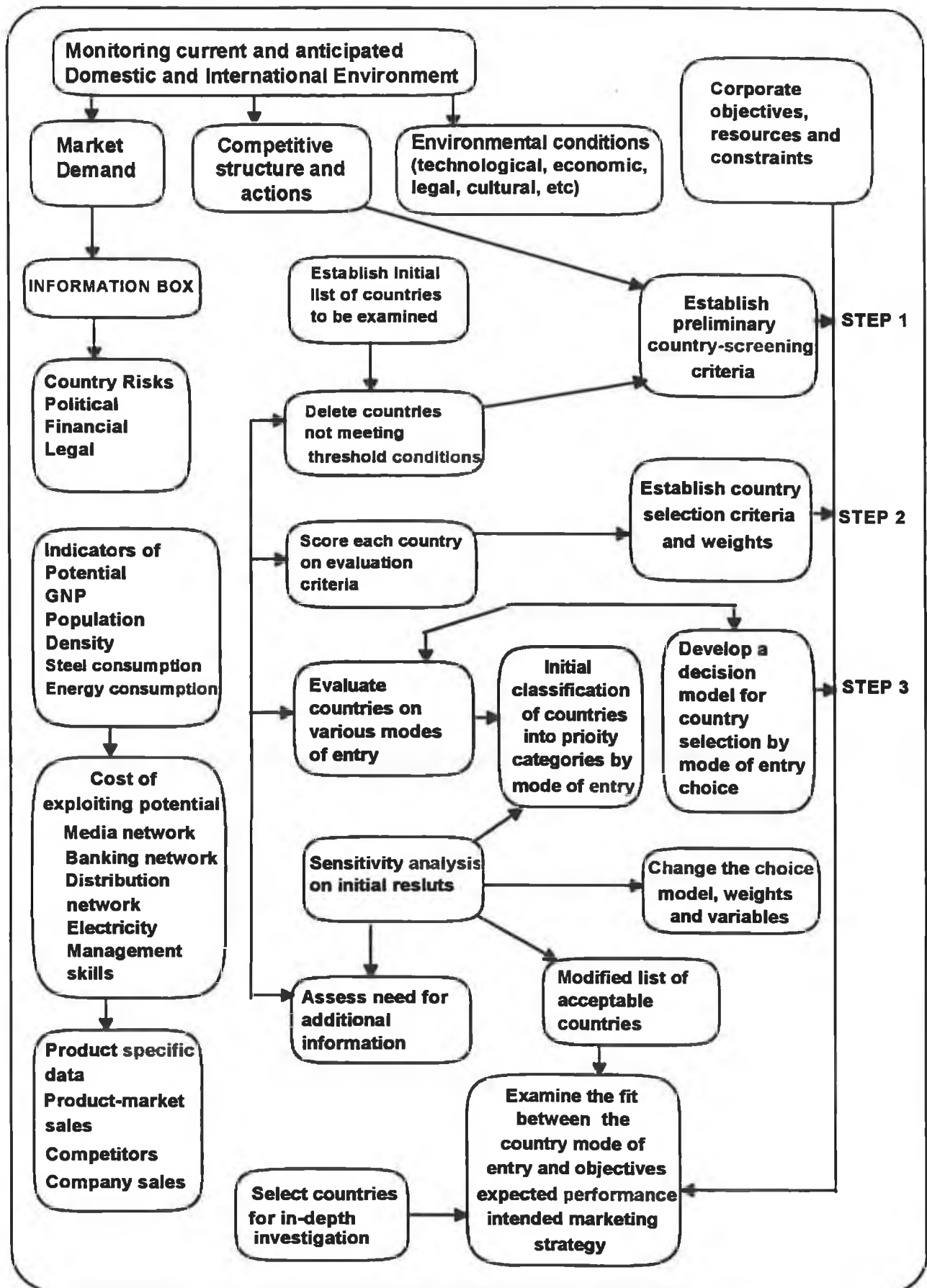
ii) *The Market Estimation Approach based on Macro & Micro-Criteria*

The Douglas, LeMaire and Wind study, (1972) offers some solution to the problems of over-generalisation created by the macro-criteria models. This approach suggests a hierarchical evaluation of international market based on both macro and micro criteria. As both Wind and Douglas (1972) proposed a similar Market Grouping approach in the same year, the methodology is naturally not dissimilar.

The Douglas, LeMaire and Wind study suggests a three step approach to IMS outlined in Figure 2.6. The three steps suggested by the authors are:

- i) Establish preliminary screening criteria;**
- ii) Establish country selection criteria and weights;**
- iii) Develop a decision model for country selection by entry choice.**

Figure 2.6 - The Customised IMS Model



Source: Adapted from Douglas, S., Le Marie, P and Wind Y., (1972), "Selection of Global Target Markets: A Decision Theoretic Approach", Proceedings of the XXIII Esomar Congress, France.

In step one Douglas, LeMaire and Wind suggest the application of preliminary screening in order to reduce the number of markets which require further analysis. The criteria or variables which the authors suggest should be used for preliminary screening are as follows:

- (a) Prohibiting Factors: which will inhibit the sale of goods or services. For example, the manufacturer of alcoholic beverages might delete Middle Eastern countries from further consideration, due to the limitations on the sale of alcohol imposed in these countries.
- (b) A priori rules of thumb: established by management to delete unsuitable markets from further consideration. It might be that management establish a threshold market size for their particular product. Thus, for example, De Beers might eliminate all underdeveloped markets with a low per capita income from consideration, as the proportion of consumers able to afford diamonds could be insignificant. However, no hard or fast rules are applicable in this instance and the decision to eliminate certain markets rests entirely on the subjective judgement of management.

The second step in the process is to ascertain the criteria and corresponding variables which should be used to evaluate the market. To define the results of analysis, management are required to select a weighting for each variable according to their perceived importance.

While Douglas et al suggested a number of variables which may be used for this purpose, they recommend that management choose those variables that are relevant to their particular product and corporate objectives. It is also a matter for management to decide upon the threshold levels which differentiate a desirable country from a less desirable country. These variables must then be weighted using a scaling procedure, for example a scale from 1-50, where one is extremely important and fifty less important.

Next, countries are evaluated on the variables chosen by management and ranked according to their aggregate score from each of the weighted variables. The countries with the highest ranking scores, which obviously represent the greatest opportunities for the company, are then evaluated according to different modes of entry, for example, exporting to Holland or establishing a joint venture in Poland.

2.5.3 Limitations of Multiple Factor Indices Approaches

The Samli, (1977) model is indicative of the standard approach adopted to determine market potentials based on secondary data. Proponents of this approach would claim that these models provide a cheap and effective means of determining market potentials, especially in developing and less developed markets. Quite the opposite is true. Indeed, many of the limitations of the Market Grouping Methods can be applied to these Estimation Methods. Without appearing to be overly repetitious, these models exacerbate the problem of over-generalisation and simplification of the IMS issue by suggesting that market potentials can be measured on the basis of general macro data, a problem they clearly share with the Market Grouping Methods. These models fall into what Yankelovich, (1974) terms the suicide trap because they only evaluate that which can be easily measured not what is important to internationalising firms: see the quotation introducing this Chapter.

However, one improvement which the macro-micro Market Estimation models have made is that they have acknowledged the role of the firm in the IMS decision. But, as is the case with the Douglas, Le Maire and Wind (1972) model, they have indicated that in order to particularise the model, each individual firm should choose their own indicators. This open-ended approach to IMS hardly seems consistent with a systematic approach, since no explicit guidelines are given as to the type and range of variables which should be used by a firm.

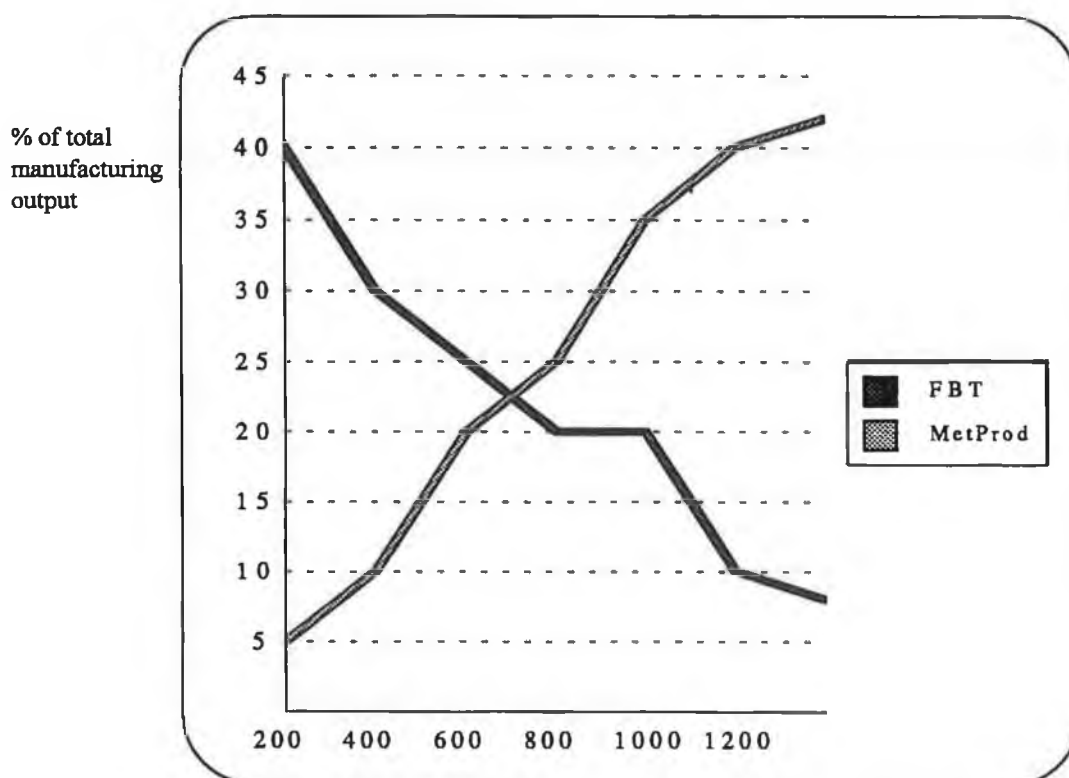
2.5.4 Econometric Models of IMS

Econometric techniques were initially applied to estimate the market potential of developing or less developed economies where information regarding the market was either limited or unavailable. The underlying principle of the econometric approach is outlined by Moyer, (1968). He suggests that market potential can be successfully calculated by using proxies to estimate demand in situations where there is 'a paucity of reliable statistical data' (Moyer, 1968, p. 353). However, as many techniques provide only a crude estimation of market potential they are limited in their applicability.

Moyer, (1968) formulated two techniques, demand analysis and income elasticity measurements, based on the proxy principle, to analyse international markets. Both of these techniques are concerned with estimating consumption patterns for a range of broad industry categories, by examining the relationship between output and GDP per capita, as Figure 2.7 illustrates.

Figure 2.7

The Relationship Between Manufacturing Output and GDP per Capita



Notes: 'Met Prod': Metal Production, 'FBT': Food, Beverages, Tobacco

Source: Moyer, R., (1968), "International Market Analysis", Journal of Marketing Research, Vol.5, Nov., pp.353-60.

As Figure 2.7 illustrates, when per capita income is low the manufacture of consumer necessities, such as food, is high. As per capita income increases the importance of these industries declines and the economy focuses on the production of industrial goods. The move towards industrialisation has two important implications for demand. Firstly, it produces an increase in demand for raw materials and capital equipment to fuel the industrial machine.

Secondly, as income rises the demand for income elastic goods or luxury goods increases while there is a relative fall off in demand for inelastic goods, or necessities.

2.5.5 Limitations of the Econometric Methods

The applicability of this approach to a real life scenario, in this case Eastern Europe, is questionable. In this instance we have economies that have been distorted by macro economic prioritisation of the military-industrial complex, to the detriment of the development of consumer goods. Therefore, the application of this statistical method of determining the market potential in Eastern Europe would in effect produce a perverted perspective. Similarly the use of income elasticity measurements to determine demand are rendered defunct in the economies of the Czech Republic and Hungary due to the distortions of price under the old Soviet-type system and the recent price liberalisations, as discussed in Chapter 1.

Moyer's model provided a broad overview of general socio-economic trends. Essentially it failed to take into account factors which might influence demand for a particular product in a given economy. Other statistical approaches to the market selection process have also been applied, although in some cases the cross-over from the abstract to reality has not been without its difficulties. Regression analysis, a common tool to all statisticians, was used by Armstrong, (1970) and Lindberg, (1982) to determine demand. These methods used independent or predictor variables to estimate demand for a dependent variable. The Armstrong model requires that these independent variables be chosen on the basis of a priori reasoning, assuming

that the researcher is aware of those variables which influence the sales function. In contrast, the Lindberg model explicitly states that relative demand (the proportion of personal consumption expenditure spent on a given item) can be determined by evaluating the level of saturation for a particular product. However, both are highly method bound and limited in their application, (Papadopoulos and Denis, 1988).

2.5.6 Shift-Share Analysis

The shift-share approach, like the multiple factor indices method discussed earlier, has been adapted from a model used for trade area selection within the domestic US market. Shift-share analysis involves measuring imports of a particular product, for a specified number of countries, over a period of time. An expected growth rate for imports is calculated for each country, based on the average growth of all countries being examined. Each country's expected growth is then compared with its actual growth. The difference between expected and actual or the 'net shift' corresponds to actual growth or decline in market share experienced by each country for a particular imported product.

Green and Allaway (1985) applied this technique to the imports by twenty OECD nations of fifty-one individual product categories, designated by the U.S. Department of Commerce as having a high level of technological input. The first step in the technique involves the identification of products with high export potential. This was done by calculating the net imports for twenty markets over a period of time and employing shift-share analysis to determine the products that accounted for the largest increase of market share in that time period. Green and Allaway acknowledged that this step might only be appropriate for export trading companies with a wide portfolio of products or government agencies looking for general direction for export stimulation programmes.

The second step in the shift-share approach is admittedly more directed towards the identification of specific product/market pairs. By performing shift-share analysis across each market for a particular product(s), identified in step one as having a high export potential, those countries showing a positive increase in market share for a specific product can be identified.

2.5.7 Limitations of Shift-Share Analysis

In terms of its use in the international market selection process this method allows the researcher to determine the mean import growth rate for the group of countries under analysis. Any country which achieves a growth rate for imports greater than the mean can be considered a potential opportunity. There are a number of problems with this approach.

- i) It assumes that trade data is accurate and objective.
- ii) It also presupposes that potential can only be determined on the basis of the growth in imports. However, it takes no account of, perhaps, significant growth rates in sales of domestically produced goods and the possibility of stimulating primary demand (Papadopoulos and Denis, 1988). To take an example from the Irish context, while much import demand was generated in recent years in the electronics/computer industry, there was also a large increase in domestically produced computer-related goods. A shift-share analysis of this element of the Irish market would fail to pick up the growth potential for a company which might compete against producers operating internally within the Irish market.

2.6 THE QUALITATIVE APPROACH TO IMS

2.6.1 The Qualitative Principle

In contrast to the quantitative approach, the qualitative approach to IMS emphasises the use of opinion and judgement in the selection process. Generally, research into qualitative techniques has focused on the source, character and relevance of qualitative information that can be used in the

selection process, (Pezeshkpur, 1979; Denis and Depelteau, 1985; Rice and Mahmoud, 1985). These authors suggest that government agencies, embassies, chambers of commerce and other experts can be employed to provide an input into the selection decision.

What these authors suggest is not that a qualitative approach is to be the sole basis on which IMS research is to be conducted by a firm. Rather, the qualitative approach may enhance the company's knowledge base by moving away from an over-reliance on secondary data. As Moyer, (1968, p.354) observes 'Quantifying relationships may be a useful exercise, but they often mask overriding qualitative factors that outweigh the numerical relations.'

Essentially, the qualitative approach provides the firm with an opportunity to evaluate market specifics such as attitudes towards a product which they may not be able to glean from an examination of general secondary data.

2.6.2 Ignoring the Qualitative Issue

As the previous sections of this Chapter indicate, the body of IMS research to date has focused on using secondary quantitative data to formulate an opinion about the potential of international markets. In most IMS models, the qualitative approach plays, at most, a minor support role in the selection process. Writers such as Douglas, Le Maire and Wind (1972) suggested that management judgement might be incorporated into the selection process. However, no real attempt has been made in the past to integrate the judgement factor into the process.

The author would suggest a number of reasons as to why the qualitative approach has not been given due consideration in the selection process. First, reliance on secondary quantitative data can be attributed to its ready availability. Second, a disregard for the qualitative approach may have arisen because of the stigma that was associated with any technique that is not highly method bound. A third connected explanation is that the qualitative approach can only be considered when dealing with a limited number of countries.

2.6.3 The Place of the Qualitative Approach in IMS

Whatever the explanation for the relative lack of consideration given to the qualitative approach, this author would suggest that it is time to incorporate it into the mainstream of IMS theory. The real question, of course, is not whether qualitative information is relevant to the IMS procedure: existing writers have already acknowledged this. What is important is to clarify precisely the place it should hold in the overall process.

This writer would suggest that the qualitative approach may play two separate and distinct roles in the quest for foreign markets. The first, which involves using qualitative analysis at the start of the selection process, would be appropriate in the context of a refined evaluation of international markets. This would be relevant for companies which have already penetrated the traditional 'industrialised' markets and are considering expansion into emerging or developing markets. Naturally, comparatively little will be known about such markets. Its use in this context is supported by Douglas and Craig, (1983, p.36) who point out that qualitative techniques are '...useful in the initial phases of research since they enable identification of constructs, product class definitions, or relevant attitudes and behaviour to be examined in subsequent phases of research'.

In order to bridge the overall knowledge gap, and indeed the biases which may arise due to cultural distance referred to in section 2.1.3, it is important that firms seek expert advice and opinion as to the actual situation on the ground. The fact that a firm can obtain in this way first hand information on a market from people in the know underlines the importance of the qualitative approach as a starting point in the selection process. A second role for the qualitative approach, one where it is used after Preliminary Screening, can be seen for firms operating in a different context. In this case, qualitative information can be incorporated at the later stages of the selection process after quantitative analysis has reduced the selection search to a handful of markets. In such situations, the company will require more specific

information about potential markets than can be provided by quantitative data.

The primary purpose of any IMS research is to obtain an insight into foreign markets. The qualitative approach advocates obtaining this information through first hand experience, rather than relying purely on secondhand data. Indeed, the qualitative approach to IMS affords the researcher the opportunity to examine specific areas of the market which they feel will impact upon the success or failure of operations.

2.6.4 Limitations of the Qualitative Approach

The qualitative approach is not without its limitations. The qualitative approach is '...open to the potentially biased opinions of those who provide information and advice and the subjective judgement of the decision-maker' (Papodopoulos and Denis, 1988, p.39).

It is, perhaps, natural that certain institutions may be more concerned with promoting national interests than in providing an objective assessment of the realities of the market. This may be especially true in the case of developing and emerging markets trying to attract new foreign investment.

It is, of course, important to acknowledge the limitations to the qualitative approach. However, the author would point out that the quantitative approach also exhibits inherent limitations, discussed earlier. This has not led writers on the IMS process to discard the quantitative approach as unusable; rather they have sought to flag these limitations and attempt to overcome them. A similar view of the qualitative approach is called for so that its relevance to IMS is not undermined.

2.7 SUMMARY AND CONCLUSIONS

The preceding discussion of IMS methodologies highlighted some of the inherent limitations of existing IMS methodologies. These limitations are even more pronounced when considered from the perspective of the emerging economies of Central and Eastern Europe.

One of the main problems with existing IMS models, when considered in the developing and emerging market context, is that they focus their evaluation on easily measured and quantifiable indicators of market potential. The prolific use of socio-economic indicators, such as GNP, to rank or categorise international markets was evidenced in the preceding sections. However, this type of analysis overlooks some important features of international markets which may not be immediately evident.

Another criticism of many IMS models is that many have ignored the role of the firm in the IMS decision or relegated them to the sidelines, despite the fact that the firm is at the core of the IMS decision. It is, therefore, not surprising that these models are not used by firms when selecting international markets (Papadopoulos and Denis, 1988). By creating models of IMS that are universally applicable authors on the subject of IMS have alienated their intended user.

There is no doubt that a model for IMS, which incorporates both the needs of the firm and which considers the characteristics of emerging and developing economies needs to be developed. To facilitate the development of such a model firms engaged in IMS research should be consulted to determine the factors that they consider to be vital in selection research.

CHAPTER 3

RESEARCH METHODOLOGY

....soon categories and their properties emerge which fit and work and are of relevance to the processing of the problem. The researcher must have patience and not force the data out of anxiety and impatience. He [/she] must trust that emergence will occur and it does.

Glacer (1992)

3.1 RESEARCH OBJECTIVES

The main objective of the research conducted for this thesis was to examine the IMS procedures of international companies who have chosen Central and Eastern European markets with a view to determining the applicability of existing IMS models to these internationalising firms. The research conducted by the author was necessarily exploratory in nature.

In more specific terms, the research conducted sought to explore the following issues concerning IMS:

- (a) whether the approach to IMS in the case of Central and Eastern European markets differed from that used for other markets;
- (b) what variables were used by companies to evaluate the potential of Central and Eastern European markets; and
- (c) whether company goals, objectives and offerings had an impact on the choice of variables used to evaluate international markets in general.

By focusing in this way on a descriptive analysis of the approach to IMS of internationalising firms, the author does not provide a normative account of IMS procedure in general. Rather, the author suggests that certain factors may need to be taken into consideration when evaluating the markets of Central and Eastern Europe.

3.2 RESEARCH DESIGN

3.2.1 Measurement Technique

Having decided on the research objectives, the author set about determining the most appropriate means of obtaining the data for analysis. In research of this nature, which is primarily exploratory and descriptive, the following information needs were identified:

- i) data which was firm-specific;
- ii) data which would identify patterns and consistencies in IMS over a medium-term time span; and

iii) data which was sufficiently deep and rich to identify exactly what selection variables were used by internationalising companies in the Central and Eastern European context.

Initially, the author had to choose between quantitative and qualitative research techniques. The most obvious choice of quantitative technique, the survey, which is a traditional research method, was felt to be inappropriate for research of this nature which requires depth and which may be considered sensitive by the object of the research, namely the firm. Qualitative research, and more especially case study research, which is 'based on phenomenology', was deemed to be a more appropriate technique for looking at (i) why, (ii) how and (iii) what firms did when selecting international markets (Gummesson, E., 1994).

Having decided on the case study method, which was considered to be the most appropriate research technique, it was then necessary to decide upon the specific data sources required for the case study. The research aimed to identify the specific variables and techniques used by firms who had targeted Central and Eastern European markets and the impact of company-specific factors on the selection process. For this reason two main data sources were identified:

- i) senior company personnel involved in the IMS decision; and
- ii) a selection of company files, documents and published data.

Of the qualitative techniques, a number of options, namely group interviews, participant observation and projective techniques were considered but excluded as research methodologies on the ground that the nature of the information which could be obtained from such research was inconsistent with the subject matter. Ultimately, the author considered that an in-depth interview was best suited to the problem under consideration. This method of research, in which the researcher encourages the informant to relate, in their own terms, experiences and attitudes that are relevant to the research

problem, would overcome the difficulty of sensitivity (Walker, 1993). However, in order to overcome any problem of interview bias and to obtain information that was both rich and deep, secondary data sources, such as company files, documents and published reports were also required (Leavy, 1991).

3.2.2 Interview Design and Structure

The label of 'depth interview' has been used to describe many approaches to interviewing which range from those which are totally 'non-directive' to those which used a structured questionnaire (Jones, 1993). In both theory and practice a certain amount of ambiguity still exists about the precise boundaries of interviewing techniques. However, the in-depth interview is one in which the researcher, while defining the discussion subject, allows the respondent to answer and elaborate on a topic that is relevant to them.

