An Evaluation of the Theory of Export Market Entry Strategies with Specific Reference to the Irish Food and Drink Industry.

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DECLARATION

I, Reginald Quinlan, being a candidate for the degree of Master of Business Studies as awarded by Dublin City University, declare that while registered for the above degree I have not been a registered candidate for an award at another university.

I also declare that the contents of this thesis, except where otherwise stated, are based entirely on my own work.

Signed ______________ Date ______________

Reginald Quinlan

Signed ______________ Date 20/6/90

Prof. Peter Chisnall
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To My Parents

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ABSTRACT

"An Evaluation of the Theory of Export Market Entry Strategies with Specific Reference to the Irish Food and Drink Industry"

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Due to the limited size of the Irish economy and the opportunities for firm growth abroad, many Irish firms are turning to exporting, generally accepted to be the first crucial step on the road to full internationalisation. On a theoretical level, this thesis traces the evolution of international trade and outlines current trends in international business. Further, it examines the internationalisation process focussing primarily on the incremental approach and noting the increasingly popular alternative, networking. The importance of developing the most appropriate and hence successful market entry stragegy is stressed throughout, with detailed analysis concerning choice of entry mode and target market. Exporting as a mode of foreign market entry is discussed and guidelines for the development of a successful, committed export marketing plan are also detailed. The two recent initiatives instigated by the Irish Government to promote exports among small/medium sized Irish firms i.e. Group Marketing and the Special Trading House scheme also receive comprehensive discussion. In practical research terms, a detailed macro and micro analysis of the exporting behaviour and trends in the Irish food and drink industry is carried out and conclusions drawn herein.

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INTRODUCTION

This thesis is aimed at providing the reader with a detailed description and evaluation of the theory of export market entry strategy with specific reference to the Irish food and drink industry. The reasons for undertaking a study and literature review of export market entry strategy are to be found not only in the fact that exporting success is generally considered to be the vital first step on the road towards full internationalisation, but also in recent economic moves on the part of the Irish Government. Having recognised that given Ireland's small open economy and the level of competition on the domestic market, that many Irish firms are forced to market their products abroad, the Irish Government has recently instigated several initiatives, all aimed at promoting exporting as a form of internationalisation among small/medium sized Irish firms. This market-led approach was based on the Telesis Report (1982), the White paper on Industrial Policy (1984) and the Sectoral Development Committee Report on Marketing (1985), all of which highlighted marketing weaknesses in Irish industry, especially among small/medium sized firms, who, it was noted, found it difficult, firstly to penetrate foreign markets and secondly, to then remain internationally competitive. The two principal initiatives thus introduced by the Irish Government were Group Marketing and the Special Trading House Scheme.

The Irish food and drink industry was chosen as a particularly relevant research base for several reasons. This industry comprises primarily indigenous small/medium sized firms, apparently heavily export-dependent. Ireland's reputation abroad as a food and drink producing nation also played a key role in industry choice.

The thesis is divided into two sections. The first is a literature review, aimed at familiarising the reader with the theory behind international trade, the internationalisation process and exporting. It also undertakes a detailed description of recent Irish export initiatives. The second section provides an account of the research methodologies used during this study and details an analysis of exporting behaviour and trends within the Irish food and drink industry.

The contents of each chapter are briefly outlined below:

Chapter one is concerned with international trade theory which serves as a useful tool in gaining an understanding of the evolution of international trade from its early beginnings to today. It also serves to illustrate the important role that international trade can play in securing a nation's economic wellbeing. An understanding of international trade which may be instigated due to domestic market limitations and/or foreign market opportunities, thus necessitates a brief historic overview and a summary of the relevant economic theories. Current trends in the field of international trade are also discussed.

Chapter two contains a discussion of the various reasons why a firm might consider embarking upon a course of internationalisation. The two approaches to internationalisation open to any such firm, incremental and networking, are discussed in detail as are two principal strategies, concentration and diversification. Thus choice of market entry strategy is discussed, concentrating on choice of market as a key element in the selection of the "best" strategy. The chapter also examines the three forms of entry mode, exporting, contractual and investment, as well as the factors influencing entry mode selection, each option representing a different trade-off between control and risk factors.

Chapter three concentrates on the exporting option as a foreign market entry mode, as outlined in chapter two. This is considered to be the crucial first step towards full internationalisation. The chapter examines the theoretical background to exporting and the reasons for and motivating factors behind a firm's decision to export. The internal and external factors affecting the decision-making process itself are also highlighted. The question of whether a firm's marketing mix should be altered for foreign markets is also explored as are the export barriers and the success factors affecting any exporting venture. The particular issue of exporting and the small firm is discussed and guidelines for planning a successful export marketing plan are outlined.

Chapter four gives a comprehensive discussion of the two principal initiatives instigated recently by the Irish Government in an effort to boost exports from small/medium sized Irish firms, namely Group Marketing and the Special Trading House Scheme.

Chapter five offers the reader a chance to examine the research methodologies used in the study and thus to gain a better understanding of the means by which the data used in chapter six has been achieved.

Chapter six undertakes a detailed macro and micro analysis of the data collected and the various findings and conclusions of the analysis are detailed therein.

In order to facilitate both the reading of this thesis and the location of specific information, each chapter contains both an introduction and a comprehensive summary containing all the main points and conclusions to be found therein. Moreover, the results and conclusions from the research carried out in the Irish food and drink industry are to be found in the "conclusions" following chapter six. In section A, all chapters are immediately followed by a chapter-specific bibliography, with the master bibliography at the end of the thesis.

SECTION A : LITERATURE REVIEW

CHAPTER 1

INTERNATIONAL TRADE THEORY

International Trade Theory

1.1 Introduction

The importance of international trade in today's international business environment can not be denied. Despite arguing that the national state still represents the dominant political entity, Sodersten (1985) points out that most nations, from an economic perspective, are largely dependent on others. Relatively few countries, namely the U.S.A., U.S.S.R. and China, could afford to withdraw from the world economy without incurring severe economic consequences. A sharp drop in such a nation's economic welfare, and considerable change in individual lifestyle may be numbered among these.

International trade theory provides a framework within which the evolution of international trade, from its origins to the present day, may be outlined. Thus, an understanding of international trade necessitates a brief historic overview and a summary of the relevant economic theories. Current trends in the field of international trade will also be mentioned.

1.2 Mercantilism

Until the 1800s world trade patterns were largely the result of the political and economic doctrine known as mercantilism. Czinkota, Rivoli and Ronkainen (1989) note that this philosophy held that a country's power and wealth depended on the amount of "treasure" that it was able to accumulate, or as Dicken (1987) puts it, a nation's wealth and influence depended upon its ability to regulate its external trade in general and, in particular, to increase its holdings of precious metals at the expense of rival nations. Thus, in stark contrast to the general economic policies of today, this theory had the rather narrow and somewhat overly insular aim of achieving total self sufficiency through the maximisation of a trade surplus of exports over imports. Mercantilism may also account for the colonial nature of world powers at that time. Similar policy objectives today, i.e. those which focus on the accumulation of trade surpluses, have become known as neo-mercantilism.

1.3 The Classical Theory of Trade

The classical theory of trade, which followed the mercantilist era, is concerned with explaining the causes and effects of trade itself. It advocates that different countries are likely to have certain advantages in some types of production and certain disadvantages in others. The classical economists, led by Adam Smith and David

Ricardo, argued that all countries would gain if each devoted resources to the production of the goods and services in which each held an advantage.

Czinkota, Rivoli, and Ronkainen (1989) put forward the idea that in his classic, "The Wealth of Nations", Smith directly challenged the mercantilist philosophy by arguing that the accumulation of treasure did little to enhance the welfare of a country's citizens. Smith believed that their welfare was based much more so on their capacity to consume and that this would be maximised under conditions of "free trade" i.e. that goods and services would be free from the distorting effects of subsidies and restrictions and each country would specialise in the production of the goods and services in which it had an advantage. Higher income would result from this due to higher productivity and efficiency. In turn, this could be used to purchase imports from abroad. This is in direct contrast to the mercantilist philosophy which was aimed at self sufficiency.

David Ricardo extended Smith's analysis to show how two countries could benefit from the introduction of trade. He demonstrated the principle of comparative advantage in a model of exchange in wine and cloth between Portugal and England. He showed that despite the fact that Portugal had an absolute advantage in the production of both wine and cloth, there would still be trade between the countries. According to the principle of comparative advantage, Portugal would gain through specialisation in the production of wine, because its absolute advantage in the production of wine was greater than its absolute advantage in the production of cloth. Hence as the resources of production in Portugal shifted into wine production, the quantity of cloth produced would fall, necessitating the importation of cloth from England.

Ricardo held that according to the principle of comparative advantage as operated in this model, trade would result in complete specialisation of production between countries, the pattern of which would be determined by the comparative costs of production before trade.

1.4 The Heckscher-Ohlin Theorem

Further study in the field of international trade yielded the Heckscher-Ohlin theorem. Salvatore (1987) states the Heckscher-Ohlin theorem as follows: A Nation will export the commodity whose production requires the intensive use of the nation's relatively abundant and cheap factor and import the commodity whose production requires the intensive use of the nation's relatively scarce and expensive factor. In brief, the relatively labour-rich nation exports the relatively labour-intensive commodity and imports the relatively capital-intensive commodity.

The H-O theorem isolates the difference in relative factor abundance, or factor endowments, among nations as the basic cause or determinant of comparative advantage and international trade. For this reason, the H-O model is often referred to as the factor endowments theory. Thus, each nation specialises in the production and export of the commodity intensive in its relatively abundant and cheap factor. It thus imports the commodity intensive in its relatively scarce and expensive factor.

1.5 The Leontief Paradox

In the early 1950s Wassily Leontief set out to test the H-O model using United States data for the year 1947. Salvatore (1987) notes that since the United States was the most capital intensive nation in the world, Leontief expected to find that it exported capital intensive commodities and imported labour intensive commodities. However, Weekly (1987) observed that through a detailed investigation of U.S. international trade, Leontief found than U.S. exports were more labour intensive (or less capital intensive) than import substitutes produced in the United States. This finding was exactly the reverse of what the H-O theory would have predicted for a capital abundant country such as the United States, and it was accordingly dubbed the "Leontief Paradox".

Some explanations given for this were that the Heckscher-Ohlin theory probably defined the causes of trade too narrowly. The most obvious aspect of this was the categorisation of resources into presumably homogenous groups failing to take levels of skill and education into account. This could perhaps explain Leontief's Paradox in that perhaps the United States actually held a comparative advantage in highly skilled labour.

Another factor noted by Weekly (1987) is that the Heckscher-Ohlin theory assumed that particular products would be produced in much the same way everywhere. He points out that production functions for given products can and do differ considerably from one locale to another and even from one producing firm to another. These variations are largely attributable to technology differences between countries. Hence differences in levels of technology can be just as important as a source of comparative advantage as the availability of other resources. This is illustrated by Graham (1979) who states that certain goods exported from the U.S. may embody technologies pioneered in the U.S. and which have yet to be implememted in other countries.

1.6 The Product Life Cycle and International Trade

When contemplating international trade Vernon (1966) contends that while the various concepts dealt with to date have rarely failed to provide some help, they have usually provided very little by way of adequate understanding. Because of this he has put forward another avenue of thought which he claims puts less emphasis upon comparative costs and more upon the timing of innovation, the effects of scale economies, and the roles of ignorance and uncertainty in influencing trade patterns. It is a model which claims that many products go through a fluctuating demand cycle nationally and internationally. This is known as the product life cycle model and it is an extension of the technological gap model sketched by Posner in 1961.

Wells (1968) believes that according to the "trade cycle" concept, many products follow a pattern which can be divided into four stages:

Phase 1: Home Country Export Strength

Phase 2: Foreign Production Starts

Phase 3: Foreign Production Competitive in Export Markets

Phase 4: Import Competition Begins

Weekly (1987) has observed that the PLC formulation has long been an important analytical tool in marketing management, where awareness of this cycle has helped firms to make judgements relating to product development and the appropriate mix of promotional pricing and distribution strategies.

While it can not be denied that the PLC model plays a useful role in indicating why and when manufacturing firms become involved in international operation, it must also be noted that the model, per se, is imperfect and, as such, the validity of this model can be challenged.

The product life cycle model posits that the development and introduction of a new product usually requires high development skills and is therefore likely to initially originate and be produced in an advanced nation. As the product matures and gains wider acceptance it becomes somewhat standardised and the standard of development skills necessary for production drops. Due to this phenomenon the comparative advantage of the technologically advanced nation shifts to less advanced nations where labour is cheaper. In turn this shift of comparative advantage may be followed by shifts in capital, foreign direct investment, to these less advanced nations. Eventually as the product becomes even more and more standardised and the number of producers increases the initiating country may find itself competing in its domestic market with cheaper imports. (This model is further discussed in chapter 2.)

"Not all products can be expected to follow the cyclical pattern described" see page (Wells 1968). Exceptions to the cycle are products which are location-specific and also products which use differentiation or specialisation as a selling point. Niche markets are also another exception to the rule.

Obviously the PLC model is not without its limitations but it can offer some insights to the success of various product policies. Perhaps the most crucial of these is segmentation. By segmenting markets and differentiating the product accordingly, while still maintaining economies of scale, it may be possible to protect the domestic market somewhat from the influx of imports predicted under the PLC model.

The PLC model, although originally based on technology development in advanced nations, allows for standardisation and the lesser developed nations to gain a comparative advantage by utilising cheaper labour. Therefore as Salvatore (1987) points out, it can be said to be based on relative factor abundance. Therefore the PLC model and the technological gap model which it refined, may be said to be extensions of the H-O model into a technologically dynamic world, rather than as alternative trade models. In short, the PLC model tries to explain dynamic comparative advantage for new products and new production processes as opposed to the basic H-O model, which explains static comparative advantage.

1.7 Income and Internal Demand

Another important contribution to the theory of international trade underlines the influences of demand and purchasing power in the determination of trading relationships. Linder (1961) has drawn a distinction between trade in primary commodities and trade in manufactured goods and has asserted that trade in the former, which are natural resource based, can be attributed to factor endowments, whereas trade in the latter depends more on other conditions. This is supported by Caves and Jones (1985) when they say that as countries differ from each other in their technologies, climate and skill levels as well as in relative supplies of primary factors such as land and labour, these differences all bear upon the costs of production and the pattern of trade. The other conditions which Linder has focused on include established demand (consumer preference) patterns within countries that, in turn, result mainly from income levels.

What Linder argued was that goods were unlikely to be manufactured for export unless there was a sufficient demand for them in the domestic market first. This could be mainly attributed to the fact that businessmen would be unable to visualise foreign demand for a product with which they would be unfamiliar. Not only that, but it would be unlikely that they would be willing to incur the costs of developing products solely for foreign markets. Hence firms would tend only to export goods with a proven track record in the domestic market. These goods would also tend to reflect tastes, preferences and income levels of the domestic consumer.

This train of thought leans toward the conclusion that the greatest potential for international trade would tend to be between countries with similar socio-economic backgrounds. This does not mean that these countries will all produce and export the same goods but it does mean that a degree of specialisation may occur and that trade can flourish between countries similar in terms of economic development, composition of economic output, and consumer characteristics according to Weekly (1979).

Ultimately what can be gained from international trade is that nations can reap significant benefits from dealing with one another due to specialisation and hence the maximisation of resources from a given stock of resources.

1.8 The Nature of International Business

"The opportunity to increase profitability, particularly when home market prices are depressed or controlled by government intervention, has forced many firms to look overseas for continued profitability and growth" (Chisnall, 1989). The desire to seek out new markets, achieve economies of scale or even to acquire access to natural resources can also represent motivating factors for many firms.

In the quest to succeed in international markets, Young et al (1989) point out several noteworthy features. These include floating exchange rates, exchange controls and multiple rates; protectionism on the one hand and liberalisation on the other, as in moves to create a unified internal market in the EC by 1992, the Canada-U.S. Free Trade Agreement and the gradual opening up of the Eastern Bloc and China; and the emergence of the Pacific Rim countries as competitors and markets. As can be seen by this, operating in the international business environment can be very intricate. Therefore, crafting a successful strategy has to be situation-driven and, requires careful analysis of the global nature of business, [say Thompson and Strickland (1990)].

Kotler (1984) takes a two factor approach to this subject. He states that market push (due to lack of opportunities in the domestic market), and market pull (due to increasing opportunities for its products abroad) can attract a firm towards a strategy of international market development and hence international business.

Irrespective of the initial motivator, certain issues in the international business environment cannot be overlooked. These revolve around the basic differences between the domestic and foreign markets with regard to consumer tastes and preferences, distribution channels, growth and potential competition. However Young (1987) points out that because of improvements in travel, information and communications technology, plus global advertising, a greater homogeneity of tastes and demands for consumer and industrial products is occurring. Consequently this can sometimes have the effect of blurring the boundaries between domestic and international business. Hence the move towards globalisation.

These issues are perhaps reflected in the vital role that trade/brand names can sometimes play in the success of a product internationally. Indeed Vernon and Wells (1986) have noted that as a rule the strength of the foreign trade/brand name is associated with the fact or illusion of superior performance, which is often played upon and fortified by copious promotional expenditures. They have also argued that in some industries (food, soft drink and pharmaceutical), having a strong trade/brand name has proven critical for foreign firms to maintain a competitive position in foreign markets.

A further feature of today's international business environment is the image associated with the country of origin. Bradley (1986) feels that this has largely been ignored by firms which have developed in large domestic markets but that firms should pay particular attention to the buyer perceptions of the firm's country of origin. This has been noticed by the West German Central Marketing Association for Agricultural Industries (CMA) and the Danish Marketing Organisation, ESS-Food. White (1985) illustrates the use made in both of these cases of a national image as a promotional device, where use is made of umbrella logos ("Liebfraumilch" for German wine and a central Danish "Danepac" theme for Danish bacon). This focuses on the positive associations consumers have of these notions with regard to these products.

1.9 Trends in International Business

Brady and Bearden (1979) have suggested that involvement in international business is generally viewed as an evolutionary process, in which the first stage for most firms is exporting. The reason for this is a minimisation of the risks in entry, commitment and involvement. (This issue is discussed in Chapter 2). Whether or not this approach will prove popular in the future remains to be seen.

It is argued by Mitchell and Bradley (1986) that a major difficulty facing enterprise in Ireland is that it generally responds to the environment and international competition by trial and error as a process of incrementalisation based on opportunistic response to export market development. Because it is expedient and evolutionary it tends to produce meagre short-term results which fail to match the long term potential many of these firms might have. This experience certainly cannot be unique to Ireland, however it can be argued that is probably more prevalent in small open economies where the majority of firms are quite small and have little financial strength.

Perhaps firms should be pro-active rather than reactive. Hedlund and Kverneland (1985) state that the benefits of fast learning and entering a market early in the competitive game need to be weighed against the advantages and lower risks associated with more cautious strategies. Attitudes appear to be changing as they state that firms should seriously consider whether they cannot move more quickly and directly toward more ambitious forms of representation in a foreign market than the conventional wisdom of gradual entry would dictate.

1.9.1 Joint Ventures

One way of hastening the entry procedure is by using joint ventures. Anderson (1990) points out that although joint ventures have been used for decades as a way of organising a business, in recent years they have been used much more widely. She notes that some observers predict that joint ventures are the wave of the future for reasons such as heightened global competition, increased risk, ever-larger projects, and the fast pace of technological change.

The acceleration in the trend of using joint ventures was also noted by Gomes-Casseres (1989) who lists five main reasons for their rising popularity. They are:

1. Many foreign governments try to restrict foreign ownership.

2. Host country partners can help firms enter new markets quickly by providing management expertise and local connections.

3. Competitors have often settled for joint ventures in host countries.

4. As firms' technological capabilities and market presence have grown, they became more attractive joint venture partners.

5. In many industries global scale is becoming a distinct advantage in R & D and production, leading all but the largest of firms to consider joint ventures as a way to achieve such scale and share risks.

The strategic benefits of joint ventures include risk reduction by portfolio diversification, economies of scale in R & D and gaining entry into related businesses which neither parent firm could afford or risk entering alone. A further option to consider here is that by having a network of strategic joint ventures with multiple partners, the firm can certainly find itself in a position of power and also reduce the risk of a possible take over bid.

Young et al (1989) have watched the big growth in collaborative agreements between firms with interest. They believe that a characteristic of many of these new agreements is that they involve co-operative ventures or strategic alliances.

1.9.2 Strategic Alliances

Strategic alliances are a response to increasing international and global competition and according to Czinkota and Ronkainen (1990) enable firms to take risks that they could not afford to take alone. They also facilitate technological advancement, and ensure continued international market access. These points are of particular interest for small to medium sized firms as forming a strategic alliance may enable the firms to build competitive defences against larger and more dominant multinational firms. This theme has not been lost on the European Community as small firm collaboration is being encouraged and promoted through the Business Corporation Network (BC-Net).

Strategic alliances would appear to offer one path towards future international business, but how different are they from conventional forms of international relationships? Young et al (1989) state that strategic alliances may involve virtually any of the international market development modes but especially licensing and equity joint ventures. They can also be seen to be different from conventional forms of international relationships in a number of crucial respects. These are illustrated in Table 1.1. Perhaps it can be said that the most notable aspects of strategic alliances are their strategic and competive features.

Table 1.1 **Comparison Between Strategic Alliances and Conventional Forms of International Relationships**

Conventional Forms	Strategic Alliances
Normally partners of unequal strengths and resources - eg J.V. or licensing between developed - country MNEs and local firms in developing host countries.	Partners of comparable strengths and resources normally. Both would tend to emanate from industrial countries.
Little or no direct competition between partners.	Often competing in the same product/geographical market as well as co-operating.
Imbalance in partner's contribution MNEs - Capital, Technology and Management skills whereas contributions of local partners are mainly location specific including market knowledge, business contacts and distribution channels.	Production, marketing and technological contributions of partners are more balanced.
Generally motivated by the need for market access and economies of scale	These may be important but generally the motivations are more strategic and competitive in scope.

Source: Adapted from Young et al (1989)

1.9.3. Other Trends

Countertrade is another international business format which is becoming increasingly popular. Katz (1990) has defined countertrade as a situation where an exporter accepts the importer's products in full or partial payment. This situation has developed due to difficulties in financing arising from the world debt situation and bilateralism, and it can also be used as a mechanism for gaining entry into new markets.

Management contracts and licensing would also appear to be coming to the forefront of international business. Young (1987) posits this when he says that restrictions on foreign ownership, demands for technology transfer and for countertrading deals make management contracts, licensing and joint ventures necessary in order to capitalise on market opportunities.

1.10 Summary

International trade theory serves as a useful tool in gaining an understanding of the evolution of international trade from its early beginnings to today. It also serves to illustrate the important, if not vital, role that international trade can play in securing a nation's economic wellbeing.

The development of international trade theory can be traced from pre-1800s mercantilism to the trade practices prevalent in today's business environment. The concepts of comparative and absolute advantage formed the basis of the classical theory of trade, initially proposed by Adam Smith and later refined by David Ricardo, which directly challenged the narrow and insular features of the hitherto dominant mercantilist philosophy. The Heckscher-Ohlin theorem, developed along these lines, pinpointed differences in relative factor abundance between nations as the basic determinant of comparative advantage and thus of international trade. Later tests carried out by Leontief, however, identified a situation in which the opposite to that predicted under the H-O theorem actually occurred; this became known as the Leontief Paradox.

The product life cycle model represented a move away from emphasising comparative costs as the dominant theory in international trade and instead focused on such influencing factors as timing of innovation, economies of scale, consumer preferances, and the degree of technological advancement, in explaining trade patterns.