Taking this into consideration, a broad interview framework (Appendix 1) was devised which outlined all the discussion topics of relevance to the research, but which provided some scope for the respondent to elaborate on issues of particular importance to them.

A pre-test of the interview was conducted on November 2nd 1993 and the framework was subsequently amended to take into consideration the limited time that would probably be available for each interview.

3.2.3 Sample Selection

As this research was concerned with evaluating IMS techniques, one of the basic prerequisites for sample selection was the degree of international experience of the firms which would be evaluated. Another criterion for selection was firms who had already selected Central or Eastern European markets as their target markets.

Prior to choosing a sample it was necessary to decide upon a sector which would be used for analysis. Because the research was exploratory and

descriptive it was decided to choose a sample from only one sector of industry, namely the drinks industry. Despite the possibility that the dynamics of market selection might be similar among companies within the industry, the author nonetheless concluded that greater depth of analysis could be achieved by comparing and, where relevant contrasting, the procedures of similar firms. The criteria used to select these firms were:

- (a) company size
- (b) their timing of market entry into Central and Eastern European markets;and
- (c) their form of operation in these markets.

On the first point, company size was an important consideration because research has suggested that larger firms are more likely to adopt a systematic approach to IMS (Papadopoulos, 1985; Bowers, 1986). The timing of market entry into Central and Eastern European markets was also an extremely important criterion for selection. The author felt that firms who entered the market prior to 1993 were more likely to make available the information and procedures they had used to evaluate these markets, as such information would not be considered ultra-sensitive in a post 1993 context. Finally, their form of operation was used to delineate firms who might have chosen Central and Eastern Europe in an opportunistic fashion, such as responding to an order from these markets, and those which had actually established a presence in these markets having determined the opportunities for their products therein. On the basis of these criteria two companies, United Distillers and Seagrams, were chosen by the author for analysis.

3.2.4 Data Collection

On October 26th 1993, the author met in Dublin with Mr. Martin Frost, the Senior Vice President of the Seagrams Spirit and Wine Group. During a brief meeting the author explained the nature of her research and requested an interview with company personnel who were involved in the selection of Central and Eastern European markets. The arrangements made at this

meeting were confirmed by letter and telephone. This correspondence is reproduced in Appendix 1.

Similarly, on 7th November 1993, the author sent an introductory letter to the Marketing Director of United Distillers, Mr. Nick Penny, in the Czech Republic. United Distillers is the spirits arm of the Guinness Group. The initial contact with Mr. Penny was made through the course of inquiries with United Distillers' agents in the Czech Republic, Young and Rubicam. Copies of this correspondence are also included in Appendix 1.

Prior to interviewing the respondents, a broad outline of the interview topics was faxed to them. This fax also included a request for company files or documents pertaining to the selection procedure which could be of benefit to the author.

The first interview conducted by the author was with the Marketing Director of Seagrams Eastern Europe and Africa, Mr. Geoff Parmiter. This was conducted in London, on November 12th 1993. In the course of the interview, which was taped with the prior consent of the respondent, the interview framework which had been devised was referred to, but not strictly adhered to. During the one and a half hour interview, company files and documents pertaining to the IMS procedures used in the selection of Central and Eastern European markets were obtained by the author. In accordance with the respondent's wishes, these documents have been treated with the strictest confidence and have been used by the author for reference only and have not been reproduced in any form in this thesis.

A second interview, with the Country Manager of Seagrams in the Czech Republic, Mr. Marek Holub, was conducted on November 15th 1993 in Prague. This interview, which was also taped with the prior consent of the respondent, reiterated many of the points made in the earlier Seagrams interview. One notable point of departure, however, was the more in-depth

discussion of market conditions in the Czech Republic. While this was not specifically relevant to the market selection techniques of Seagrams, it did provide some useful insights into factors which other firms might need to take into consideration when evaluating Central and Eastern European markets, such as affordability. These points have been incorporated into Chapter 4 and 5 of this thesis.

The third interview was with the Marketing Director of United Distillers in the Czech Republic, Mr. N. Penny. This took place in Prague on November 17th 1993. This forty-five minute interview was also taped with the prior consent of the respondent and again followed the broad outline of topics which had been received by the respondent from the author. In addition, the author was allowed to make notes on United Distillers' Market Evaluation Reports, which outlined both the approach and the variables used by the firm in selecting Central and Eastern European markets. Because of the sensitive nature of this information, and in accordance with the wishes of the respondent, this information has been used by the author for reference only and has not been reproduced in any form in this thesis.

In addition to these firm specific interviews, the author also conducted a number of informal interviews with the Director of the Irish Trade Board in Prague, Mr. Ruairi Mullen, with the Ogilvey and Mather account director for Seagrams, Ms. Angela Bogton, and with Mr. Marek Boguszak from the Czech market research agency, AISA. While these interviews did not directly contribute to the findings of this research they provided the author with a useful insight into factors which need to be taken into consideration by firms when evaluating Central and Eastern European markets.

The Seagrams and United Distillers interviews were subsequently transcribed by the author. These, together with the company files and reports on IMS to which the author was given access and the published Reports of the Guinness Group, form the basis for the Case Study contained in Chapter 4 of this thesis.

3.3 LIMITATIONS IMPOSED UPON RESEARCH

Inevitably, the limited resources available to the author imposed considerable limitations on the extent to which broad conclusions can be drawn from the research findings of this thesis. This of course underlines the exploratory nature of the research undertaken by the author.

In particular, the resources factor resulted in the author confining herself to the use of non-probability sampling. However, in the Central and Eastern European context, the author was also confined by a relatively small sample from which to select.

CHAPTER 4

RESEARCH FINDINGS

GUINNESS (UNITED DISTILLERS):

A CASE STUDY IN INTERNATIONALISM AND STRATEGIC IMS

Two market researchers from the shoe industry visited Central Africa..... One returned, bubbling with enthusiasm, "The Market is enormous...not a single person there has a pair of shoes". The other reached a somewhat different conclusion. "There is no market...people don't wear shoes in Central Africa". Market Researchers who today look to the infant democracies of Eastern Europe and the former Soviet Union are faced with similar dilemmas.

Geoff Parmiter, Seagrams (1992).

4.1 THE PRESENTATION OF RESEARCH FINDINGS

4.1.1 A Summary of Secondary Research Findings

The analysis of existing IMS models in Chapter 2 raised a number of fundamental questions about current IMS theory. The most overwhelming problem with these models concerns the variables they use to evaluate international markets. These models generally define market attractiveness in (a) socio-economic terms and, sometimes, (b) product-specific terms. However, if markets were chosen solely on this basis emerging economies, such as those of Central and Eastern Europe, would be deleted from consideration at the Preliminary Screening stage.

The problem with existing IMS models, therefore, is not so much what they include but what they exclude from the IMS framework, namely the firm. Some models, for example, that of Douglas, Le Maire and Wind (1972), suggest that firms should evaluate international markets on the basis of their own criteria. However, such models have not attempted to identify what these company-specific criteria might be. This open-ended approach to IMS, which leaves its intended user to fill in the blanks, is highly unsatisfactory. However, as these models stress the relevance of the firm in IMS, it seems worthwhile to examine the firm in the IMS context.

This research aims to fill part of the gap in IMS theory by analysing IMS from the internationalising firm's perspective. To this end the author will examine the forces which drove the internationalisation efforts of the Guinness Group in the nineteen eighties and nineties, and will specifically examine the IMS procedures used by Guinness in evaluating Central and Eastern European markets.

Guinness's ability to target and develop new markets is renowned. In less than a decade the Guinness Group has expanded its operations from a UK base to over 130 markets worldwide. Considering this firm's experience in selecting new markets, it is not surprising that the author has chosen to examine their IMS techniques. But, more importantly, the insights that can be gained from

Guinness's experience in the selection of Eastern European markets may provide some guidelines as to the most appropriate means of evaluating emerging economies.

4.1.2 Case Study Structure

The development of the Guinness Group over the last decade can be seen in terms of three key phases. The first phase, rationalisation, which was initiated under the direction of Ernest Saunders, is discussed in section 4.2.1. The effect of rationalisation on the Group's financial performance, which in turn facilitated the Group's expansion into the spirits segment of the market, is outlined in section 4.2.2. The reasons behind the firm's international expansion are explored in section 2.4.3. The next section, 4.2.4, looks at Guinness's acquisitions in the spirits segment of the market and details the effect of these acquisitions not only on the Guinness Group but on the industry as a whole. Following this, the key strategies employed in the development of their international markets are detailed in section 4.2.5. In section 4.2.6 the author examines the scope and effect of internationalisation between 1986 and 1990, which is measured in financial terms. In section 4.2.7 the extent of Guinness's expansion, which is measured by the contribution of major regions of the world to the firm's profits, is detailed. Finally, in section 4.2.8 the author will examine the fortunes of Guinness between 1990 and 1993 and discuss the reasons behind their expansion into emerging and developing markets.

Having examined the forces behind Guinness's internationalisation in the spirit segment of the drinks market the author will detail the IMS procedures employed by them in selecting emerging and developing markets. This aspect of the Chapter focuses on the IMS procedures adopted in the emerging markets of Central and Eastern Europe. In section 4.3.1 the IMS process is examined in the context of Central and Eastern Europe and the three selection stages used by United Distillers, the spirits arm of the Guinness Group, are outlined. In section 4.3.2 the author will examine the first stage of

this selection process, Environmental Analysis, and discuss the variables used by the firm for this stage of analysis. Similarly, sections 4.3.3 and 4.3.4 examine the variables used in the second and third stages of the IMS process, which are titled Product-Market Evaluation (Stage 2) and Strategic-Market Evaluation (Stage 3). The chapter concludes with the author's observations on the importance of company-specific factors to IMS.

4.2 GUINNESS: THREE PHASES OF EXPANSION: 1981-1993

4.2.1 Phase I 1981-1985: The Rationalisation Plan

In the early nineteen eighties Guinness appeared to be floundering. Years of haphazard diversification in the nineteen seventies had an unsettling effect on the Group and left it without any clear sense of direction. In 1981, following a 4% fall in pre-tax profits, Guinness set about reviving its flagging spirits, (Guinness Annual Report, 1981). Recruiting Ernest Saunders was the first step on the road to recovery. Saunders, who was head-hunted from Nestle for his marketing expertise, was considered the ideal candidate to restore Guinness's fortunes. Under his direction Guinness initiated its plan of recovery which was to restore the firm to its position as the most profitable alcoholic drinks company in the world.

In 1981 Guinness initiated a rationalisation plan aimed at improving its overall efficiency and offsetting the decline in the firms's growth. Brewing had been Guinness's core activity for over 200 years. However, worries about the effects of declining alcohol consumption in the nineteen seventies had caused the company to invest, quite heavily, in non-brewing activities.

This diversification, into areas of non-strategic value such as plastics, pharmaceuticals and infant accessories, had diluted rather than strengthened the company's interests. Under the rationalisation plan the firm decided to dispose of periphery businesses and concentrate on its core activity - brewing.

A total of 150 non-strategic businesses were sold between 1981 and 1983, realising net proceeds of Stg £40 million (Guinness Annual Report, 1983, p.4). In 1985 Guinness acquired the UK firm Arthur Bell & Sons which was to trigger a phase of international expansion.

As part of the rationalisation plan, the firm also invested heavily in a programme of modernisation, which was targeted at the Guinness breweries in Dublin and London. The Dublin brewery at St. James's Gate was to receive over Stg £100 million in investment expenditure. However, this investment came at a price. Both the St James's and Park Royal breweries had to accept the firm's 'Competitiveness Plan' as part of rationalisation. This aspect of the programme was aimed at increasing efficiency by reducing the number of employees required at each brewery. In 1983 alone 400 employees were laid off at St James's Gate while 550 jobs were lost at Park Royal (London).

Another key aspects of the rationalisation plan was the reorganisation and strengthening of management structures. Guinness was, at this time, intent on exploiting and developing its existing brands. Saunders recognised the need for a strong marketing team to fulfil this goal. This resulted in an upsurge in marketing skills during the nineteen eighties and much closer involvement between research and marketing. Management controls were also tightened to help eliminate loss and reduce expenditure.

4.2.2 The Effects of Rationalisation

The streamlining which occurred in Guinness between 1981 and 1983 had its intended effect. Between 1982 and 1985 pre-tax profits increased by 66% (see Table 4.1) reflecting the firm's improved efficiency. Guinness also improved their promotion of new brands, such as Kaliber in Ireland and had rejuvenated Guinness in the UK market, reversing a decade of decline for the brand. However, while the firm had increased its overall profitability, growth in turnover remained sluggish until 1984, as Table 4.1 indicates. The acquisition of Arthur Bell & Sons in 1985 helped to increase the company's

turnover, which increased by 29% between 1984 and 1985, but sales of brands from this acquisition, such as Bells Scotch, remained concentrated in the UK.

Table 4.1

GUINNESS FINANCIAL PERFORMANCE 1983-1985

	1983	% Change	1984	% Change	1985	% Change
	Stg 'm	'82-'83	Stg 'm	'83 - '84	Stg 'm	'84 - '85
TURNOVER	872.4	-4%	923.7	5.3%	1,187.7	29%
TRADING PROFIT	61.7	13%	64.9	5%	85.4	32%
PROFIT BEFORE TAX	58.8	24%	70.4	20%	86.1	22.3

Source: Adapted from *Guinness Annual Reports*, 1983, p.22; 1984, p.24; 1985, p.23.

Despite the company's efforts to increase profitability, its fortunes were still inextricably linked to conditions in both the Irish and UK markets. As Table 4.2 shows, these two markets still accounted for 79% of Guinness's total turnover in 1985. In particular, the acquisition of Arthur Bell & Sons Distillery in 1985 increased the firm's dependency on the UK market, which, as Table 4.2 indicates, accounted for 50% of total turnover in 1985.

Guinness had made some efforts to increase their level of activity in foreign markets between 1983 and 1985 (see Table 4.2). The firm's profits from Asia and Australasia increased in 1984, while the Group performed well in Africa in 1985. However, the main problem for Guinness was that its existing brands lacked international appeal. The market for imported beers was beginning to emerge by the mid-nineteen eighties. However, growth in this area was limited. That Guinness needed to expand internationally was not in question. The firm, however, had to obtain the means to achieve this end.

Table 4.2***Geographical Analysis of Guinness' Turnover and Profit before Tax: 1983-1985***

	TURNOVER			PROFIT BEFORE TAX		
	STG £M			STG £M		
	1983	1984	1985	1983	1984	1985
UK % Contribution (1)	351.4 40%	391.9 42%	590.6 50%	11.0 17%	14.8 19%	30.5 31%
Rep of Ireland % Contribution (1)	324.9 37%	341.4 37%	348.9 29%	26.4 41%	30.1 40%	35.5 36%
Rest of Europe % Contribution (1)	20.0 3%	11.2 1%	21.1 2%	N/A	N/A	N/A
Africa % Contribution (1)	56.9 7%	48.7 7%	68.1 6%	14.1 22%	12.9 17%	17.4 18%
Asia/Australasia % Contribution (1)	70.5 8%	85.0 9%	73.4 6%	10.7 16%	14.4 19%	10.4 10%
America % Contribution (1)	46.0 5%	45.5 5%	85.6 7%	3.1 5%	3.9 5%	5.2 5%

Source: Adapted from Guinness Annual Reports, 1983, p.23; 1984, p.25; 1985, p.28.

Note: (1) Percentage contribution notes the contribution of specified regions to the Guinness Group's overall turnover and pre-tax profit.

4.2.3 The Forces Behind Guinness's Internationalisation

The need to expand into a wider international arena was strengthened in the wake of the Arthur Bell & Sons acquisition. Sales of brands from the Bells portfolio, such as Bells and Glenlivet whisky (a Scotch whisky, as opposed to an Irish whiskey), were confined primarily to the UK market. But demand for spirits in the UK, as in many other traditional markets such as the US, were continually in decline.

The author would note that this decline in traditional markets can be attributed in part to the change in lifestyles which has occurred over the last decade. The trend towards healthier living and worries about the damage alcohol can cause to health has resulted in a move away, not only from spirits, but from alcohol in general.

At the same time the spirit producers were coming under attack from governments worldwide who viewed alcohol products as a ripe source of tax. The governments of strong spirit markets, such as the UK, imposed hefty taxes on all spirit based products. For example, since 1988 in the UK, government has increased its tax on spirits by 25%. The result: 70% of the price of a standard Scotch blend is now attributed to tax (Rohan, M., 1992). The response of the Scotch Whisky Association to this imposition reflects the feelings of spirit producers, such as Guinness worldwide:

As a spirits producing nation, it is scandalous that the UK Government taxes Scotch Whisky and other spirits at twice the rate of imported wine. Small wonder that home sales have fallen by 30% and wine sales have risen by 60% over the last ten years.

(Key Note Report - Distillers, 1993, p.26).

Faced with an uncertain future in the UK market, Guinness began to look towards the wider international arena. The firm embarked upon a programme of market research to identify potential markets, primarily within the OECD, the US and Germany. This was to trigger a phase of internationalisation, not only for Guinness but for the spirits industry in general.

4.2.4 Phase II 1986-1990: A Period of Acquisition and International Expansion

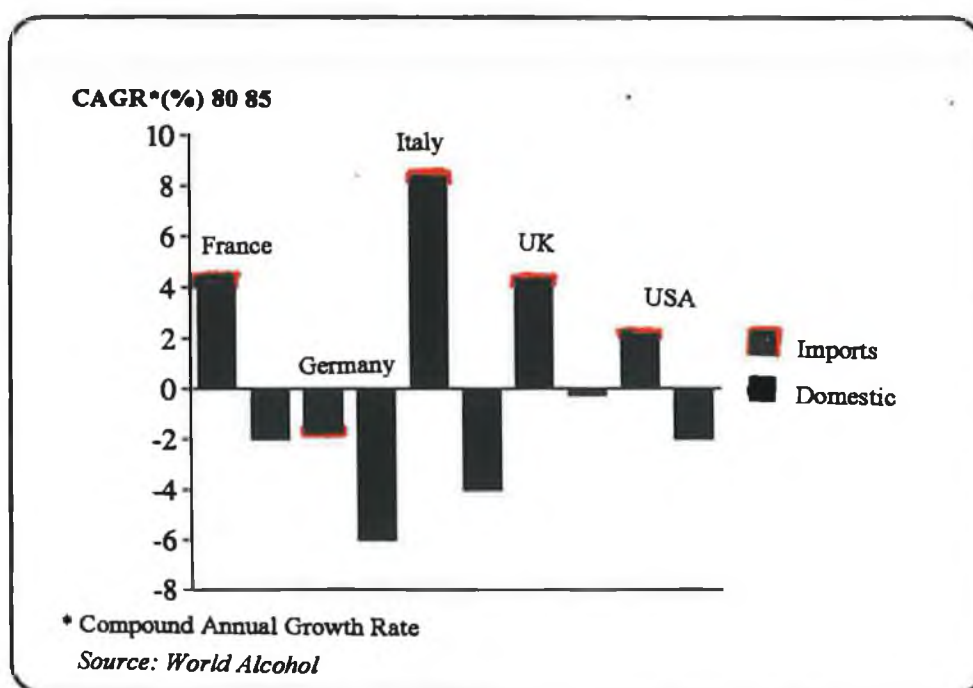
The success of the rationalisation programme had strengthened Guinness, both financially and in terms of its management and marketing skills. However, Guinness realised that in order to sustain profit growth it needed to expand both its operational and geographic base beyond the Irish and UK markets. The company's objectives for 1985 (Guinness Annual Report, 1985, p.5) were to:

- i) underpin long term growth by continuous improvements in established and acquired businesses and by investment in growth sectors;
- ii) to continue to market high quality, high branded products through understanding consumer needs and;
- iii) to increase investment in target OECD areas.

The addition of the French lager Kronenbourg and the acquisition of the Japanese brand Asahi in 1985 provided some scope for growth in both European and Asian markets. Yet, these brands lacked a truly international appeal. However, the acquisition of Scotch whisky brands, which are 'arguably the most universal of all alcoholic drinks' provided Guinness with some scope for international development (Rohan, M., 1992, p.7).

While the spirits sector did not qualify as a growth area, Saunders firmly believed that future profit growth for Guinness lay in this area. Indeed, as Figure 4.1 indicates demand for imported spirits continued to grow between 1980 and 1985 in significant overseas markets, such as the US, while domestic brands were declining. This evidence suggested that brands, with an international appeal, could yield significant profits. The concept of globalisation, proposed by Levitt (1983), was still a relatively new phenomenon, especially to the spirits industry. However, with drinking trends worldwide becoming more homogenous the advantages that could be reaped from globalisation became obvious.

Figure 4.1 - Growth of Imported Versus Domestic Spirits



Source: Espey, J., (1988), "The Big Four: An Examination of the International Drinks Industry", *International Marketing Review*, p.49. * Compounded Annual Growth Rate

Following the Arthur Bell and Sons acquisition Guinness began intensive research into the potential for Scotch whisky in international markets. This research focused on consumer attitudes and preferences, brand image and packaging and possible market segmentation techniques, (Guinness Annual Reports, 1985, p.9). The research undertaken enabled the company to prepare an international development plan to increase significantly Bell's exports. The internationalisation plan was, however, to receive a boost with the acquisition of United Distillers Plc.

In 1986 Guinness launched a successful, if controversial, takeover bid of over £2 billion for the Scottish firm Distillers Plc. The author would add that this acquisition provided the impetus for change not only within Guinness, but in the spirits industry in general. Guinness through its acquisition of Distillers Plc acquired a number of key global brands, such as Johnnie Walker Scotch and Gordons Gin.

Other players in the wider spirits industry quickly realised the significance of this acquisition and the scramble to acquire other global brands began. Table 4.3 provides a summary of the principal deals that were struck between 1985 and 1988 and the global brands that were acquired by the 'Big Four'. As can be seen from Table 4.3 Guinness, Allied Lyons, Grand Metropolitan and Seagrams emerged as key players. Between them, in the wake of the industry shake-up, the 'Big Four' monopolised thirty nine of the world's top 100 spirit brands.

Table 4.3

The Big Four: Key Acquisitions, Mergers and Joint Ventures 1985-1988

<u>COMPANY</u>	<u>ACQUISITIONS</u>	<u>MAIN BRANDS</u>
GUINNESS (UD)	Acquisition of Arthur Bell & Sons: UK Acquisition of Distillers: Global Alliance with Moët-Hennessy: USA, Asia Acquisition of Schenley: USA Joint Venture with Bacardi: Spain	Bells and Glenlivet Scotch Johnnie Walker Red & Black Dewars, Gordons Gin, Pimms Distribution-Hennessy IW Harper, Rebel Yell Marketing
GRAND MET (IDV)	Marketing Joint Venture with Cointreau/Cinzano France, Belgium, Germany, Holland Acquisition of Heublein: Global	Cointreau, Cinzano J&B Rare Scotch, Gilbeys Gin, Smirnoff Vodka
ALLIED-LYONS	Acquisition of Hiram Walker: Global	Ballintines Scotch Teachers Scotch
SEAGRAMS	Acquisition of Martell: Global	Martell Cognac
PERNOD RICARD	Acquisition of Irish Distillers: Ireland	Jameson, Paddy, Powers, Bushmills, Huzzar Vodka

Sources: Adapted from Espey, J., (1988), "The Big Four: An Examination of the International Drinks Industry", *International Marketing Review*, (p.55) and Saporito, B., (1991), "Profits Soar for Global Brands", *Fortune*, Nov. 4th, Iss.11, p.30.

The restructuring that occurred after Guinness' takeover of Distillers Plc consolidated both the Guinness Group and the spirits industry in general more than anyone thought possible (Saporito, 1991, p.29). However, the task of consolidation took its toll. Ernest Saunders, who had spearheaded the rejuvenation of Guinness, was to face the ignominy of a criminal trial for his part in the Distillers takeover. His illegal activities during the bid for Distillers were to lead to his imprisonment while the firm he turned around prepared for expansion into the wider international arena.

4.2.5 International Development of Guinness: Three Key Strategies

The Distillers deal placed Guinness in an enviable position. The Distillers brands it had acquired, such as Johnnie Walker and Dewars, were already established in many international markets. However, as we will see below, Guinness were not satisfied with the strategies which had been adopted by Distillers plc in these markets prior to the takeover. Despite the worldwide success of the Distillers brands their production and marketing were in disarray. Distillers lost control over their brands once they reached their export destination. Many of the brands showed signs of neglect, positioning was confused and agents were competing with each other for volume sales to the detriment of their brands, (Key Note Report - Distillers, 1993. p.12). Guinness resolved to tackle these two areas.

A) PRODUCTION

The distilling operation inherited by Guinness was extremely fragmented. This fragmentation exacerbated the problem of surplus supplies. Maturation periods of five to six years for Scotch make it difficult to gauge supply and demand. With Distillers' fragmented operation bases, this task was even more difficult and the threat of over-production, which occurred in the nineteen seventies, was omnipresent. This over-production had created a glut in the market in the nineteen seventies and gave rise to the dumping of excess stocks on the market, undermining Scotch's image and price.

When Guinness took over Distillers operations it resolved to combat these problems and restore Scotch's premium image in the marketplace. Firstly, all Scotch whisky distilling, blending and bottling activities were centralised under a single management structure, based in Scotland. Secondly, all Guinness Group spirits were amalgamated under the new name of United Distillers. This centralisation allowed the company to exert greater control over production.

B) MARKETING

Having reorganised the production side of the operation the Guinness Group turned their attention to the marketing of their new portfolio in the wider

international arena. The primary objectives of Guinness in 1986 were to increase profitability and geographic spread through the implementation of three key strategies which are discussed in turn below:

- i) creating and promoting premium brands;
- ii) increasing control over distribution and pricing and
- iii) by co-operating with its competition in markets where no one competitor had a significant market share.

i) *Creating and Promoting Premium Brands*

United Distillers' main assets were the brands they had obtained from the Distillers portfolio, some of which had been globally established. However, although Guinness had acquired over 200 brands it was concerned with concentrating its efforts only on those brands with international potential. The structures which would facilitate this progress were set in place. In 1987 a Central Strategic Unit was established to coordinate the strategic positioning of brands, portfolio planning and the development of global brand strategies. The main objective of this unit was the formulation of a strategy which would enhance the value of main brands, rather than focusing on volume sales.

United Distillers invested heavily in the re-launch of their acquired Distillers brands, packaging and positioning them in the premium category. These were promoted with the global message that drinking better (that is to say, drinking premium brands) was a part of living better. By reinforcing this concept they hoped to persuade consumers to trade up to premium spirits. This global message had a certain cachet in the ostentatious eighties. Concerned with the status their purchases bestowed on them, consumers were more than willing to pay premium for 'luxury' products. As Espey (1988, p.51) suggests:

...with quality improving throughout the world, the real competition for the consumer hinges around all those extra psychological benefits that the brand, as opposed to the product, bestows upon the consumer. All this suggests that non-advertised, poorly supported and meekly distributed brands are up against the coalface.

However, the strategy of premium branding created another dilemma for the firm. Having created premium brands with a global message, United Distillers needed to be sure that their efforts would not be undermined by distributors vying for volume sales in selected international markets. In order to overcome this problem the company set out to gain control over the distribution of their brands. This consolidation, which was mirrored in large spirit firms worldwide, was to prompt an upsurge in acquisitions which would continue into the nineteen nineties.

(ii) *Controlling Distribution*

Guinness's attempts to control its own distribution began in 1987. At the outset the company controlled only 25% of all distribution in world markets. Their main objective was to increase this share to 75% in the forthcoming years. The geographic spread of distribution networks had been enhanced by the Distillers acquisition, but the company still lacked presence in many developing world markets, such as Japan, Spain and Italy. In order to gain this essential control the company began a spree of acquisitions, joint ventures and mergers to increase their market presence. In 1987 the company established or acquired shares in over twelve major distribution companies, primarily in Europe, the US and Japan. By the end of 1988 the company had achieved its target of 75% control.

This control over distribution was central to the concept of premium branding. By controlling the distribution and the marketing of their brands United Distillers could also regulate the global advertising message they had created for their brands and increase profitability through higher margins. This move also allowed the company to fulfil another goal central to their management philosophy, 'Think Global - Act Local'. In line with its new distribution structures United Distillers also re-organised its management structures on a regional basis, which allowed them to move key personnel much closer to their end-users. This strategy enabled them to create and manage proper portfolios, segmented to the needs of each market and

positioned directly against the competition. In many cases dual-advertising campaigns were created to reach both traditional and aspirational consumers.

(iii) *Co-operation with Competitors*

Through its strategy of acquisitions and mergers United Distillers built up a number of profitable partnerships, which facilitated easier penetration into difficult markets, such as those in the Asia-Pacific region. The LVMH partnership, in which both companies hold a 24% cross shareholding, is an example of one such 'complementary' partnership which provided United Distillers with a foot into the lucrative European market and more recently into the developing Chinese market (Rawstorne, 1993a). These partnerships strengthened the company's portfolio sales and increased cost effectiveness. Moreover, they increased the company's involvement in international markets. By 1990 international markets accounted for 82% of Guinness's overall profits, compared with 42% in 1983.

4.2.6 Financial Performance: 1986-1990

The acquisition of the Scottish company Distillers Plc in 1986 and the implementation of the company's three key strategies had a profound effect on the company's financial performance (estimated at over £2 billion). Despite the significant cost of the acquisition, the benefits in terms of profit, which was of paramount importance to Guinness, were substantial, as Table 4.4 shows.

The effects of the firm's expansion plan are clearly reflected in the increase in profit figures for 1986. Pre-tax profits more than doubled, increasing by 265%. Moreover, Guinness sustained a period of profit growth in the wake of the Distillers takeover and throughout the late nineteen eighties at a level of almost 30%.

This growth in an industry which, overall, was experiencing a continual decline in volume sales was largely obtained from the increased margins on premium brands and the increased margin of 20% which the company gained from controlling its distribution.

Table 4.4**GUINNESS FINANCIAL PERFORMANCE: 1986-1990**

Stg 'm	1986	1987	1988	1989	1990
TURNOVER	2,747 *	2,818	2,707	3,076	3,511
% Change (a)	131%	3%	-4%	14%	14%
PRE TAX PROFIT	314 *	408	521	691	847
% Change (a)	267%	30%	28%	33%	23%

Source: Adapted from Guinness Annual Reports, 1986, p.28; 1987, p.34; 1988, p.32; 1989, p.36; 1990, p.36; 1991, p.36; 1992, p.28.

Notes: * Figures for 1986, following the Distillers takeover are based on a 15 month, rather than a twelve month period, as in all other years. (a) % change denotes the percentage increase/decrease in profitability and turnover since the previous year.

In 1985, following the acquisition of Arthur Bell and Sons, spirit sales accounted for Stg £2.8m and contributed only 3% to the company's overall pre-tax profits (Guinness Annual Report, 1985, p.28). By the end of 1986, following the Distillers acquisition the figure for pre-tax profit soared to Stg £260m and overall contribution to pre-tax profit jumped to a massive 61%, indicating the importance of this new sector to the firm's overall welfare, (see Table 4.5).

However, the importance of the spirits segment to Guinness' overall turnover and profitability was to increase even further between 1987 and 1990, with its contribution to pre-tax profit peaking in 1989 at 80% as Table 4.5 clearly indicates. This continued growth in turnover and pre-tax profitability reflected the success of its strategies of premium branding and the effect of their increased control over distribution.

The brewing sector also continued to perform well throughout the late nineteen eighties although the effect of Guinness' increased marketing

concentration on the spirits sector in 1987 and 1988 is reflected in the 24% decrease in turnover and pre-tax profit which occurred in 1987 and the small comparative growth in these areas in 1988.

Table 4.5

Segmental Analysis of Turnover and Profit: 1986-1990

	TURNOVER STG £M					PRE-TAX PROFIT STG £M				
	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
BREWING	1,170	890	942	1,068	1,299	109	83	93	124	160
% Change (1)	43%	-24%	6%	13%	22%	32%	-24%	12%	33%	29%
Contribution %	36	31%	35%	35%	37%	26%	17%	16%	16%	19%
SPIRITS	1,176	1,343	1,700	1,938	2,149	260	357	440	542	669
% Change (1)	3,900	14%	27%	14%	11%	9,185	37%	23%	23%	23%
Contribution %	36%	48%	63%	63%	61%	61%	76%	77%	80%	76%

Source: Guinness Annual Reports, 1986, p.34; 1987, p.39; 1988, p.37; 1989, p.42; 1990, p.41. * Figures for spirits 1988-1990 include LVMH contributions.

Notes: (1) % change figures denote change in turnover since previous year.

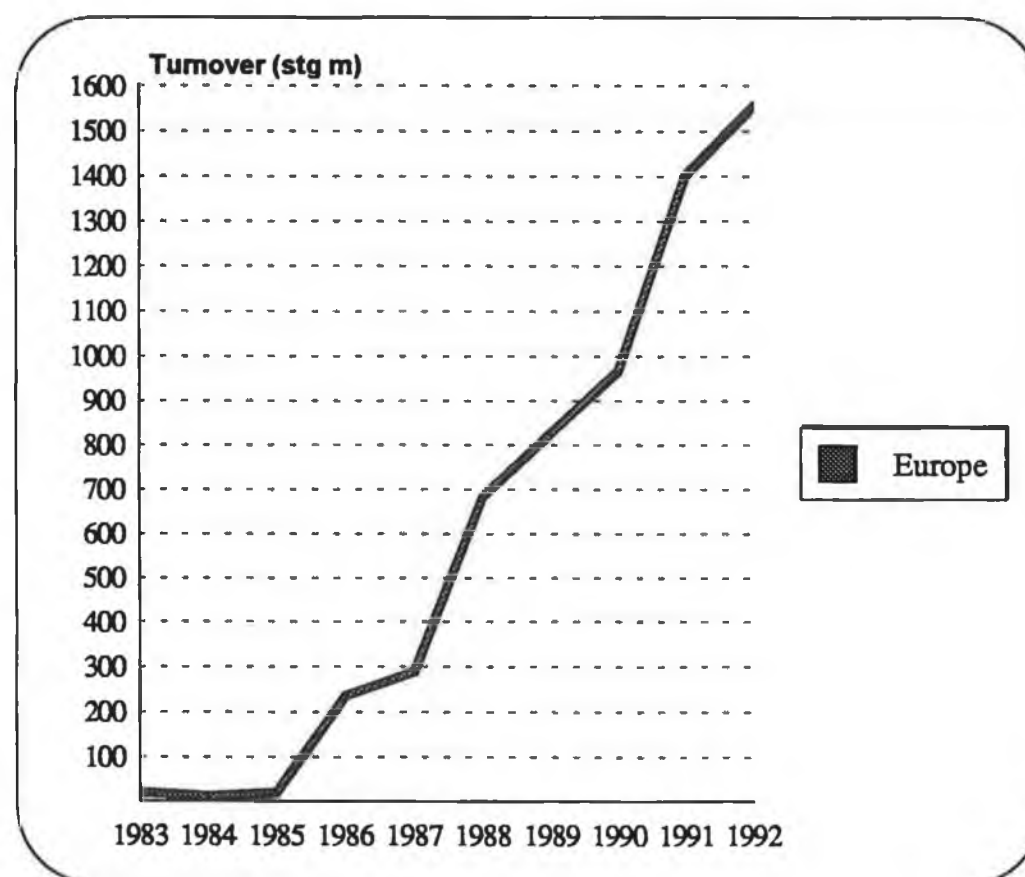
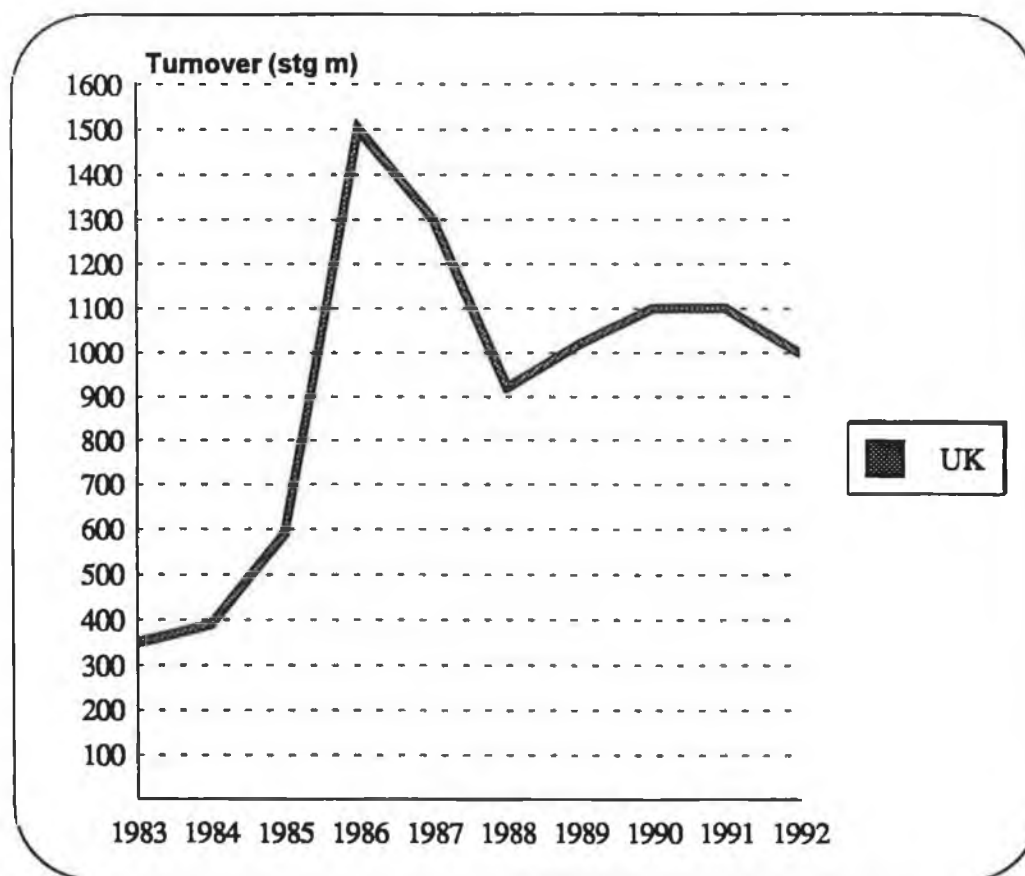
4.2.7 Geographical Analysis of Guinness' Financial Performance 1983-1990

One of Guinness's main objectives was to reduce its dependence on the Irish and UK markets by increasing its geographic spread. The other was to sustain profit growth. By the nineteen nineties Guinness had increased its involvement in international markets significantly, and had strengthened its position in the distribution of their brands at local level.

The creation of premium brands allowed the company to achieve both these objectives. These premium brands were specifically targeted in international markets at more affluent consumers who were willing to trade-up from local brands to foreign brands. Guinness saw that it could be most successful with

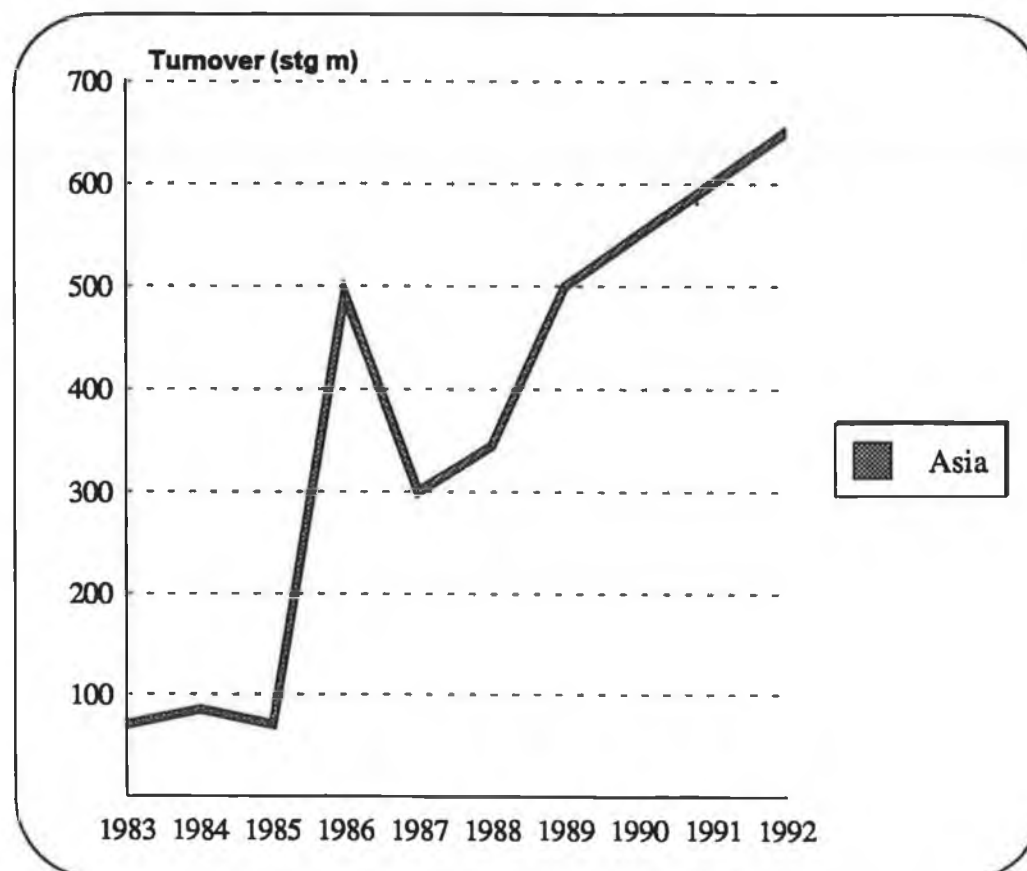
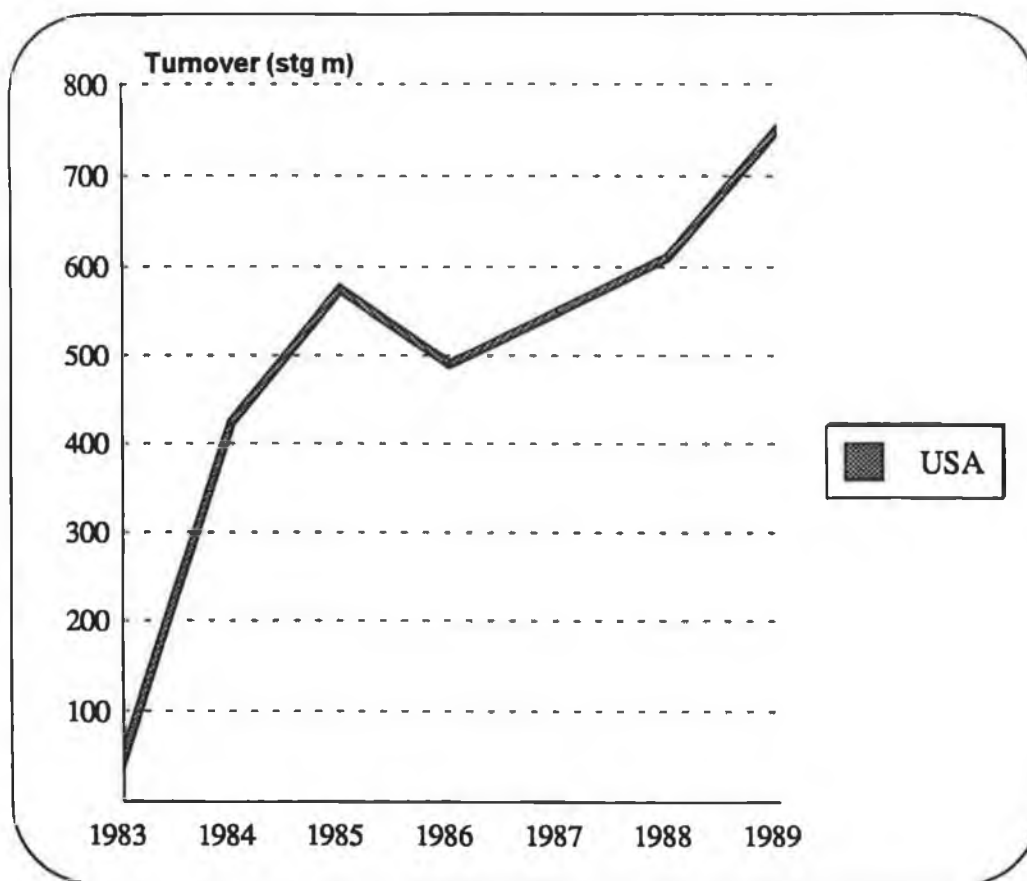
these brands in markets such as Europe, the US, Asia and Australia, where consumer propensity to trade up would be highest. As can be seen from Figure 4.2 profits from international markets soared between 1985 and 1990, while profits from the UK market fell at a precipitous rate between 1987 and 1988, making the need for continuous international growth all the more vital.

Figure 4.2 - Turnover Tax by Region: A Decade of International Growth



Source: Adapted from Guinness Annual Reports, 1983, p.22; 1984, p.24; 1985, p.23; 1986, p.28; 1987, p.34; 1988, p.32; 1989, p.36; 1990, p.36; 1991, p.36; 1992, p.28.

Figure 4.2 - Turnover Tax by Region: A Decade of International Growth



Source: Adapted from Guinness Annual Reports, 1983, p.22; 1984, p.24; 1985, p.23; 1986, p.28; 1987, p.34; 1988, p.32; 1989, p.36; 1990, p.36; 1991, p.36; 1992, p.28.

As can be seen from Figure 4.2 the most significant growth for Guinness was in Asia and the Pacific Rim. Between 1987 and 1990 profit growth in this area soared from Stg £26 million to over Stg £1.5 billion in 1990. The increase in this region was stimulated in the mid-nineteen eighties by the continued improvement in trading conditions and the increased affluence of consumers in Japan and in the Four Tiger nations. Similarly, improvements in these conditions in emerging economies such as Malaysia, the Phillipines and Thailand helped to sustain growth in the area in the late nineteen eighties.

Although demand for spirits in the US market continued to fall sharply during the nineteen eighties Guinness managed to increase substantially its profits in this region. Rohan, (1992) estimates that premium international brands, such as Guinness', were growing in the US at the expense of local product by between 2% and 3% in the late nineteen eighties. The consumer propensity to trade-up in the affluent US market was particularly high and Guinness' strategy of premium branding proved to be extremely profitable as Figure 4.2 shows.

As can also be seen from Figure 4.2 the growth of Guinness' brands in the European market was slightly slower than in other regions of the world between 1986 and 1987. One explanation for the fall off in growth in this region at a time when all other markets were experiencing some growth is the substantial changes in distribution that occurred in the region during this period. The task of obtaining control over distribution in this area, where intermediaries had traditionally handled brands, was more difficult than in other markets (Guinness Annual Report, 1986, p.14). However, Guinness managed successfully to introduce their premium products into many new markets, such as Greece, Portugal and Spain, during the nineteen eighties, which increased profitability in the region.

The most notable area of performance, however, as Figure 4.2 illustrates is that of the UK. The UK market, traditionally the bastion of Scotch whisky, fell dramatically in the mid-nineteen eighties and although it recovered slightly from this fall Guinness have not since been able to recover their

profitability in this area. The reasons behind this fall and the threats to the firm from other forces will now be discussed. However, it should be noted that these events contributed, in part, to Guinness's move to developing and emerging economies.