A further insight into international trade patterns may be gained from Linder who highlighted the influence of consumer demand and purchasing power in determining trade relations. He argued that goods were unlikely to be manufactured for export unless there was a sufficient demand for them in the domestic market, thus exported goods would automatically reflect tastes, preferences and income levels of the domestic market. Thus, the greatest potential for international trade is between countries of similar socio-economic standing.

International trade may be instigated due to domestic market limitations and/or foreign market opportunities, but once initiated, certain issues can not be ignored: exchange rate fluctuations, protectionist measures, emergence of new markets, consumer differences and competition. The important roles that brand names and umbrella logos (often reflecting the importance of national image portrayal) can potentially play in the success of products on foreign markets must also be noted.

Despite the traditional agrument that involvement in international business is an evolutionary process, of which the first stage is exporting, current trends would appear to indicate a move towards more strategic and rapid forms of foreign market entry - strategic alliances, joint ventures. Management contracts and licensing are also gaining popularity, as is countertrade, an alternative business format.

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CHAPTER 2

INTERNATIONALISATION

2.1 Introduction

"A passion for excellence means thinking big and starting small: excellence happens when high purpose and intense pragmatism meet" (Peters and Austin, 1985)

This is how today's corporate giants began and have progressed from small companies to large multinationals. Their approach to business is one of globalisation - "the world is my oyster". In today's world, made smaller by air transport and mass communications, the validity of that statement must ring true. The business environment is becoming evermore dynamic and increasingly competitive. Therefore it is not surprising to see companies seeking out new and hopefully more lucrative outlets in which to market their products.

In this chapter, the various reasons why a firm might consider embarking on a course of internationalisation shall be discussed. This shall be followed by a detailed look at each of the two approaches to internationalisation open to any such firm. The first of these, the incremental approach, concentrates on internationalisation as a gradual, step-by-step process. The second approach, networking, offers firms the opportunity, through relations formed, with foreign firms, to use their domestic distribution networks and thus achieve foreign market penetration.

Once en route to internationalisation, a further decision between "concentration" or "diversification" as the more appropriate strategy for foreign market entry and expansion must be made. The two concepts shall be examined, as shall the alternative, a combination approach.

Central issues influencing the choice of market entry strategy shall be discussed, concentrating on the importance of choice of market as a key element in the selection of the "best" strategy. Finally, the three types of entry made (exporting, contractual, and investment) shall be examined, as shall the various factors influencing the selection of entry mode, each mode representing a different trade-off between control and risk factors.

2.2 Why Internationalise?

2.2.1 Standardisation of Markets

Firms are striving to harness global marketing opportunities as peoples' needs become more and more homogenous and standardised. Levitt (1983) points out the existence of a global consumer. He argues that the media and communications revolution has done much to harmonise consumer needs and attitudes worldwide. This standardisation of needs offers great opportunities to exploit new markets with minimal product adaptation. In some cases it even allows the same marketing mix to be transferred from one country to another.

2.2.2 Increased Competition

Another reason for seeking out new marketing opportunities in foreign markets can be attributed to increased competition on the domestic market. Now, many firms can ill afford the luxury of depending only on the domestic market to provide and sustain the level of profitability and market share desired by directors and shareholders alike. Due to the increased competition on the home front, there often arises a situation whereby margins are eroded and consequently profit levels suffer. Faced with this situation it is not at all surprising that many firms feel the need to look to foreign markets to maintain sales and profit levels. "The marketing of goods and services beyond the home market is a distinct alternative for the firm as a means of accomplishing the organisational goals of growth, profits and market diversification" (Cavusgil, 1980).

2.2.3 Shortening of the Product Life Cycle

The shortening of the product life cycle is another contributing factor in the decision to examine foreign markets for potential sales. This shortened life cycle has brought about a situation where companies must recoup their investment quickly while maximising product potential in both the short and long term.

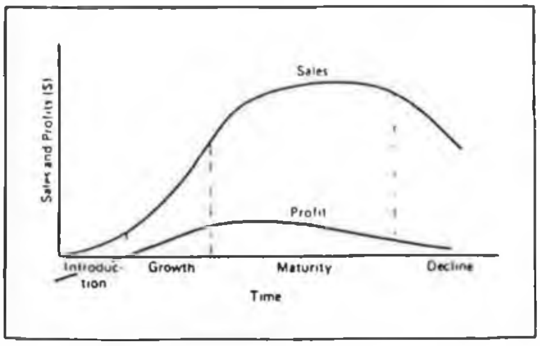

Fig 2.1 - The Product Life Cycle

If one examines the product life cycle (Fig. 2.1) it is possible to see how any given product reacts to changing consumer preferences to that product. Today, due to the changing business environment, we can no longer merely examine a product solely in terms of a domestic market. Nowadays we must look at any given product in terms of a multiplicity of markets. We should therefore contemplate the product life cycle in international terms. As Giddy (1978) points out, the product life cycle of international trade and investment provides a systematic explanation of how the exporting, importing and manufacturing location of a product changes over time. It describes how firms respond to changing competitive conditions, as domestic and foreign markets for the product grow, mature and decline. In many ways it describes the evolution of the international firm. Yet there is no point in looking at international markets with just one product in mind. Kirpalani (1985) remarks that the formulation of the final international marketing strategy must involve consideration of a market portfolio so that a competitive lead can be achieved and maintained. Thus, in practical terms, it can be advocated that marketing programmes should be tailored to each individual market segment. The level of maturity within each market or segment should also be taken into account.

2.2.4 The International Product Life Cycle

Hence we are left with a new kind of product life cycle curve called the international product life cycle curve (Fig. 2.2).

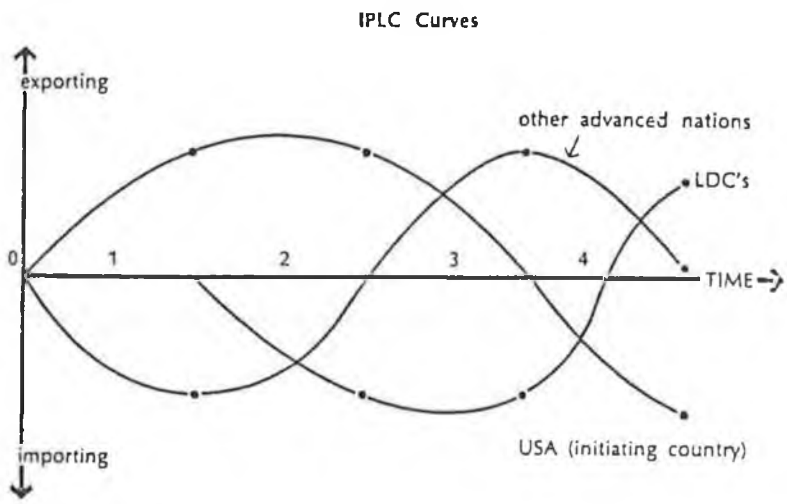

Fig. 2.2 - The IPLC Curve

Source: Onkvisit and Shaw (1983)

Stage 0 represents the normal product life cycle within the initial home market where the innovation would have occurred. These would normally tend to be highly developed countries.

Stage 1 appears to conform with normal risk aversion management techniques of selecting a similar market to home, both culturally and economically, where the consumers have similar needs. Economies of scale due to larger production runs allow the initiating company to behave as a monopolist and offer the product at a premium price initially.

Stage 2 shows how sales and exports level off. The demand in other advanced countries allows for local production. Export orders are forthcoming from Lesser Developed Countries (LDCs).

Stage 3 reveals a downturn in fortunes as many markets are now self sufficient and are even taking some of the innovator's sales in the LDCs. This decline in demand increases production costs.

Stage 4 highlights a comparative disadvantage for the innovating country. Mature domestic markets bring about a price sensitive market where the LDCs can now undercut the prices offered by the initiating country. Imports increase to meet this demand.

It can be said, that despite some exceptions, any product which lends itself to standardisation will find itself operating under the auspices of the IPLC. Therefore the PLC and the IPLC should play a critical part in the marketing strategy of any company. It is clear that by observing IPLC patterns "the international marketer can gain a competitive advantage by expanding into markets where products are at an early stage in their product life cycle - where profits are high and the opportunity for gaining a large market share is best" (Cundiff and Hilger, 1988).

2.2.4.1 The IPLC and Marketing Strategy

At this point a word of caution must be expressed. Majaro (1978) has said that the strategy of viewing foreign markets as rich new pastures for planned growth and prosperity must be based on clearly thought out and quantified marketing justification. Or in plain English, look before you leap! A decision to market products abroad must be part of a firm's overall marketing plan. This is where a knowledge of the IPLC for your product is essential. Ayal (1981) notes how it can aid a multinational firm in designing a dynamic, global production, export and direct investment strategy. Yet as Cavusgil (1980) says, some necessary conditions such as the possession of a unique or competitively priced product have to be satisfied before a firm can profitably exploit this alternative. Also, risks and uncertainty encountered in international marketing are greater.

It is worth observing what Majaro (1978) has said about the IPLC in this respect. He believes that the gap between the time a product reaches its decline stage in the most advanced market, and the introduction stage in the slowest market is narrowing (see Fig 2.3).

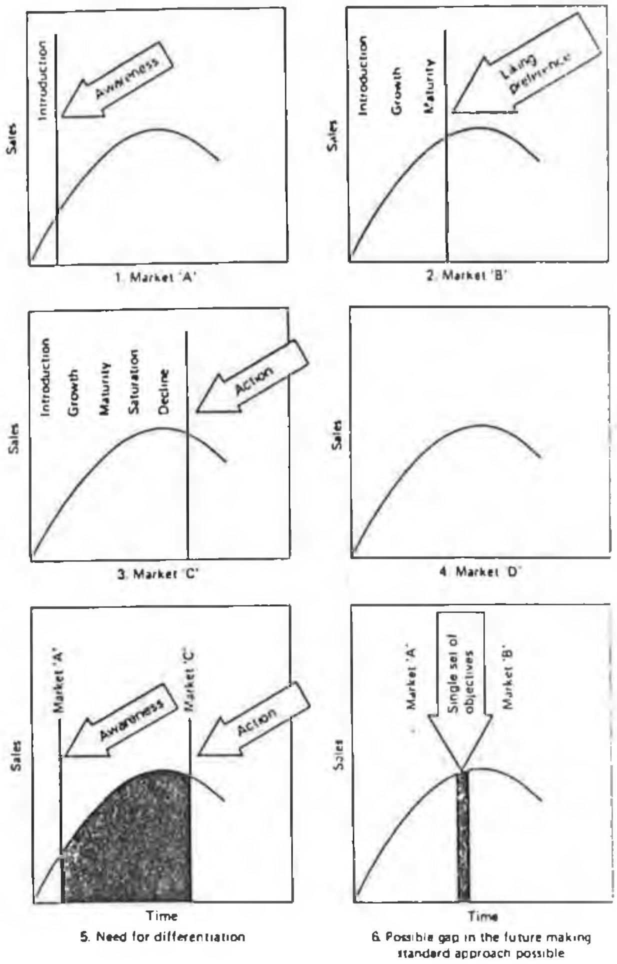

Fig 2.3 - The Changing Communications Needs As the Product Life Cycle Progresses from Introduction to Decline

Source: Majaro (1978)

If this trend is to continue then a point may be reached when the life cycle patterns in the domestic and foreign markets are almost identical. Should this happen, it would be possible for firms to produce more homogenous communications strategies. Not only will products become more standardised but subject to linguistic and cultural differences, the promotional strategies of the firms will become standardised too. In that case we could give an emphatic and resounding "yes" to Buzzell's (1968) question - "Can you Standardise Multinational Marketing?" Then surely every company must actively consider internationalisation as an integral part of its marketing strategy.

2.3 The Incremental Approach to Internationalisation

> "Export marketing is usually considered to be a first step in the process of internationalisation" (Cavusgil, 1980)

Writers such as Johanson and Weidersheim-Paul (1975), Bilkey and Tesar (1977), Cavusgil (1980) and Root (1987) tend to view the internationalisation process of firms as an incremental or step-by-step process. As the firm gains in experience at one level it moves on to the next. Denis and Depelteau (1985) say that once the exporter has gained experience, export expansion depends largely on his ability to diversify his means of entry on foreign markets. Exporting is the first step in this process.

Cavusgil (1980) states that initial involvement in international marketing is conceived as a gradual and sequential process. This is based on the premise that such a pattern is the consequence of greater uncertainty, higher costs of information and the lack of experiential knowledge in foreign marketing activities.

This would appear to lend credence to the theory of cultural and economic proximity which economists have used to explain international trade. It advocates that countries will tend to trade with or export to other countries which have similar socio-economic conditions. Only once experience has been gained in these countries will they consider other foreign markets and perhaps other modes of entry.

Further support to the incremental process of internationalisation is given by Johanson and Vahlne (1977) as they state that firms start exporting to a country via an agent, later establish a sales subsidiary, and eventually in some cases begin production in the host country.

In many ways the reason for incremental involvement in foreign markets can largely be attributed to the lack of market knowledge and the uncertainty that abounds because of this. This is echoed by Johanson and Vahlne (1977) in saying that internationalisation decisions have an incremental character largely due to lack of market information and the resultant uncertainty. They see the basic decision of foreign market commitment based on the extent of, and the quality of the information available with regard to that foreign market.

Another limiting and in some cases even inhibiting factor is the depth of international experience that the management of a company has. The more experience a manager has in dealing with foreign markets, the less likely it is that he will be completely risk aversive with regard to foreign trade. This is illustrated by Cavusgil (1984) when he points out that as firms gain more international experience, management may develop higher expectations, more rational and comprehensive policies concerning international business, as well as new organisational procedures for handling new tasks. Thus experiential involvement provides the necessary foundations for future international involvement.

Again this is reinforced by Johanson and Vahlne (1977) as they note that experiential knowledge is critical as it cannot be so easily acquired as objective knowledge. It must be gained successively during the operations in the country. Objective knowledge can be taught whereas experiential knowledge can be considered primarily as knowledge gained through trade in the target market. This is distinct from knowledge of the operation, which can easily be transferred from one country to another.

Experiential knowledge allows a realistic framework to be constructed which will assist in evaluating market opportunities whereas objective knowledge will allow only the formulation of theoretical opportunities as no real knowledge of the market exists.

Clearly knowledge is an asset to a company. Perhaps the most important knowledge a company can have is market specific or experiential knowledge of a market. This is because such knowledge is usually associated only with the market condition of the chosen market and as such cannot be totally transferred from one country to another.

2.3.1 <u>Theories/Concepts</u>

2.3.1.1 <u>Wormald, Avison (1973)</u>

Table 2.1 - International Process (Wormald)

Opportunism (Passive)

↓

Limited Commitment (Active)

↓

Limited Fixed Investment

(Recognition of Overseas Business)

↓

Major Dependence on Overseas Business

(Exporting of Major Importance)

↓

No Distinction Between Home and Export Marketing

(Birth of Multinational Organisation)

Source: Chisnall (1989)

Wormald (1973) puts forward an evolutionary process for the firm which brings it through five distinct stages. Initially it starts off with a domestic firm which gets into international markets by way of an accidental or unsolicited export order. By following the process outlined in Table 2.1 the firm ends up as a large multinational which regards the whole world as its market. A brief synopsis of the process follows.

<u>Opportunism</u>

This arises when a firm receives an unsolicited order and decides to fill it. Once this decision is made it is the duty of management to decide if a readymade market for that product already exists outside the predefined domestic market in which they operate. Management initiative is important at this stage or else the order may prove to be a once off. At this point the area of international managerial experience can be approached. It can be assumed that managers with some international experience will be in a better position to critically evaluate the opportunity. Hence any decision made which will start the company on the internationalisation process will probably have a better chance of success, if made by managers with international experience.

Limited Commitment

This, the second stage, exhibits a willingness on the part of management to actively consider the possibility of marketing their products in foreign markets. Initially these markets will probably be chosen with the aim of reaching consumers with similar social, economic and cultural backgrounds. This is a risk minimising exercise which will allow the firm to get its initial experience in relatively safe markets. This stage of the process is vitally important as it marks a distinct change in management perspective.

Limited Fixed Investment

Now the exporter allocates greater resources to the foreign markets as their importance to the firm increases. It should also bring about the creation of a strategic marketing plan for exporting and perhaps even further expansion.

Major Dependence on Overseas Business

Management is committed to exporting and this side of the business should be considered as equal in importance to the domestic side. This stage also allows the firm to contemplate organisational change by setting up a separate department to deal specifically with international trade.

No Distinction Between Home and Overseas Markets

This is the final evolutionary stage as the firm no longer operates as a national concern but may be regarded as a multinational. The firm may have manufacturing plants and/or subsidiaries outside its own country or it may be involved in a joint venture. Markets no longer cease at recognised national borders.

2.3.1.2 Johanson and Weidersheim-Paul (1975)

Table 2.2 - Internationalisation Process (Johanson & Weidersheim-Paul)

1. No regular export activities

2. Export via independent representation (agent)

3. Sales subsidiary

4. Production/Manufacturing

Source: Johanson & Weidersheim-Paul (1975)

In Table 2.2 Johanson and Weidersheim-Paul have broken the internationalisation process into four distinct stages. This model assumes that the most important obstacles to internationalisation are lack of knowledge and resources which are reduced by incremental decision-making and learning about the foreign market and operations.

Initially the firm lacks concise market information and has no commitment to the foreign market. Once a sales channel has been established, however, the information flow back to the firm improves and the level of commitment increases accordingly. Moreover, when a sales subsidiary has been firmly established, the firm then acquires a controlled information flow with a corresponding high level of commitment. Finally, a production/manufacturing plant represents an even higher level of commitment.

Johanson and Weidersheim-Paul (1975) do note that development may not continue over the entire chain as many markets are not large enough to merit resource commitment stages. It is also possible that steps may be bypassed due to previous experience in other foreign markets.

This model was further expended by Johanson and Vahlne (1977) as they created a model (Fig 2.4) in which the outcome of one stage constitutes the input for the next.

2.3.1.3 Johanson and Vahlne (1977)

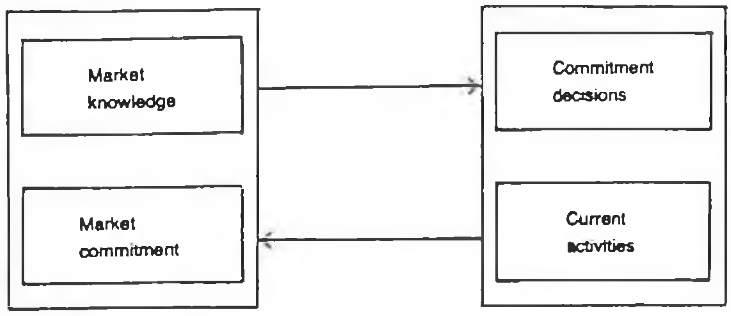

Fig 2.4 - Basic Mechanism of Internationalisation

- State and Change Aspects

Source: Johanson & Vahlne (1979)

A distinction is made in this model between "state" and "change" aspects of the internationalisation variables. The "state" aspects concern market knowledge and market commitment - resource commitment to the foreign market. The "change" aspects are current business activities and the decision to commit resources to the foreign market.

"The basic mechanism of internationalisation assumes that market knowledge and market commitment affect both the commitment decisions and the way current activities are performed - and these in turn, change market knowledge and commitment" (Thomas & Araujo, 1986). "Market knowledge and market commitment are assumed to affect both commitment decisions and the way current activities are performed. These in turn modify knowledge and commitment" (Aharoni, 1966).

The reasoning behind this model is quite easy to follow. As market knowledge increases, the firm's capacity to make commitment decisions about that market increases. After all, knowledge is a resource, especially experiential knowledge. Current activities also help shape what the firm can do in the future and this affects market commitment.

This model illustrates the incremental process where one decision is based on the previous one. If this process is continued, then it is only a matter of time before the firm enters into new decision making territory. When this happens it can only be assumed that initially the firm will be risk aversive and only add additional commitments gradually. This is supported by Johanson and Vahlne (1977) as they conclude that additional commitments will be made in small steps unless the firm has very large resources and/or market conditions are stable and homogenous, or the firm has much experience from other markets with similar conditions. If not, market experience will lead to a step-wise increase in the scale of operations and of the integration with the market environment where steps will be taken to correct imbalances with respect to the risk situation on the market. Market growth will speed up this process.

It is worth noting that Denis and Depelteau (1985) express reservations about this model. They believe that it may be difficult to put it into practice due to difficulties in distinguishing market commitment variables from current activities.

Market commitment, according to Johanson and Vahlne (1977) is composed of two factors - the amount of resources committed and the degree of commitment. The degree of commitment is higher the more the resources in question are integrated into the current activities of the firm. Hence arises the problem of trying to separate commitment to a foreign market and current activities.

Yet despite this, Denis and Depelteau (1985) do point out that the model succeeds in that it forces management to consider market knowledge within an interactive framework consisting of commitment decisions, current activities and market commitment and their joint effect on the expansion process.

The importance of this cannot be understated as domestic operations must run smoothly with export or foreign operations. After all the ultimate aim is to increase sales overall, not to increase sales in one market at the expense of another.

2.3.1.4 Cavusgil (1980)

Cavusgil (1980) identifies several distinct stages along the internationalisation process: domestic marketing; pre-export stage; experimental involvement; active involvement; and committed involvement. These stages are shown and briefly explained in Fig. 2.5.

These INTERNAL AND EXTERNAL VARIABLES help explain why a firm may engage in a ...	CRITICAL ACTIVITY which is unique to various	STAGES
Inhibiting firm characteristics	Preoccupation with the home market	DOMESTIC MARKETING
External stimuli Unsolicited orders Change agents Internal stimuli Differential advantages and conducive characteristics Decision-maker characteristics International orientation	Deliberate search for information and preliminary evaluation of the feasibility of undertaking international marketing activity	PRE-EXPORT STAGE
Perceptions regarding attractiveness of international marketing activity	Initiation of limited international marketing activity	EXPERIMENTAL INVOLVEMENT
Experience-based expectations Availability of key resources Willingness to commit resources	Systematic exploration of expanding international marketing activity	ACTIVE INVOLVEMENT
Marketing performance Performance in overcoming barriers	Resource allocation based on international opportunities	COMMITTED INVOLVEMENT

Fig. 2.5 - Stages in the Internationalisation Process of the Firm

Source: Cavusgil (1980)

2.3.1.5 Root (1987)

Root (1987) points out four stages in the international evolution of a firm. They are:

Stage 1: Indirect/adhoc exporting

Stage 2: Active exporting and/or licensing

Stage 3: Active exporting, licensing and equity investment in foreign manufacture

Stage 4: Full-scale multinational marketing and production

Stage 1: Indirect/adhoc Exporting

This involves the servicing of infrequent and perhaps unsolicited export orders. Some unsolicited licensing arrangements may exist but generally commitment to foreign markets is rather weak.

Stage 2: Active Exporting and/or Licensing

At this point the firm is making efforts to penetrate foreign markets via distributors or agents. Licensing is another option actively considered. There is a distinction made by the firm between the domestic and foreign markets.

Stage 3: Active Exporting, Licensing, and Equity Investment in Foreign Markets

Foreign manufacturing is in progress in some countries while exporting and/or licensing serves other foreign markets. The export department tends to be replaced by an international division.

Stage 4: Full-scale Multinational Marketing and Production

Multiple national markets are served from multiple national sources as the international business strategy becomes integrated with domestic business strategy. The organisation does not recognise national boundaries as a definition of the scope of its market.