4.2.8 Phase III 1990-1993: The Move Towards Developing/Emerging Economies

(i) Reasons for the Move Towards Developing/Emerging Economies

Despite the company's continued international success, difficult trading conditions in 1991-1992, caused by both the world wide recession and the Gulf Crisis, put a strain on volume sales. The Japanese and UK markets, which were particularly important for spirit sales, were most badly affected. Sales in newly developing markets, such as Greece, helped to offset their decline. However, United Distillers recognised the importance of continual new market development. The spirits industry in general had concentrated its efforts in America, Europe and the Pacific Rim. Product lifecycles were fast reaching the mature stage in these markets. However, if growth and profitability were to be sustained through the 1990s new markets would have to be cultivated.

Table 4.6 illustrates the effect of both the recession and the Gulf Crisis on Guinness' turnover and profitability. Between 1990 and 1992 turnover increased by 69% and pre-tax profit grew by 84% reflecting the profitability of premium branding and control over distribution. A slight fall off in profit was recorded in 1991, but the full effect of the recession was not realised until 1992. While turnover sustained its growth, pre-tax profits fell for the first time in ten years by 17%. This represented a loss in revenue to the Group of some Stg £161 million. For a firm with turnover in excess of Stg £4 billion this loss may not, at first glance, appear to be too significant. However, in relative terms, this loss was equivalent to the loss of the whole UK market.

Table 4.6 - An Analysis of Guinness' Turnover and Profit 1990-1993

	1990	%ch	1991	%ch	1992	%ch	1993	%ch
TURNOVER Stg m	3,511	14%	4,067	16%	4,363	7%	4,681	7%
PRE-TAX PROFIT Stg £m	847	23%	956	13%	795	-17%	956	13%

Source: Guinness Annual Reports, 1991, p.36, 1992, p.28 and Eurofood and Drink Jan., 1994, p.27.

In the UK the main threat to Guinness came in the form of own-label or economy brands which had become 'firmly established as alternatives to traditional brands' in many mature markets (Key Note Report - Distillers, 1993, p.2). Such brands had increased in popularity to such an extent that they accounted for 30% of off-trade (retail) standard blend sales in 1993. These brands offered good quality and good value to consumers who were no longer willing to pay extra for an established brand name.

The lengths to which the industry would go to prevent these value brands from establishing a presence is shown by Irish Distillers' attempts to take over the Cooley Distillery, which threatened to go the value added route. Irish Distillers, who had a monopoly on Irish whiskey, offered in the region of IR £9.5 million to Cooley to prevent what they perceived to be poor quality Irish whiskey brands from tainting the reputation they had built up for brands such as Jameson and Bushmills internationally. However, the 1994 decision by the Irish Competition Authority to refuse to allow the takeover, on the grounds that it constituted monopolisation of the Irish whiskey market, means that, in the Irish context at least, the threat from value brands is still real.

Political and economic developments during the nineteen nineties were also to provide both Guinness and the spirits industry with a new impetus for expansion. The Uruguay Round of the GATT negotiations, which were ongoing throughout the early nineteen nineties, represented both opportunities and threats for the industry. The relaxation under GATT of

trading conditions in markets such as Korea, Thailand and Taiwan offered huge prospects for the industry and the number of acquisitions and agreements in that region increased substantially in the early nineteen nineties. At the same time, the United States' obdurate position on tariff relaxation and its continued policy of protectionism was a cause for concern. The threat of increased federal taxes on all spirit products was omnipresent until the US, along with all other major trading countries, finally signed the Uruguay GATT Agreement in April 1994.

In other regions worldwide, unanticipated events were also opening up new avenues for the firm. The fall of the Iron Curtain and, most notably, the transition many countries were making to market economies opened up opportunities in Central and Eastern Europe, for those willing to take the risk. Similarly, improved political and economic conditions in Latin America, most notably in Mexico, which was eventually to sign the North American Free Trade Agreement (NAFTA) with the US and Canada in 1994, opened up new possibilities.

These developments came at a crucial time for United Distillers as sales of Scotch in traditional spirits markets, such as the UK, were continuing to decline at an alarming rate. Sales of Scotch in the UK for 1992 were down one million cases on the 1991 figure while own-label and value-added brands, selling at significantly lower prices, continued to increase (Key Note Report - Distillers, 1993, p.3). This fall off in sales represented the loss of some Stg £20 million in additional revenue in the UK alone. The company's earlier decision to look to 'the future development of small and emerging markets in various parts of the world' was obviously timely (Guinness Annual Report, 1989, p.7).

(ii) Acquisitions, Mergers and Joint Ventures in Developing and Emerging Economies

Sales of spirit products to Latin America, China, India and the former East bloc had been limited in the nineteen eighties. However, trade liberalisation in the nineteen nineties and improved economic conditions expedited the

progress of Guinness in these areas. Also, with consumers becoming increasingly affluent in relative terms, the scope for 'trading up' to premium brands increased. United Distillers and Grand Metropolitan (IDV) were among the first of the 'Big Four' to recognise the significance of these markets and, as Table 4.7 indicates, these firms were quick to step up their activities in these developing and emerging markets.

Table 4.7 - Industry Acquisitions, Mergers, Joint Ventures, New Ventures and Disposals 1992-1993

IDV	<ul style="list-style-type: none"> • Sale of 20% stake in Remy Martin-Cointreau • Acquisition of outstanding 75% share in Cinzano - Global • Acquisition of 70% stake in Kaloyannis Bros - Greece • Acquisition 30% stake in Gonzalez Byass - Global • Acquisition of 83.9 stake in Burton - Italy • Acquisition of 51% stake in Vina Concha Toro - Chile • Establishment of International Distillers - China • 60% stake in joint venture with Polychem -India
HIRAM WALKER	<ul style="list-style-type: none"> • Termination of distribution with Seagrams - France, Germany • Distribution agreement with Pedro Domecq - Mexico • Sale of distribution and marketing rights of Three Barrels Brandy to United Distillers - France • Joint Venture with Jagatjit Industries - India
UNITED DISTILLERS (UD)	<ul style="list-style-type: none"> • Sale of 70 non-strategic brands to Heaven Hill - USA • Formation of UD Europe GmbH - Europe • Formation of marketing and distribution companies - Eastern Europe • Acquisition of 40% stake in Boutari -Greece • Acquisition 96% stake in Industries Pampero - Venezuela • Acquisition of 60% stake in UD Kanellakis SA - Greece • Formation of United Distillers Brazil Ltd • Acquisition of 75% stake in Union de Empresas SA de CV - Mexico
SEAGRAMS	<ul style="list-style-type: none"> • Formation of marketing sales and distribution companies - Poland and the Czech Republic • Established Seagrams Shop - Ukraine • Won Absolut contract from Grand Metropolitan - Global • Sale of 7 non-strategic brands to American Brands - USA

Source: Adapted from *Eurofood and Drink*: Jan., 1992, Feb., 1992, Mar., 1992, Apr., 1992, May, 1992, Oct., 1992, Nov/Dec., 1992, Feb., 1993, Mar., 1993, Apr., 1993, Jun., 1993, July/Aug., 1993 Sept., 1993, Oct., 1993, Nov/Dec., 1993 and *Guinness Annual Reports*, 1992, 1993.

Although Guinness was still making progress financially in more developed markets in the early nineteen nineties the rapid growth that had been achieved in the nineteen eighties had come to a halt. Industry speculators believed that the future growth prospects of the industry were bleak as the profitable process of building brand portfolios and global distribution networks ended, and that the strategy of creaming higher margins from premium brands would be more difficult as inflation rates worldwide began to fall (Rawstorne, 1993b). However, as Table 4.8 indicates, while traditionally strong markets were declining or stagnating strong growth was sustained by Guinness in many new emerging and developing markets.

REGIONAL SALES OF SCOTCH: RECENT TRENDS

	(a) Country Ranking Top 20	Value Exports 1991 Stg m	Value Exports 1992 Stg m	% Growth/ Decline 1991-1992	TOTAL AVERAGE GROWTH
EUROPE					
Belgo-Lux	(15)	42.2	33.4	-21%	
Canary Islands	(20)	20.4	20.4	0%	
France	(2)	195.0	218.0	12%	
Germany	(5)	72.8	70.7	-3%	
Greece	(6)	71.3	78.4	10%	
Ireland	N/R	6.6	6.6	0%	
Italy	(8)	91.5	65.4	-28%	
Netherlands	(13)	29.7	35.5	20%	
Portugal	(11)	44.6	47.7	7%	
Spain	(3)	156.7	198.0	26%	2.3%
AUSTRALASIA					
Australia	(7)	37.2	37.9	2%	
Japan	(4)	166.0	178.0	7%	
Rep of Korea	(14)	35.0	37.4	7%	
Thailand	(12)	55.3	58.2	5%	5.3%
USA/CANADA					
Canada	(17)	32.1	28.7	-11%	
USA	(1)	247.0	250.6	1%	5.0%
LATIN AMERICA					
Argentina	N/R	4.1	7.2	76%	
Brazil	(19)	25.0	21.0	-19%	
Chile	N/R	10.9	11.6	6%	
Mexico	(16)	26.8	30.0	12%	
Paraguay	(18)	31.7	28.5	-10%	
Uuruguay	N/R	11.3	12.2	8%	
Venezuela	(9)	36.2	55.2	34%	15.3%
EASTERN EUROPE					
Bulgaria	N/R	3.7	11.5	211%	
CSFR	N/R	3.0	5.4	80%	
Hungary	N/R	2.2	2.0	-9%	
Poland	N/R	.9	.9	0%	
Romania	N/R	.9	2.5	178%	
Soviet Union	N/R	2.5	4.6	84%	90.6%

Source: The Scotch Whisky Association, Statistical Reports, 1992, pp.16-20.

* Lpa: Lpa refers to litres per annum.

Notes: (a) The ranking of world's top 20 markets by value sales.

From Table 4.8 it is clear that the main growth in terms of both volume and value sales has been in Latin America and Central and Eastern Europe. While the actual figures are comparatively smaller than in the developed markets the rate of growth in terms of both volume and value sales is significantly higher. These markets, while small, are nonetheless important to the industry. For example, the Czech Republic increased in value by almost Stg £2.5 million in 1992 but, more importantly, it shows signs of huge future growth potential. It is this fact that makes these developing and emerging markets highly significant to the industry.

As Table 4.8 also indicates the growth process in Europe, the USA and Australia continued to slowdown in the 1991-1992 period. However, the efforts of Scotch manufacturers, such as Guinness, began to show in Latin America and Eastern Europe. In Latin America growth for the 1991-1992 period averaged 15.3%. Mexico and Venezuela, areas where Guinness had made recent acquisitions (see Table 4.7), performed exceptionally well. In fact Guinness's success in Latin America exceeded all expectations. By 1992, Dewar's became the No.1 in the standard Scotch category (standard Scotches are blends bottled in Scotland under the control of Scotch producers), Johnnie Walker Black Label became the No.1 de-luxe Scotch (de-luxe refers to blends aged for ten years or more) and Usher's Green Stripe the No.1 local Scotch brand (local refers to the fact that the blend in the Scotch has been imported to the host country and bottled or even mixed there with local blends).

Similar growth has occurred in the markets of Central and Eastern Europe where the popularity of Scotch is constantly growing. In particular, Scotch exporters have been successful in Bulgaria, Romania and the Czech Republic which, as opposed to Hungary, do not operate quota systems, or extract exorbitant taxes as occurs in Poland. This success in markets which are still undergoing rapid change and which are considered by many to be a 'no-go' area is testimony to the ability of spirit manufacturers such as Guinness to

target new growth areas and it is their procedure for selecting new target markets which is the subject of the next section.

4.3 IMS: THE CASE OF CENTRAL AND EASTERN EUROPE

4.3.1 Introduction

Following the Velvet Revolution and the fall of the Communist regime, speculation about the potential of Central and Eastern European markets abounded. Five years on from the Revolution much of the early enthusiasm has been dampened and Western investment in these markets has been slow. Three major problems, caused by the transition of these economies, have deterred potential investors: poor economic conditions, uncertainty about political stability and changes in social conditions.

However, despite warnings about the general environmental conditions in Central and Eastern Europe, (Mason, 1991; Bugajski, 1991), many consumer goods companies, including United Distillers and Seagrams, have chosen to enter these markets. From a vast heterogeneous area they have chosen a handful of markets and it is how this selection process was managed that is the subject matter of this section. Specifically, this section details the IMS approach adopted by United Distillers and the variables chosen by them to assess the potential of these markets. Where appropriate the United Distillers approach is compared with that of their competitor, Seagrams.

4.3.2 The IMS Process

Both Seagrams and United Distillers faced two particular problems when researching the potential of Central and Eastern European markets. First, the companies had very little knowledge about these markets because they had been hidden behind the Iron Curtain for so long. Secondly, the rapid change and transition occurring in these markets meant that regulations had changed or that data was often out of date before it filtered through to them. Because of this, the market research into these markets had a much 'broader base' than in other world markets (Parmiter, 1993).

4.3.3 Stage I Environmental Analysis

The first stage in any selection process involves an analysis of the market environment in which the firm may, potentially, operate. As we saw in Chapter 2, most models of IMS suggest that firms evaluate general social, economic and political factors. However, both Seagrams and United Distillers evaluated not only those general market conditions which would impact on their operations but also specific factors which would inhibit the sale of their product. The factors used by United Distillers are summarised in Table 4.9.

Table 4.9

Variables used for Environmental Analysis by United Distillers

DEMOGRAPHIC/PHYSICAL	POLITICAL/LEGAL
<ul style="list-style-type: none">• Population Size• Visitors to the Market• Household Characteristics• Distribution Structures• Consumption of Alcohol	<ul style="list-style-type: none">• Degree of Political Stability• Tariffs• Foreign Investment
ECONOMIC	SOCIO-CULTURAL
<ul style="list-style-type: none">• Employment/Unemployment• Income Distribution/GDP per capita• Prices and Wages• GDP Growth• Inflation• Currency Convertibility	<ul style="list-style-type: none">• Attitude to Foreign Products• Existence of Social Classes

Sources: United Distillers, Market Research Reports, (1991); interview held with Penny, N., Marketing Director of United Distillers, the Czech Republic, Nov.17th, 1993.

As can be seen from this, while United Distillers took into account the variables suggested by existing IMS models, they also considered at an early stage other factors which would directly affect their product.

Thus, under the general heading of demographic/physical characteristics, research relating to distribution structures was conducted during the preliminary screening stages. This is hardly surprising, given the importance

attached by United Distillers to control over distribution after 1987, discussed above. This was underlined in the case of Central and Eastern Europe where distribution systems had become extremely fragmented with the fall of centralised control and the introduction of privatisation.

In relation to economic factors, particular attention was paid by United Distillers to income distribution in these markets with a view to determining whether a significant proportion of the population could afford the premium products it intended to offer.

In the context of political/legal factors, the issue of tariffs was extremely important as this would influence the sale price of the firm's goods. As in many markets, tariffs on alcohol in Central and Eastern European markets were particularly high, though there were large differences between countries. For example, tariffs in Hungary and the Czech Republic, which average 40%, were substantially lower than in Poland, where the duty on alcohol-based products was 300% (Parmiter, 1993).

As far as socio-cultural factors were concerned, the positive attitude of consumers to foreign products was regarded as highly significant by United Distillers. This compensated for the less favourable macro-economic conditions in many markets discussed in Chapter 1.

The result of the preliminary screening conducted by both Seagrams and United Distillers was that they excluded certain Central and Eastern European markets from further consideration. Although the consumption levels of alcohol in most of these markets was extremely high, other factors such as distribution and income levels made some markets, such as the Czech Republic, more attractive than, for example, Kazakhstan. Both United Distillers and Seagrams combined an analysis of the consumption patterns with an analysis of income levels. This indicated that most consumption was of local spirits which were extremely inexpensive. The combined cost of tariffs and distribution made the sale of premium products unattractive. For that reason, markets with high consumption but low income patterns were deleted by United Distillers from further analysis.

The author would make the following comments on this approach to preliminary screening. First, it is highly systematic in approach. Secondly, the analysis of markets on the basis of both general and specific factors at an early stage, as suggested by Wind and Douglas (1972), allows firms to exclude those markets which, at first glance, might appear to present favourable conditions but which do not represent any real opportunities for their particular product offering.

4.3.4 Stage II: Market Structure - Product Market Evaluation

Having deleted unsuitable markets at the Preliminary Screening stage, United Distillers moved on to evaluate those markets with the best potential for their particular products. This stage of the selection process is concerned with examining factors which will influence demand for the firm's products. As can be seen from Table 4.10 two broad areas were considered by United Distillers: consumer characteristics and competition. These factors have been identified by Bradley (1991) as ones which may have a major influence on potential sales in international markets.

On the question of consumer characteristics and potential demand for the product, the analysis carried out by United Distillers was much more detailed than that conducted in the Preliminary Screening stage. In the case of the former Czech and Slovak Federal Republics, United Distillers used both quantitative and qualitative information collected by a Czech market research consultancy company, AISA, which was readily available in published form (AISA, 1991). The information they obtained from the AISA survey of 1,952 respondents provided an overview of the characteristics of potential consumers and an estimate of the size of their potential target audience. The major findings of the AISA survey are included in summary form in Appendix II.

The analysis conducted of consumer characteristics focused on two major issues: the demand for imported spirits and the profile of consumers considered most likely to purchase such, inevitably more expensive, goods.

This included an analysis of potential sales to tourists as well as to local consumers.

For Seagrams in particular, the second point - the degree of competition in the market - was extremely influential in the selection decision. As the marketing director for Seagrams Eastern Europe put it: 'The markets were there. What Seagrams had to do was to make sure that they were competitive... and, whatever the absolute level of the market opportunity, that we were ahead of the competition.' (Parmiter, 1993). As for United Distillers, they considered not only the threat from foreign competition but also evaluated the strength of domestic producers. This analysis revealed that while domestic products accounted for 99% of sales in many Central and Eastern European markets, their lack of resources would prevent them from responding to the threat of foreign competition (United Distillers Market Research Reports, 1991). This Report also highlighted the lack of awareness of marketing and sales skills among even the largest domestic competitors.

Table 4.10

Variables used by United Distillers to Evaluate Product Potential

CONSUMERS	COMPETITION
<ul style="list-style-type: none"> • Demand for product • Consumption of Imported Spirits • Consumer Characteristics • Social Group Evolution • Tourist Potential 	<ul style="list-style-type: none"> • Domestic Competition • Impact of Privatisation • Main Foreign Competitors

Source: United Distillers Market Research Reports, (1991), op., cit.

The result of this second stage was that the cluster of potential Central and Eastern European markets under consideration was further reduced. The markets that remained were those which represented the best opportunities for the firms' products because of: (a) demand and (b) the degree of competition.

The author would note that the evaluation of product-specific variables by Seagrams and United Distillers at this second stage of the selection process is consistent with recent IMS literature, such as Papadopolous and Denis, (1988). Given the paucity of product-specific secondary data in many of the Central and Eastern European States, it was inevitable that both quantitative and qualitative techniques were used by these firms. Similar problems face firms researching other developing and emerging markets. In the author's view, therefore, it is necessary to integrate both these techniques into the IMS framework.

4.3.5 Stage III: Strategic Market Evaluation

The third stage of selection undertaken by United Distillers involved an evaluation of strategic considerations, in other words, pricing, distribution and promotion. Rather than screening out markets, this stage provided these firms with an opportunity to determine which markets they could service best.

As we have already noted, control over distribution was central to the United Distillers philosophy and was extremely important financially. While the company had examined the general distribution environment during the Preliminary Screening stage, it had not considered the on-trade (bars, restaurants and hotels) and the off-trade (retail outlets), which were highly significant for them: see Table 4.11. The importance of this aspect of the analysis is underlined by the fact that the firm undertook primary research to identify key on and off trade outlets in selected markets (United Distillers, Market Research Reports, 1991).

Similarly, the price issue was extremely important to both Seagrams and United Distillers. Firstly, they could not afford to cut their prices on premium products, because of the threat of parallel importing. Secondly, they could not afford to price their products beyond the reach of even the more well off consumers. The analysis of the price issue was not based on consumer per capita income alone, which is used in most of the IMS models. As Parmiter (1993) stated: 'We are not looking at average per capita income as per the

data... we look at what is selling in the market and what price level people find acceptable'. These firms needed to choose markets where they could get the price right.

Finally, the promotional aspect of the marketing mix was given some consideration. This aspect of the marketing mix, though not as important as pricing and distribution, merited some consideration. Because consumers in Central and Eastern Europe had very little exposure to their products, both companies needed to be able to educate consumers about their brands as well as promoting their premium image. Restrictions on promotion, which are stringent for alcohol in most countries, were taken into consideration. However, Seagrams were also concerned with the availability of media in these markets (Seagrams, 1992).

Table 4.11

Variables used for Strategic Market Evaluation

PRICE AND PROMOTION	DISTRIBUTION
<ul style="list-style-type: none"> • Effect of Distribution Fragmentation on Price • Availability of Media • Restrictions on Advertising • Affordability 	<ul style="list-style-type: none"> • On and Off Trade Characteristics • Shop and Shopper Characteristics • Developments and Forecasts

Source: United Distillers, *Market Research Reports*, 1991.

The author would point out that this aspect of the selection process, relating to strategic issues, has received little, if any, consideration in IMS literature, despite its importance. The Strategic-Market evaluation provides the firm with an opportunity finally to select those markets which it can service with its existing or desired strategies. For firms such as Seagrams and United Distillers, who have created a global strategy for their brands, this evaluation is imperative.

4.4 SUMMARY AND CONCLUSIONS

The case study analysis of Guinness and the examination of United Distillers' approach to IMS has highlighted a number of important facts. Firstly, the IMS decision is inextricably linked to the company's objectives. Secondly, firms who are selecting international markets are concerned with the degree of fit between the company's marketing strategies and the characteristics of target markets.

On the first point, it is clear from the case study that Guinness' objectives, at different periods during their development, influenced the type of market they considered opportune. Between 1985 and 1989 Guinness was concerned with improving its profit performance. Internationalisation was seen as a way of achieving this. However, the most profitable markets for the company were those in which they could increase both their value sales and develop their distribution networks. The developed markets of Asia, Europe and US were targeted because:

- i) consumer disposable incomes were higher in these markets which meant Guinness could employ its premium pricing strategy;
- ii) consumer orientation to premium goods was higher than in other less developed markets and were therefore more likely to trade-up;
- iii) consumer's awareness of these products was high;
- iv) the fall of trade barriers in many markets made penetration easier;
- v) distribution structures were more developed, allowing the company to acquire control over important distribution outlets.

The fall off in volume sales that Guinness experienced was more than compensated for by the increased margins it obtained from premium brands and increased margins on distribution. In fact, between 1985 and 1990 the firm's profits increased by a staggering 884% (Guinness Annual Report 1985, p.34; 1990, p.36). However, when profit growth began to slow down in the nineteen nineties, the company was concerned, not with decreasing price in order to increase volume sales, but with targeting new markets where existing

strategies could be developed. Its objective was not one of profit, but one of long term growth. The most important factors to consider were:

- i) alcohol consumption levels;
- ii) propensity of consumers to trade-up to premium brands;
- iii) ability to control distribution; and
- iv) trade barriers.

Overwhelmingly, the emphasis was on the company's offerings and strategies. Markets were evaluated, not on the basis of their degree of attractiveness measured in socio-economic terms (as advocated by Liander et al, 1967; Moyer, 1968; Sethi, P., 1971; Doyle and Gidengil, 1977; Samli, 1977; Cavusgil, 1985), but on the basis of their attractiveness measured in company-specific terms. This highlights a particularly valid point for IMS research, namely, that firms engaged in IMS evaluate international markets on the basis of:

- i) their objectives;
- ii) their resources;
- iii) their product;
- iv) their required distribution network or needs;
- v) their minimum price level; and
- vi) their competitive strategy.

To date, most IMS research has looked at the IMS issue in its abstract form, which has, consequently, led to a preoccupation with the right methodology for classifying target markets. But this type of analysis only serves to alienate the intended users who are more concerned with determining the markets in which they can operate the most successfully. This view is shared by Papadopoulos and Denis, (1988, p.47) who state that:

...available methods [of IMS] seem to be either inaccessible to, or perceived as inappropriate by, their intended users.

Inaccessibility explains their lack of use by SMEs, while lack of sufficient specificity and reliability explains why neither MNCs, which can both afford and understand them, use them in IMS.

In light of these comments, and given the insights into IMS which the case study of Guinness has provided, the author would suggest a new approach to IMS where the company is considered from the outset.

CHAPTER 5

RESEARCH RECOMMENDATIONS

TOWARDS AN INTEGRATIVE APPROACH TO IMS

Neither the quantitative nor the qualitative system of analysis can, by itself, give a comprehensive market evaluation. Using a single system is akin to a mariner attempting to determine his exact position utilising latitude or longitude alone; only when simultaneous answers are available is the exact position known.

Cooke, (1972, p.27)

5.1 THE PRESENTATION OF RESEARCH RECOMMENDATIONS

5.1.1 Summary of Research Conclusions

In this chapter the author reviews the overall objectives and findings of this thesis and utilises these findings to develop an IMS model capable of providing a truer picture of the opportunities offered by emerging economies. The objective of this thesis was to ascertain whether existing models of IMS provide a useful means of determining the market opportunities that exist in the emerging economies of Eastern Europe. To this end the author began with an examination of the transition process in the Czech Republic and Hungary and its implications for the IMS process (Chapter 1). The author then critically examined existing IMS methodologies (Chapter 2) and explored the IMS techniques of United Distillers, the spirits arm of Guinness, a truly global firm (Chapter 4).

The analysis of IMS models revealed a number of inherent flaws, and these reflect two major problems with IMS literature in general.

The first notable problem relates to the approach to IMS adopted in the literature. The implicit assumption of writers on IMS is that the quantitative approach is the most useful method of assessing international markets. This is evident from the overwhelming emphasis on quantitative techniques in the literature. But, in addition to the obvious limitations of secondary data on which they rely (Chapter 2, s.2.1.3), quantitative techniques are not specialised enough to deal with the specific information requirements of the internationalising firm. Consequently, firms engaged in IMS will, at some stage, need to employ qualitative techniques to find out more about the market for their particular offering. As the author's secondary research suggests, this is especially true in emerging economies where data collection techniques and the existing stock of secondary data are not on a par with more industrialised nations.

On this first issue, the author has concluded that neither a quantitative or qualitative approach alone is sufficient for IMS purposes.

A second problem in IMS literature is the lack of any unified theory as to how international markets should be evaluated. The bewildering array of IMS methodologies proffered in the literature has produced an equally bewildering array of factors or bases to be used when evaluating international markets. However, the selection of these factors appears to be based on arbitrary choice or, indeed, convenience: see Doyle and Gidengil (1977), discussed in Chapter 2, s.2.4.4. The lack of any clear point of reference for determining market potential or attractiveness has resulted in a certain amount of incongruity between models and much confusion regarding the choice of variables for IMS. It is, therefore, not surprising that these IMS methodologies are 'perceived as inaccessible or inappropriate by their intended users', (Papadopoulos and Denis, 1988, p.47). In attempting to resolve or simplify the selection decision, authors on the subject have alienated their intended users - internationalising firms. This, the most damaging indictment of existing models, is also supported by the empirical study undertaken by the author.

On this second issue, the author's conclusion is that international markets should not be evaluated in isolation from the company-specific factors which affect the selection decision.

5.1.2 Outline of Chapter

This Chapter builds upon the author's conclusions in two ways. Firstly, it recommends that IMS techniques should not be strictly confined to either a quantitative or qualitative method. Rather, both procedures should be used according to the firm's information needs. The integration of quantitative and qualitative approaches is discussed in section 5.2.1.

Secondly, the author advocates the inclusion of company-specific factors in the IMS formula. This method of IMS acknowledges the relationship that exists between the firm (its objectives, resources, strategies and desired offerings) and perceived market opportunities. The arguments in favour of this approach are discussed in section 5.3.1. In the following section, 5.3.2, the author outlines an integrative IMS model. Four stages of evaluation are

envisaged by the author in this model. The first stage, which involves the firm in an Internal Evaluation, is discussed in section 5.3.3. The second stage of the selection process, Screening Out, is outlined in section 5.3.4, while stage three, the Product-Market Evaluation, and stage four, the Strategic-Market Evaluation, are considered in sections 5.3.5 and 5.3.6 respectively.

5.2 INTEGRATING THE QUALITATIVE AND QUANTITATIVE APPROACHES

5.2.1 Arguments in Favour of an Integrative Approach

The quantitative approach to IMS, which dominates the literature, bases its evaluation of foreign markets on secondary statistical data. This approach attempts to evaluate market attractiveness or potential by comparing the macro and micro characteristics of foreign markets. However, the implicit assumption of this technique is that secondary statistical data alone is sufficient to measure market attractiveness and that secondary statistical sources will furnish the user with sufficient information to make an informed selection decision.

In reality, however, there are many factors influencing market potential that cannot be gleaned from secondary statistical sources. An example of one such factor is consumer attitudes towards foreign products or products of a particular origin. This type of information can often only be obtained from an expert or qualitative source.

The problem with secondary statistical data is that it is general in nature and lacks product-specificity (Rice and Mahmoud, 1985). Yet, for every firm or industry involved in international expansion there are product-specific issues which need to be addressed. For example, in the drinks industry, regulations governing the sale of alcohol are of paramount importance. Such product-specific information is usually obtained from qualitative sources. This suggests to the author that there is a need to integrate both quantitative and qualitative methodologies into a framework for IMS. The argument in favour of integration is strengthened in the case of emerging economies

where quantitative information may be less reliable and more difficult to obtain (see Chapter 2, s.2.4.3).

5.3 INTEGRATING COMPANY-SPECIFIC FACTORS INTO THE IMS EQUATION

5.3.1 Arguments in Favour of the Integration of Company-Specific Factors

Much debate has taken place in IMS literature regarding the proposed bases or criteria for evaluating international markets. Broadly speaking, most models of IMS tend to evaluate international markets on the basis of their economic, industrial and socio-cultural development, mainly because these indicators are easy to measure. But while authors on the subject of IMS have been trying to define attractive markets in socio-economic terms they have neglected one important element of the selection formula, the firm.

One of the reasons why IMS methodologies are not being used in practice is because they assume that selection occurs in a vacuum and that variables which impact upon the firm's ability to operate in a particular environment are of little consequence (Papadopoulos, 1985). It is important to remember, however, that the primary objective of IMS is to choose international markets in which the firm can successfully market its product(s)/service(s).

Attempts to include company-specific factors into the IMS framework have been limited to suggesting that overall corporate objectives and resources should influence the type of criteria chosen to measure market attractiveness (Douglas, Le Maire and Wind, 1972). Alternatively, it has been suggested that they should be considered during the final stages of the selection process, once the search has reached the fourth stage of filtration (Walvoord, 1980). This would seem to suggest that the emphasis should be on the general characteristics of the country not on the degree of fit between the firm and the market.

As Papadopoulos, (1985) notes, these methodologies seem to approach IMS purely from the point of reducing the large number of potential markets to a manageable number, rather than approaching the problem from the perspective of the internationalising firm. In other words, in these models the

firm is a passive bystander in the IMS process rather than the driving force behind it.

What existing models of IMS fail to acknowledge is that a firm that has already decided to expand internationally carries with it a unique mix of objectives, resources, strategies and market offerings. These will largely dictate the type of market that is opportune for that firm.

The existing literature has discussed the relevance of the firm's objectives and resources. Indeed, some models have gone so far as to include variables which specifically impact on the firm's product. However, while the product is the most important element of the firm's marketing mix, it is not the only element which will be affected by external market characteristics (Kinsey, 1988). The other elements in the marketing mix, namely, pricing, promotion and distribution have generally been ignored in IMS research.

One might be led to believe that the failure to include pricing, promotion and distribution-related variables indicates that they are not relevant in the international marketing environment. However, as Malhotrah and Baalbaki, (1993 p.39) state:

Product-related, promotion-related, price-related and distribution-related variables... are of significant importance to the international marketing manager as they reflect the impact of various cultural, economic, geographic, legal and other market conditions on the various elements of the marketing mix.

This view that firms look at international markets from an 'internal perspective' is supported by Cavusgil, (1985b). He suggests that firms engaged in IMS are primarily concerned with evaluating those aspects of international markets that directly affect:

- product potential in foreign markets;
- potential sales volumes and margins;
- factors necessitating product modification;
- distribution channels and arrangements; and
- market sensitivity to price.

As this research indicates, internationalising firms are most concerned with determining the opportunities for their particular market offerings in international markets.

This has led the author to conclude that IMS is not simply a question of market attractiveness. Firms selecting international markets are concerned with evaluating them with reference to their own objectives, resources, strategies and offerings, not just on the basis of proxy indicators of market development.

5.3.2 Proposed Integrative Model

The author does not propose a complete abandonment of existing IMS models. Rather, the author suggests that there is a need to consider the firm at an earlier stage of the IMS process. In a sense, this new approach advocates that both the firm's objectives and the market offerings of the firm should become the focus of the selection decision and that countries and markets be evaluated by reference to issues such as pricing, promotion, product and distribution needs. Figure 5.1 illustrates the essential elements of this approach, while a more detailed outline of the approach is contained in Figure 5.2, which forms the basis for the author's discussion of the contents of this approach.

Figure 5.1

IMS: Four Stages of Evaluation

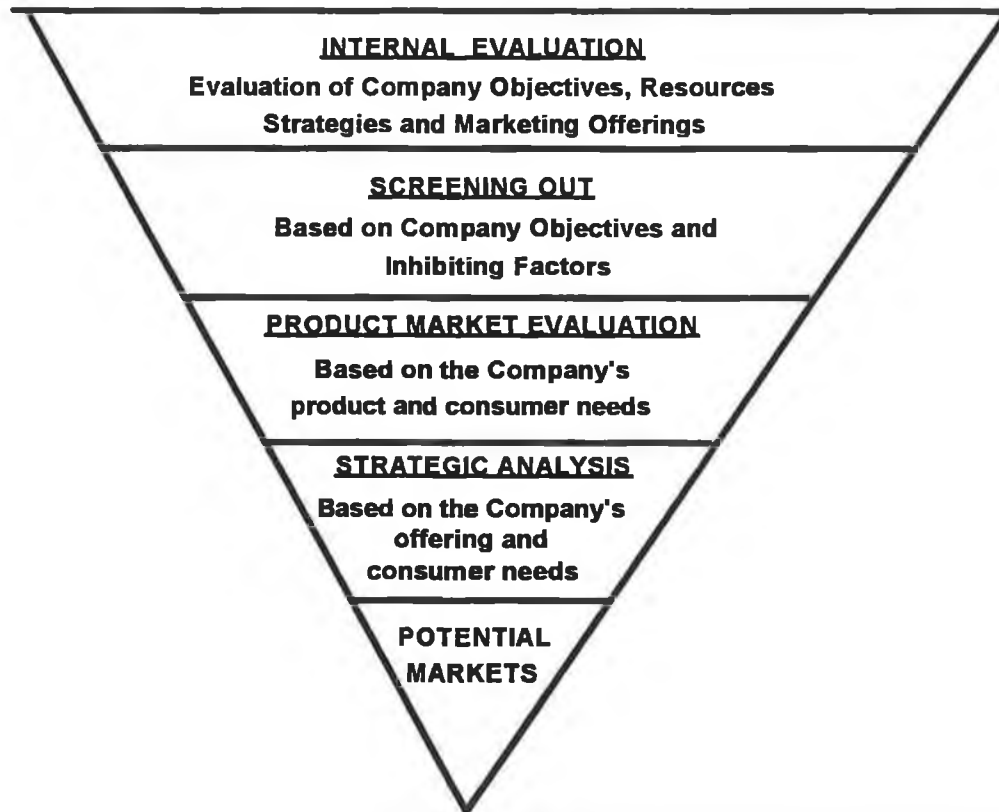
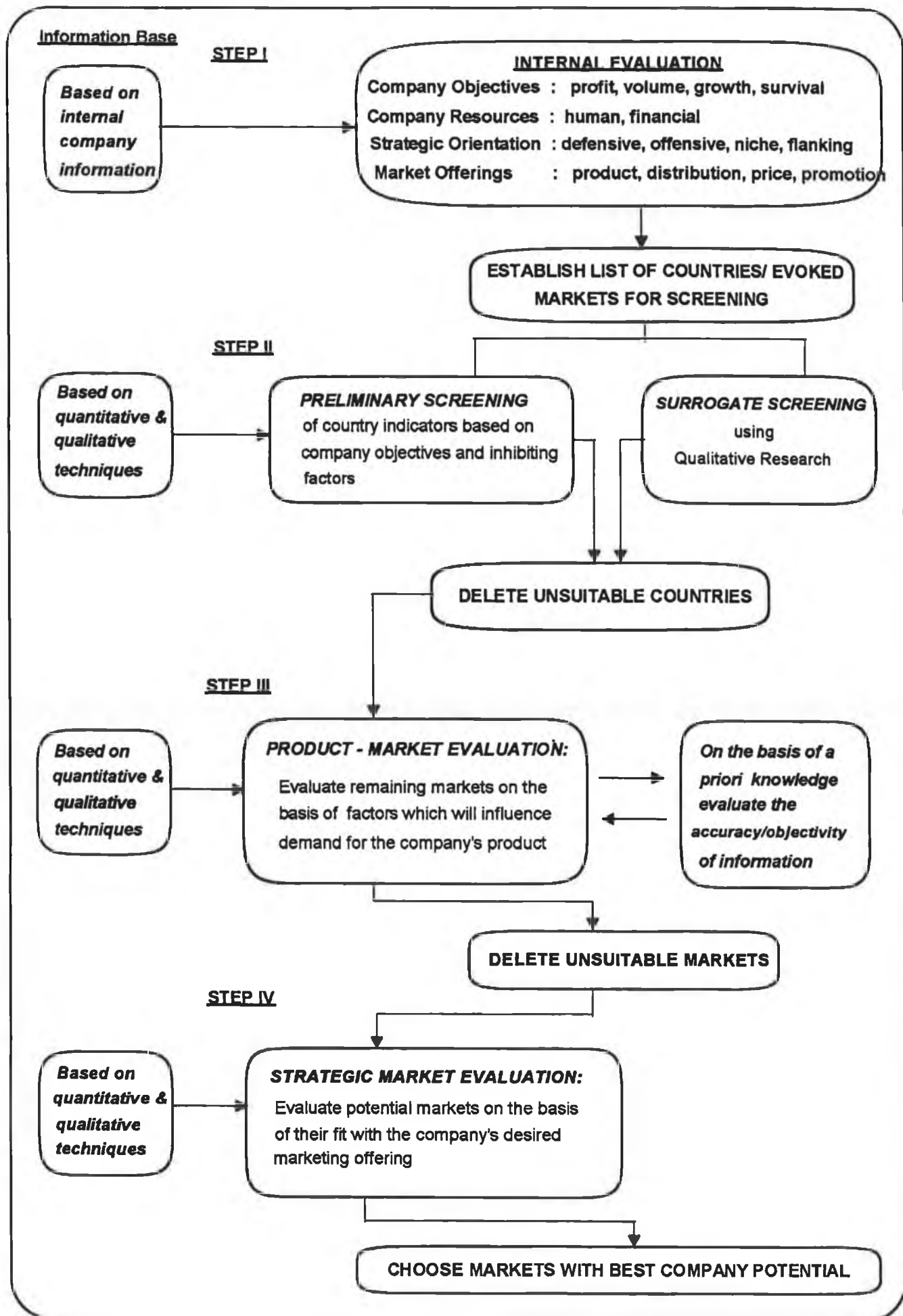


Figure 5.2

TOWARDS AN INTEGRATIVE APPROACH TO IMS



As can be seen from Figure 5.2, four stages are envisaged in the author's suggested search for optimal potential markets:

- 1) Internal Evaluation
- 2) Screening Out
- 3) Product Market Evaluation
- 4) Strategic Analysis

From this broad outline it should be clear that company-specific factors are considered at each stage of the selection process. The author's model develops existing techniques in two ways. Firstly, it suggests that the firm's perspective is considered in the selection decision from the outset. For internationalising firms, this will involve a need to reflect internally on their own IMS objectives. Second, the author's model suggests that greater relative emphasis should be placed on evaluating the fit between international markets and the firm's product, price, promotion and distribution strategies. By doing so, the firm should obtain a clearer picture of the opportunities that exist in divergent markets.

5.3.3 Internal Evaluation: The First Stage in the Selection Process

The Internal Evaluation is a core element of the integrative model, as it lays the foundation for the succeeding selection decisions. At the Internal Evaluation stage the firm explicitly sets out its:

- A) International Objectives;
- B) Resources for Internationalisation;
- C) International Strategy; and
- D) Desired International Market Offerings.

All these decisions, which are based on internal information, will help the firm to formulate a much clearer picture of what it needs or desires from a potential foreign market.

(A) INTERNATIONAL OBJECTIVES

It has been argued that many, if not most, influences on organisational decisions are associated with an organisational goal.

Bradley, (1991, p.224).

As this quotation implies the objectives of the firm are inextricably linked to the IMS decision. In particular, the objective behind international expansion whether it is one of survival, long term growth, revenue, volume or profit, will dictate the type of international market that the firm considers attractive or opportune, (Papadopoulos, 1985).

Consider the case of spirit manufacturers and their recent penetration of the 'Visegrad States' (Poland, Hungary, the Czech Republic and the Slovak Republic). The objective that led firms to enter these markets was one of long term growth. Faced with a slow decline in volume sales, due to changes in lifestyles, consumption patterns and world-wide recession it was vital for these firms to seek out previously untapped markets which they could build up to offset the decline in traditional markets.

Obviously, if these firms based their IMS decision only on criteria related to the socio-economic development of countries, these markets would have been deleted from consideration at the preliminary screening stages. But internationalising firms should base their IMS decision on both internal and external criteria.

(B) RESOURCES FOR INTERNATIONALISATION

The firm's resources will have a significant impact upon the international selection decision. The effect of this impact is most clearly seen by comparing the IMS options available to large (MNC's) and small (SME's) firms.

In the international arena the MNC has a distinct power advantage in that it has more financial, human and capital resources. It also has the power to

move these resources with relative ease in response to changes in market conditions. In terms of the IMS decision this characteristic gives the MNC greater scope, in that the MNC can afford to choose from a wider range of potential markets, if it so desires. On the other hand the SME is often restricted by limited financial and human resources to choosing those markets which can be easily accessed and which will give a quicker return on investment.

These factors need to be taken into consideration before the firm begins selection procedures. If market access is a particularly important factor for a firm then the first stage of the selection process, Screening Out, should evaluate markets on the basis of this and other inhibiting factors. The advantage of approaching IMS in this way is that markets which (a) represent real opportunities for the firm and (b) are within the reach of the firm will be chosen rather than markets which look good from a socio-economic perspective.

(C) INTERNATIONAL STRATEGY

It is important to acknowledge that the strategic orientation of the company is an important factor to consider when selecting international markets, (Papadopoulos, 1985; Bradley, 1991). By and large the most important international strategic consideration relates to the firm's competitive strategy. The firm's competitive strategy, whether defensive, offensive, niche or flanking, will influence its decision about potential markets, (Papadopoulos, 1985).

For example, in the case of the Seagrams Group the advantage for Seagrams in choosing the Ukraninan market was that it could avoid competing directly, at least in the short term, with its larger rivals.

However, the choice of international markets should not be based purely on competitive factors. These issues need to form part of the overall evaluation of foreign markets suggested in the integrative model.

(D) DESIRED INTERNATIONAL MARKET OFFERINGS

As the author has already discussed, price, product, promotion and distribution are central to the marketing concept. It follows then that the most important company aspect which needs to be considered when selecting international markets is the marketing mix. In order to analyse the potential of any market it is essential that the firm has a clear understanding of its marketing strategy. In other words it must decide on the direction it would like its product, pricing, distribution and promotional strategies to take in the international market environment.

The IMS literature has recognised the importance of including product-specific variables in the IMS framework. However, much of the emphasis to date has focused on the importance of evaluating those factors which influence demand for a particular industry or product, for example product consumption. This is an important part of selection research. However, there is little point in looking at industry demand in isolation unless the firm can also answer these vital questions:

- Can we sell or distribute our product in the market?
- Would consumers be willing to purchase our product at our minimum sale price?
- Can we educate, promote and create awareness for our product in a particular market?

For many internationalising companies these elements of the marketing mix have become increasingly important in recent times. As we have seen in the analysis of Guinness' international strategy in Chapter 4, control over distribution and pricing policy is of paramount importance for success in international markets. This shift in emphasis from production to marketing has made it all the more important for companies to evaluate potential target markets by reference to marketing mix elements.

5.3.4 Screening Out: The Second Stage in the Selection Process

The main purpose of this second stage is to filter out those markets which are not suitable for selection as potential markets. However, the process of preliminary screening is complicated for two reasons:

- i) There are over 150 countries in the world making it difficult to examine all opportunities.
- ii) Because of the number of markets to be analysed, firms need to limit the scope of their analysis.

Existing models of IMS have suggested that filtering out countries on the basis of their macro characteristics is a useful preliminary screening mechanism. To a large extent these models have used indicators of socio-economic development during the initial screening stages to define potential markets. Thus for example, they suggest that variables such as steel production, population size or number of cars per capita will provide a good indication of the country potential.

However, there are two problems with this approach. The first is that these models assume that country attractiveness is constant and that socio-economic development is an accurate measure of this attractiveness. But in reality the degree of socio-economic development may not reflect the potential of a country for a particular company or industry. The second problem is that if markets are analysed purely on the basis of socio-economic indicators it is possible that countries which may not be opportune will get past the first filter, while more suitable possibilities are discarded.

The problem of preliminary screening can be greatly simplified if one asks what general country characteristics will inhibit the company's objectives and potential operations in a particular market. In other words, the firm needs to determine if potential markets exhibit negative characteristics which would inhibit their selection. These characteristics will not only include general socio-economic variables but also those factors which may inhibit the company's ability to operate in a particular environment. Table 5.1 provides a list of variables which may be included at each stage of the selection process.

However, the choice of variables used will very much depend on the company's objectives and desired operations.

However, evaluating the general country environment by using variables which will have a direct effect on the company's ability to operate there provides a more accurate means of determining real opportunities and of discarding those countries which are only superficially attractive.