It is quite evident from the approaches taken by all of the above writers that considerable evidence exists which does in fact support the theory that internationalisation is an incremental process. Despite this, this process has come under attack. Reid (1983) believes that the firm's choice of entry can be explained by resource patterns and by market opportunities. He also puts forward the transaction cost approach, which he claims is superior to the experiential learning model. Even Hedlund and Kverneland (1985) question the conventional wisdom of gradual entry when they say that the experience of Swedish firms in Japan would appear to suggest that entry and growth strategies in foreign markets are changing towards more direct and rapid entry modes than those implied by theories of gradual and slow internationalisation processes. They also point out that the extent of firms' general international experience is associated with the degree of directness of approach. This seems as though it is experiential learning in another guise except that the firms would appear to have hastened the process.

Hedlund and Kverneland (1985) also failed to find any clear association between entry strategy and company performance. This suggests that managers may be taking too cautious an approach to internationalisation and that perhaps more ambitious and direct forms of entry are desireable.

2.4 The Alternative Approach

2.4.1 Networking

Based on their broad view that international marketing is an exchange process of goods and services across national boundaries and that firms are free to choose conterparts, illustrating market forces, Johanson and Gurner-Mattson (1986) put forward another approach to internationalisation, that of networks. Firms build up networks via relationships with other firms in foreign markets. This should be viewed as a long-term approach in order to create and secure long-term survival and development.

Support for this view is given by Denis and Mallette - La Freniere, (1986) who note that small to medium sized firms can improve their export performance by networking with intermediaries, i.e. through the establishment of operational links with these intermediaries based on shared competence and orientations.

Networking can be done:

1. Through the establishment of positions in relation to counterparts in national nets that are new to the firm, i.e. international extension;

2. By developing the position in these nets abroad where the firm already has positions, that is penetration; and

3. By increasing co-ordination between positions in different national nets, that is international integration.

Essentially what happens is that the home country producer will try to form relationships with agents and distributors in the target foreign market. Once this occurs it is envisaged that these new "network" contacts will use their own resources to establish their new partners within their own network. In this way a firm gains an introduction into the foreign market and has a base from which to expand. (Johanson & Gunner-Mattson 1986)

2.5 Foreign Market Entry and Expansion Strategy

When a firm contemplates foreign markets it must do so under the protective umbrella of a marketing strategy which plans for some form of internationalisation. One of the most important factors to consider when deciding to internationalise is control. Anderson and Gatignon (1986) observe that control is the focus of entry mode literature as it is the single most important determinant of both risk and return. They also highlight the fact that entry mode choices are most usefully and tractably viewed as a tradeoff between control and cost of resource commitment often under conditions of considerable risk and uncertainty. Preserving flexibility should be a major consideration of most firms in making the tradeoff.

The entry mode chosen should allow the firm to maintain the flexibility or control it so desires while at the same time allowing it to achieve the internationalisation objectives it has in mind.

According to Paliwoda (1986), the "best" strategy will be the one which is situationally best, it is optimal in that it satisfies - with regard to the conflicting pressures of the foreign and domestic operating environments - industry structure at home and abroad, and company marketing strategies. He has suggested six factors to consider when making this choice.

1. Speed of market entry desired
2. Costs to include direct and indirect costs
3. Flexibility required
4. Risk factors
5. Investment payback period
6. Longterm profit objectives

1. Speed of Market Entry Desired

If speed of market entry is important then perhaps acquisition, licensing or the use of an agent/distributor are the fastest ways of securing market entry. A cautionary note is that the fastest entry mode may not necessarily be the best.

2. Costs To Include Direct and Indirect Costs

Direct costs are those which can be directly attributed to market entry. The indirect costs consist of things such as freight delays, strikes and even supplier problems. All of these can add substantially to the costs of foreign market entry. However this must be balanced against the opportunity cost of doing nothing.

3. Flexibility Required

Certain entry modes offer more direct control and flexibility than others. Channel distribution is probably the most important aspect of control in the process of foreign market entry. Hackett (1977) notes its importance internationally and goes on to say that the important managerial consideration is to use the entry strategy which is most appropriate for the firm's objectives in the short run, while retaining flexibility to change if the situation so dictates.

4. Risk Factors

Risk includes political and competitive risk. Its management and avoidance is important. Gilligan (1987) divides risk management into two categories - (1) Environmental scanning to identify the sources and nature of risk before it becomes too great a threat, and (2), developing an organisational culture that is both able and willing to reflect this assessment in subsequent strategic behaviour.

What is most important is that a firm should develop a risk management policy. This policy should enable the firm to objectively assess opportunities against the risks identified in a particular market. When dealing with foreign markets these will include risk of expropriation, political stability, rates of inflation and economic growth and also foreign exchange risk. It is also worthwhile maintaining a degree of flexibility in the plan so that there is a way out if the investment does not perform as expected.

5. Investment Payback Period

Overall firm strategy plays an important role here. Licensing or franchising, for example, offer rapid, if smaller, returns than the likes of a joint venture or direct investment which can tie up capital for a number of years. Another contributing factor is also the stage of its life cycle the product is in as this can affect revenue flows.

6. Longterm Profit Objectives

This concerns the firm's attitude towards the market as well as the product life cycle. If a firm has a portfolio of products to introduce or wishes to establish a presence on which to build and introduce new products in the future, it must be prepared to invest heavily now to reap the rewards later. Alternatively a firm may just want to harvest a product or prevent a competitor from monopolising a market. In this case the entry strategy will be different.

2.5.1 Strategic Options - Concentration Vs Diversification

Two alternative strategies are considered by Hirsch and Lev (1973) and Ayal and Zif (1979) are:

1. Enter initially a small number of the most promising markets; only after a "presence" is established in these markets and the potential of the product proved, new and presumably less lucrative markets are penetrated.

2. Enter simultaneously as many potential markets as possible; initial wide penetration is followed by a period of consolidation, where less profitable markets are abandoned.

Basically the choice that is offered is one of concentration versus diversification. Based on the choice outlined above, the former strategy would appear, on the surface, to be better as it involves a lower level of investment in marketing while at the same time allowing the firm to concentrate on the markets offering the highest returns. The latter ensures that the firm must spread its resources over a myriad of markets and hence it might be unable to concentrate on the markets offering the highest potential and profits.

However on further examination, situations can be envisaged whereby the second strategy is superior. These are when the cost of market information is high and perhaps scarce, and also when the product is highly copyable or has a very short life cycle. Lambkin (1989) has noted that pioneers enjoy a substantial market share advantage over all later entrants. This indicates that it is easier to build up market share in the early stages of a market's development before the competition forces the firm to alter its strategy from market introduction and growth to defence. She also points out that late entrants who can circumvent the barriers to entry into mature markets can have a competitive advantage in terms of price or product performance. This can lead to a satisfactory return on investment despite a lower market share than the early market entrants.

At the end of the day the firm's resources will dictate which kind of strategy will be chosen. The first strategy outlined is clearly suited to risk averters, but the second, while associated with more risk, can also be associated with increased profitability.

A modification of this strategy is put forward by Ayal and Zif (1979) which allows firms to concentrate resources on segments in many different markets. This allows even a small firm with limited resources to achieve market penetration and diversification quickly by using independent commission agents in each market, with little or no investment.

2.5.2 Elements of the Market Entry Strategy

Root (1987) stresses the importance of planning an entry strategy for each product for each foreign market. This boils down to:

1. Choice of target/product market
2. The objectives and goals in the target market
3. Choice of entry mode to penetrate target country
4. Marketing plan to penetrate the target market
5. Control systems to monitor performance

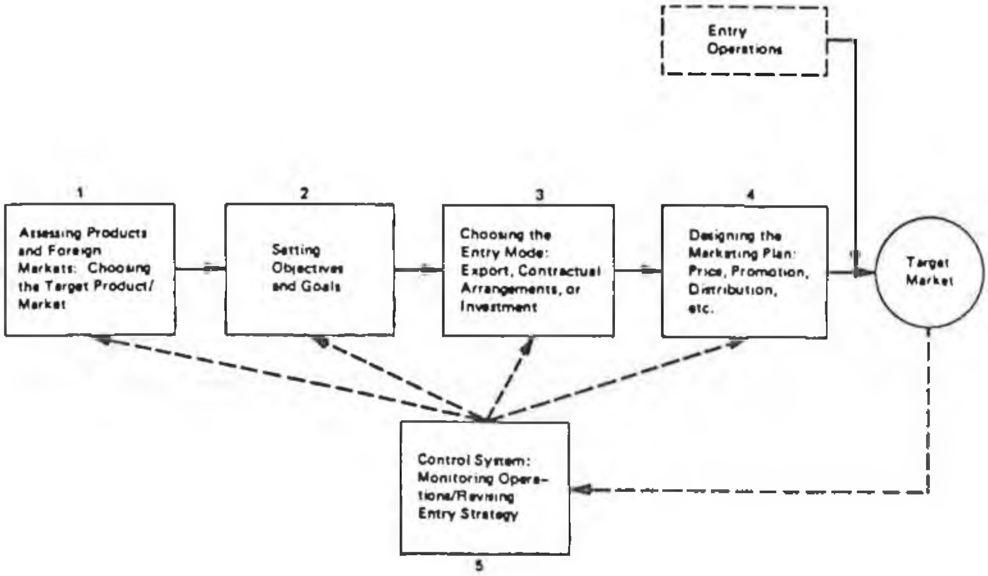

Fig. 2.6 - Elements of an International Market Entry Strategy

Source: Root (1987)

Although the elements of an international market entry strategy (Fig.2.6) are shown as a logical sequence of activities and decisions, Root (1987) does in fact point out that the design of an entry strategy is actually interactive with many feedback loops.

Therefore Root's diagram (Fig. 2.6) does not fully represent the complex nature of designing an entry strategy but merely indicates some of the stages through which such a decision must evolve. All of these stages must be seen to be interactive.

2.5.2.1 Choice of Target Product/Market

An important element in planning a foreign market entry strategy is that of product choice. It should possess qualities and advantages which will quickly allow it to obtain a competitive niche in the early phase of its life cycle in the target market.

Of more importance, however, is the choice of foreign market. This may ring particularly true for small firms generally only in a position to market their own product which has already proven successful on the domestic market.

The choice of market is one which demands much deliberation and thought. Davidson (1982) sets out four criteria which are present in all market selection decisions. They are:

1. Competition
2. Market Characteristics
3. Service Costs
4. Uncertainty

1. <u>Competition</u>

Understandably, the competitive environment in which a company operates plays an important part in its market strategies. Competition in the home market is every bit as important as that in a potential new market. Tough domestic competition can be the reason for considering foreign market sales. A situation can also arise where a firm may "follow the leader" into another market.

This occurs when a firm tries to maintain the status quo in an industry by following its competitors into new markets. In taking this approach firms are trying to ensure that relative market positions do not change. Davidson (1982) notes that failure to follow a competitor's initiative into international markets can result in a dramatic change in competitive position. This would be especially obvious in highly concentrated industries.

Because of this it is important to examine not only present competitors but also potential competitors before making a decision on entering a foreign market.

2. Market Conditions

This can be divided as follows according to Davidson (1982)

Potential Demand: Demographics
Product sector
Consumer priorities within sections

Country Analysis - Legal conditions
Social conditions
Political conditions
Economic conditions

The potential demand for a product needs to be closely examined before entering a new market as there can be much confusion as to what exactly the potential demand for a product is. An example of the levels of market definition is given in Fig. 2.7.

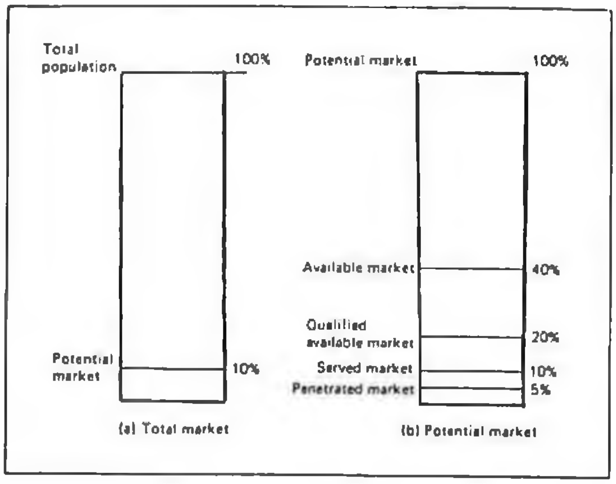

Fig. 2.7 - Levels of Market Definition

Source: Kotler (1984)

Fig. 2.8 highlights most of the factors which any firm must examine in order to fully understand the market conditions which exist for an international firm.

Country analysis as mentioned above, will cover some of the factors but a fuller analysis as outlined in Fig. 2.8 would be advisable.

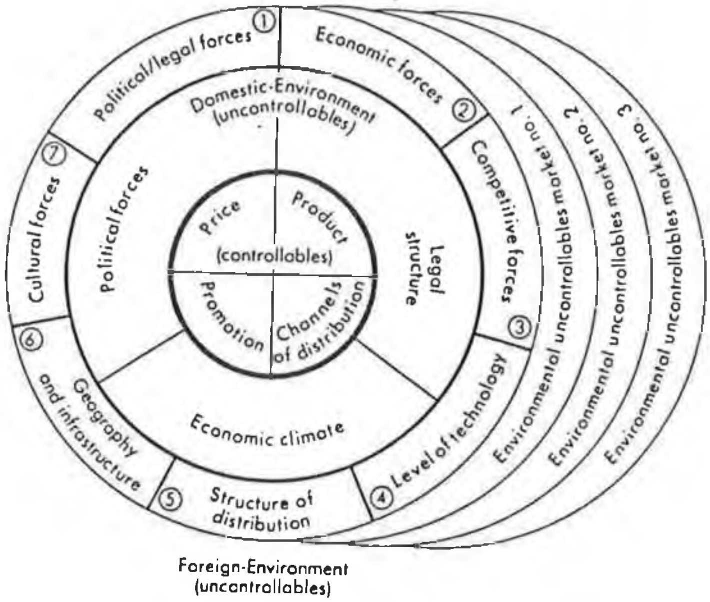

Fig. 2.8 - The International Marketing Task

Source: Cateora (1987)

The inner circle depicts the 4 Ps which the marketer has control over. The second circle illustrates domestic uncontrollables which will have some bearing on international marketing decisions. The outer circle represents uncontrollables in the foreign market. Each foreign market usually presents seperate problems involving some of the uncontrollable elements.

It is important that the marketer adjusts the marketing programme to suit each individual business environment. To do so, it is critical that all the uncontrollable elements of the marketing mix are interpreted effectively so that an optimum entry strategy may be devised for each market.

3. Service Costs

Service costs include entry costs, sourcing costs as well as overheads such as sales and administrative expenses. Entry costs can cover a multitude of legal and consulting expenses as well as all the expenses accruing to negotiations, training and recruiting staff to establish a legal presence abroad. The market entered should provide sufficient revenue to cover all of these expenses, and provide an operating profit.

4. Uncertainty

Uncertainty about foreign markets has resulted in many firms selecting countries with similar cultural and economic backgrounds. This enabled many firms to reduce risk. Unless uncertainty is minimised then a substantial amount of time, money and effort may be wasted. The importance of reducing this risk is illustrated by Aharoni (1966) when he says that it is recognised that information is far from perfect, that organisational resources must be used for its acquisition, that management time must be devoted to the digestion of this information, and that decision makers are operating in a world of uncertainty, where the faculty of blissful prescience cannot be taken for granted.

2.5.2.2 Choice of Entry Modes

The most common forms of entry modes are:

- Exporting
  - Direct
  - Indirect
- Contractual
  - Licensing
  - Franchising
  - Contract Management
  - Contract Manufacturing
- Investment
  - Sole venture
  - Joint Venture

Exporting differs from contractual and investment entry modes in that the firm's product is manufactured outside the target country and then transferred to it later. Indirect exporting uses home country middlemen whereas direct exporting involves selling directly to the target market. This may be done via target country middlemen.

Cundiff and Hilger (1988) note that export selling requires a minimal commitment of resources or adjustments to the firm's domestic planning. This lack of having to substantially adjust the firm's structure or marketing plans makes exporting a very attractive proposition for firms contemplating entering international markets. Although exporting is probably the least risky of the entry modes considered, it does not offer best returns or profit potential for the long-term investor.

Moreover local firms have the added advantage of being close to the market, giving them a presence and also better market knowledge.

Contractual entry modes differ from exporting and investment in that they do not involve the transfer of goods or equity from one country to another. Basically they involve the transfer of knowledge and skills to foreign firms. Here a firm can have a degree of market presence without committing itself to a permanent investment abroad.

Investment entry modes involve the transfer of equity. It is the riskiest of the entry strategies as it requires the commitment of a firm's resources to a foreign market. However, it does also offer the highest potential for profit. A joint venture is distinguished from a sole venture in that ownership, risks and profits/losses are shared.

When choosing an entry mode it is worth spending time considering the available options. Root (1987) lists three different approaches for entry mode selection.

1. Naive Rule: Apply the same entry mode to all foreign markets.

2. Pragmatic Rule: A workable entry mode for each target market.

3. Strategy Rule: Right entry mode for each target market.

He believes that most firms start by using the pragmatic rule. This may work but you might not be optimising your resources whereas the strategy rule demands systematic comparisons of alternative modes. It is only by pursuing the latter strategy that optimisation of all available resources and market conditions occurs.

Root (1987) also observes that a firm growing in confidence in its ability to compete abroad generates progressive shifts in its tradeoff between control and risk in favour of control when choosing its entry mode. (See Fig. 2.9) As a result of this progression, firms are more willing to enter foreign target markets as an equity investor rather than by other methods such as licensing or agent/distributor agreements.

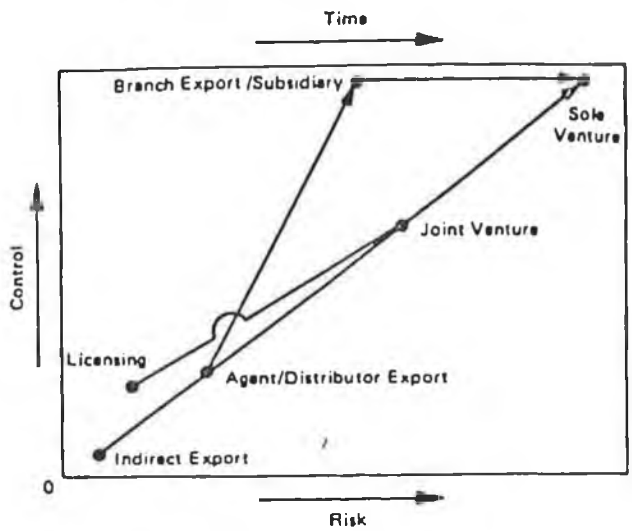

Fig. 2.9 - Evolution of a Manufacturer's Decision on Entry Mode

Source: Root (1987)

In many ways it can be said that Fig. 2.9 also displays the process of incremental internationalisation. It shows how the firm will tend to move internationally as it gains in experience.

In implementing an entry strategy firms should be aware of pigeon-holing strategies based on the likes of Fig. 2.9. Jeannet and Hennessey (1988) state that entry strategies will no longer fall into neat categories of exporting, local production, licensing, or joint ventures, but will increasingly become a mixture of a number of entry modes. They also state that the ability to switch from one mode to another may be an important requirement of the initial arrangement.

This reinforces what Walvoord (1983) has said - "The key is to stay flexible, to keep in close touch with changes in the market place while recognising and respecting the foreign customers' unique needs".

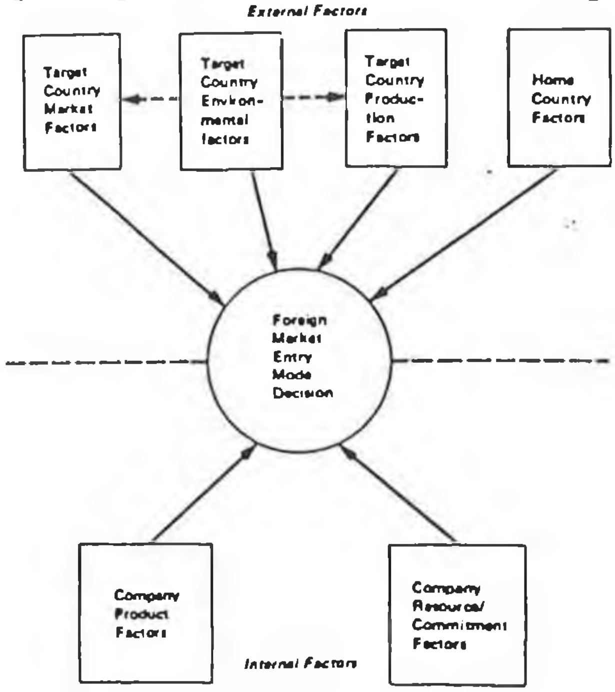

Fig. 2.10 - Factors in Influencing Choice of Entry Mode

Source: Root (1987)

Root identifies some of the internal and external factors which influence the choice of entry mode. (Fig. 2.10) Any of these factors can take precedence for a particular company. These factors are not static, but may be regarded as dynamic due to contributing and conflicting business forces which interact constantly with the firm.

Table 2.3 illustrates some of the factors which fall into the categories delineated by Root in Fig. 2.10.

Table 2.3 - Factors Influencing Choice of Entry Mode

EXTERNAL FACTORS				INTERNAL FACTORS	
Target Country Market Factors	Target Country Environmental Factors	Target Country Prod. Factors	Home Country Factors	Firm's Product Factors	Firm's Resource/ Commitment Factors
Size Competition Structure Growth	Govt. Policies & Regulations Economic Climate Political Climate Culture Law Proximity Currency	Capital Labour Land	Market Production Environment Competition Govt. Policy Costs	Standardised or Differentiated Levels of Service	Level of available resources Firm size Mgt. perceptions and experience Willingness to go international Objectives

Company policies and objectives must also feature highly when contemplating choice of entry mode, and thus ultimately affecting choice of overall entry strategy. Rossman (1982) notes that Japanese firms' major objectives are sales volume and market share rather than profit. This reflects the strategy that the high volume producer is the lowest cost producer and can price competitively. They find a need and fill it using a strategy of overall cost leadership. Hence their entry strategy mode should reflect the need for wide distribution and the immediate availability of the products, as sales volume is crucial to the success of this strategy. By identifying initial objectives it automatically favours some entry modes while casting a shadow over others.

Essentially it is the responsibility of the firm to ensure it has command of the controllable and partly controllable factors in its operating environment. At the same time it must maintain a degree of flexibility in its strategy to accommodate changes in the uncontrollable factors. By doing this the firm can ensure success and hopefully a smooth journey as it progresses along the internationalisation path.

2.6 Summary

The drive towards internationalisation has been heightened by standardisation, mass media and the communications revolution, and the emergence of the global consumer. It must also be attributed to increased competition on domestic markets and the shortening of the product life cycle. The drive to recoup investments quickly while maximising product potential over a multiplicity of markets has yielded the international product life cycle, suggesting tailoring of marketing programmes to suit the characteristics peculiar to each market. However, the narrowing of the gap between the time the product reaches its decline stage in the most advanced market and the introduction stage in the slowest market, offers opportunities for standardisation of marketing programmes, and for communications strategies in particular.

Two approaches to internationalisation exist, the first being the incremental approach whereby internationalisation is viewed as a sequential, step-by-step, learning process, resulting from uncertainty, higher information costs and lack of experiential knowledge. Several theories defining the separate stages in the process have been detailed. Recent evidence, however, would illustrate the growing popularity of a more rapid mode of foreign market entry, bypassing one or more stages in the internationalisation process. The alternative approach, that of networking, offers firms the opportunity, through relations formed with foreign firms, to use their domestic distribution networks, and thus acheive foreign market penetration, enabling them to establish and ensure longterm survival and development in the market in question.

Choice of strategic approach is central to the development of a foreign market entry and expansion strategy. Two primary approaches exist, each representing a different trade-off between control and cost of resource commitment. The first, "concentration", involves the initial selective entry of the most pormising markets and then, once both presence and product potential have been established, penetration of new, less lucrative markets. The second, "diversification" implies penetration of as many potential markets as possible, followed by consolidation where less lucrative markets are abondoned. Arguments in favour of each as the better strategy abound, the ultimate choice riding on the firm's resources and risk aversiveness. A modified combination of the two strategies exists which allows firms to concentrate resources on segments in many different markets.

In developing a full market entry strategy, several elements, which can be viewed as interactive stages in the design process, must be taken into consideration. Three distinct areas of particular importance can be highlighted, the first being the need to devise a strategy which caters for each product and each foreign market. The second stresses appropriate choice of market, the criteria affecting decision making being competition, market characteristics, service costs and uncertainty. The third is the choice of entry mode, the primary options being exporting, contractual and investment. Factors influencing choice of foreign market entry mode are, externally, target country market, environmental and production factors, and home country factors as well as, internally, firm production factors, resources and commitment. Any entry mode choice represents a trade-off between control and risk in which the firm is ultimately responsible for ensuring it maintains command of the controllable and partly-controllable factors in its operating environment while maintaining flexibility to switch mode. The ability to do so may prove of vital importance in the future.

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CHAPTER 3

EXPORTING

3.1 Introduction

The exporting stage at the internationalisation process is, in particular for Irish firms located on the periphery of Europe, the crucial first step towards full internationalisation and, as such, shall be examined in some depth in the following chapter. The various exporting theories put forward shall be outlined using a classification model proposed by Thomas and Arajuo (1986). The reasons for and motivating factors behind a firm's decision to export shall then be explored, as shall the numerous variables, internal and external, which influence the decision-making process. The question of whether a firm's marketing mix should be altered for the foreign market shall also be examined. Furthermore, the issue of export barriers, physical and experiential, as well as the criteria and features necessary for success and profitability in exporting shall also be discussed. Finally, the specific matter of exporting and the small firm shall be explored, concentrating on the firm's level of commitment and on the need for an appropriate export marketing plan as the key factor to exporting success. Guidelines for the development of such a plan are also included.

3.2 Export Theories

Many theories abound about the practice of exporting and internationalisation, such as those put forward by Simmonds and Smith (1968), Johanson and Weidersheim-Paul (1975), Johanson and Vahlne

(1977), Bilkey and Tesar (1977), Reid (1981), and Cavusgil (1980). Many of these theories have focused on different aspects of exporting and on different industry groups.

Thomas and Araujo (1986) have examined many of these theories and have grouped them under four main classifications, although others do exist. This has greatly facilitated the comparison of these theories and hence, the use of their classification in giving a brief resume of the most relevant theories seems appropriate.

1. Export as an innovative strategy
2. A model of knowledge development and increasing foreign market commitment
3. A model of pre-export behaviour
4. A stage-hierarchy approach

3.2.1 Export as an Innovative Strategy

In today's business environment exporting can generally be considered as just another business activity for many firms. However, at some point in the firm's operations, these activities must represent a new experience as they move away from the domestic market. This is the approach taken by Simmonds and Smith (1968) who stated that entry into the export market is just as much an innovation as the adoption of a new production process.

This statement should be viewed within the relatively closed environment of the firm itself. For the firm concerned, a new period of learning begins as many novel problems and solutions manifest themselves in normal day to day operations.

Simmonds and Smith (1968) indicated that most of the initiating forces for exporting came from outside the firm. This would appear to suggest the need for constant attention to the firm's operating environment in order to perceive and avail of business opportunities. It would also appear to illustrate the need for enterprise and risk taking in management. Simmonds and Smith (1968) found this to be the case when noting that innovating exporters showed a high degree of risk tolerance, aggressive drive, and profit motivation.

A disturbing finding of this study is the seemingly low level of support for marketing orientation amongst exporters. Products were determined and then consumers sought. Yet Simmonds and Smith (1968) noticed this and found that the economics of the situation showed that profits may be higher at first by stressing sales efforts, with attention to broader marketing considerations being postponed until the more easily reached potential had been tapped. Hence a strategy focusing initially on sales, followed by a marketing outlook would appear to offer most potential. Admittedly, this survey took place over twenty years ago. It is possible to cast a shadow over it and query whether or not such tactics would work in today's increasingly competitive and dynamic business environment. Perhaps the aforementioned conclusion was due to the firms involved in this study having highly differentiated products, appealing to narrow market segments not directly shared with competing firms. The results would perhaps have been different if the firms surveyed were competing in a more competitive environment.

1. Not exporting
2. Filling unsolicited export orders
3. Exploring the feasibility of exporting
4. Experimental exporting
5. Committed exporting (Adoption)
6. Management looks at more psychologically distant countries.

Fig. 3.1 - Export Development

Source: Bilkey & Tesar (1977)

Bilkey and Tesar (1977) have developed a model of the export development process. In this model - Fig. 3.1 - the critical stage is the fourth when the firm begins to export on an experimental basis. This stage implies commitment on behalf of the firm. Lee and Brasch (1978) have focused on the innovation adoption process in industrial firms - exporting being the innovation. This study can be applied to the third stage of Bilkey and Tesar's (1977) model as it is at this stage that firms explore the feasibility of exporting, representing a possible innovation for the firm.

It can also be said that once this decision to export has been made, the firms are starting out on the internationalisation process along the lines of the incrementalisation theories put forward by Wormald (1973), Johanson and Weidersheim-Paul (1975), Johanson and Vahlne (1977), Cavusgil (1980) and Root (1987). (See chapter two for a discussion on this process.)

Lee and Brasch (1978) note that there is a difference between new and old firms in their attitudes towards risk. This indicates that the younger firms are more innovative, exporting being the innovation. Not only that but their research also supported Simmonds and Smith's (1968) conclusions that most of the export stimuli is external rather than derived from internally perceived problems.

A factor worth noting is that both of these studies show a distinct lack of planning and strategic marketing. Therefore indications are that exporting is initially an ad-hoc process rather than a carefully planned operation. It should be questioned whether or not this kind of approach can be viable under today's business conditions.

3.2.2 Export as a Model of Knowledge Development and Increasing Foreign Market Commitment

This model was developed by Johanson and Vahlne (1977) based on a previous study carried out by Johanson and Weidersheim-Paul (1975). (See chapter two.)

Thomas and Araujo (1986) explain it well when they say that it was assumed that the most important obstacles to internationalisation are lack of knowledge and resources. These obstacles are reduced through incremental decision-making and through learning about the foreign market and operations. Consequently the perceived risk of market investment decreases and the internationalisation process is furthered by the exposure to offers and demands, and to extended overseas operations.

Generally, this means that market experience and integration with the market environment will lead to incremental increases in the scale of export/international operations.

3.2.3 A Model of Pre-export Behaviour

Developed by Weidersheim-Paul et al (1978), this model stresses the pre-export environment and the variables which affect it. These interrelated variables consist of the decision-maker, firm environment and the firm.

From these, four dominant factors capable of influencing pre-export behaviour were deduced.

1. Goals of the firm
2. Product line
3. Firm history
4. Degree of extra-regional expansion

The obvious concentration on the firm itself is self-explanatory but what of other internal and external stimuli? Those highlighted are:

Internal Stimuli

1. Differential firm advantage
2. Excess resource capacity - management, marketing, production, finance.

External Stimuli

1. Unsolicited orders from abroad
2. Competition
3. Highlighting of market opportunities abroad
4. Government export-stimulation

Basically this model tries to stress the importance of information flow before any commitment to exporting is made. Thomas and Araujo (1986) have expressed reservations about this model due to the fact that it needs empirical testing. Fortunately the authors have also recognised this and they note that the model represents a "framework for the development of more partial models of a qualitative and quantitative kind which are open to operationalisation" (Weidersheim-Paul et al, 1978).

Many authors appear to be putting forward models such as that by Weidersheim-Paul et al (1978), but they are really no more than theoretical frameworks. This can lead to queries about their practicality and application to a real world environment. If any credence is to be given to such models it is essential that they are tested before dissemination amongst the general public.

3.2.4 A Stage Hierarchy Approach

This theory, developed by Bilkey and Tesar (1977), has treated each stage of the export development process as a dependent variable in a multiple regression equation. Different co-efficients at each stage take account of the experience gained in the preceding stages.

The basic conclusions of this study are:

1. Export development process of firms tends to proceed in stages.

2. Influencing factors in the firm's progression tend to differ by stage.

3. Size of the firm is unimportant when quality and dynamism of management is taken into account.

This approach was expanded on by Reid (1981) when he notes that the export expansion process can be represented schematically as a five stage hierarchy consisting of export awareness, export intention, trial, evaluation, and acceptance. (Fig.3.2)

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
	Export Awareness	Export Intention	Export Trial	Export Evaluation	Export Acceptance
EXPORT ADOPTION STAGES	problem or opportunity recognition, arousal of need	motivation attitude beliefs,and expectancy about export contribution	personal experience from limited exporting	results from engaging in exporting	adoption of exporting/ rejection of exporting
DECISION MAKER Variables Involved	past experience export-related or not; type, level, & amount of foreign information exposed to, and associated individual character-istics, unsolicited foreign orders	expectations from entry into foreign market, foreign market orientation, export orientation, and underlying attitudes toward foreign involvement	sought foreign orders through search of foreign markets	profit-ability, sales stability	export expansion actively shown by continued export growth as: (1) increased exports as a percentage of sales: (2) continued entry into new markets; (3) continued absolute export growth; (4) continued introduction of new products into export markets
FIRM Variables Involved	past firm performance reputation, and visibility	managerial goals and existing firm resources	unsolic-ited foreign orders, existence of available managerial and financial resources	results from engaging in export behaviour	

Fig. 3.2 - Export Behaviour as an Adoption of Innovation Process

Source : Reid , (1981)

As can be seen from Fig. 3.2, the decision maker has a very important role to play. Why one firm should take advantage of an unsolicited order while another does not, can in many cases be attributed to managerial experience and attitudes. Reid (1981) supports this by commenting that the available empirical evidence points conclusively to the decision-maker's attitude, experience, motivation, and expectations as primary determinants in firms' engaging in foreign market activity.

3.3 Why do Firms Export?

Cannon (1980) states that export and international markets play an important role in the success of many firms, large and small. This is primarily due to the product life cycle (Chapter 2) of any firm's products. As the products reach their maturity phase it is necessary that new markets are entered where the products may be in the introductory phase again. It is only by doing this that profit levels may be maintained by maintaining sales levels and keeping costs to a minimum. Cavusgil (1984) notes that the desire for profits and the desire to achieve sales growth are cited as major motivating factors for initial involvement in exporting. Others cited are staying competitive, diversification as a way of achieving stability, and using excess manufacturing capacity. According to Edmunds and Khoury (1986) risk diversification and slowing down the decay process of a product are also important.

By exporting it is possible to extend the demand for some products while at the same time it reduces a firm's dependence on any one particular market. Extending the demand or prolonging the marketability of products in the maturity and decline stages of their product life cycle reflects the approach taken by Michell and Ingram (1978). Here they look mostly at developing markets as the best target markets. Perhaps this is good advice to all industrialised nations.

Edmunds and Khoury (1986) have compiled a table of all the main reasons for exporting and not exporting as supported by empirical evidence. Table 3.1 illustrates this.

Table 3.1

EMPIRICAL EVIDENCE ON THE MOTIVES TO EXPORT OR ON THE REASONS FOR NOT EXPORTING*

Reasons for Export	Study	Reasons Against Export	Study
PROFIT	Doyle & Sohommer (1976) Bilkey & Tesar (1977) Bilkey (1982) Simpson (1973) Craver & Crowder (1976)	LOW EXPECTED PROFITABILITY	Lee & Brasch
		EXTERNAL (a) Concern about the intensity of foreign competitiontion	Albaum (1980) Alexandrides (1971) Deegan (1975) Gleason (1973)
TAX INCENTIVE	Rabino (1980)		
RELATIVE PRODUCTIVITY	Sudit (1984)	(b) Transportation & transactions costs	Hynes (1976) Pavord & Bogart (1975) Pinney (1971)
GROWTH	Bilkey & Tesar (1977) Tesar (1975) Cavusgil & Nevin (1979)	(c) Trade barriers	E C S Inc. (1981) Hynes (1976)
DIVERSITY OF SALES BASE	Ayal & Hirsch (1982)		
LONG-RUN SALES STABILITY	Hirsch & Lev (1971)	INTERNAL (a) Lack of information	E C S Inc. (1981) Staelin (1981) Albaum (1980) Rabino (1980) Bilkey & Tesar (1977) Hynes (1976) Pavord & Bogart (1975) Alexandrides (1971)
UNSOLICITED ORDERS	Gleason (1973) Graver & Crowder (1978) Pavord & Bogart (1972, 1975) Bilkey & Tesar (1977) Simpson & Kujawa (1974)		
PRODUCT LIFE CYCLE	Lutz & Green (1983)	(b) Lack of financial resources	Deegan (1975) Neidell (1971)
COMPETITIVE DOMESTIC MARKET CONDITIONS	Pavord & Bogart (1975) Alexandrides (1971)	(c) Inadequate managerial resources	Davis (1977) McGrail (1978) Pinney (1971)
Make new market for old products	Craver & Crowder (1976)	(d) Managerial Commitment	Pavord & Bogart (1972) Simpson (1973)
MANAGEMENT COMMITMENT	Reid (1981) Brady & Bearden (1979)		
In small & medium business size	Cavusgil & Nevin (1979)		
Quality of management	Bilkey & Tesar (1977)		
Aggressiveness of Management	Doyle & Schommer (1976)		
EDUCATIONAL & FOREIGN TRAVEL EXPERIENCE	Pinney (1969) Langston & Teas (1976)		

Source: Edmunds and Khoury (1986) p. 58.

*Complete references are available from the authors.

Hilger and Hoover (1989) present a conceptual model (Fig. 3.3) that pulls together the issues of how export decisions are initiated, motives the firm has for involvement in export markets, and the relative importance of exports to a firm's overall goals.

<table>
<tr><td rowspan="4">Exporting Objectives</td><td rowspan="4">Strategic Operational</td><td colspan="2">Motivation to Export</td></tr>
<tr><td>Problem Solving</td><td>Opportunity Seeking</td></tr>
<tr><td>Internally Stimulated</td><td>Externally Stimulated</td></tr>
<tr><td>Internally or Externally Stimulated</td><td>Internally or Externally Stimulated</td></tr>
</table>

Fig. 3.3 - A Typology of Export Decisions

Source: Hilger and Hoover (1989), p.74.

This model focuses on strategic and opportunistic reasons for exporting. Research showed that the exports were used to avoid problems in the domestic markets and also that firms try to take advantage of specific opportunities in foreign markets. This would tend to lean towards opportunistic and reactive behaviour while the study nonetheless also showed that foreign market potential is the most important external stimulus to an export decision for firms seeking strategic opportunities.

This supports Weidersheim-Paul et al (1978) who focused on pre-export activities and in particular on the importance of internal and external stimuli in the decision to export.

A question mark must remain over opportunistic and reactive exporting. In an almost paradoxical way Simpson and Kujawa (1974) point out that many firms do not systematically originate investigations into foreign markets, illustrating the fact that exporting more frequently comes about as a result of fortuitous circumstances. Yet they also note that opportunistic behaviour alone does not suffice since many firms are presented with the same stimuli but react differently.

Therefore the decision to export should be the result of a combination of the proper stimuli and the proper perceptions of the factors involved in the export process itself. Essentially it boils down to "a firm's ability to develop an appropriate strategy for the use of its resources" (Pavord and Bogart, 1975).

However Pavord and Bogart (1975) also note that an unsolicited inquiry from a potential customer is the most convincing indication that a market exists. Yet this awareness of an opportunity must be coupled with sufficient interest and adequate incentive to generate export activity.

Thus individual managerial characteristics and attitudes are important. Reid (1981) states that irrespective of the type of factors that lead to the creation of export stimuli, their recognition and influence on export entry are a function of managerial knowledge, attitudes and motivation. This supports Pavord and Bogarts' (1975) view that indications of opportunities will be detected only by those executives who are actively seeking opportunities.

Aaby and Slater (1989) have collated a framework (Fig. 3.4) illustrating many different managerially controllable variables in the export process. It shows many of the internal influences that exert pressure on the export process and also indicates the need for certain information before a commitment can be made. This framework was based on 55 studies carried out in the 1978-88 period, which when combined with Bilkey's (1978) review represents quite wide ranging and diverse industries. Hence this model can be used as a generalisation.

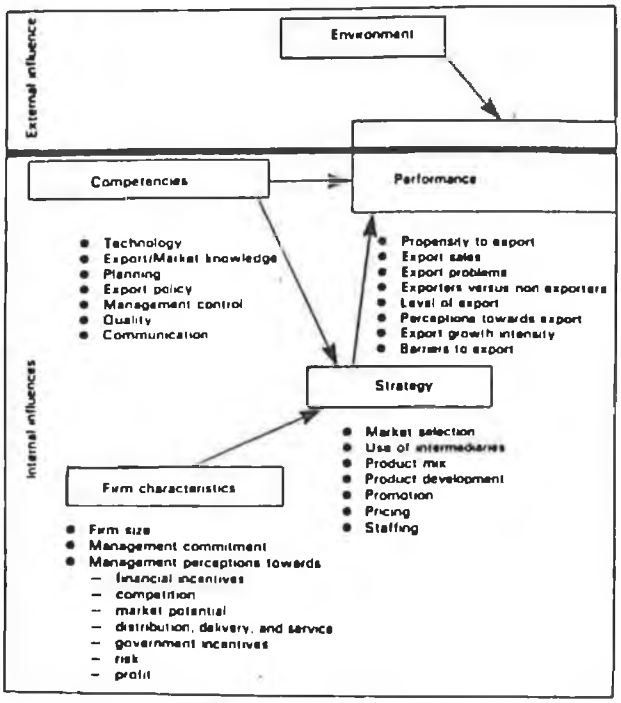

Fig. 3.4 - A "Strategic Export Model"

Source: Aaby & Slater (1989)

Aaby and Slater (1989) have focused on the external environment and internal influences in the decision to export. The environmental level includes macro-economics, social, physical, cultural, and political aspects which influence export management, behaviour and performance. They have decided to concentrate on managerially controllable factors. Despite this it can be argued that the government and competition are in fact external factors and should not be classified under "firm characteristics".

Aaby and Slater's (1989) study on environmental and organisational determinants in the decision to export has led to the following conclusions.

1. Company size is not important unless it brings with it financial strength or economies of scale.

2. Export performance is higher where management is firmly committed to exporting.

3. Firms that plan export activities are more successful than those who do not.

4. Export experience is important - firms with experience are likely to do better than those just starting.

5. A firm is unlikely to become a successful exporter unless it has international vision, consistent export goals, favourable perceptions towards export activities and a willingness to take risks.

6. Technology may or may not be important for success. Export success through technology depends on good management and what markets the firm decides to enter.

7. Non-exporters perceive exporting as risky and hence need assistance.

From this it can be assumed that a strategic export plan is desirable and that a firm must be committed, regardless of size, if it is to be successful. Experience in exporting is also an invaluable asset.

Yet if exporting is examined by way of an experience curve, it would be expected that by selling outside the domestic market, small firms should quickly gain product experience and decrease unit costs, and therefore be in a better position to compete with larger firms already established on the domestic market (Ursic and Czinkota, 1984). The larger firms, because of economies of scale already achieved on the domestic market, would have less to gain by exporting.

This supports what Aaby and Slater (1989) have said about firm size being irrelevant unless it brings economies of scale or financial strength with it. Reid (1981) points out that large firms and multinationals are, however, less dependent on the types of export stimuli that would be conducive to small and medium sized firms. The assumption here being that these firms would already have corporate contacts abroad and established markets and market information systems rather than relying on fortuitous orders. Hence, perhaps, the emergence of global and niche marketing strategies for firms of different resource strengths.

However, exports are of particular importance for multinationals because as Buckley and Pearce (1984) note, the establishment of a foreign affiliate allows a great deal of scope for increasing intra-group trade, but that high levels of foreign production will eventually lead to a negative effect on exports unless the international competitiveness of the firm can be improved. Yet if firms take the international product life cycle approach as outlined by Onkvisit and Shaw (1983) a certain amount of this negative effect on exports can be eliminated by concentrating on different developing markets as opposed to those already developed.

This strategy could also be of use to younger firms who as Ursic and Czinkota (1984) point out, export a larger percentage of their sales and have a more favourable attitude towards exporting than do older firms.

3.4 Altering the Marketing Mix for Foreign Markets?

According to Weinrauch and Rao (1974) there are many differences between domestic and foreign marketing which must be recognised by management. If product and packaging, price, channel and promotion are taken as strategic elements, the manager must develop an export marketing mix consonant with the degree of involvement in foreign markets and the prevailing market characteristics. Support for this view comes from Cooper and Kleinschmidt (1985) when they say that there is a need to examine the different kinds of product/market strategies that firms adopt when marketing to foreign countries.

Root (1987) advocates the use of the "Strategy Rule" - right entry mode for each target market - when contemplating market entry. The marketing mix can and should be an extension of this philosophy. The mix should be adapted to suit local market needs and conditions as without these modifications it might prove difficult to secure market acceptance for a product.

Cooper and Kleinschmidt (1985) echo this when they note that the product/market export strategy is strongly linked to export performance, notably export growth. Hence the message to managers is that adaptation of the marketing mix is a key ingredient to success in foreign markets.

This is supported by Schuster and Bodkin (1987) who note that almost three quarters of exporting firms surveyed by them, do in fact differentiate in their marketing activities between domestic and international customers, including modification of specific marketing mix elements.

On the other hand Cannon (1980) points out that a standardised approach to markets offers the exporter cost advantages and the chance to develop common international campaigns based on the assumption that peoples of the world have the same basic wants and needs. However it is also pointed out that standardisation becomes increasingly difficult to achieve with the sometimes conflicting regulatory conditions and standards operating around the world.

It can perhaps be argued that people's needs are similar at a very basic level, but what about cultural norms, values, education and infrastructure? When these are taken into account it surely eliminates quite a proportion of the standardisation that would be desirable from a profit perspective. Therefore in many ways it can be said that the keys to success require adaptation to the tastes and economic characteristics of the particular foreign market.

3.5 Export Barriers

Hackett (1977) notes that for a firm willing to expend the effort, international markets can provide profit and growth opportunities, while at the same time risks can be considerably greater than in domestic operations. But what obstacles are in their way?

Johanson and Vahlne (1977) state that the most important obstacles to the internationalisation of the firm are the lack of managerial knowledge and resources. These are barriers which Hackett (1977) also observed when citing that a substantial number of smaller firms which attempt to enter foreign markets fail primarily due to the poor management of the activities concerned. It is here that a vicious circle exists as Axinn (1988) points out that through expanded international exposure managers may become more aware of the benefits of exporting. They also become less concerned with export complexities and a general sense of complicatedness.

This lack of exposure of managers to exporting experience would appear to be a concern reflected by Kedia and Chhokar (1986) when they note that exposure to, or experience in, exporting, however small or limited, can make a crucial difference in the outlook of a company. Thus, experience in this area can reduce management apathy or disinterest towards exporting, as a body of experiential knowledge would already exist.

This lack of knowledge and perhaps even interest may be responsible for Rabino (1980) observing that many American executives view exporting only as a marginal business. Perhaps this view is appropriate for firms based in America but surely not for European firms, as Sullivan and Bauerschmidt (1989) point out that export is an integral feature of European firms' performance.