Table 5.1

Variables for Evaluating International Market Potential

<u>STEP 1</u> Internal Objectives	<u>STEP 2</u> Screening Out	<u>STEP 3</u> Product-Market Evaluation	<u>STEP 4</u> Strategic-Market Evaluation
<i>Company Objectives</i> <ul style="list-style-type: none"> • volume • long term growth • profit • survival <i>Company Resources</i> <ul style="list-style-type: none"> • human • financial <i>Strategic Orientation</i> <ul style="list-style-type: none"> • defensive • offensive • niche • global <i>Market Offerings</i> <ul style="list-style-type: none"> • product • distribution • price • promotion 	<i>Demographic/Physical</i> <ul style="list-style-type: none"> • population size • business • infrastructure <i>Political/Legal</i> <ul style="list-style-type: none"> • form and stability of government • attitude to foreign investors • limitations on trade <i>Economic</i> <ul style="list-style-type: none"> • GNP & GNP growth • currency stability/convertibility <i>Market Related</i> <ul style="list-style-type: none"> • overall consumption • per capita income • distribution networks • market distance • communication network 	<i>Consumer Related</i> <ul style="list-style-type: none"> • product consumption • consumption by segment • socio-economic characteristics • main location • attitude towards foreign products <i>Foreign Competition</i> <ul style="list-style-type: none"> • exports by country • sales • market shares • main strategies <i>Domestic Competition</i> <ul style="list-style-type: none"> • main competitors • product range/quality • sales/market share 	<i>Distribution</i> <ul style="list-style-type: none"> • degree of development • availability of intermediaries • average margins • development level of retail outlets • concentration of distribution <i>Price</i> <ul style="list-style-type: none"> • hidden taxes, VATs, tariffs • consumer disposable income • competitor prices • parallel imports <i>Promotion</i> <ul style="list-style-type: none"> • restrictions • media costs • attitude towards promotion

5.3.5 Product-Market Evaluation: The Third Stage in the Selection Process

The third stage in the selection process involves a more specific analysis of potential or selected markets. At this stage the firm should be concerned with analysing the opportunities in selected markets for a particular product or product portfolio. In terms of determining the market potential for a particular product or products four important questions need to be addressed, namely:

- Who are our potential consumers?
- What are the characteristics of these consumers?
- To what extent are their needs being served already?
- Can we compete effectively in this market?

As outlined in Table 5.1, variables pertaining to both consumer and competitor characteristics need to be considered before the company can fully appreciate the potential opportunities that exist in selected markets.

While existing models of IMS have suggested that product-specific data needs to be incorporated into the IMS framework they have also acknowledged that secondary product-specific data is difficult to obtain, (Rice and Mahmoud, 1985). This is of course true in the case of emerging economies. However, such information should not be ignored simply because it is not available from secondary sources. It is possible to obtain this relevant information by using sources such as trade/statistical bodies, research agencies, advertising agencies and company reports. Thus the author's integrative model suggests that by adopting a qualitative and quantitative approach to the product-market evaluation the company can determine the opportunities and threats that exist in a particular market.

'The most attractive consumers depend on the firm's position. It is necessary to match the company's resources and capabilities with customer requirements'.

Bradley, (1991, p.229).

As this quotation suggests, it is most important, when choosing international markets, to consider the degree of fit between the company's resources and

offerings and consumer requirements. This cannot possibly be done unless the company has taken seriously the task of internal evaluation prior to preliminary screening. Once the company is aware of its objectives and requirements, the task of determining potential consumers is made much easier.

The process of identifying potential consumers during IMS is one that has created a problem for many international researchers. Some have suggested the application of segmentation techniques. However, in general companies do not tend to apply complex psychographic and benefit segmentation techniques during the selection stages. The cost of applying such techniques to a number of potential markets would be too great. But it is important for the company to consider consumer characteristics that they feel will have implications for their potential product offering.

In general, information pertaining to consumer characteristics can be gleaned from secondary quantitative and qualitative sources. Table 5.1 provides an outline of these general consumer characteristics. Demographic and social profiles are the most common type of consumer information available, even in emerging economies. An example of the type of information which can be obtained is illustrated in Appendix 2. From this the company can, to some extent, profile potential consumers and determine the degree of fit between consumer characteristics and the specific product on offer.

For many internationalising firms, specific information regarding the degree of competition in a particular market is important, as was noted in section 5.3.3(C). This is particularly true for firms who are not strong enough to face competition head on. Therefore, the degree of competition and the strategies being employed by competing firms will influence the company's perception of effective demand.

Information pertaining to competitor sales and strategies is often perceived to be difficult to obtain. There is the pervasive notion that company sales and activities, especially in international markets, is shrouded in secrecy. However, data relating to competitor activity is usually available from their own annual reports, while more detailed information about sales can often be obtained from an analysis of export/import figure or trade journals if required. To be consistent let us take the case of the drinks industry. Irish companies looking for data on spirit sales in a particular country can obtain product-specific information, by country, from the following sources:

- Scotch Whisky Association (sales by segment and country)
- Wine and Spirit (sales by segment)
- Statistical Offices (import and export by segment)
- The competitors' Annual Reports (strategies and progress in markets)

While this process may involve the company in a search for more than one source, the resultant information that can be obtained may be both of value and of significance.

5.3.5 Strategic Market Evaluation: The Fourth Stage in the Selection Process

The final task of the company before determining which markets to choose for in-depth investigation should be an analysis of the strategic requirements of international markets. This process, rather than screening out undesirable markets, provides the company with an opportunity to choose those markets which match the company's strategic capabilities and requirements. Many vital factors such as tariffs, which may have been used in the second stage to screen out undesirable markets, are re-evaluated in-depth at this stage of the selection process. The purpose of this exercise is to enable the firm to gauge which of the remaining markets is best suited to their strategic offering and, therefore, which markets it can best serve.

At this stage of the selection process, the company should concentrate its efforts on determining the type of distribution, pricing and promotion strategy it would employ in potential markets. The aim of this procedure is to allow

the company to delete markets from its list which it cannot effectively serve due to internal limitations. For example, the company should consider the cost of selling its product in a particular market and the price it feels it would be required to charge due to:

- hidden taxes, vat and tariffs
- consumer disposable income
- competitor prices.

If the company feels it can offer a desired product at an acceptable price in the market then that market can be selected for in-depth investigation. Alternatively, if the company would be required to sell at below cost price in order to create demand and compete effectively there is little point in considering the market for further investigation.

This stage of the process is concerned with an analysis of the degree of fit between the firm's marketing strategy and market conditions. By contrast with the previous two stages, which are concerned with screening out undesirable countries, this final stage involves the firm in choosing countries where it can maximise its potential.

5.4 CONCLUSION

The international business environment of the nineteen nineties has become increasingly demanding. Firms operating in this environment, characterised by intense competition and rapid change, must give careful consideration to the methods they use to evaluate international markets. The author's suggested Integrative Approach to IMS offers a systematic alternative to the 'ad hoc' selection techniques which firms may be using and the evaluation techniques, based on proxy indicators, proposed in the literature.

In formulating the Integrative Model, the author set out to address the problem of applying existing models to the emerging economies of Central and Eastern Europe. In doing so, it became apparent that the real problem

with existing techniques was that they were considering international markets without looking at how company specific factors impacted on the IMS decision.

Yet as Papadopoulos and Denis, (1988, p.48) suggest:

"To be useful, a method [of IMS] should be able to assess the suitability of general environmental conditions, be responsive to the specific product under review, and be capable of accounting for the strategic dimensions of markets".

The Integrative Model adopts this concept. Firstly, it acknowledges that the general market should be assessed for its suitability. Suitability for whom? The firm. Secondly, it advocates that a specific-product market evaluation is conducted not only to determine actual demand for the firm's products, but to determine if consumer characteristics and competitive conditions are suitable. Finally, it suggests the need for a strategic market evaluation to determine if the firm can match its distribution, pricing and promotion to market conditions.

This approach to IMS advocates company involvement through each stage of the selection process. For this to be achieved, the author would stress again the need for an internal evaluation before engaging in selection. The benefit to be gained from this approach is that firms can then choose markets that suit their needs rather than those which appear to be attractive.

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APPENDIX I

OUTLINE OF INTERVIEW QUESTIONS

SECTION A

THE INTERNATIONALISATION PROCESS

1. DEVELOPMENT OF INTERNATIONAL ACTIVITY

- (a) *To what extent do you consider the ethos of the company to be truly international.***
- (b) *Knowing the company's history as well as you do, what would you say was the driving force behind initial internationalisation.***
- (c) *What, in your opinion, are the current forces which drive the company to seek out new markets.***

2. COMPANY APPROACH TO INTERNATIONAL MARKET SELECTION

- (a) *Who is responsible for international market research, i.e. is it undertaken in-house.***
- (b) *Why does the company choose to undertake IMS research in this manner.***
- (c) *What sources of information are used for selection decisions:***
 - * *primary quantitative/qualitative***
 - * *secondary quantitative***

3. THE INTERNATIONAL MARKET SELECTION PROCESS

- (a) What criteria and variables used by the company to determine market potential.**
- (b) On what basis are these chosen.**
- (c) Does the company focus on measuring general country characteristics, e.g. population size, per capita income or does it examine specific market characteristics, e.g. attitude towards the product, when determining the potential of a market?**
- (d) Is the choice of selection variables dependant on the nature of the market, e.g. industrialised vs developing markets?**
- (e) How do various elements of the marketing mix fit into the selection process.**
- (f) Does the company define a relationship between the variables used to evaluate market potential and their marketing mix variables, e.g. per capita income and price.**
- (g) How does the company define this relationship.**
- (h) Does the company consider the ability to adjust their marketing strategy to the needs of a particular market as an important factor in the decision to choose a particular market.**
- (i) So if the company could not, for example, set up its own retail outlets in the Ukraine would it still have gone ahead with penetration of the market.**

4. SELECTION OF EASTERN EUROPEAN MARKETS

- (a) *What variables were chosen to measure the potential of Eastern European markets.***
- (b) *Did the choice of variables used to measure Eastern European markets differ significantly from those used to measure the potential of other markets?***
- (c) *On what basis were these variables chosen.***
- (d) *In retrospect, did the selection process sufficiently uncover all relevant aspects of these markets.***

SECTION B

ANALYSIS OF THE MARKET POTENTIAL OF THE CZECH REPUBLIC

5. THE MARKETING ENVIRONMENT IN THE CZECH REPUBLIC

Demographic/Physical Environment:

- * *Product-significant demographics used to determine the potential of the Czech market.***
- * *The effect of urban/rural distribution on marketing strategy.***
- * *The state of the physical distribution and communications network in the Czech Republic.***

**** Did the company consider the changes to marketing strategy it would have to effect because of these conditions during the initial evaluation stages?***

Political Environment:

**** Did the company investigate the Czech government's:***

- (i) attitude towards foreign business, i.e. trade restrictions, tariffs and non tariff barriers.***
- (ii) national economic and developmental priorities.***

**** To what extent did these influence the decision to do business in the Czech Republic?***

**** What effect does the velvet divorce have on the company's overall opinion of the political stability of the Czech Republic?***

**** Do political events in other former East-bloc countries have any implications for the development of the Czech Republic as a market, (e.g. the recent return to power of the toned down Communist party in Poland)?***

**** Do these events give rise to any cause for concern?***

Economic Environment:

**** What economic variables, e.g. GNP, inflation rates, did the company use to evaluate the potential of the Czech Republic?***

**** Does the company define a relationship between the variables used to evaluate the market and the implications of their findings for marketing mix variables, e.g. per capita income and price?***

**** How does the company define this relationship?***

Socio-Cultural Environment;

- * Does the company include an analysis of socio-cultural variables in its market selection procedure?***
- * If so what socio-cultural aspects of the Czech market did the company consider?***

6. THE MARKET POTENTIAL OF THE CZECH REPUBLIC FOR THE COMPANY'S SPECIFIC OFFERINGS?

- * During the selection stages how does the company assess the market potential of a country for their specific product offerings?***
- * To what extent is the decision to adapt a product to local tastes governed by the findings of the selection process?***
- * Does the selection procedure take into consideration:***
 - (i) variables relating to distribution.***
 - (ii) variables relating to the pricing strategy of the firm.***
 - (iii) variables relating to promotional strategy.***
- * If so, what variables are chosen to measure each element of the marketing mix?***
- * How are these variables chosen, i.e. based on management judgement, past experiences, or at random.***

SECTION C
THE COMPANY'S EXPERIENCE IN THE CZECH MARKET

7. PERFORMANCE OF THE COMPANY IN THE CZECH MARKET

- * Size and dispersion of the Czech market.*
- * Degree of competition in the Czech market.*
- * The company's overall market share.*
- * Projected figures for the 1990's.*
- * Costs of operating in the Czech market.*

8. OBSTACLES AND STRATEGIES IN EASTERN EUROPE

- * What particular obstacles to doing business did the company encounter in Eastern Europe?*
- * How did the company tailor its marketing mix and overall strategy to the specific needs of Eastern European markets?*



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Mr. M. Frost,
Senior Vice-President,
The Seagrams Wine and Spirit Group,
5-7 Mandeville Place,
London, W1M 5LB.

29th September 1993.

Dear Mr. Frost,

You may recall our meeting after your excellent and informative presentation at the Marketing Society Seminar, in the Shelbourne Hotel Dublin, on Thursday September 16th. Following your presentation I expressed an interest in looking into Eastern European markets, as part of my post-graduate research at Dublin City University and you very kindly suggested that I should write to you in connection with this.

In particular, you mentioned two sources of information which would be invaluable to me, the first being the analysts' reports used by Seagrams to evaluate Eastern European markets. Secondly, you suggested that I might meet with one of your colleagues in Eastern Europe to discuss the actualities of the market.

I am currently scheduling a trip to Prague for November 13th to 18th and it would be especially helpful if I could meet with a member of the Seagrams Group to discuss your experience in the Czech market. I would be most grateful if you could let me know if this were possible.

I can only reiterate that your assistance in this matter will be of tremendous benefit to my research endeavours.

I look forward to hearing from you at your earliest possible convenience.

Yours Sincerely,

Lorna Moorhead.
Lorna Moorhead, BBS.

Dean

Professor J.A. Walsh MSc PhD FCMA

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TELECOPY

FROM: Lorna Moorhead
TO: Geoff Parmiter
PAGES: 3

DATE: 29.10.93.
FAX: 0044 81 540 73 71

Dear Geoff,

Further to our recent telephone conversation I would like to confirm our meeting for 10am, Friday, November 12th. I am particularly grateful to you, especially during what I know is the very busy run-up to Christmas, for this opportunity to discuss the Seagrams experience in Eastern Europe.

As you know my thesis is concerned with international market selection, particularly in relation to Eastern Europe. I would very much like to use the Seagrams Group experience in Eastern Europe as the basis for a case study. In that context your views on international market selection and Eastern Europe will be invaluable.

As promised I am enclosing an outline of the general topics I would like to discuss with you, which I hope will clarify for you the general thrust of my research.

Might I also mention here that Martin Frost suggested that the analysts reports on Eastern Europe used by Seagrams might be of interest to me. Would it be possible to have access to them while in London?

I would like to reiterate my appreciation to both you and all at Seagrams who have been so kind to take an interest in my research endeavours. I very much look forward to our meeting.

Yours Sincerely,

Lorna Moorhead
Lorna Moorhead, BBS

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TELECOPY

FROM: Lorna Moorhead

DATE: 04.11.93

TO: Marek Holub

FAX: 00 422 245 10221

PAGES:

Dear Mr. Holub.

I am writing to you in the hope that Geoff Parmiter has mentioned my name to you. As you may be aware the Seagrams Group have kindly offered to discuss their experiences in Eastern Europe with me, and this will form a significant part of the post-graduate research I am undertaking at Dublin City University.

Geoff Parmiter advised me that you would be willing to meet with me to discuss your own perspective on the Czech market, during my scheduled trip to Prague. I would like to confirm that I will be in Prague from the 12th to the 18th of November, and would very much appreciate meeting at the earliest date convenient to you.

To help clarify the thrust of my research I am enclosing an outline of the topics I would hope to discuss with you.

I very much look forward to meeting you and I would like to take this opportunity to thank for kindly agreeing to assist me in such a significant way with my research.

Yours sincerely,

Lorna Moorhead

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TELECOPY

FROM: Lorna Moorhead

DATE: 8th October 1993

TO: Mr. Christian Stewart-Smith

FAX: 00 422 422 8561

PAGES: 1

Dear Mr. Stewart-Smith,

Please allow me to introduce myself. My name is Lorna Moorhead and I am a post-graduate student at Dublin City University, Ireland. I am currently working on a project which examines the variables which are, in theory, proposed to evaluate the potential of international markets. I am, however, most interested in examining whether or not these variables alone are adequate to accurately determine the potential of emerging markets, such as the Czech Republic.

As you may be aware I was, until recently, corresponding with your colleague, Brian Dobson, and he suggested that I might contact you on this matter. I am aware that United Distillers are clients of Young and Rubicam. I am interested in trying to set up a meeting with a United Distillers contact in order to discuss the procedure they used to evaluate the Czech market and, in particular, any obstacles they encountered in establishing operations in Eastern Europe.

I am currently scheduling a trip to Prague for November 13th and it would be extremely helpful if I could contact a member of United Distillers to discuss their experience in the Czech market. I would be most grateful if you could help me to try and establish a contact or suggest some-one you feel might be of some assistance.

I do realise that this is rather a tall order, but any assistance in this matter will be of tremendous benefit to my research endeavours.

I look forward to hearing from you at your earliest possible convenience.

Yours Sincerely,

Lorna Moorhead

Lorna Moorhead, BBS.

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APPENDIX II

AISA SURVEY AND RESULTS

An example of the market information available in the Czech Republic

DETAILED TYPOLOGY OF THE HOUSEHOLDS CONSUMER SITUATION AND OF THEIR CONSUMER BEHAVIOR

The detailed typology arranges the households according to their financial position, ownership of durables and consumption. When we imagine the resulting distribution as a pyramid, the detailed typology reveals in the pyramid's individual floors finer differences between individual types. These differences involve consumption character, its cultural sources, patterns of purchasing customs, and attitudes towards advertisements.

In the pyramid base are found those Czechoslovak households whose disposable income situation is very unfavorable and for whom reduced consumption is typical. This consumption is determined above all by a household's basic needs and the decisive criterion is price. These characteristics are predominant in more than one fifth of Czechoslovak households.

In the middle bracket four groups of households occur, and the position and consumption of each is in principle the same. The first two differ in demographic composition. One group encompasses above all larger households, whose size results necessarily in both greater consumption volume and a higher ownership of long-term consumption articles. The second group, on the other hand, is composed of generally smaller households with predictably lower income and thus does not reach the consumption and equipment levels of the first group. The third group at this level of the pyramid differs from the others by far less conservative shopping customs. The fourth group is unique in its high level of advertisement watching, which, however, serves namely as an information source for making purchases to the best advantage. The size of these groups varies from 6% to 20% in total of households.

At the top of the pyramid occur households with rather high consumption oriented to quality and more expensive production. In total five types belong here, the group size of which varies from 2% to 9% of households. In three of these five groups, surprisingly, their financial position does not fully enable a rich and quality oriented consumption. One of the groups solves this by selective reduction of consumption without giving up a high quality requirement. For the other two groups the orientation to more expensive and quality consumption is mainly anchored culturally, and these households are seeking their own active strategies to ensure quality consumption. The remaining two types - each of them encompasses roughly every seventeenth Czechoslovak household - are relatively rich under Czechoslovak conditions and they may realize their consumption without great problems. One of them, though, is characterized by conservative shopping customs and a low share of purchases based on advertisements. The second one is contrary to the first one in this respect.

TYPE i

22% of Czechoslovak households, 20% of Czech ones, 25% of Slovak ones

The poorest group of households with both a low social and income level, with rather passive financial strategies, with strongly limited equipment and consumption, which is oriented to the cheapest kinds of goods and products, with extraordinarily conservative shopping customs and a low susceptibility to advertisements. This group is interesting mainly for producers and sellers of "mass" goods, consumer products as cheap as possible and of low quality, mainly for common daily use, which have to assert themselves by a low price and patience instead of advertisements.

Characteristics

*lower share of households with children and multigeneration households, higher share of one-generation households without children, namely older households of pensioners - 29% (16% in total)
slightly substandard representation in large towns with over 100 thousand inhabitants*

low occupational and educational level of the head of household - 59% workers (37% in total), 70% (48% in total) with an elementary or vocational education, low educational origin
 strongly substandard and very low total income and income per capita - 69% (32% in total) have lower total income, 44% (29%) lower income per capita
 very negative valuation of the present economic situation of one's own household, pessimistic expectations of its development - 42% (20% in total) expect marked deterioration during the coming year
 low financial reserves - 57% (32% in total) have no financial reserves
 weak orientation to gaining additional income and other gainful opportunities
 average representation of self-supplying activities and "do-it-yourself"-type activities
 very low ownership of durables and a strongly substandard share of imported products - a passenger car is owned by 30% (52% in total), video by 4% (10% in total), automatic washer by 34% (55% in total), deep-fat fryer by 6% (16% in total)
 purchase almost exclusively at low price level, willingness to pay the lowest prices only, namely with the articles of common daily use
 very low orientation to imported goods and products
 very low orientation to purchased goods' and products' high quality - 47% (13% in total) judge that it is useless to spend money on expensive goods and products
 extremely high orientation to purchase the cheapest goods and products available - 96% (56% in total) purchase the cheapest goods only
 very strong reduction of consumption
 above-average level of purchasing conservatism
 very low share of purchases based on advertisements - 4% compared to 16% in total
 strongly substandard housing equipment standard
 very low representation of both cultural and self-improvement, and entertaining leisure activities in life-style

TYPE II

20% of Czechoslovak households, 18% of Czech ones, 25% of Slovak ones

In principle, average Czechoslovak households but with a higher than average number of members are concerned. As a result of this, these households are characterized by rather above-average total income and slightly above-average consumption and ownership of durables. Nevertheless, they are oriented to the cheapest goods and products. They are strongly conservative and only weakly affected by advertisements. For producers and sellers this group is interesting due to its necessarily increased scope of common daily consumption. Nevertheless, a precondition for success is an orientation to the products' lower price level and utilization of "traditional" procedures.

Characteristics

higher share of households with both dependent and independent children - 76% (62% in total), higher share of middle age families
 in principle average occupational and educational level of the head of the household
 higher total income of household and only average income per capita
 slightly substandard valuation of one's own economic situation, rather negative expectations of its further development
 relatively lower financial reserves
 average orientation to gaining additional income and further gainful opportunities
 above-average representation of self-supplying activities and "do-it-yourself"-type activities
 generally an average ownership durables, slightly above-standard ownership of major household appliances, average share of imported products
 purchases realized at a relatively lower price level, namely with consumer durables, willingness to pay average prices
 slightly substandard satisfaction with the market offerings concerning the articles of common daily use
 slightly substandard orientation to imported goods and products
 strongly substandard orientation to purchased goods and products of high quality - 1% compared to 13% in total
 very high orientation to purchasing as cheap as possible goods and products - 77% (56% in total) purchase the cheapest goods only

above-average reduction of consumption

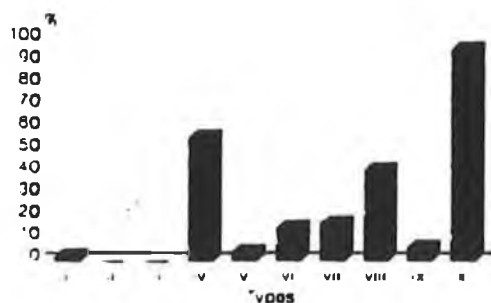
extraordinarily high level of purchasing conservatism - 99% (88% in total) purchase only well-known and well-tried products

only very low share of purchase based on advertisements - 5% compared to 16% in total

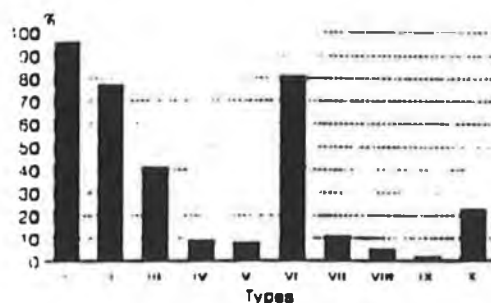
average housing equipment standard

rather lower representation of cultural and self-improvement activities in life-style

Buying New Products to Try Them
in Types of Detailed Typology



Buying Only Cheapest Things
in Types of Detailed Typology



TYPE iii

15% of Czechoslovak households, 18% of Czech ones, 11% of Slovak ones

As with Type II, in principle average Czechoslovak households are concerned but with a lower total number of members and a higher average age. Due to this characteristic despite their relatively low total income, the average income per capita is typical for these households. They also have rather lower consumption and ownership of durables, which is only somewhat oriented to quality and imported goods and products. The shopping customs of these households are very conservative and advertisements have only limited effects on them. Because of its consumption volume and its orientation this group is interesting for producers of goods of medium and lower quality and price, especially of common daily consumption goods.