Rabino (1980) has isolated some of the perceived barriers to exporting. In order of importance they are:

1. Lack of exposure to other cultures
2. Large domestic market

3. Lack of staff time

4. The paperwork and management of export operations

5. Different safety and quality standards

On closer examination of these perceived barriers it can be said that since Europe is moving towards a large single market, this allows us to remove the last two perceived barriers listed above.

Within the European Community export paper work has been minimised while safety and quality standards are being harmonised. Since the arrival of the EMS the problems of currency fluctuations, which Cavusgil (1984) cites as the most significant exporting problem encountered, have practically been eliminated.

What Europe is striving to achieve by introducing the concept of 1992 would appear to be reflected by Sharkey, Lim and Kim (1989) as they note that government export programmes should concentrate on reducing internal and controllable barriers.

Kedia and Chhoker (1986) have compiled a list of perceived inhibitors to exporting (Table 3.2) based on a number of studies carried out. In general they found that non-exporting firms perceive inhibitors more seriously than exporting firms. Bilkey (1978) contends that marginal exporters perceive more barriers than non-exporters or active exporters. This is not fully supported by Sharkey, Lim and Kim (1989) who say that perceptions held depend upon the specific kinds of barriers being investigated.

Culture may be considered as one such barrier. All firms entering a new foreign market will face the same cultural barriers whereas in many other respects the firms resources can determine how they perceive a barrier.

Table 3.2 - Major Exporting Inhibitors

1. The existence of attitudinal barriers in the minds of management personnel.
2. The difficulty in identifying foreign markets.
3. The lack of knowledge about exporting procedures.
4. The lack of management exposure to other cultures and to different methods of doing business.
5. The excessive paperwork and inordinate drain on staff and management time.
6. The selection of reliable distributors and the solution of other distribution problems.
7. The difficulty in discovering, interpreting and complying with relevant government regulations.
8. The adaptation and servicing of products to be exported.

9. The difficulty in financing of exports and collecting accounts recievable.
10. The existence of foreign competition.

Source: Kedia and Chhoker (1986)

When contemplating exporting or expansion of present exporting capacity Rabino (1980) points out that as long as a product is unique, price competitive, or highly acceptable in an export market, demand for it will increase.

In a simpler form, if the product is capable of satisfying the identified needs of the consumer, it should succeed provided it has the right support and commitment behind it.

Rabino (1980) highlights distribution as very important here. He notes that the product, pricing and promotional variables require only slight modification in terms of marketing strategy, whereas distribution is considered to be a major problem area. Hackett (1977) also has this view, saying that firms should consider alternative channel strategies when entering each market. Noted too is the importance of managerial consideration to use the entry strategy which is most appropriate for the firm's objectives in the short-run, while retaining flexibility to change should the situation so dictate.

An example of the need for this flexibility is given by Michell and Ingram (1978) who found that firms wishing to minimise risk appoint commission agents to work exclusively for the firm in some markets, and in others, sell direct to one outlet which would be given sole selling rights. In plain English - never put all your eggs in the one basket.

3.6 Success Factors in Exporting

Darling (1985) has put together a model of keys for success in the US market (Fig. 3.5). These can be viewed as distinct steps in the planning process for entry into the US market.

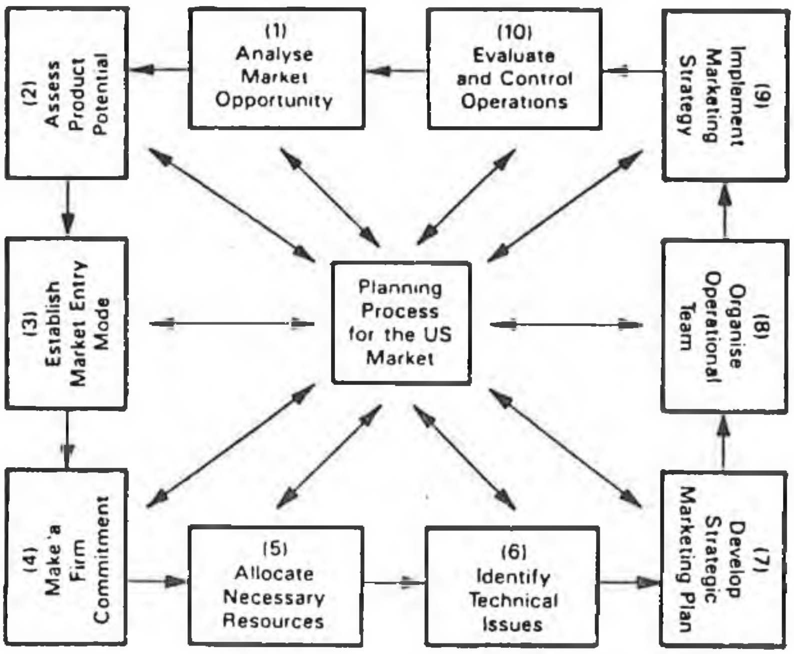

Fig. 3.5 - Planning Model of Keys for Success in the US Market

Source: Darling (1985)

These ten points are closely interrelated and must be carefully reviewed and analysed by any firm contemplating entry and penetration of a foreign market.

While this model was developed solely with the U.S. market in mind, its detailed approach makes it equally applicable to any other market.

The model seems strong in that it calls for the development of a strategic marketing plan at stage seven. This is important in that it allows assimilation of all the relevant data and facts and puts them together in the form of a workable plan of action.

Perhaps it is possible to argue that this should have been done earlier in the model. However, by placing it at this stage, many important questions should already be answered, such as:

- Does the firm really want to enter this market?
- What segments are important?
- What are the firm's objectives?
- Who are the competitors?
- What resources are available?

Probably what this model should do is stress at an early stage what is to be expected by stage seven. This way the pertinent data should be available.

This model also appears strong in that it allows for evaluation and control of operations to ensure that optimum results are being achieved.

Not only does this model appear to be easily transferable, but it can also be integrated into the firm's planning hierarchy. Hence it removes much of the opportunistic behaviour which tends to manifest itself in initial foreign market entry (Simpson and Kujawa, 1974) and forces firms to plan and then to implement those plans.

It can be said that Darling's (1985) model supports Pavord and Bogart (1975) when they say that a firm changes its strategy to include export activity through a process that includes the steps of becoming aware of an export opportunity, evaluating the interest and incentive connected with the opportunity, and finally, making a judgement about what level of export activity would be appropriate in terms of potential benefits, possible problems and available resources.

It should be noted that this model merely serves as a guideline. Each firm should implement it to suit its own individual needs.

3.7 Features Associated with Profitability

Tookey (1964) observes that almost all managers assumed that exporting was less profitable than selling on the home market. Hence it was unpopular, and it was claimed that it tied up capital, had extra payment uncertainty, caused additional marketing expenses and required deviation from the firm's standard products.

This negative attitude can be limited by having an export strategy. The importance of this is stressed when Tookey notes that firms with a positive marketing policy which actively seek the kind of orders which could be profitably handled, appeared more satisfied with their overseas profits than those which made a practice of accepting, unselectively, every export order which came their way. Therefore to some extent, profitability, or performance is determined by a firm's export policy.

A theoretical model for successful export marketing management has been collated by Madsen (1988). Fig. 3.6 shows possible relationships between four variable groups: Export marketing policy, firm characteristics, market characteristics and export performance.

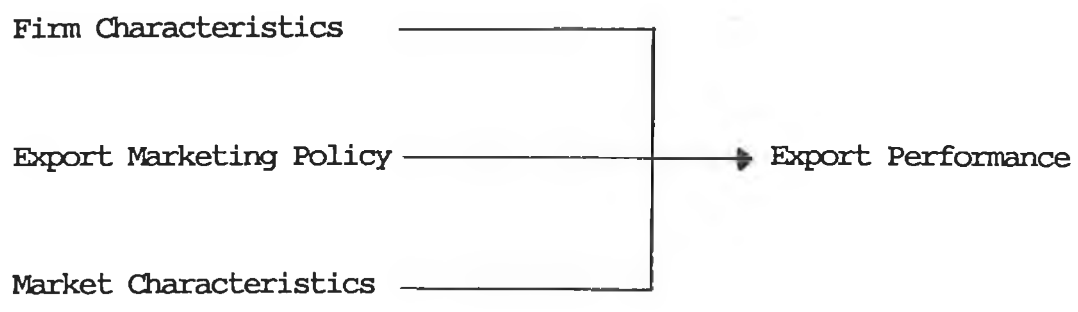

Fig. 3.6 - Export Relationships

Source: Madsen (1988)

Madsen (1988) notes the simplicity of the model with regard to the real world export marketing process and that feedback loops from export performance are present in the real world, as well as relationships between the three groups of variables. These variables are listed in table 3.3. While these export variables do cover quite a lot of the fundamental aspects of exporting, Madsen (1988) would appear to have omitted competition. In no instance is the nature or strength of the present or potential competition mentioned. When considering exporting it should be a pre-requisite to establish these facts as one of the prime objectives before contemplating market entry.

Table 3.3 - Export Marketing Variables

Firm characteristics:	*Export marketing policy:*	*Market characteristics*
general firm resources	*a priori* market research	attractiveness of export market
export experience	planning and control intensity	amount of trade barriers
top management support	internalisation of marketing functions	physical distance to export market
status of internal export organisation	adaptation of marketing policy	psychological/ cultural distance to market
technology and knowledge content of product	product strength	attractiveness of domestic market
	price competitiveness	
	communication intensity	
	channel support	

Source: Madsen (1988)

When this model is studied in the light of Cavusgil's (1983) study, some similar variables appear to be covered. Cavusgil's investigations show that success factors in export marketing can be reduced to four independent dimensions.

1. Basic company offering quality products, after-sales service, an company image.

2. Contractual linkage with foreign distributors/agents

3. Promotion

4. Pricing/terms of sale

Cavusgil (1983) would appear to be applying the marketing mix to an export situation. By doing this he seems to omit many of the firm and market characteristics covered by Madsen's (1988) model.

Yet on examining Madsen's (1988) model further it is difficult not to wonder whether or not individual product characteristics should be included in Fig. 3.6 as well. Surely the width and depth of a product line will greatly influence the long term success of any entry strategy or export success. Perhaps Madsen's (1988) model should take on a new dimension as shown in Fig. 3.7.

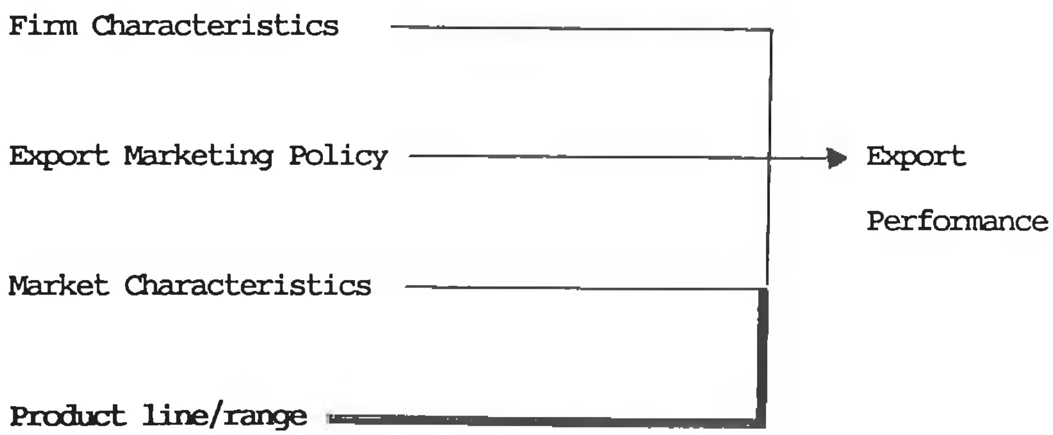

Fig. 3.7 - Suggested Change to Madsen's Model

Madsen's (1988) study does offer guidelines (Table 3.4) which concentrate on marketing policy considerations, which is to some extent contrary to guidelines for firms in the early stages of internationalisation where organisational issues are very important.

Table 3.4 - Exporting Guidelines

- Exploit present markets fully rather than attack new markets

- Create good personal contact with the export market and obtain insight into how it works.

- Offer a strong, high quality product

- Be cautious of selling at low prices

- Adapt export entry strategy/degree of internationalisation to the situation at hand

- Give decision power to the person(s) who knows and understands the market

- Choose markets with high growth and low local competition

Source: Madsen (1988)

While recognising that these guidelines are relatively sound it might also be worth looking at the entry options put forward by Hirsch and Lev (1973) and Ayal and Zif (1979) which offer concentration and diversification or a combination of both depending on product and markets.

3.8 Exporting and the Small Firm

Many firms begin exporting through receiving unsolicited orders (Bilkey, 1978). Once these firms have begun to export they have two options open to them. They can either become committed exporters or remain uncommitted. (Fig. 3.8 and 3.9)

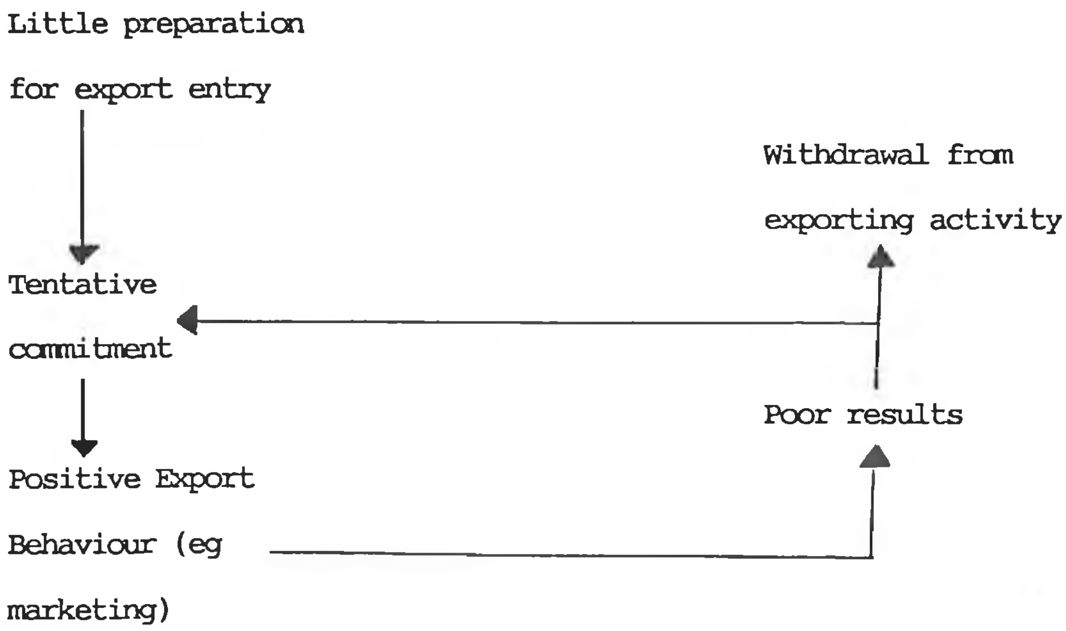

Fig. 3.8 - Uncommitted Exporters

Source: Joynt and Welch, (1985)

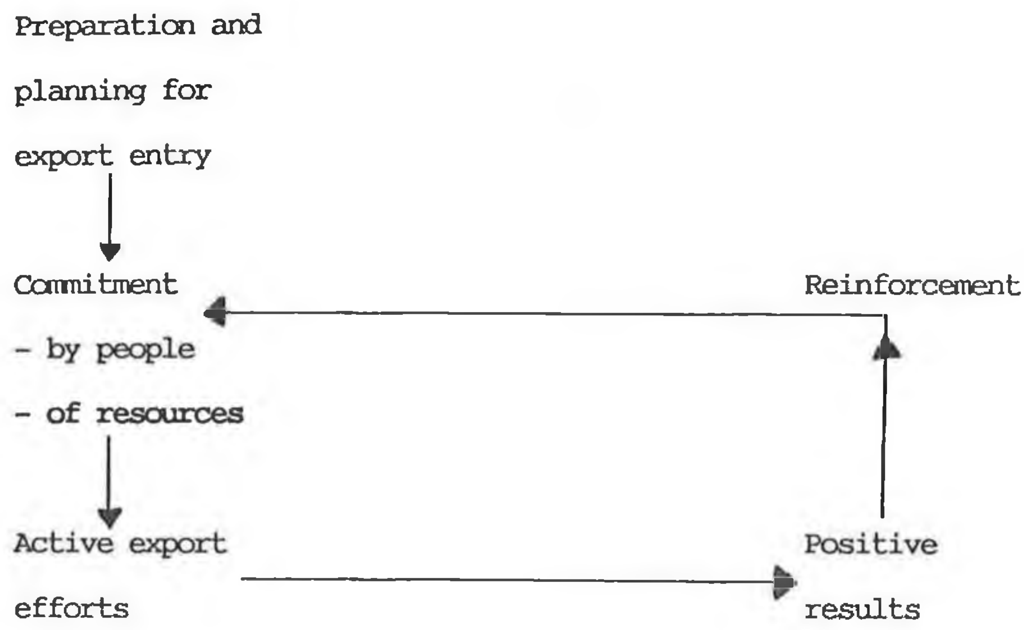

Fig. 3.9 - Committed Exporter

Source: Joynt and Welch (1985) p.65

Joynt and Welch (1985) point out that a common path for many exporters is shown is Fig. 3.8 whereas a more positive cycle is established for firms who plan their export entry as shown in Fig. 3.8.

In many ways this reflects the views put forward by Cavusgil (1984) when he notes that three types of exporters can be identified:

1. Experimental Involvement

This characterises the behaviour of managements who exert little commitment to overseas market development. Exporting is prompted by unsolicited orders and is treated as marginal business. The domestic marketing mix is merely extended to cover the exports, and short term objectives prevail.

2. Active Involvement

Management realises the important contributions international business can make towards achieving corporate goals. Managers are prepared to make a commitment to cultivating export markets, and exporting is no longer regarded as marginal business. Products are designed to meet customer needs and the marketing mix is adjusted accordingly.

3. Committed Involvement

The exporter searches for business opportunities worldwide, not restricting the search to traditional markets. This level of commitment will also tend to bring about other types of international involvement such as direct investment and sales subsidiaries.

As can be seen by this, it closely represents an incremental approach to internationalisation. What it also shows is the importance of planning.

The importance of planning is highlighted by Michell and Ingram (1978) when they say that despite the hard work involved, small firms should not be frightened of exporting, provided they select the right markets - developing countries with growth potential, demand for manufactured goods, and attractive profit opportunities.

They break this planning into five stages as illustrated in Table 3.5.

Table 3.5 - Export Planning for Small Firms

1. Careful selection of target markets
2. Need for differential advantage
3. Correct marketing mix selection
4. Importance of personal selling
5. Export marketing as a general management philosophy

Source: Michell and Ingram (1978)

The fifth point in Table 3.5 is supported by Brasch (1981) who says that while export activity can be initiated on impulse, at some point the manufacturer must make some commitment to an organisational form which can provide continuity and sound management practice for its international business programme.

As noted in the first point in Table 3.5 the selection of the correct target market is very important. One of the major problems for small firms is lack of information. Reid (1984) notes this as a major area of concern for governments trying to promote export-led growth when he says that there is a general low awareness of information facilities amongst small firms.

This surely brings about the need for government agencies to identify the barriers to exporting encountered by small firms, particularly with regard to information acquisition, and to rectify it accordingly. O'Rourke (1985) notes that all firms rated the provision of foreign market information as the most important service governments could provide and that the chief drawback of exporting for the smaller firms is lack of resources and information.

Bilkey (1985) has put together four approaches to developing export marketing guidelines:

1. Develop methodologies for gathering firm-specific information
2. Develop international marketing models
3. Conduct export marketing experiments
4. Conduct periodic export marketing surveys. (Information gleaned this way could then be distributed to firms).

Unfortunately, as Bilkey (1985) points out, none of these approaches is really viable. The first involves identifying product-market-specific information which would be of great use, but which is a purely methodological approach capable of comparing relative profitabilities of different exporting methods.

The second (developing models) is theoretical, and fails to relate directly to export profitability.

The third (marketing experiments) would involve exporting, holding all exporting variables constant with the exception of one while thus observing changes in the firm's profitability. The problem here is that many variables are involved and it is highly unlikely that any firm (expecially small firms) would be in a competitive position to carry out such experiments.

The fourth method (surveys), while pertinent, cannot relate specifically to any one firm. There is also the problem of defining the information required which can be of use.

Therefore it would appear that none of these approaches is really viable and that firms will have to rely on their experiences and looking at the experiences of their competitors before committing themselves to exporting. However, if guidelines are sought, those outlined by Madsen (1988) in Table 3.4 are worth examining.

3.9 Summary

The various theories of exporting outlined in this chapter, were discussed and categorized using a four-part classification system proposed by Thomas & Araujo (1986). The first category, based primarily on the work of Simmonds & Smith (1968), views exporting as an innovative strategy, highly dependent on external initiating influences and on risk-taking in management. The second, anchored in the work of Johanson & Vahlne (1977), sees the lack of knowledge and resources as the most significant obstacle to exporting, rectified through knowledge development and market experience and thus leading to incremental increases in the scale of export/international operations. The third category, developed by Weidersheim-Paul et al (1978) studies the pre-export environment of the firm and concludes that the primary factors affecting it are the decision-maker, the firm environment and the firm. The dominant factors influencing pre-export behaviour were deduced to be the goals of the firm, product line, firm history and degree of extra-regional expansion. The fourth and final category views exporting as a stage hierarchy system, whereby each stage in the export development process is dependent on the previous. A detailed 5-stage hierarchy was developed by Reid (1981) comprising export awareness, export intention, trial, evaluation, and acceptance.

The primary objectives, which motivate a firm to export can be summarised as: profit sales growth, staying competitive, diversification as a means of stability, use of excess manufacturing capacity, risk diversification and lengthening of the product life cycle. Success in exporting depends, however, on management attitudes and on the development of an appropriate and strategic export plan to use the firm's resources, initiated by the proper combination of the relevant internal and external stimuli.

One approach to exporting is that of international standardisation of the marketing mix, which although cost-effective, can fail to accommodate for differing cultural norms and values, and consumer tastes. The key ingredient to success on foreign markets is, however, the development and adaptation of the correct marketing mix to suit the characteristics of each target market.

The primary export barriers can be summarised as follows; lack of knowledge and resources, different cultures, red tape, time constraints, and differing safety and quality standards. These highlight the need for flexibility within the marketing mix. For small firms, it is lack of relevant information which presents the chief obstacle, highlighting the need for government measures and initiatives to alleviate the problems of small exporting firms. Small firms, many of which become involved in exporting through unsolicited orders, must decide upon a course of either commited (people and resources) or uncommitted export behaviour. It is committed export behaviour i.e. planned market entry involving a strategic marketing plan which represents the key to success. Profitability factors must also be taken into account and they represent a selective approach towards the choice of both product and market, to which the importance of the width and depth of the product line must be added. For as summed up by Czinkota and Johnston (1983):

> "Successful exporters are those who concentrate not only on increasing the sales effort, but also spend considerable effort in gathering marketing information, collecting information on foreign business practices, and maintaining the continuous flow on communication."

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CHAPTER 4

Recent Export Initiatives in Ireland

4.1 Introduction

> "Successful enterprises in modern times are market driven, not product driven. Enterprises which assess the market most accurately and implement the most appropriate marketing plans generate the greatest profits". (Lennon, 1988)

Because of the relatively small size of the Irish market, many small to medium sized Irish firms must look towards export markets in order to grow and develop. The resulting problems, however, may be manifold.

"The resources required are generally large and there is a high risk factor involved. The small scale and limited resources of most Irish firms pose considerable constraints on implementing new market development and entry strategies and where such strategies are attempted, the resources of many of the firms involved are not utilised. Nonetheless, in order to expand, Irish firms are forced into international markets at a relatively early stage of development without having built the strong foundation in finance, marketing personnel and product development necessary for success on these markets" (Sectoral Development Committee, 1985).

Irish firms' exporting activities have tended to be constrained by lack of finance and also by inexperience. This has resulted in their having limited success competing against the financial might of many of the larger competitors in the market.

One strategy for dealing with this dilemma, forced to export to survive, but constrained by limited resources, is for small to medium sized firms to market their products and services jointly, sharing costs while reaping the rewards of a carefully constructed marketing plan. This is known as group marketing.

Another strategic option available to the small to medium sized firm is using a Trading House. This is a new concept in Ireland although existing in other developed countries such as Japan, Germany and the UK for years. It offers an alternative market entry strategy for Irish firms while at the same time minimising their risks as the Trading House takes title of the goods.

Both of these strategies are discussed in this chapter. It might also be seen that a learning curve would appear to exist as the group marketing scheme was initiated in the mid 1980s followed by the Trading House initiative aimed at the 1990s.

4.2 Group Marketing

According to CTT (The Irish Export Board), group marketing occurs when three or more firms supplying non-competing goods or services agree to co-ordinate and share the cost of their export marketing activities in order to enter a specific target market. In that way, firms who would not otherwise have the necessary knowledge or resources to succeed in an export market, can enjoy the advantages of the group effort and can export at a reasonable cost.

The rationale behind this approach to export marketing is that group marketing will help small to medium sized firms to overcome the problems normally associated with firms of this size:

- lack of management time
- lack of expertise
- lack of financial resources
- desire for planned growth

4.2.1 Background to Group Marketing in Ireland

In European and Scandinavian countries group marketing has been recognised as a potent and effective export marketing strategy since the early 1970s. Sweden and Denmark are particularly strong in this area and Italy and France have smaller operations with limited activity in foreign markets.

A similar approach was probably intended in the Irish Government's White Paper on Industrial Policy in 1984. It referred to the introduction of a "Group Marketing Scheme for Small Exporters". The White paper noticed a weakness in marketing for many small to medium sized firms and hoped that these firms could improve their chances of successfully penetrating foreign markets by collaborating with other firms with similar goals and marketing needs.

Under this initiative CTT was to identify potential groups of exporters of complementary but non-competing products. CTT would then employ a marketing/sales representative on behalf of the group and if necessary assist in finding a suitable overseas office facility.

Lennon (1989) has noted that since the scheme was introduced in 1984, 25 group programmes have been established. Unfortunately 8 were terminated within the first year of operation due to sales targets not being achieved or insufficient support from member companies.

4.2.2 The Group Marketing Concept

The group marketing approach is very attractive to small to medium sized firms as it helps to minimise some of the inherent weaknesses of these firms, for example, constraints imposed by size and limited financial and managerial resources. It concentrates on a strategy offering collective strength and synergy, thus providing group members with some of the advantages usually associated with larger firms.

Lennon (1989) has isolated some of the benefits of, and barriers to group marketing. These are outlined in the following two sections.

4.2.2.1 Benefits of Group Marketing

- Reduced marketing costs
- New market outlets
- Closer market outlets with end users and agents
- Improved marketing standards
- Improved production/packaging standards
- More accurate and frequent market feedback

It is worth observing that other "benefits" may include improved purchasing power, increased financial security and greater confidence amongst the individual firms. It is also vitally important to realise that marketing groups do not constitute an end in themselves, but are merely a means to achieve other objectives, namely:

- Increased efficiency in exporting
- Greater penetration of foreign markets, especially for non-traditional export goods
- Greater long-term security in exporting
- Improved profitability on export deliveries
- Rapid entry into exporting for new industries or older industries new to exporting

4.2.2.2 Barriers to Group Marketing

As with every situation where different groups of people are brought together, some with differing objectives and priorities, problems can arise. Group marketing schemes are no exception. Barriers which exist include:

- Attitudinal problems with group structures
- Lack of awareness of the benefits of a group approach
- Limited understanding of group inter-relationships
- Reluctance to change established marketing structures
- Preference to remain small and independent.

Very often a catalyst or group co-ordinator is an essential ingredient in the successful development of a group initiative. Any group member or an independent third party can undertake this function. This normally involves bringing interested parties together and establishing the objectives of the individual firms and therefore the objectives of the group as a whole. In Ireland this role is generally fulfilled by CTT who will also assist the group with research, staffing and establishing distribution facilities in the market place.

Nevertheless, as a concept, group marketing would appear to offer a logic that is persuasive - shared costs and information, hence reduced risk and individual expenditure for each participating firm. A noteworthy point is that it is advocated that the groups should consist of firms with complementary products. However, should the groups consist of competing firms, it might offer substantial savings in terms of marketing costs although it would present significant operating difficulties. However, perhaps an opportunity for synergy exists in this dangerous strategy.

4.3 Trading Houses

One of the major intermediaries in distribution is the trading company. The most famous ones are the general trading companies, or sogoshosha of Japan. These companies play a unique role in world commerce by importing, exporting, countertrading, investing and manufacturing. Because of their vast size they can benefit from economies of scale and achieve high rates of return despite very low margins. They are so successful that Japan's 9 major sogoshosha dominate 70% of Japan's total exports and have expanded domestic branch networks boosting domestic industry (Tokyo Business Today).

However, as MacDonnell (1988) points out, the Irish trading houses are not directly comparable with those found in other countries as the latter are mostly two way traders. The Irish trading house is aimed only at promoting exports and cannot import.

Due to this important distinction it is necessary to differentiate between the two in further discussing this topic.

4.3.1 <u>The Japanese Experience</u>

Cho (1984) notes that the Japanese general trading company, which is commonly referred to as the prototype of general trading companies, was modelled on the European Trading House. The European Trading Houses were established at the beginning of the 17th century with the intention of exploiting the colonies of their mercantilistic motherlands.

The European Trading Houses occupied up to 95% of the Japanese import market after the Meiji reform in 1868. Howard (1989) states that during this period the Japanese government began an aggressive campaign to modernise and expand industrial capacity following over 200 years of self-imposed isolation from the rest of the world. This involved establishing national trading companies such as Mitsui (1876), Mitsubishi (1879), and Nichimen (1892). From little acorns big oak trees grow.

Today the Japanese general trading houses can be viewed as leaders of loosely amalgamated groups of companies including manufacturing, shipping, insurance and banking companies according to Sarathy (1985). They are more than mere importers and exporters. Their operations may be viewed as having a multiplicative synergy effect on product and market expansion through their own functionally integrated operations such as those already mentioned. Another important one which could be added at this point is information gathering.

The keynote at Japanese trading houses is product and geographical diversification culminating in significant economies of scale in international trade and providing a full range of low cost export services to Japanese producers.

Lin and Hoskins (1981) note that the Japanese general trading companies perform seven basic functions:

- Trading
- Marketing
- Inventory
- Transportation and distribution
- Intelligence
- Financing
- Assumption of risks

Bearing these in mind, it can be seen that these general trading companies have many characteristics of a multinational corporation. This is particularly noticeable when their key characteristics as outlined by Sarathy (1985) are viewed. They are:

- International marketing intelligence
- Economies of scale
- Oligopoly or group organisation
- Government support
- Capital structure
- Financial intermediation
- Foreign direct investment
- Cultural specificity

Such has been the success of the Japanese general trading companies - 25% of Japan's GNP (Export Direction, 1988), - that policy makers in other countries have tried to copy them. Cho (1985) points out that this concept has been a disappointment in Korea despite an initially favourable response to the government's initiative.

In the United States, export trading company (ETC) legislation designed to improve the export performance of small to medium-sized firms was implemented in 1982. Howard (1989) notes that the hoped for increase in export activity was encouraged both by allowing manufacturing firms to work together within the ETC Act framework to collectively pursue export opportunities without fear of violating U.S. antitrust laws, and by permitting these firms access to additional capital through the equity participation of banks in American Export Trading Companies. Results to date have been disappointing. It is probable however, that these results are being judged alongside the Japanese results. However it must be remembered that the major Japanese general trading companies have a century's experience behind them. The American Export Trading Company Act is not even ten years in existence. Perhaps the ETCs should be viewed as offering evolutionary rather than revolutionary change.

A further factor to be considered is that of initial product type. Bello and Williamson (1985) have observed this and note that the selling of differentiated products requires a greater physical presence in foreign markets. See Fig. 4.1.

Suppliers Represented	Products Exported: Undifferentiated	Products Exported: Differentiated
Low export volume	Requires a less than average capability in promotion, market contact, and consolidation.	Requires an above average capability in promotion, but an average capability in market contact and consolidation.
High export volume	Requires a less than average capability in promotion, but an average capability in market contact and consolidation.	Requires an above average capability in promotion, market contact, and consolidation.

Fig. 4.1 - Service Requirements for American Export Trading Companies

Source: Bello and Williamson (1985)

They also point out that interdependencies must be examined to determine whether export services can be standardised across entire portfolios, or whether services must be individualised to specific foreign markets and products. Hence, the more diversified the product/market portfolio, the more complex the resource allocation decisions. By getting this right at the start, it should provide a solid foundation for further success.

4.3.2 The Irish Experience

A discussion of the Irish experience necessitates, first of all, a brief background description to the Special Trading House scheme. In CTT's Annual Review and Outlook 1988/89 Conor McCarthy notes that the scheme is a government initiative aimed at improving the export performance of smaller indigenous firms. Those firms awarded trading house licenses are firms skilled in various aspects of export marketing, and are empowered to purchase Irish products and sell them on wholesale markets overseas. To date fifteen firms have received licenses (See table 4.1 for a full listing) and there are currently four or five more trading house license applications in the pipeline and which are at an advanced stage notes Stanley, 1990. It is forecast that these firms will generate £100 million of new export sales over the next two years. The scheme is seen as a response to the need to increase the marketing orientation of Irish industry, and seeks to harness the ability and business acumen of license holders to facilitate the successful internationalisation of smaller firms.

Table 4.1 Licensed Special Trading Houses

Name	Products	Markets
Premier ITH	Primary food commodities, processed food, engineering products.	Europe, UK, USA, Germany, Japan.
Technology TH	Computer software.	UK and USA.
Campbell ITH	Food, drink, printing in relation to the food trade, textiles, giftware.	Germany, Middle East, UK and USA.
PARC ITH	Hospital equipment, software, pharmaceuticals, giftware.	Middle East, Far East, Africa, USA, Japan, Europe.
Killeen TH	Processed fish, chinawear, knitwear, carpets and clothing.	Japan, Pacific Rim countries.
Aylesbury TH	Joinery, steel, bricks, floor finishes.	UK and Europe
Trans-Atlantic TH	High fashion, processed food, furniture, giftware.	US and Canada
Nicky Wallace IT	Designer fashionwear.	US and Europe.
Equitas TH	High quality consumer products and specialist technical products.	US, Europe and Middle East.
Blarney Woolen Mills TH	Knitwear, giftware, clothing, jewellery.	UK and US
Walls TH	Construction materials and accessories.	UK, Europe, US and Canada.
Liazon TH	High Quality fashionwear.	US, UK, Europe.
Musgrave TH	Food, beverages, giftware.	US, Canada, Spain, Portugal, Japan.
Kerrygold TH	Farmhouse cheese, butter based biscuits, desserts and mineral water.	UK, USA, Benelux countries
Lianco TH	Milk products, processed cheese, moss peat, bark chips, processed seaweed products.	Central America, Far East, UK, France, Spain, Egypt.

Source: Stanley - Irish Times, June 1990.

Ideally, the trading houses should operate on a "market pull" strategy. What this essentially means is that they should act as catalysts, creating new export opportunities and locating Irish products to fill these market needs abroad. As noted earlier, precedents to this idea prevail.

In an interview with Brian O'Mahony (Technology Ireland, May 1988), the Minister for Trade and Marketing pointed out that 70% of Japan's exports are via trading houses while in West Germany they account for approximately 30% of exports and 20% in the U.K. It is foreseen that in Ireland also trading houses can become a formidable force in the continuing quest for new export markets.

In Ireland, the seeds of the trading house concept were sown in the Telesis Report (1982), and later both in the White Paper on Industrial Policy (1984), and in the Sectoral Development Committee Report on Marketing (1985). The White Paper on Industrial Policy noted that a particular weakness in Irish industry lay in the lack of marketing skills, which it saw as inhibiting the development of exports by indigenous firms. Comment upon particular problem areas associated with the internationalisation of small indigenous industry was also a theme of the Sectoral Development Committee Report. Both recognised the urgent need for the adoption of a market-led approach by Irish industry. The Special Trading House scheme is seen as an important initiative towards the fostering and fulfilment of the internationalisation opportunities available, yet for so long viewed as unobtainable by many small to medium sized Irish firms.

The Sectoral Development Committee (1985) notes that the identification and penetration of new markets generally requires large resources, and involves high risk factors. For many small firms seeking to internationaise, the problem of resource shortages is critical. These shortages manifest themselves in a number of areas such as finance, personnel skills and knowledge. Due to the small size of the majority of Irish firms, it is difficult to attain the basic economies of scale needed to support the process of export market selection and entry. Ireland as a nation is severely lacking in a suitable market support structure. When one considers how dependent the Irish economy is on international trade, some 300,000 Irish jobs depend on our exports, it is easy to see why the trading house concept has evolved.

The main aim of the scheme is to fill a structural gap in the country's export effort. Considering that roughly 60% of small Irish firms do not export at all (Irish Business, April 1988), the extent of this structural gap may be gauged. The establishment of trading houses is a practical example of an innovative approach to the challenge of solving our economic difficulties according to MacDonnell (1988). This scheme should also provide the necessary impetus to encourage indigenous industry, without the resources to export, to consider foreign sales. It is also a way of preparing for 1992, as by motivating smaller companies to export more economic growth should ensue. A further byproduct should be increased competitiveness.

The trading houses are licensed only to handle products from small to medium sized suppliers (firms employing less than 200 people). These would tend to be firms wishing to service markets beyond their present marketing capabilities. For such suppliers the trading houses will remove much of the financial risk in selling abroad as the trading houses are obliged to take title of the goods. They must also sell by wholesale - that is to a person or business using the goods for the purpose of a trade or undertaking and it may not be a manufacturer of these goods or any other goods.

4.3.2.1 Benefits Offered to Suppliers

The benefits illustrated here (table 4.2) are based on interviews personally conducted with executives in five of the trading houses. The five trading houses approached were Campbell International Trading House, Premier International Trading House, Killeen Trading House, Blarney Woolen Mills Trading House and Technology Trading House.

Table 4.2 - Benefits Offered by Trading Houses

- Entry into markets which would be almost impossible for small Irish companies to enter
- Relief from all export documentary requirements
- No debt collection problems, foreign currency transactions, etc.
- Efficient distribution systems
- More manageable and cost effective exporting for the manufacturer
- Reduced risk as trading house acts as a domestic buyer
- Suppliers paid a substantial portion of invoices immediately after despatch, thus improving working capital
- Good marketing expertise
- Experience, languages and financial backing
- Commitment - To ensure that each supplier's products receive undivided attention in the chosen target market an exclusivity contract is signed by both parties
- Greater exposure at trade fairs, exhibitions and support from ground personnel
- Reputation of the trading house.

Source: Interviews with Trading House Executives

As can be seen by table 4.2 the trading houses feel that they can offer quite a substantial number of benefits to the supplier. However, let us not be misled by these. The main objective of the trading houses is to realise maximum profits in the long term which is not always the same as maximising profits for their suppliers. Nevertheless, a good working relationship between supplier and trading house will yield increased sales and profits for both parties.

4.3.2.2 Problems Encountered to Date

Problems encountered by the trading houses are summarised in table 4.3.

Table 4.3 - Problems Encountered by Irish Trading Houses

- Suppliers not providing the goods on time or to specificaiton
- Longer sales cycles than in domestic market
- Products for Japanese market must be approved by the ministry - samples must be shipped out. This causes delays.
- Suppliers not willing to reduce margins when selling to trading houses despite being relieved of export overheads
- Organisation growing quickly - shortage of talented management
- Motivation of executives based in foreign markets
- Goods sold to trading houses are classed as domestic sales and thus incur the full 25% VAT rate.

Source: Interviews with Trading House Executives.

Another factor cited which could potentially pose a problem in the future is the amount of licences granted by the government. Due to the structure of Irish industry, there could be a lack of suitable products for a large number of trading houses. This should be considered by the government when issuing further licenses to ensure that all of the trading houses are capable of providing optimal services while ensuring healthy but fair competition.

Although the programme has only been in operation for two years, doubt already exists over the future of some of the trading houses. Stanley (1990) states that of the fifteen firms with licenses, roughly four or five could be considered to be well under way, five or six can still be deemed to be in the start-up phase and four are either not actively trading or seriously considering their future role.

As can be seen, the Special Trading House scheme has much to offer, although it is certainly not without its perils. One area in which it could be further strengthened is that the government give serious consideration to the possibility of amending present tax legislation so that the sale of goods from the supplier to trading house be classed as an export sale rather than as a domestic sale. This hinders firms already in receipt of Export Sales Relief in certain geographical markets from entering into contracts with trading houses due to the loss of Export Sales Relief available if they export directly. This could lead to many firms missing out on new sales opportunities, and is therefore worthy of consideration.

4.4 Summary

This chapter has focused on two strategies used by the Irish government to boost exports. The first is that of group marketing where a group of firms collaborate in an attempt to reduce costs in exporting. It is particularly attractive to small firms in that it minimises the constraints imposed by size and limited financial and managerial resources, allowing the firms some of the benefits enjoyed by larger competing exporters and foreign competition.

The natural progression from group marketing would appear to be that of forming a Special Trading House. Lennon (1988) notes that the emergence of Special Trading Houses is a positive step towards the development of independent export marketing firms. The Special Trading Houses should not be confused with group marketing programmes as they do not involve any collaborative or joint programmes between the firms. Rather, they are independent firms set up to purchase products from Irish manufacturers and sell them in overseas markets.

They further reinforce the need for specialist marketing skills. It is possible that group projects, where the group has set up a joint company, could develop into a Special Trading House if the necessary financing and marketing criteria were in place.

It is envisaged that trading houses will offer the kind of marketing skills and resources many small Irish firms cannot muster for themselves. Hopefully they will remove Ireland's weakness in marketing identified as far back as 1982 in the Telesis Report and subsequently in the White Paper on Industrial Policy in 1984 and the Sectoral Development Committee Report on Marketing in 1985.

Both schemes have been introduced and implemented with, to date, moderate success. Trading houses, however, offer the greater potential for future success and may, hopefully, set the scene for future exports and economic prosperity in Ireland.

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SECTION B : RESEARCH METHODOLOGY AND FINDINGS

CHAPTER 5

RESEARCH METHODOLOGY

5.1 Research Objectives

Given the inherent nature of the Irish economy and the size of Irish firms in general, it is highly unlikely that many will travel very far along the internationalisation path outlined in chapter two. This is primarily due to financial constraints. For this reason, research efforts were concentrated on a specific aspect of the internationalisation process open to all Irish firms - exporting. The research undertaken was industry-specific and confined to the Irish food and drink industry. Reasons for choosing this industry as a base within which to examine export strategies in Ireland included the following:

1. This industry is primarily indigenous and consists mainly of small to medium sized firms.

2. Exports count for an important percentage of the production in this industry and have, moreover, a vital role to play in the economic prosperity of the Irish economy.

3. The positive image abroad as a producer of high quality food

The principal objective behind the research conducted was to examine the export behaviour of small to medium sized Irish firms and to discover the factors relevant to their continued export success.

Research also aimed at extracting feedback on the Special Trading House scheme introduced by the Irish government to boost exports. In more detail, the research objectives may be outlined as follows:

1. Determining the reasons behind the decision of small to medium sized Irish firms to export;

2. Discovering the initial market entered (cultural proximity) and tracing the development of the firm since penetration of the initial market;

3. Finding out how committed these firms are to export markets;

4. Isolating important factors affecting export sales now, and pinpointing factors of potential importance for future consideration;

5. Identifying and evaluating the new initiative (Special Trading Houses) introduced by the Irish government to boost exports.

The achievement of the above five objectives will assist in the development of a greater awareness of the export entry strategies used by Irish firms for foreign markets. In addition, having identified factors influencing export sales, it will then be possible for firms and the relevant support bodies (CTT, CBF, BIM, Bord Bainne) to devise marketing strategies which fully utilise the favourable factors uncovered by this research and which avoid or counteract the negative ones. Hence attention can be focused where it is critically needed which, should, undoubtedly, lead to improved planning of market entry strategies culminating in better sales via increased penetration. This will not only prove beneficial to firms but will also have a positive effect on the Irish economy as a whole.

5.2 Research Design

> "Research design is the specification of procedures for collecting and analysing the data necessary to help identify a problem or to help solve the problem at hand, such that the difference between the cost of obtaining various levels of accuracy and the expected value of the information associated with each level of accuracy is maximised."
>
> (Tull and Hawkins, 1984)

Tull and Hawkins further emphasise this by noting that research design should involve decisions on what type of data needs to be collected and that this should help identify or solve a specific problem. It should also have a value and should assist in decision-making processes. Finally, the goal of applied research is to generate the most valuable information in relation to the cost of generating the information.

The purpose of this study, examining export behaviour and identifying and analysing factors crucial to the success of Irish exporting firms in the food and drink industry, would tend to make it somewhat exploratory in nature. It can also be classed as descriptive in that some research variables were obtained from other studies, some were based on preliminary field research while others were derived from exposure to the exporting environment. Thus a research framework evolved.

5.2.1 Data Collection

In assimilating data to achieve the research objectives, the choice available was either to collect new data or, alternatively, to search out existing data and transform it. The collection of new data seemed to be the most appropriate option as the latter would be largely a duplication of effort. Moreover, the data would not be tailored to suit the needs and objectives of this research nor would it be readily available to the researcher. Therefore a new survey was undertaken.

5.2.1.1 Sample Selection

In trying to choose an appropriate cross-section of firms which export from the Irish food and drink industry, again there were two options. Firstly, it would have been possible to approach numerous firms in this industry determining whether or not they exported, noting those that did. Alternatively, if a readymade framework outlining food and drink exporters could be found it would save a lot of time and expense.

After some research, an appropriate frame of references was discovered. This was the "Irish Food and Drink Exporter's Directory, 1989", published by CTT (The Irish Export Board). This directory comprised a comprehensive list of exporters grouped together by product type - eight main categories detailing each firm by name, address, telephone, telex and fax numbers, size, product profiles and contact names. The directory lists 243 firms involved in exporting in the Irish food and drink industry. It was thus decided that its entries in the directory would form the sample to be approached.

Once the sample had been chosen it was then subdivided by firm size to allow better interpretation of the data collected. The Industrial Development Authority (IDA) offers a general classification of firms based on size as follows:

Small	1-50	employees
Medium	51-200	employees
Large	201 plus	employees

After examining the structure of the Irish food and drink industry the definition of the small firm was considered too broad for this research. Therefore it was decided to subdivide it as follows:

Owner/Family based	1-10
Small	11-30
Small/Medium	31-50

It was also decided, due to the presence of some multinationals and large co-operatives, to subdivide the large firm sector too. This is as follows:

Large	201-499	employees
Very Large	500 plus	employees

It was hoped that by making these changes to the IDA framework, analysis and interpretation of the data would be more accurate, thus avoiding overgeneralisation in the findings.

5.2.1.2 Research Instruments

The data collection instruments used were a mail questionnaire and a number of interviews.