Characteristics

very high share of one-generation households without children - 56% compared to 28% in total, high share of the pensioners households

rather average occupational and educational level of the head of household with relatively lower share of the families with a family head with an university education (7% compared to 16% in total) and slightly lower educational origin

very low total income of a household - 60% (32% in total) have low total income, however, with the small size of the household the income per capita is in principle average

average valuation of one's own economic situation

substandard orientation to gaining additional income and further gainful opportunities, 46% (37% in total) is oriented to economizing rather than to increasing income

average representation of self-supplying activities and "do-it-yourself"-type activities

slightly substandard ownership of durables which are rather older articles and a substandard share of imported products - a passenger car is owned by 39% (52% in total), automatic washer by 46% (55% in total), deep-fat fryer by 9% (16% in total)

purchase at average price level, nevertheless a willingness to pay rather lower prices for common daily use goods

substandard orientation to imported goods and products

substandard orientation to high quality of purchased goods and products - 7% compared to 13% in total

slightly substandard orientation to purchase the cheapest goods and products possible - 41% (56% in total) purchase the cheapest goods only

markedly low level of purchase conservatism - 31% (13% in total) buy a new product on probation, even when it is expensive
 extremely high share of purchase based on advertisements - 70% compared to 16% in total
 above-average representation of both cultural and developing, and entertaining leisure activities

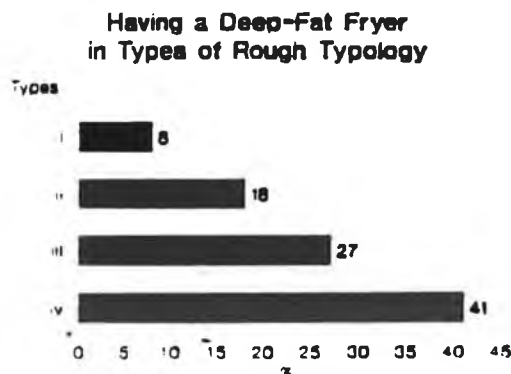
TYPE iv

7% of Czechoslovak households, 7% of Czech ones, 6% of Slovak ones

Households very well situated financially with a high level of consumption oriented to expensive, quality and imported goods and products, less conservative shopping customs and a higher susceptibility to advertisements. From the point of view of both producer and seller an "ideal" target group.

Characteristics

higher share of households with children and multi-generation households
 high occupational and educational status of the head of the household, high educational origin - 32% of the heads of households (16% in total) with a university education, 22% (9% in total) higher professionals
 high total income and income per capita - 83% (29% in total) with higher total income, 72% (28% in total) with higher income per capita
 very positive evaluation of present financial position of one's own household and its prospects, 66% (compared to 18% in total) state their financial situation as good
 highly above-average orientation to gaining additional income
 very low representation of self-supplying activities and "do-it-yourself"-type activities
 very high ownership of long-term consumption articles, lower age and higher share of imported products - a car is owned by 82% (52% in total), video by 23% (10% in total), automatic washing machine by 85% (55% in total), deep-fat fryer by 41% (16% in total)
 strong orientation to purchase at a higher price level, willingness to pay high prices
 in effect zero level orientation to purchase the cheapest products possible - 3% (56% in total)
 very low reduction of consumption in all fields
 relatively lower level of purchase conservatism
 high share of purchase based on advertisement
 strongly above-average representation of cultural and developing, but also entertaining leisure activities



average reduction of consumption

extraordinarily high level of purchasing conservatism - 98% (88% in total) purchase only well-known and well-tried products

relatively low share of purchases based on advertisements - 8% compared to 16% in total

average housing equipment standard

substandard representation of cultural and self-improvement activities and a substandard representation of entertaining leisure activities in life-style

TYPE iv

11% of Czechoslovak households, 10% of Czech ones, 13% of Slovak ones

A group of households marked by average values on almost all monitored characteristics. An exception is the relatively low level of purchasing conservatism and parallel to this, rather paradoxically, a lower susceptibility to advertisements. From the point of view of a producer and seller this group is interesting due to its consumption at a standard (i.e. rather lower) price and quality level. A turnover increase may be reached by innovations without not changing the price substantially.

Characteristics

slightly above-standard share of households with children and multigeneration households

average occupational and educational level of the head of the household

average total and per capita income

average valuation of one's own economic situation and expectation of its further development, average financial reserves

average orientation to gaining additional income and further gainful opportunities, but a rather higher orientation (66% compared to 57% in total) to earning than to economizing

slightly substandard representation of self-supplying activities and of "do-it-yourself"-type activities

average ownership of long-term consumption articles of rather higher age and an average share of imported products

purchase at an average price level, willingness to pay average prices for products of common daily use and only substandard ones for "luxury" goods and consumer durables

average orientation to imported goods and products

average orientation to purchased goods and products high quality

average orientation to purchase of the cheapest goods and products available

average consumption reduction

extraordinarily low level of shopping conservatism - only 52% (88% in total) buy only products they know well and believe to be well-tried ones, 56% (13% in total) usually buy a new product on probation, even when it is expensive

substandard share of advertisement based purchases

average housing equipment standard

average representation of cultural and self-improvement activities and entertaining leisure activities in life-style

How Long Do You Estimate Your Family Stand-by Finances Will Last?



Preference for Buying Cheap, Low-Quality Goods, or Expensive, High-Quality Goods



TYPE v

9% of Czechoslovak households, 11% of Czech ones, 6% of Slovak ones

A group of rather smaller and older, and in terms of social and income status higher positioned households which has slightly reduced consumption. Nevertheless, they are oriented to the highest possible quality for rather moderate prices. In their consumer behavior patterns this group conforms only a little to fashionable trends and advertisement campaigns and it is considerably conservative. The group is concerned, which should be of interest to producers and sellers of good quality but unspectacular goods and products who depend on long-term relations with "their" consumers, from whom they can expect, in turn, considerable loyalty in return for maintaining high quality.

Characteristics

*higher share of one-generation households without children, rather older households
higher representation in large towns above 100 thousand inhabitants - 30% compared to 18% in total
higher occupational and educational level of the head of the household - 35% (27% in total) lower professionals, 72% (52% in total) with complete secondary or university education
slightly above-average total income and markedly above-average income per capita (43% compared to 28% in total)
extraordinarily positive valuation of one's own household present financial position - 52% (18% in total) state it is good, optimistic expectations concerning its development, relatively very high financial reserves - 55% (19% in total) state they have reserves for more than one year
average orientation to gaining additional income and further gainful activities
markedly low representation of self-supplying activities and "do-it-yourself"-type activities
above-average ownership of long-term consumption articles of average age and a strongly above-average share of imported products in the field of audio-, video- and hi-tech
purchase at above-average price level, willingness to pay only slightly above-average prices
above-average satisfaction with consumer market offerings
above-average orientation to imported goods and products, namely with "luxury" goods and consumer durables
very high orientation to purchased goods' and products' high quality - 41% (13% in total) purchase quality and expensive products
extraordinarily low orientation to purchase of cheapest goods and products (8% compared to 56% in total)
very low reduction of consumption
very high level of shopping conservatism - 98% (88% in total) purchase only well-known and well-tried products
only a low share of purchases based on advertisements - 6% compared to 16% in total
high standard of housing equipment
higher representation of cultural and self-improvement activities, average representation of entertaining leisure activities in life-style*

TYPE vi

6% of Czechoslovak households, 7% of Czech ones, 6% of Slovak ones

In principle, average households with active financial and consumer strategies aimed at reaching a high volume of the most advantageous consumption, where product price is more important than its quality. Their shopping custom conservatism is connected with a relatively strong orientation to imported, again as moderate and price-advantageous goods and products as possible, and with a strong response to advertisements. From the point of view of a producer and a seller this group is interesting due to its prevailing orientation to imported products. A considerable part of this consumption may be realized as a result of advertisement campaigns, stressing the advantageousness of the offered products.

Characteristics

in principle average share of households with children, slightly above-average share of multigeneration households

average occupational and educational level of the head of the household

average total income and income per capita

average valuation of one's own economic situation and expectation of its further development

average orientation to gaining additional income and further gainful occasions

very high representation of self-supplying activities and "do-it-yourself"-type activities

average ownership of durables of slightly substandard age and a slightly above-average share of imported products

shopping at rather lower price level, but a willingness to pay average prices

above-average orientation to imported goods and products

strongly substandard orientation to high quality of purchased goods and products - 2% compared to 13% in total

very high orientation to purchase cheapest goods and products - 81% (56% in total) buy only the cheapest products

slightly above-average consumption reduction

average level of shopping conservatism

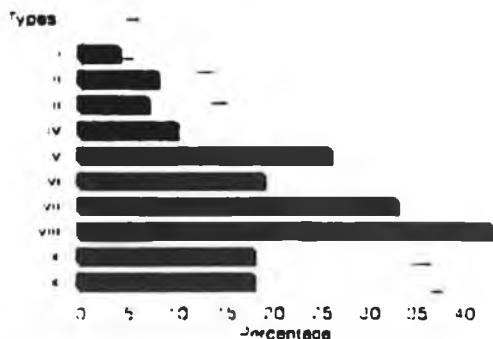
extraordinarily high share of advertisement based purchases - 67% compared to 16% in total, relatively high

shares of shopping abroad - 27% compared to 13% in total, and catalog and C.O.D. based purchases

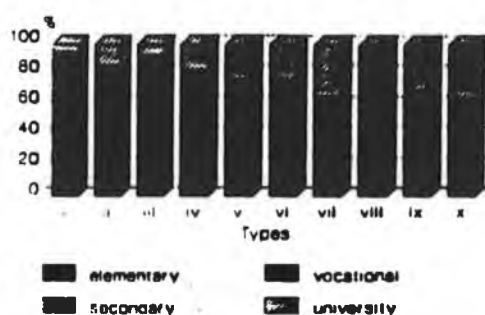
average housing equipment standard

higher representation of cultural and self-improvement activities, relatively lower, nevertheless, yet above-average representation of entertaining leisure activities in life-style

Holidays in Developed Countries



Educational Structure



TYPE vii

6% of Czechoslovak households, 6% of Czech ones, 7% of Slovak ones

Large, frequently multigeneration, very well socially and culturally situated households with expensive purchases and relatively high income. Consumption oriented to quality and to imported products even at higher price levels. Nevertheless, their consumption is marked by consideration, and they are conservative and very little affected by advertisements. This group is interesting for producers and sellers of really high quality, even when more expensive, goods and products.

Characteristics

very high share of households with both dependent and independent children and namely multigeneration households (29% compared to 11% in total), high share of young households

very high occupational and educational level of the head of the household - 52% (36% in total) professionals, 34% (16% in total) with an university education

very high total income - 100% (29% in total) have higher total income and high income per capita - 58% (28% in total) have higher income per capita

very positive valuation of one's own economic situation and rather optimistic expectation of its further development, only slightly above-average subjectively stated financial reserves
 above-average orientation to gaining additional income and further gainful opportunities
 slightly substandard representation of self-supplying activities and "do-it-yourself"-type activities
 relatively very high ownership of durables of lower average age and strongly above-average share of imported products - passenger car is owned by 79% (52% in total), video by 20% (10% in total), automatic washer by 77% (55% in total), deep-fat fryer by 33% (16% in total)
 shopping at higher price level, willingness to pay markedly above-average prices
 strongly above-average orientation to imported goods and products
 very strong orientation to quality of purchased goods and products - 42% (13% in total)
 extraordinarily low orientation to purchase cheapest goods and products possible - 11% compared to 56% in total
 relatively very low consumption reduction
 high level of shopping conservatism - 97% (88% in total) buy only well-known and well-tried products
 low share of advertisement based purchases - 9% compared to 16% in total
 high standard of housing equipment
 high representation of both cultural and self-improvement activities, and entertaining leisure activities in life-style

TYPE viii

4% of Czechoslovak households, 4% of Czech ones, 3% of Slovak ones

Group formed by larger, overall well-situated households with large, quality and imported products oriented consumption. In the majority of its characteristics this group is similar to the preceding Type vii. In contrast however, it is relatively unconservative in its shopping customs and it frequently decides to buy on the basis of an advertisement. This group is interesting for producers and sellers of quality goods and products, including products at the highest price levels. Its favour may be gained by advertisements. The latter should nevertheless be able to convince the consumer that the sale product offers something special, because households of this type are already in general satisfied with the market offerings.

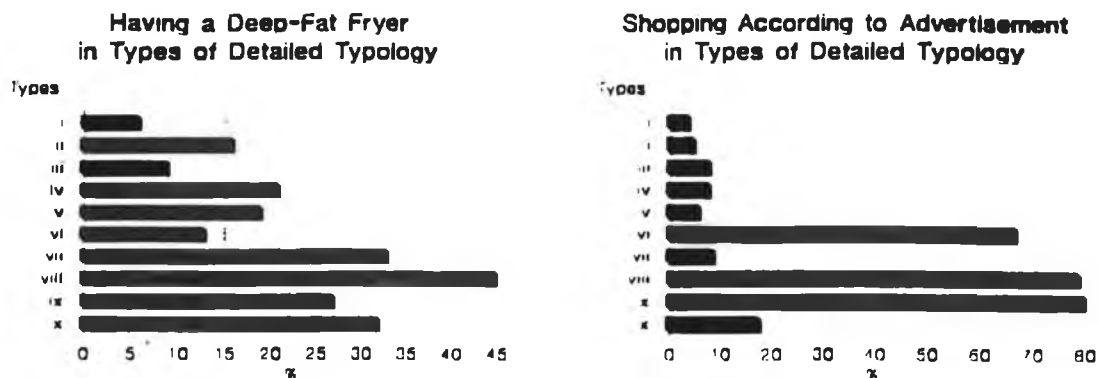
Characteristics

higher share of households with both dependent and independent children and multigeneration households
 very high occupational and educational level of the head of a household - 18% (9% in total) higher professionals, but also 19% (7% in total) foremen and self-employed, 34% (16% in total) with a university education
 very high total income and income per capita - 71% (29% in total) have higher total income, 59% (28% in total) have higher income per capita
 extraordinarily positive valuation of one's own household present financial position and very optimistic expectation of its further development - 43% (11% in total) expect in the nearest year further improvement
 relatively very high financial reserves
 very strong orientation to gaining additional income and further gainful opportunities - 76% (57% in total) is oriented to gaining further income rather than to economizing
 relatively very low representation of self-supplying activities and "do-it-yourself"-type activities
 compared to the Czechoslovak population as a whole, very high level of ownership of durables, particularly of kitchen appliances, of rather lower age, and a very high share of imported products - passenger car is owned by 66% (52% in total), video by 21% (10% in total), automatic washer by 73% (55% in total), deep-fat fryer by 45% (16% in total)
 shopping at the highest price level, willingness to pay by far the highest prices for common daily use articles
 strongly above-average satisfaction with consumer market offerings
 extraordinarily strong orientation to imported goods and products
 very strong orientation to purchased goods and products of high quality - 45% compared to 13% in total
 extraordinarily low orientation to purchase of cheapest goods and products available - mere 5% (56% in total) buy the cheapest products only
 very small consumption reduction range
 relatively low level of shopping conservatism - 41% (13% in total) usually buy a new product on probation, even when it is expensive

extremely high share of advertisement based shopping - 79% compared to 16% in total

higher housing equipment standard

very high representation of cultural and self-improvement activities and namely entertaining leisure activities in life-style



TYPE ix

4% of Czechoslovak households, 4% of Czech ones, 3% of Slovak ones

Slightly above-average households in size with a high social and only average income status. They are characterized by a very strong orientation to active financial strategies for attaining relatively ambitious consumption. They are oriented to quality and more expensive goods and products, especially imported ones. They represent a typical example of consumption based on high cultural status. Paradoxically, in their shopping customs a conservative attitude occurs together with a susceptibility to advertisements. From the producers' and sellers' point of view this group is interesting due to its high aspirations to quality consumption and a great deal of attention paid to advertisements. The latter should nevertheless utilize mainly the cultural status-based consumption character of this group.

Characteristics

slightly above-average share of households with children, rather middle aged households

very high representation in towns of 20-100 thousand inhabitants - 49% compared to 28% in total

high occupational and educational level of the head of the household. 19% (9% in total) higher professionals, but also 34% (21% in total) routine nonmanuals. 50% (36% in total) with complete secondary education. 34% (16% in total) university educated

rather higher total income and only average income per capita

substandard valuation of one's own economic situation and also more pessimistic expectation of its further development - 73% (57% in total) expect its deterioration in the near future

very strong orientation to gaining additional income and further gainful opportunities - 79% (57% in total) is oriented to gaining further income rather than to economizing

above-average representation of self-supplying activities and "do-it-yourself"-type activities

relatively high ownership of durables, namely in the field of video-, audio- and hi-tech products, rather newer articles and a greater share of imported products - passenger car is owned by 66% (52% in total), video by 21% (10% in total), automatic washer by 77% (55% in total), deep-fat fryer by 27% (16% in total)

shopping at relatively high price level, willingness to pay relatively high prices

substandard satisfaction with the consumer market offerings

above-average orientation to imported goods and products with "luxury" goods and consumer durables

above-average orientation to purchased goods and products of high quality - 29% compared to 13% in total

extraordinarily low orientation to purchase of the cheapest goods and products available - mere 2% (56% in total) buy the cheapest goods and products
 only slightly substandard consumption reduction
 rather high level of shopping conservatism - 96% (88% in total) buy only well-known and well-tried products
 extraordinarily high share of advertisement based purchases - 80% compared to 16% in total
 slightly above average housing equipment standard
 very high representation of cultural and self-improvement activities, high representation of entertaining leisure activities in life-style

TYPE x

2% of Czechoslovak households, 2% of Czech ones, 2% of Slovak ones

This group is composed of large, younger households with a high educational and cultural level, and with a slightly above-average income situation. A consumption orientation to large, quality and higher priced goods is characteristic for them. In contrast to the very similar preceding type they are only slightly affected by advertisements, and their shopping customs are extremely unconservative - they have weakness for new things. From the point of view of producers and sellers this group is interesting due to its great interest in "innovations" and concentration on better quality and more expensive goods and products. It is problematic just because of its willingness to leave well-tried, quality products for new ones.

Characteristics

very high share of households with dependent children (56% compared to 38% in total), high share of young households
 high representation in large towns above 100 thousand inhabitants (32% compared to 18% in total)
 slightly above-average occupational and a high educational level of the head of the household - 35% (16% in total) have a university education
 slightly above-average total income and income per capita
 only average valuation of one's own economic situation, but very optimistic expectation of its further development - 32% (11% in total) expect its improvement
 above average financial reserves
 average orientation to gaining additional income and further gainful opportunities
 extraordinarily low representation of self-supplying activities and "do-it-yourself"-type activities
 above-average ownership of long-term consumption articles of average age, and above-average share of imported products - passenger car is owned by 69% (52% in total), automatic washer by 74% (55% in total), deep-fat fryer by 32% (16% in total)
 shopping at relatively high price level, willingness to pay relatively high prices especially for goods of common daily use
 above-average orientation to imported goods and products
 strongly above-average orientation to purchase goods and products of high quality - 37% compared to 13% in total
 relatively very low orientation to purchase the cheapest goods and products available - 23% (56% in total) buy the cheapest products only
 very low range of consumption reduction
 extremely low level of shopping conservatism - 96% (13% in total) usually buy a new product on probation, even when it is expensive
 average share of advertisement based shopping
 average housing equipment standard
 above-average representation of cultural and self-improvement activities, average representation of entertaining leisure activities in life-style

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USE THESE BOXES TO STATE YOUR
IDENTIFICATION NUMBER

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DO NOT WRITE IN THESE BOXES

AISA

SURVEY OF HOUSEHOLD CONSUMER PATTERNS

Dear Madam, Dear Sir,

The current development is finding perhaps the most sensitive reflection in people's living standards - household economy, the financial situation of families, etc. Though a variety of statistics are available, they provide only aggregate data or averages while failing to capture the real situation of individual families. AISA has therefore decided to obtain such data which would faithfully reflect in the current situation. This kind of information can only be found through direct contact with families, from selected people describing their own particular situations. We would like to ask you to collaborate with us on this survey. You have been included in it through random selection (which is similar to a lottery) together with another 2000 people all over Czechoslovakia. The quality of the obtained data will depend on the degree to which you will be honest in your answers. Would you therefore tell the truth when replying, please. Needless to stress, we guarantee absolute anonymity of your answers, which will be bulk-processed on a computer. Should you still fear and refuse to answer the questions truthfully, please decline the request for an interview rather than giving the interviewer answers which could distort the overall outcome of the survey.

Let us thank you beforehand for your willingness and patience.

A. FINANCIAL SITUATION

First I would like to ask you a few questions regarding the overall living standard of your household.

V1. Considering all the circumstances, how would you characterize the financial situation of your household at the moment?

HAND CARD 1.

- it is very good
- it is good rather than bad
- it is neither good nor bad
- it is bad rather than good
- it is very bad
- do not know

1
2
3
4
5
6

V2. Now think about the probable development of the financial situation in your household in the next twelve months. Would you say that in all likelihood it will:

- markedly improve
- improve a little
- stay about the same
- worsen a little
- markedly worsen
- do not know

1
2
3
4
5
6

V3. In the course of this year the cost of living has dramatically risen while the living standard has declined. Every family is looking for ways to cope with this situation. I shall read to you descriptions of the particular ways, and for each of them you tell me, please, whether it belongs among those you apply in your household.

- 1 - it belongs among them
2 - it does not belong among them
3 - do not know

V3A - using of the family savings to satisfy the household budget needs	1	2	3
V3B - buying cheaper kinds of goods	1	2	3
V3C - finding extra earnings, income sources	1	2	3
V3D - growing food (vegetables, fruit, chickens, etc.)	1	2	3
V3E - instead of using paid services (washing, cleaning, household repairs and maintenance) like before, doing these kinds of jobs yourselves or using such services less than before	1	2	3
V3F - trading, selling goods on the market	1	2	3
V3G - occasional work abroad	1	2	3
V3H - finding a better paid job, even one in which you do not use your professional skills and qualifications	1	2	3
V3I - renting out your apartment, country cottage, house	1	2	3
V3J - selling items of your property, land, country cottage, house	1	2	3

V4. Most families have some stand-by finances for weathering the most difficult times. How long do you estimate they will last in your case?

- we have no stand-by finances	1
- they will last several months	2
- they will last between half a year and one year	3
- they will last one or two years	4
- they will last two or three years	5
- they will last more than three years	6
- do not know	7

V5. Hand in hand with declining living standards goes inflation; money loses its purchasing power. I shall again read to you some of the ways people use in defense against inflation, and in each case would you please tell me if it belongs to those you intend to use or are using already in your household.

- 1 - it belongs to them
2 - it does not belong to them
3 - do not know

V5A - buying land	1	2	3
V5B - buying an apartment, country cottage, house	1	2	3
V5C - buying expensive things	1	2	3
V5D - making long-time high-interest money deposits	1	2	3
V5E - buying deposit certificates, bonds or other securities	1	2	3
V5F - investing in private enterprise (also in the frame of privatization or re-privatization)	1	2	3

V6. Are you trying at the present moment to save money for a particular purpose?

- yes	1
- no	2
- do not know	3

- Put the following question only to those who answered "yes" in the previous one.

V7. What is it that you are trying to save money for?

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Specify:.....

V8. Do you contemplate obtaining a credit or a loan in the next twelve months?