Questionnaire

The questionnaire (Appendix 1) may be divided into four basic interrelated categories as outlined in figure 5.1. These are as follows:

1. The export development of Irish firms in the food and drink industry.

2. Basic firm characteristics and their internal structure pertaining to export activities.

3. Factors influencing export activities.

4. The attitudes of Irish food and drink exporters towards the Special Trading House scheme.

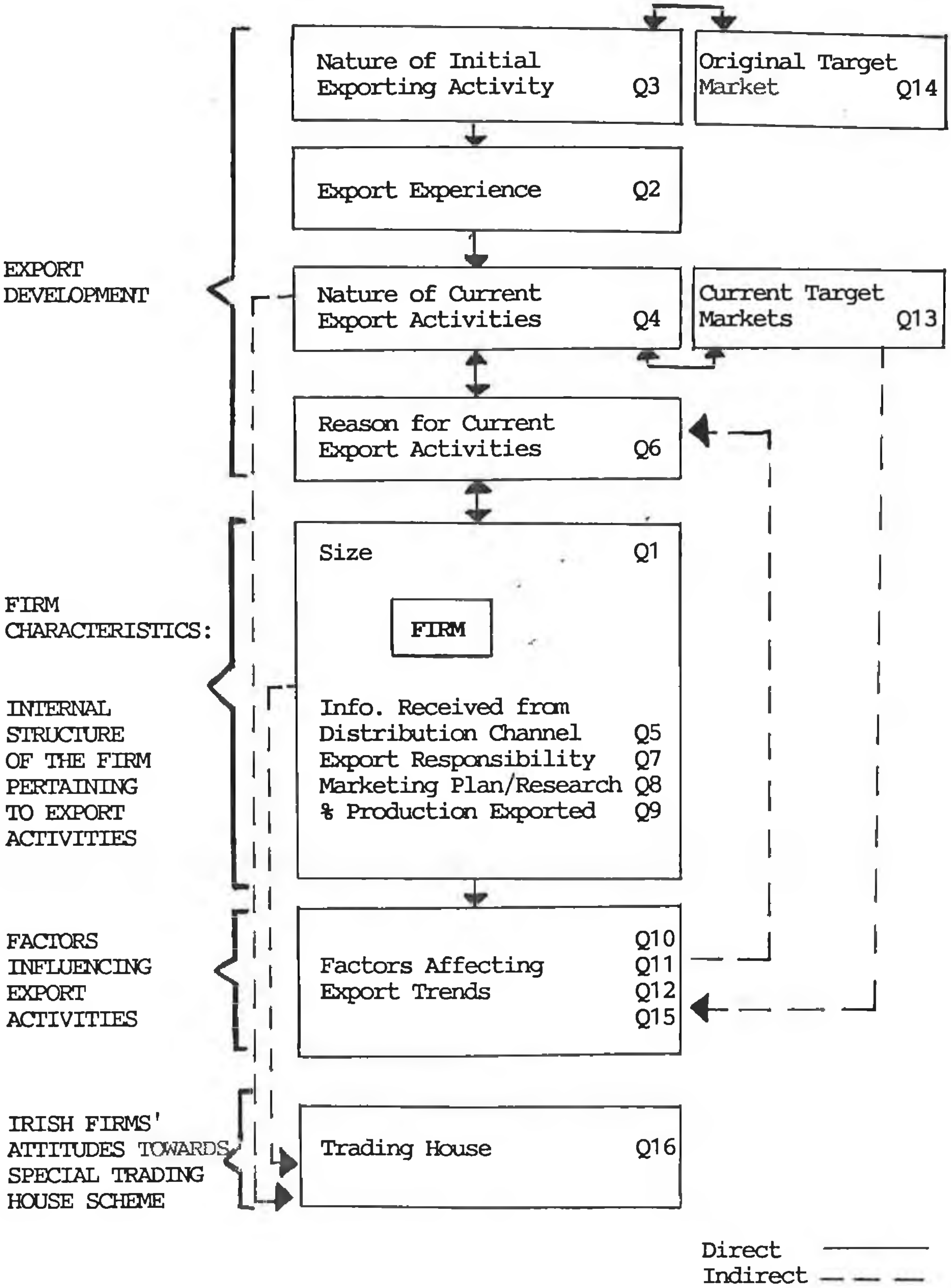

Fig. 5.1 - Diagram of Questionnaire Structure and its Direct and Indirect Interrelationships

A pilot survey was conducted for two primary reasons:

1. To establish a target response rate;

2. To verify the userfriendliness of the questionnaire.

In mid May 1990, a questionnaire and covering letter (Appendix 11) was mailed to the initial sample of 30 firms, randomly selected from the 243 firms listed in the Irish Food and Drink Exporter's Directory. To improve the response rate, a stamped addressed envelope was enclosed with each questionnaire. Approximately two weeks after mailing, follow-up phone calls were made to those firms from whom a completed questionnaire had not yet been received, in order to further improve the initial response rate. The resulting overall response rate was an encouraging 50%.

Results from the pilot survey indicated that only minor changes to the questionnaire were necessary before conducting the full scale survey. These changes, however, did not exempt data obtained in the pilot survey being included in the final analysis. The sample sizes and response rates are summarised in table 5.1.

Table 5.1 - Sample Sizes and Response Rates

No. of firms qualified		243
Firms in pilot survey		30
Total no. of firms surveyed in full-scale survey		213 (100%)
No. of responses received		112 (53%)
No. of invalid responses due to firms no longer exporting	13 (6%)	
Total no. of usable responses		99 (47%)
Add responses from pilot survey		114 (48%)

In order to maximise the response rate it was necessary to keep the questionnaire short and simple. Unfortunately, it was therefore not possible to include very probing questions and the resultant data is quite quantitative in nature. However, a number of interviews were conducted to supplement the questionnaires and provide a further insight into exporting.

Interviews

The interviews were conducted in two phases with two distinct objectives in mind. The first phase involved interviewing a selection of trading house executives to discuss the benefits and problems of the

Special Trading House scheme (Chapter four). These interviews tended to be direct and unstructured, thus allowing room for exploratory discussions. A total of five interviews was conducted in phase one.

The second phase of interviews was based on the responses to the completed questionnaires. These were direct and unstructured allowing further and more detailed questions to the answers given in the questionnaire, in particular those concerning the factors affecting export sales. These are further discussed in chapter six. In total, four interveiws were conducted in phase two.

5.2.1.3 Data Processing

A total of 114 questionnaires were completed and coded. A further 13 questionnaires, although returned, were omitted from the analysis as the firms were no longer exporting. The coding was done manually by the author.

A number of statistical techniques were required for this study in the area of univariate analysis. These included crosstabulations, relative and cumulative. Frequency distributions and various other summarising statistics such as mean, mode, median etc. The statistics package used to analyse the data was SPSS-X (Statistical Package for the Social Sciences).

5.2.1.4 Possible Errors

It could be argued that the sample selection is not purely scientific. However it is believed that a similar framework to the one selected could have been built by the author, but only at great time and expense. It is also noted that the sample framework used was published by CTT (The Irish Export Board), thus validating its use for this survey. Therefore, a fair tradeoff would appear to exist between scientific selection and time and expense in using the Irish Food and Drink Exporter's Directory, as a sample framework.

Another problem could arise with the selection of firms interviewed in phase two of the interview process. It might be argued that they are too few in number and are not representative of the industry as a whole. However, it must be remembered that these interviews are used only to supplement the data from the questionnaires and are not used at all in drawing conclusions.

As all the interviews conducted were direct and unstructured in nature, it is possible that a certain amount of interviewer bias might have been present. However, the advantage in gaining richer and more complete information which might not have been possible using a direct structured interview, outweighed the aforementioned risk.

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CHAPTER 6

FINDINGS AND CONCLUSIONS

6.1 Introduction

The purpose of this chapter is to present and interpret the results of the data collected in the survey. More specifically, the statistical analysis is used to reveal evidence which can be used to answer the questions raised in the research objectives outlined in chapter five. Therefore this chapter shall consist of five sections.

The first four sections will deal with the research objectives. As the questionnaire was designed with these objectives in mind it would seem appropriate to use the headings put forward in structuring the questionnaire (Fig. 5.1) as a framework within which to discuss the findings. The final section shall review the results of the analysis.

It is opportune at this juncture to show the breakdown of responses to the questionnaire by industry sector (Fig. 6.1)

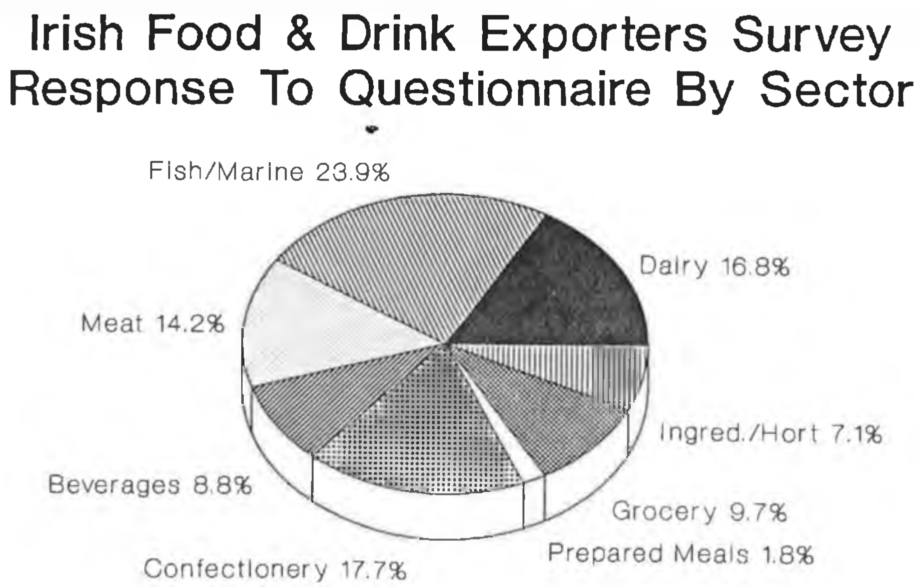


Fig. 6.1 - Survey Response by Industry Sector

Overall response rate of 48% coupled with the good cross-sectional breakdown of the responses offers a good basis from which to draw conclusions.

NB: Some of the figures in the analysis will add up to more than 100%. This is due to some firms giving multiple answers.

6.2 Export Development of the Firm

This section will deal with the questions raised by the first two objectives:

1. Determining the reasons behind the decision of small to to medium sized Irish firms to export.

2. Discovering the initial market entered (cultural proximity) and tracing the development of the firm since penetrating the initial market.

The reasons why Irish firms have entered export markets is shown in Figure 6.2. It is noticeable that the two most important reasons cited, home market too small (71%) and firm growth (56%) would appear to reflect the size of the Irish economy and its relatively small consumer base. It could also serve as indicative of Ireland's strength as a food-producing nation.

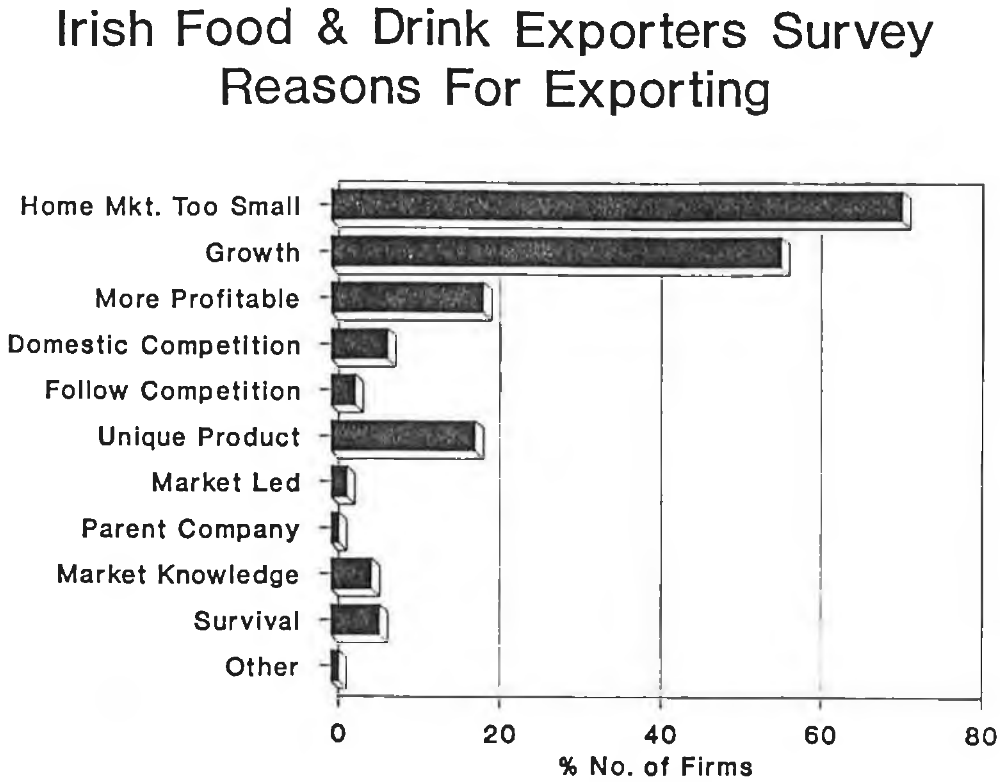


Fig. 6.2 - Reasons for Exporting

The problems associated with having quite a small domestic market are universally applicable to all food and drink industry sectors. However in terms of exporting for firm growth, the ingredients and horticulture sector (50%) and the confectionery sector (46%) are to the fore. This would appear to indicate a very positive approach towards export markets in both of these sections, although the meat (35%) beverages (32%) and fish/mariculture (34%) are not too far behind in this respect.

Higher profits from export operations (19%) is an important export factor in the fish/mariculture sector whereas having unique products (18%) is noted as a distinct asset in exporting in both the dairy and beverages sectors.

Irish firms' first foray into export markets is illustrated in figure 6.3. It is a positive sign that 77% of Irish firms have become involved in export marketing through their own efforts. Not only does it show an awareness of the limitations posed by the small domestic market but it demonstrates a willingness to be pro-active rather than reactive in approaching this problem.

Irish Food & Drink Exporters Survey
First Involvement in Exporting

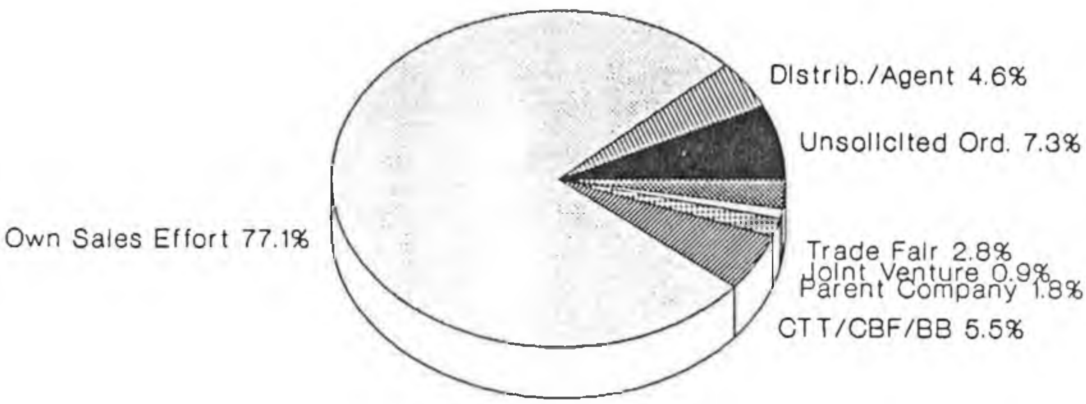


Fig. 6.3 - Irish Firms' First Involvement in Exporting

When this is examined by sector it is noticeable that firms in the dairy sector are much more receptive to using alternative approaches to market entry rather than basing it entirely on their own sales effort. Only 37% of firms' first export involvement in this sector came from their own sales efforts whereas in the beverages sector it was 70% and all other sectors approximately 80% or higher.

Figure 6.4 shows how firms are exporting at present. Most firms use more than one method of exporting but nonetheless it is important to note the relative importance of direct exporting (82%). It offers the firm much more control over the elements in the export marketing mix than does the use of agents (37%) and distributors (27%), hence its popularity.

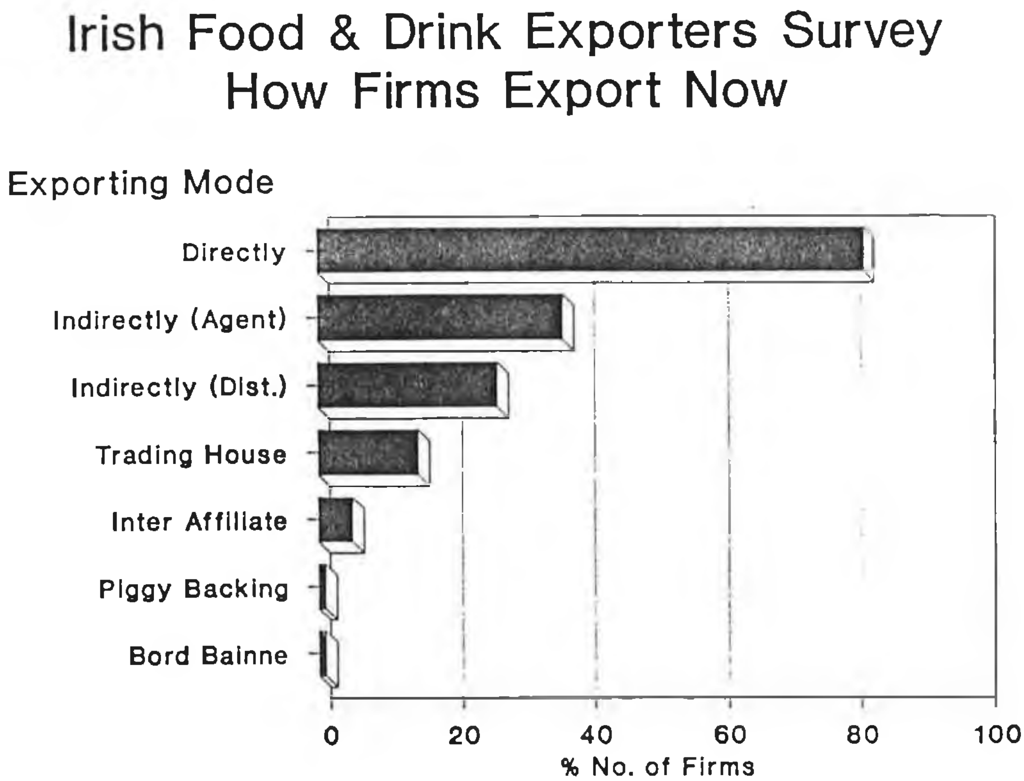


Fig. 6.4 - Firm Export Behaviour Now

It is worth observing the emergence of the trading house as another form of exporting. Since their introduction in 1988, their use by firms has risen steadily to 18%. A further feature highlighted by figure 6.4 is the use of inter affiliate sales (5%). This could pose a serious threat in the future in terms of transfer pricing. However, this is unlikely given the nature and size (Fig. 6.8) of the majority of Irish firms in this industry. A breakdown of exporting mode by sector is given in table 6.1.

Table 6.1 - Sector Analysis of Export Mode

Sector	% of Firms Using Each Export Mode						
	Directly	Agent	Distributor	Trading House	Inter Affiliate	Piggy Banking	Bord Bainn
Dairy	78	32	42	21	-	-	5
Fish/ Mariculture	88	22	7	7	-	-	-
Meat	94	25	19	6	-	-	-
Beverages	80	40	70	30	-	-	-
* Meals	100	-	50	-	-	-	-
Confectionery	60	70	30	20	15	5	-
Grocery	82	19	55	27	19	-	-
Ingred./Hort.	100	25	13	-	-	-	-

* Subsample representing this sector too small to draw any reliable conclusions from.

In figure 6.5 it is possible to gain an insight into the export experience, in terms of years, of the food and drink industry. It can be seen that over 50% of all firms have been exporting for 10 years or less. This figure is somewhat startling when Ireland's agricultural background is taken into account. It can only be assumed that many other firms have ceased exporting or even trading altogether.

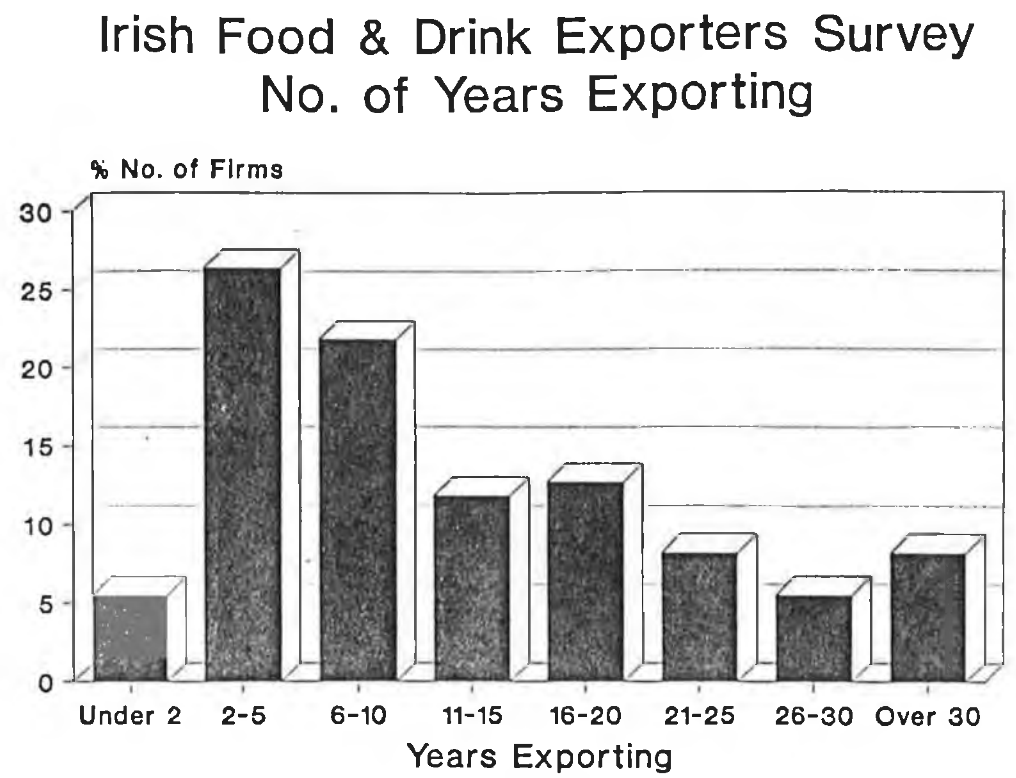


Fig. 6.5 - No. of Years Exporting

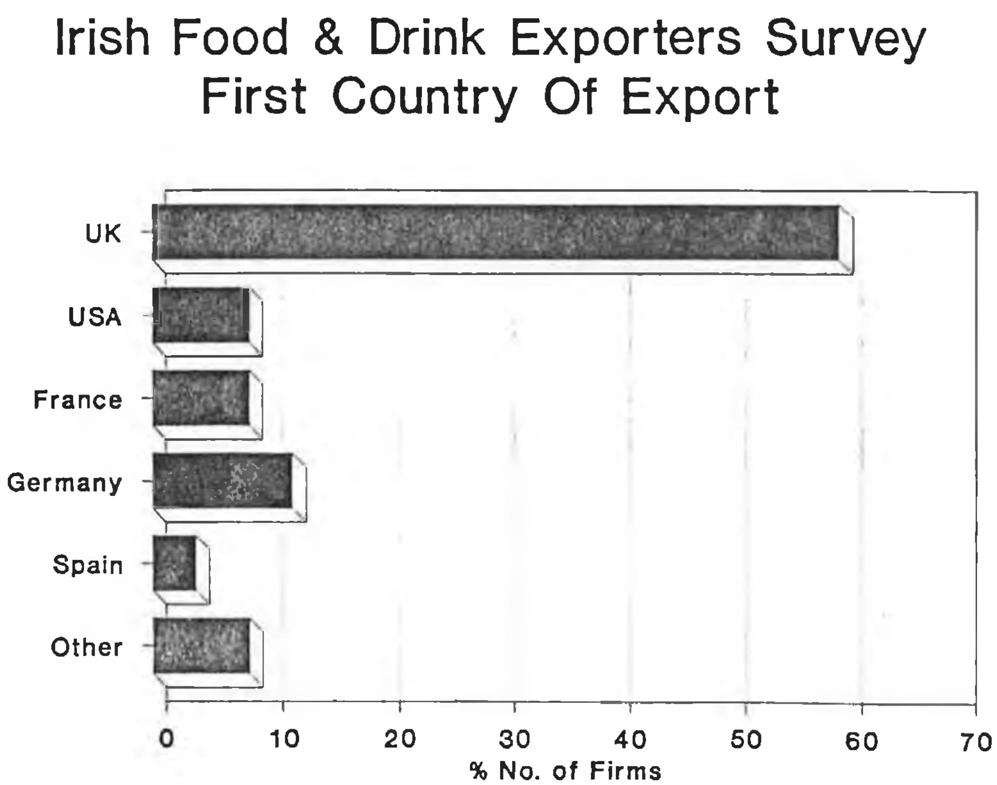


Fig. 6.6 - First Country Exported To

As can be seen in figure 6.6, almost 60% of all first export orders went to the U.K. This would tend to support the cultural proximity scenario, noted in chapter one, citing that trade is most likely to flourish between countries of similar socio-economic backgrounds. Distribution would also appear to be a significant factor for firms in the start up phase of exporting. This is shown by the fact that 90% of first exports have gone to the UK and mainland Europe, rather than more distant countries.