- yes
- no
- do not know

1
2
3

- Put the following question only to those who answered "yes" in the previous one.

V9. What would you want the credit/loan for?

--	--

Specify:.....

V10. When you think of the present living standard of your family, what could you say about it? Out of the options on Card No. 10, select the one which best describes your situation at the moment.

Hand CARD 10.

- We cannot make ends meet with our present income, we must reduce our consumption
- We live from one pay-day to the next, we have little left for food and to run the household close to pay-day
- With basic expenditures we cope quite well, but even buying clothes presents a problem and then we must borrow money or use up our savings ..
- We cope quite well on our income, we can even put something aside, but have to use a loan when buying more expensive consumer durables (automatic washing machine, furniture etc.)
- Buying consumer durables mostly presents no problem for us, but to buy a car or pay for more costly holidays we would have to borrow at least a part of the cost
- We can contemplate even quite expensive purchases, we could afford more costly holidays
- Even buying land and building a family house or purchasing one is not beyond our means
- Though we could afford even more expensive purchases, holidays etc., we now prefer investing most of our money in private enterprise, privatization, securities
- do not know

1
2
3
4
5
6
7
8
9

V11. Some people say that in the present situation one ought to stint oneself, look for all possible ways of economizing. Others say that one ought to concentrate on earning more money to pay for the things one needs. Which of these attitudes is more like your own, which of these ways would you opt for above all?

- above all one ought to economize
- above all one ought to earn more money
- do not know

1
2
3

B. PURCHASES, HOUSEHOLD EQUIPMENT

Please let me ask you a few questions regarding your purchases, the equipment of your household, your degree of satisfaction with the domestic market offer etc.

V12. Do you practice - at least occasionally - the following ways of shopping?

- 1 - I (we) do
- 2 - I (we) do not
- 3 - do not know

- V12A - shopping at the market place
- V12B - travelling to shop at places where the market offering is bigger.....
- V12C - shopping under the influence of product or goods advertising
- V12D - ordering goods offered in catalogs, mail-ordering goods, using home-delivery service
- V12E - shopping abroad

1	2	3
1	2	3
1	2	3
1	2	3
1	2	3

V13. When you think of your shopping style, what can you tell me? I'll read to you a list of statements and ask you to tell me for each of them whether it does or does not correspond with your shopping habits.

- 1 - it corresponds rather than not
- 2 - it does not correspond rather than does
- 3 - do not know

- V13A - I(we) only buy things which I(we) know well and with which I(we) have good previous experience, or I(we) follow the advice of friends and people whom I(we) trust
- V13B - I(we) only buy the cheapest things, today more than ever it is important to find shops which sell cheaply
- V13C - I(we) take guidance from the press, I follow experts' recommendations
- V13D - When I(we) see a new product I(we) usually cannot resist and buy it to try it out even if it is expensive
- V13E - I(we) take guidance from advertisements

1	2	3
1	2	3
1	2	3
1	2	3
1	2	3

V14. I shall now read to you a list of items; please use the following card to tell me whether your household possesses them, and if so, what is their approximate age - when they were made, and whether they are domestic or Western origin, or products manufactured elsewhere (in one of the former socialist countries).

Hand CARD 14. Read out the list of items one by one, and immediately record all the data for each item. If the household does not possess the particular item, do not state its age and origin. Don't fill in anything if the respondent does not know the required data. Make it clear to your respondent that it is an estimate, not a precise designation of the item age that you require. As regards the item origin, it is important to distinguish between things made in Czechoslovakia, or in advanced Western country (including even South Korea, etc.), or elsewhere (meaning mainly the former socialist countries and USSR). If the respondent owns a hi-fi (a set including an amplifier, radio, record player and tape-recorder), fill in the same data for all the items included in the set owned by the respondent. If the respondent owns a number of items of the same kind (e.g.hair-dryers), let him tell you about the newest among them!

	OWN		AGE						ITEM ORIGIN		
	1=yes	2=no	1=less than a year	2=1-2 years	3=2-3 years	4=3-5 years	5=5-10 years	6=more than 10 years	1=domestic	2=Western	3=other
V14A - family car	1	2	1	2	3	4	5	6	1	2	3
V14B - second family car	1	2	1	2	3	4	5	6	1	2	3
V14C - motorcycle	1	2	1	2	3	4	5	6	1	2	3
V14D - recreational vehicle....	1	2	1	2	3	4	5	6	1	2	3
V14E - small tractor	1	2	1	2	3	4	5	6	1	2	3
V14F - car radio	1	2	1	2	3	4	5	6	1	2	3
V14G - black-and-white TV set .	1	2	1	2	3	4	5	6	1	2	3
V14H - colour TV set	1	2	1	2	3	4	5	6	1	2	3
V14I - radio with USW selection	1	2	1	2	3	4	5	6	1	2	3
V14J - radio with cassette player	1	2	1	2	3	4	5	6	1	2	3
V14K - hi-fi record player ...	1	2	1	2	3	4	5	6	1	2	3
V14L - CD player	1	2	1	2	3	4	5	6	1	2	3
V14M - cassette player	1	2	1	2	3	4	5	6	1	2	3
V14N - hi-fi cassette player ..	1	2	1	2	3	4	5	6	1	2	3
V14O - camera	1	2	1	2	3	4	5	6	1	2	3
V14P - cinecamera	1	2	1	2	3	4	5	6	1	2	3
V14Q - videocamera	1	2	1	2	3	4	5	6	1	2	3
V14R - video - player <u>only</u> ..	1	2	1	2	3	4	5	6	1	2	3
V14S - video - player and recorder	1	2	1	2	3	4	5	6	1	2	3
V14T - satellite dish	1	2	1	2	3	4	5	6	1	2	3
V14U - PC/XT, AT	1	2	1	2	3	4	5	6	1	2	3
V14V - automatic washing machine	1	2	1	2	3	4	5	6	1	2	3
V14W - refrigerator <u>without</u> separate deep-freeze ..	1	2	1	2	3	4	5	6	1	2	3

	OWN		AGE						ITEM ORIGIN		
	1=yes 2=no		1=less than a year 2=1-2 years 3=2-3 years 4=3-5 years 5=5-10 years 6=more than 10 years						1=domestic 2=Western 3=other		
V14Y - refrigerator combined with deep-freeze	1	2	1	2	3	4	5	6	1	2	3
V14Z - separate deep-freeze ..	1	2	1	2	3	4	5	6	1	2	3
V14AA - household rolling-press	1	2	1	2	3	4	5	6	1	2	3
V14AB - automatic dryer	1	2	1	2	3	4	5	6	1	2	3
V14AC - vacuum cleaner	1	2	1	2	3	4	5	6	1	2	3
V14AD - microwave oven	1	2	1	2	3	4	5	6	1	2	3
V14AE - deep-fat fryer.....	1	2	1	2	3	4	5	6	1	2	3
V14AF - kitchen robot	1	2	1	2	3	4	5	6	1	2	3
V14AG - automatic dishwasher ..	1	2	1	2	3	4	5	6	1	2	3
V14AH - coffee maker	1	2	1	2	3	4	5	6	1	2	3
V14AI - grill	1	2	1	2	3	4	5	6	1	2	3
V14AJ - hair dryer	1	2	1	2	3	4	5	6	1	2	3
V14AK - electric iron	1	2	1	2	3	4	5	6	1	2	3
V14AL - electric sewing machine	1	2	1	2	3	4	5	6	1	2	3
V14AM - knitting machine	1	2	1	2	3	4	5	6	1	2	3
V14AN - child's bicycle	1	2	1	2	3	4	5	6	1	2	3
V14AO - adult's bicycle	1	2	1	2	3	4	5	6	1	2	3
V14AP - downhill skis	1	2	1	2	3	4	5	6	1	2	3
V14AQ - electric drilling machine	1	2	1	2	3	4	5	6	1	2	3
V14AR - power saw (circular, chain saw)	1	2	1	2	3	4	5	6	1	2	3
V14AS - power mower	1	2	1	2	3	4	5	6	1	2	3
V14AT - children's Lego set ...	1	2	1	2	3	4	5	6	1	2	3
V14AU - synthesizer, electronic organ	1	2	1	2	3	4	5	6	1	2	3

V15. I shall read you the names of some products and ask you to tell me for each of them in which price category you usually buy (used to buy) these kinds of products, whether you are satisfied with the offering - the assortment, quality, choice - in our market, and whether you prefer domestic, Western or other products.

Hand CARD 15. Read the particular item groups one by one, and record all the data for each of them. If the household does not buy the given kind of article at all, do not fill in the rest of the data. If the respondent does not know, or there is no point in a making distinction between domestic and Western products (such as in the case of newspapers and magazines), do not fill in the related data. As for the source of the products, it is essential to distinguish between Czechoslovak and Western products; "other source" means above all the former socialist countries and USSR.

	PRICE CATEGORY				SATISFACTION WITH OFFER				ITEM ORIGIN		
	1=low	2=medium	3=high	4=don't buy	1=very satisfied	2=rather satisfied	3=rather dissatisfied	4=very dissatisfied	1=domestic	2=Western	3=other
V15A - essential foodstuffs ..	1	2	3	4	1	2	3	4	1	2	3
V15B - non essential foodstuffs, incl.drinks	1	2	3	4	1	2	3	4	1	2	3
V15C - hygiene and sanitary products, other household chemicals	1	2	3	4	1	2	3	4	1	2	3
V15D - cosmetics	1	2	3	4	1	2	3	4	1	2	3
V15E - pharmaceuticals	1	2	3	4	1	2	3	4	1	2	3
V15F - newspapers, magazines ..	1	2	3	4	1	2	3	4	1	2	3
V15G - children's clothing ...	1	2	3	4	1	2	3	4	1	2	3
V15H - clothing for daily use	1	2	3	4	1	2	3	4	1	2	3
V15I - clothing for special occasions	1	2	3	4	1	2	3	4	1	2	3
V15J - other textiles	1	2	3	4	1	2	3	4	1	2	3
V15K - footwear	1	2	3	4	1	2	3	4	1	2	3
V15L - furniture, carpets ...	1	2	3	4	1	2	3	4	1	2	3
V15M - consumer electronics (TV set, video, etc.) ..	1	2	3	4	1	2	3	4	1	2	3
V15N - major household appliances (washing machine, vacuum clea- ner; refrigerator, etc.)	1	2	3	4	1	2	3	4	1	2	3
V15O - sport and recreation equipment	1	2	3	4	1	2	3	4	1	2	3
V15P - cars	1	2	3	4	1	2	3	4	1	2	3

V16. Do you think that Western goods and imported products are generally of higher, equal or lower quality than domestic ones?

- their quality is markedly higher than that of domestic products	1
- their quality is somewhat higher	2
- their quality is about the same	3
- their quality is somewhat lower	4
- their quality is markedly lower	5
- do not know	6

V17. Do you think that the price difference between our products and Western ones corresponds with the difference in their quality - service life, serviceability, appearance?

- yes, it does	1
- no, the difference is too large	2
- no, the difference should be even large	3
- do not know	4

V19AB - adult's bicycle	Crowns	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td></td><td></td><td></td><td></td><td></td></tr></table>					
V19AC - passenger car	Crowns	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td></td><td></td><td></td><td></td><td></td></tr></table>					
V19AD - holidays - per person and week	Crowns	<table border="1" style="display: inline-table; vertical-align: middle;"><tr><td></td><td></td><td></td><td></td><td></td></tr></table>					

V20. Some people say that they do not have enough money to buy cheap and consequently low-quality goods and products and therefore they buy only more expensive ones. Others believe that differences in quality are not so great as to make up for differences in price, and therefore buy goods and products in the low and medium price categories. Which of these attitudes is more like your own?

Hand CARD 20. If the respondent objects that it varies from one item to another, tell him that the idea is to find out about his/her general attitude to the problem, and ask him/her to choose the statement on the card which best reflects his/her predominant view.

- | | |
|--|---|
| - if possible we prefer buying higher-quality and more expensive things, we cannot afford spending money on cheap ones that are not durable | 1 |
| - we would like buying high-quality and costly things but cannot always afford doing so (or cannot afford it at all) | 2 |
| - I think that money spent on expensive goods and products is wasted | 3 |
| - do not know | 4 |
-

V21. In which area of your household budget do you or your family economize most of all at the present time, or which expenses will you probably have to cut in the near future?

- 1 - yes, we economize
 2 - we do not economize but will probably have to in the near future
 3 - we do not and probably shall not economize
 4 - do not know

V21A - expenses for food	1	2	3	4
V21B - expenses for clothing and footwear	1	2	3	4
V21C - expenses for hygiene and sanitary items, household chemicals, items of normal daily use	1	2	3	4
V21D - expenses for services, hairdresser, cosmetics	1	2	3	4
V21E - expenses for transport	1	2	3	4
V21F - expenses for car use and maintenance	1	2	3	4
V21G - expenses for rent (we are exchanging for smaller flat)	1	2	3	4
V21H - expenses for recreation, sport, culture	1	2	3	4
V21I - other expenses; what kind?				
Specify:				

V22. What was your latest major purchase, investment, expenditure?

Specify:

C. HOUSING

I would like to ask about some information regarding your housing.

V23. In what kind of house, apartment do you live?

- | | |
|---|---|
| - state apartment | 1 |
| - company apartment (provided by employer) | 2 |
| - cooperative apartment | 3 |
| - own private apartment (also owned by other family members) | 4 |
| - rented private apartment | 5 |
| - own family house, farm house (also owned by other family members) | 6 |
| - rented family house | 7 |
| - lodgings, hostel, house of flatbeds for unmarried people | 8 |

V24. What is the approximate date of construction of the house in which you live?

- | | |
|---------------------|---|
| - before 1910 | 1 |
| - 1910-1930 | 2 |
| - 1930-1950 | 3 |
| - 1950-1970 | 4 |
| - 1970-1980 | 5 |
| - 1980-1985 | 6 |
| - after 1985 | 7 |

V25. Was the apartment in which you live rebuilt, renovated or modernized in any major way in the past ten years?

- | | |
|---------------------|---|
| - yes | 1 |
| - no | 2 |
| - do not know | 3 |

V26. How many dwelling rooms has the apartment, house in which you live, and what is its total - not only dwelling - floor space?

number of dwelling rooms:
total floor space in square meters:

V27. Does your household have:

- | | | |
|---|---------|---|
| | 1 - yes | |
| | 2 - no | |
| V27A - telephone | 1 | 2 |
| V27B - running water (from the public supply system or a household water-supply pump) | 1 | 2 |
| V27C - kitchen | 1 | 2 |
| V27D - bathroom | 1 | 2 |
| V27E - water closet | 1 | 2 |
| V27F - gas | 1 | 2 |
| V27G - central heating | 1 | 2 |
| V27H - sauna or steam bath | 1 | 2 |
| V27I - garage | 1 | 2 |
| V27J - plot of land, garden | 1 | 2 |

V28. Do you have a country cottage, second house (chalet, bungalow)?

- | | |
|-------------|---|
| - yes | 1 |
| - no | 2 |

D. LEISURE

Please let me ask you a few questions about the way you spend your leisure time.

V29. Did you spend at least one week of your regular holidays last year outside your place of residence, and if so, where?

1 - yes
2 - no

V29A - at our country cottage, staying with relatives, friends in Czechoslovakia	1	2
V29B - elsewhere in Czechoslovakia	1	2
V29C - abroad - in one of the former socialist countries (including Yugoslavia)	1	2
V29D - abroad - in a "Western" country	1	2

V30. And do you plan to spend at least one week of your holidays this year outside your home place, or have you done so already, and if so, where will you (did you) go?

1 - yes
2 - no
3 - do not know

V30A - to our cottage, to stay with relatives, friends in Czechoslovakia	1	2	3
V30B - elsewhere in Czechoslovakia	1	2	3
V30C - abroad - to one of the former socialist countries (including Yugoslavia)	1	2	3
V30D - abroad - to a "Western" country	1	2	3

V31. I am now going to read to you a list of activities and ask you to use the following card and tell me how often you participated in each of them in the past two years.

Hand CARD 31.

1 - daily
2 - several times a week
3 - about once a week
4 - once or twice a month
5 - several times a year
6 - less often than that, never

V31A - home farming (working in the garden, in the field, taking care of farm and domestic animals)	1	2	3	4	5	6
V31B - routine maintenance and repairs of the apartment, house, cottage, car	1	2	3	4	5	6
V31C - building jobs in the apartment, cottage, house	1	2	3	4	5	6
V31D - self-education - study of technical literature, attending lectures and courses (including foreign languages)	1	2	3	4	5	6
V31E - overtime work, sideline job	1	2	3	4	5	6
V31F - other gainful activities	1	2	3	4	5	6
V31G - watching TV	1	2	3	4	5	6
V31H - going to the cinema	1	2	3	4	5	6
V31I - going to the theater	1	2	3	4	5	6

- V31J - going to concerts of classical music, art exhibitions, galleries, museums
- V31K - going to concerts of pop music, discotheques, entertainment events
- V31L - going for a drink and chat in a restaurant, cafe
- V31M - eating out in a good restaurant
- V31N - visiting neighbors, friends, relatives
- V31O - going to sport contests
- V31P - practicing competitive or recreational sport, gymnastics, jogging, yoga

1	2	3	4	5	6
1	2	3	4	5	6
1	2	3	4	5	6
1	2	3	4	5	6
1	2	3	4	5	6
1	2	3	4	5	6
1	2	3	4	5	6

V32. Do you spend at least two weekends a month in summer outside your permanent place of residence? And at least one weekend a month in winter?

1 - yes
2 - no

- V32A - in summer
- V32B - in winter

1	2
1	2

V33. Have you ever been in an advanced Western country?

- no, never
- yes, but always only for few days (2 or 3 days)
- yes, several weeks all together
- yes, several months or longer altogether

1
2
3
4

V34. How good is your knowledge of the following languages?

Hand card 34.

- 1 - I speak it very well
2 - I understand it and can speak it a little
3 - I have only a very basic knowledge of it
4 - I have no knowledge at all

- English
- German
- French

1	2	3	4
1	2	3	4
1	2	3	4

I would like to ask you for some statistical information which will be used purely for bulk processing of the data.

V35. How old are you? Write out:

--	--

V36. Sex of respondent:

- male
- female

1
2

V37. What is your family status?

- single
- married, living with a common-law husband/wife
- divorced
- widowed

1
2
3
4

V38. Do you live in a common household with your own or your partner's parents?

- | | |
|-------------|---|
| - yes | 1 |
| - no | 2 |

V39. Do you live in a common household with your grown-up offsprings,
i.e. such who has/have separate income?

- | | |
|-------------|---|
| - yes | 1 |
| - no | 2 |

V40. What is your highest completed education?

- | | |
|--|---|
| - elementary school | 1 |
| - uncertified secondary education or vocational training | 2 |
| - certified secondary education or vocational training | 3 |
| - university | 4 |

V41. And what is or was the highest completed education of your father?

- | | |
|--|---|
| - elementary school | 1 |
| - uncertified secondary education or vocational training | 2 |
| - certified secondary education or vocational training | 3 |
| - university | 4 |

V42. What is your present employment status?

*Hand card 42 and keep it for questions Nos.45 and 48 as well. Women on
maternity leave are regarded as employed, i.e. fall within category 2.*

- | | |
|--|---|
| - student, undergraduate | 1 |
| - employee | 2 |
| - cooperative member | 3 |
| - self-employed (private entrepreneur) without employees | 4 |
| - self-employed (private entrepreneur) with employees | 5 |
| - housewife | 6 |
| - unemployed, between jobs (not getting a pension) | 7 |
| - employed pensioner | 8 |
| - unemployed pensioner (including disability pension) | 9 |

V43. And what is your present occupation? State in great detail, please - it is
not for instance sufficient to state only "worker", "clerk", "private
entrepreneur"; precise specification is necessary to make it quite clear
what kind of work the respondent performs.

Specify in the greatest possible detail.

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[ISCO coding]

*

* Put the following three questions only to those respondents who are
* married or live with a partner!
*

* V44. What is the highest completed education of your partner?

- | | |
|---|---|
| *- elementary school | 1 |
| *- uncertified secondary education or vocational training | 2 |
| *- certified secondary education or vocational training | 3 |
| *- university | 4 |

- * V45. And what is the present employment status of your partner?
- | | |
|---|---|
| *- student, undergraduate | 1 |
| *- employee | 2 |
| *- cooperative member | 3 |
| *- self-employed (private entrepreneur) without employees | 4 |
| *- self-employed (private entrepreneur) with employees | 5 |
| *- housewife | 6 |
| *- unemployed, between jobs (not getting a pension) | 7 |
| *- employed pensioner | 8 |
| *- unemployed pensioner (including disability pension) | 9 |

- * V46. And what is the present occupation of your partner? State in great detail, please - it is not for instance sufficient to state only "worker", "clerk", "private entrepreneur"; precise specification is necessary to make it quite clear what kind of work the respondent's partner actually performs.

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(ISCO coding)

- * Put the following three questions only to those respondents who are not the head of household, and whose respective partners, do not have this position. By head of household we mean the member of the household who contributes the greatest share of money, whose income is most important for the household.

- * V47. What is the highest completed education of the head of household?

- | | |
|---|---|
| *- elementary school | 1 |
| *- uncertified secondary education or vocational training | 2 |
| *- certified secondary education or vocational training | 3 |
| *- university | 4 |

- * V48. And what is the present employment status of the head of household?

- | | |
|---|---|
| *- student, undergraduate | 1 |
| *- employee | 2 |
| *- cooperative member | 3 |
| *- self-employed (private entrepreneur) without employees | 4 |
| *- self-employed (private entrepreneur) with employees | 5 |
| *- housewife | 6 |
| *- unemployed, between jobs (not getting a pension) | 7 |
| *- employed pensioner | 8 |
| *- unemployed pensioner (including disability pension) | 9 |

- * V49. And what is the present occupation of the head of household? State in great detail, please - it is not for instance sufficient to state only "worker", "clerk", "private entrepreneur"; precise specification is necessary to make it quite clear what kind of work the head of household actually performs.

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(ISCO coding)

- V50. What is the total number of your household members, including yourself? Write out:.....

--

V51. And how many dependent children, i.e. children without their own income?

Write out:.....

V52. What is the current sum total of the net monthly incomes of all the persons with whom you manage a common household - including pensions, family allowances, sidelines and extra incomes (e.g. from renting or sub-letting a part of your apartment or house etc.)? Rank your household in one of the categories on card No.52.

Hand CARD 52 and make a circle around the number of the category into which the respondent put his/her household.

01 - under 1000 Crowns	09 - 4001-4500 Crowns	17 - 9001-10000 Crowns
02 - 1001-1300 Crowns	10 - 4501-5000 Crowns	18 - 10001-12000 Crowns
03 - 1301-1600 Crowns	11 - 5001-5500 Crowns	19 - 12001-14000 Crowns
04 - 1601-2000 Crowns	12 - 5501-6000 Crowns	20 - 14001-17000 Crowns
05 - 2001-2500 Crowns	13 - 6001-6500 Crowns	21 - 17001-20000 Crowns
06 - 2501-3000 Crowns	14 - 6501-7000 Crowns	22 - 20001-30000 Crowns
07 - 3001-3500 Crowns	15 - 7001-8000 Crowns	23 - 30001-50000 Crowns
08 - 3501-4000 Crowns	16 - 8001-9000 Crowns	24 - over 50000 Crowns

AISA THANKS YOU VERY MUCH FOR THE INTERVIEW

THE DATA BELOW SHALL BE FILLED IN BY THE INTERVIEWER HIM/HERSELF!

Date of interview:.....

The interview took a total of hours, minutes.

I declare that I precisely followed the instructions in conducting the interview, and checked the questionnaire afterwards.

.....
Interviewer's signature

AISA THANKS YOU VERY MUCH FOR YOUR COOPERATION

Do not write in these boxes!

Coder

Quality