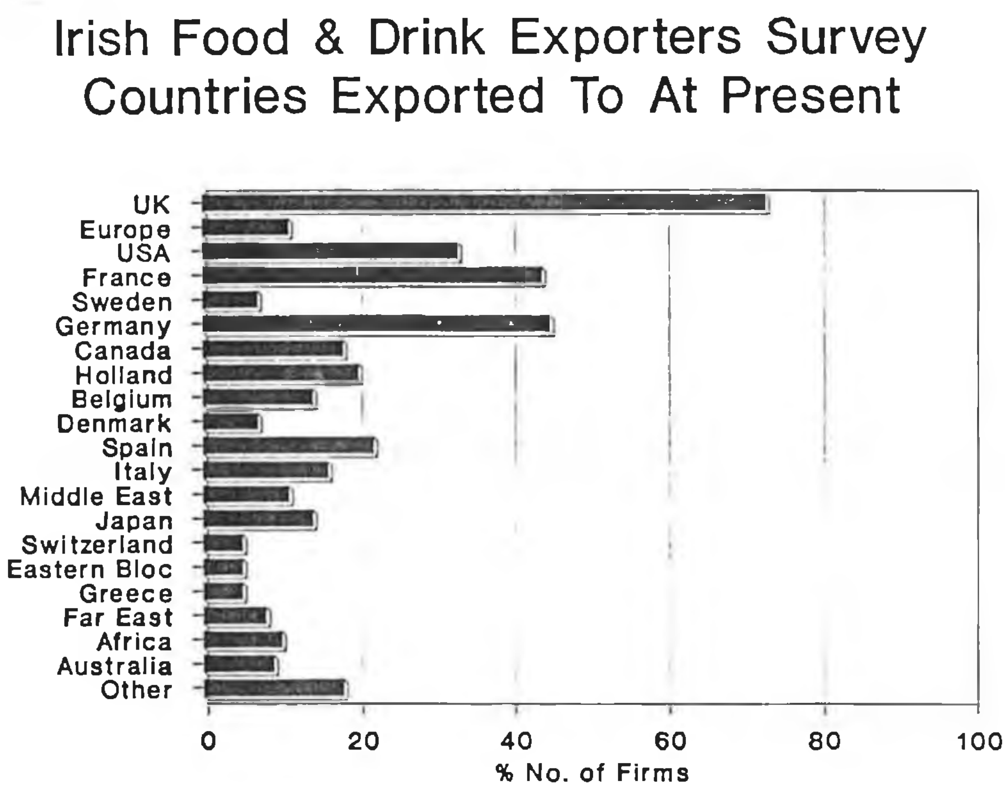


Fig. 6.7 - Countries Exported To At Present

Once export experience has been gained it is noticeable that the exporters' horizons have widened as they become more confident in their ability to market their products abroad. This is illustrated in figure 6.7, as firms extend their export activities globally.

The four most important markets for Irish firms are:

1.	U.K.	- 73% of firms export to the UK
2.	Germany	- 45% of firms export to Germany
3.	France	- 44% of firms export to France
4.	USA	- 33% of firms export to the USA

It is still nonetheless significant that, despite the numerous markets exported to, Irish firms are still heavily dependent on the UK market. A further cautionary note here is that the UK is not a member of the European Monetary System (EMS). Currency fluctuations due to this can cause cost factors and prices to change which in turn can have an adverse effect on export figures to the UK. It would therefore be prudent for Irish exporters to widen their export base, thus reducing dependence on any one market.

6.2.1 Rowntree Mackintosh Ireland

Rowntree Mackintosh Ireland are manufacturers of high quality confectionery. They have been manufacturing since 1926 but have only recently embarked on the export trail. Since they have been exporting for less than one year, they are an ideal candidate for examination in terms of the problems associated with the commencment of export activities.

CTT were instrumental in Rowntree Mackintosh's decision to export. Rowntree Mackintosh were invited by CTT to participate in the ISM food fair in Cologne (West Germany). A trading house also saw potential for Rowntree's products and contacted them. This trading house now distributes Rowntree Mackintosh products in a particular market in which it has expertise. It is pointed out that trading houses are convenient for new exporters, and in some cases are necessary for certain markets.

Rowntree Mackintosh are at the stage now where they can choose their export entry modes and have decided that it is better to export directly, if possible, as it offers more control and commitment to the markets. It is noteworthy that they look for markets which demand the least amount of alteration to their marketing mix. This is to ensure minimisation of costs should the export market prove unsuccessful.

One of the main problems, or rather challenges, noted by Rowntree Mackintosh is that of freight and distribution. During the initial stages of exporting, basic distribution problems such as establishing the number of cases a container can hold, freight and storage costs, and distribution rights, can prove to be considerable.

Of note also, is the importance of information flow from distribution channels. Rowntree Mackintosh have already discovered that certain ingredients of their products have to be removed or substituted for one market and, also, that their packaging for one product size, is not acceptable in another market. This is vital information for any firm which intends to export.

Although only exporting for less than a year, it is evident that Rowntree Mackintosh have encountered many of the problems associated with export development - choice of market, choice and evaluation of distribution methods, alterations to the marketing mix, distribution logistics, and control/risk factors. Quite clearly these are obstacles which the majority of aspiring Irish exporting firms would encounter and which they must skillfully negotiate before deeming themselves a success on export markets.

6.3 Firm Characteristics - Internal Structure of the Firm Pertaining to Export Activities.

This section will deal with the third objective:

3. Finding out how committed firms are to export markets.

The Irish food and drink industry consists both of firms which are totally independent and of others which are members of groups. Some of these groups are multinationals while others, most notably co-ops, are purely indigenous. Thus employment was examined first by firm and then by group. Overall, 34% of all firms surveyed were members of a group.

Employment is somewhat polarised when examined in terms of the firm. This is illustrated in figure 6.8, which shows that 27% of firms employ between 51-200 people (medium size) and 25% employ between 1-10 people (very small). [See firm size definition, chapter 5]

The survey also indicates that over 50% of all firms in the Irish food and drink industry fall into the "small firm" category as defined by the IDA ie 1-50 employees. Moreover, results reveal that this percentage is primarily made up of firms from the fish/mariculture sector (42%), of which an astounding 93% of those surveyed were in the "small" category. Of that 93%, a further 52% employ between 1-10 people, only. Less than half of the firms in all other sectors fall into the "small" category thus indicating the predominance of medium/large firms exporting in these sectors.

Fig. 6.8 - Firm Size (Employment)

Firm size can also serve as a good indicator of resource availability. Of those surveyed, 52% of firms in the fish/mariculture sector are in the "very small firm" bracket (as defined earlier by the author) and a further 33% in the "small" bracket. Thus a lack of resources and the probability of high use of indirect and cheaper modes of exporting is to be expected. As can be seen from table 6.1 this is not the case, with 88% of firms in this sector exporting directly. This being said, and given that all other sectors with the exception of meat have broader distribution bases, it would indicate the existence of special distribution needs in the fish/mariculture sector which agents/distributors or trading houses can not fulfill.

These figures are a direct reflection of the desire expressed in the survey among fish/mariculture exporters to maintain as much control as possible of the distribution channel and the need for "personal contact" with the importer. This is chiefly attributable to the highly perishable nature of fish/mariculture produce and the avoidance of any form of (middle-man) delay or intervention. The survey did, however, reveal a willingness within this sector to form co-operatives and perhaps, thus, to engage in group marketing schemes which would bring many of the advantages in terms of information acquisition and risk reduction while still maintaining distribution channel control.

It must be noted that similar trends were recorded among firms in the meat sector with 94% of firms exporting directly. Again, this can be chiefly attributable to the highly perishable nature of the product in question and the fact that 61% of those surveyed highlighted product quality as the primary selling factor.

When firm size is examined by group (Fig. 6.9), 13% of the survey respondents were firms of "group" nature. Of those, 40% employ 500 or more people, of which 53% is divided equally between the dairy and confectionery sectors. The fact that 27% of all groups of 500 people or more are operating in the dairy sector, serves to highlight the extreme polarity within this particular sector. Survey results show, at the other extreme, that 40% of all non group-member firms employ fewer than 10 people, thus illustrating a tendency towards very small, independent firms and very large group ventures. This reflects other trends revealed by the survey whereby smaller firms in the dairy sector pinpointed "uniqueness" as a key selling factor which would indicate the predominance of niche markets among small firms. Among larger groups, however, the emphasis was on quality and price, promoting the conclusion that groups comprise more standardised products eg butter. The survey also revealed a higher export percentage among the former, again supporting the idea that groups may tend to comprise firms producing the more standardised product, generally with an already established domestic market.

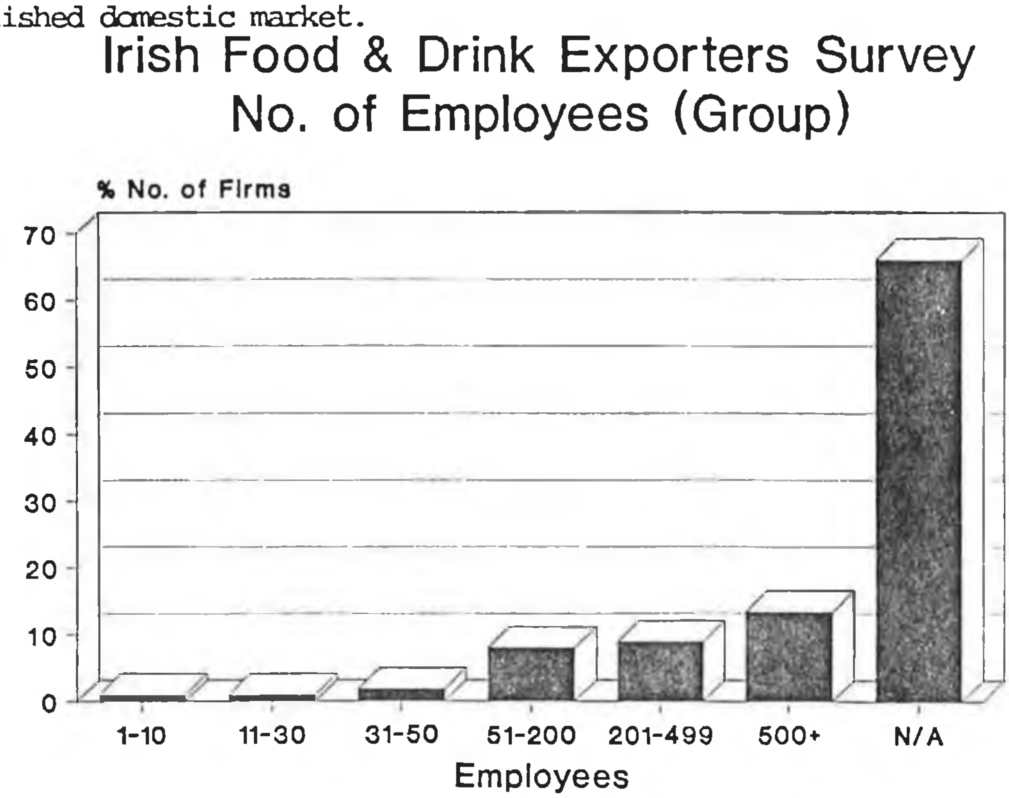


Fig. 6.9 - Firm Size (Employment by Group)

To be a successful exporter it is necessary to have good information about foreign markets and operations. 80% of firms say that they receive useful market information from their distribution channels (Fig. 6.10). This is further broken down in table 6.2 showing the percentage of firms receiving useful information from each distribution channel.

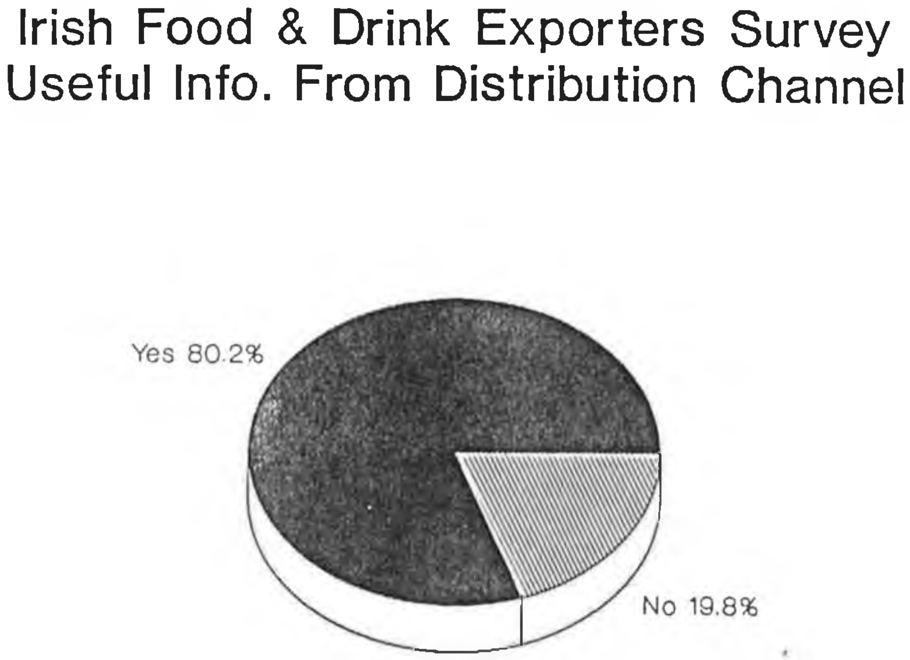


Fig. 6.10 - Receipt of Useful Information from Distribution Channel

Table 6.2 - Percentage of Firms Receiving Useful Information from Each Distribution Channel

	% Firms Receiving Useful Information	% Firms Not Receiving Useful Information
Direct	82%	18%
Agent	78%	22%
Distributor	83%	17%
Trading House	88%	12%

The emergence of the trading house is reflected in table 6.2. They are perceived by 88% of all respondents as providing the most useful market information. Whether or not this will be sustained will be discovered in future research. It is also noticeable that agents provide the least amount of useful feedback from foreign markets. This may be attributable to the fact that they may carry competing lines and also that they operate on a commission basis. This is also reflected in table 6.1 which shows a generally low use of agents compared to distributors and direct exporting.

Survey results have also revealed that small firms (1-10 employees) constitute 52% of all firms not receiving useful information from their distribution channel. At the other extreme, however, only 6% of groups are not in receipt of useful information from their distribution channel. Of signifance, although not surprising, is that as firms gain experience in exporting, they also gain an increasing awareness of the importance of the flow of useful information, vital to the success of any exporting venture. With this grows the creation of information collection systems, and thus, the flow of useful information from export markets increases. This is also indicative of a certain level of commitment to these foreign markets.

In the sphere of executive responsibility, the majority of respondents (44%) named the managing director as having sole executive responsibility for exporting (Fig. 6.11). This feature predominates to the largest extent in the fish/mariculture sector, yet again reflecting the prevailance of small firms in this particular sector.

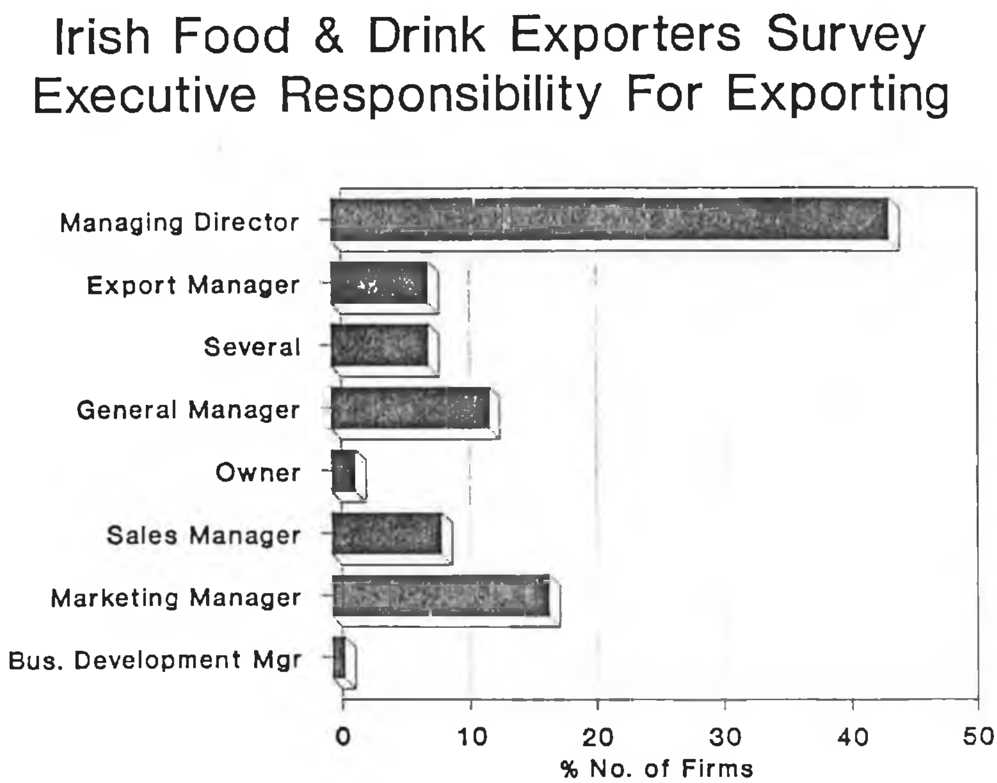


Fig. 6.11 - Executive Responsibility for Exporting

18% of respondents allocate export responsibility to marketing managers and a further 8% to export managers. These consist mainly of medium to large firms, once more indicating the importance of resources in providing constant attention to export markets.

The beverages sector dominates in this respect, with 66% of these firms displaying evidence of advanced export/marketing divisions (i.e. 44%: marketing manager, and 22%: export manager). This strongly reflects the brand-orientated nature of this sector and the importance of brand management in export success, as confirmed in other sections of the survey results. Moreover, this highlights the significance of export markets as evidenced by the fact that 60% of firms operating in the beverages sector export over 60% of their total production, of which 50% export 90-100% of total production. These figures indicate a heavy dependence on, and thus commitment to, export markets.

The Irish food and drink industry's dependence on export markets is clearly illustrated in figure 6.12 which shows that 32% of all respondents export over 90% of their production. Only 13% and 14% export under 10%, and 10-19% of production respectively.

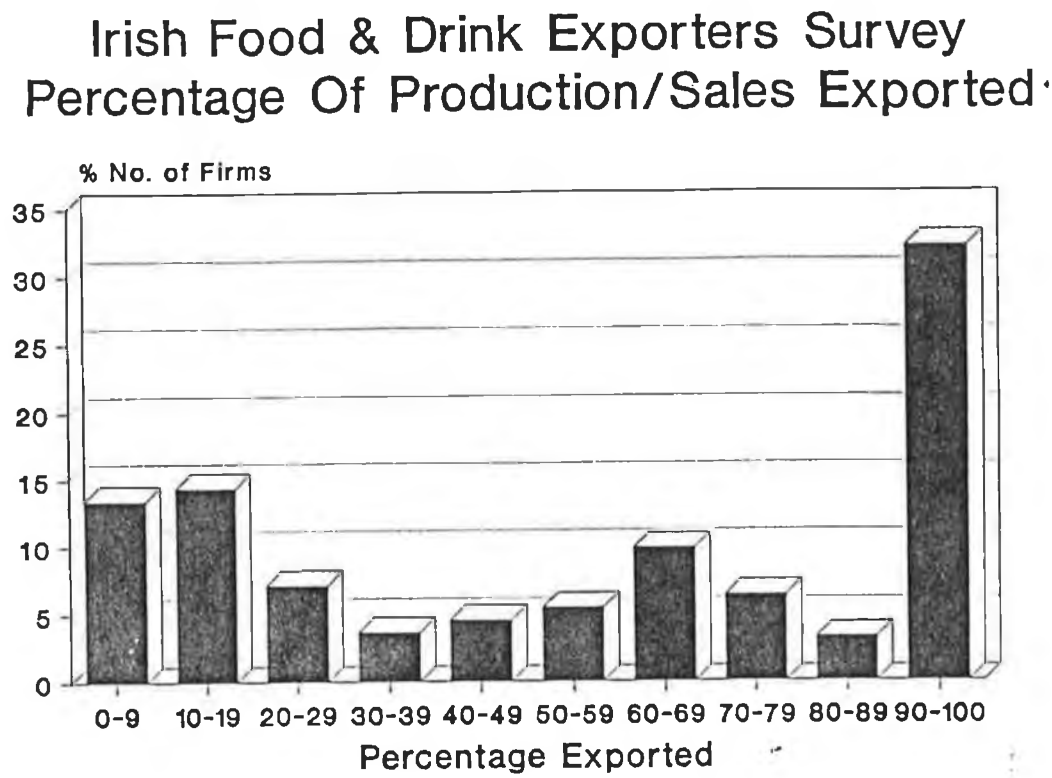


Fig. 6.12 - Percentage of Production/Sales Exported

When these statistics are examined in terms of firm size, the only conclusions of note are that almost 82% of medium sized firms export over 50% of their production and that 60% of groups export over 60% of their production, indicating that the majority of medium/large firms/groups produce predominantly for the export market and highlighting the need for export planning.

Sectorally, 56% of fish/mariculture firms are almost entirely dependent on export markets, exporting 90%-100% of production. 50% of meat producers also export on this scale. Such dependence on foreign markets may prove hazardous. This has been highlighted recently in the meat sector which exports a high percentage of its production to Iraq. Due to the trade embargo now imposed on Iraq, these firms stand to lose a lot of revenue potentially yielding financial disaster for many. Thus, in order to minimise risk, dependence should be distributed over as large a base as possible.

The apparent dependence of the Irish food and drink industry on export markets would tend to infer that the majority of firms have drawn up formal export marketing plans. It is thus somewhat disturbing to note that only 59% of all firms do actually have formal export marketing plans (Fig. 6.13) [Note Fig. 6.14 also].

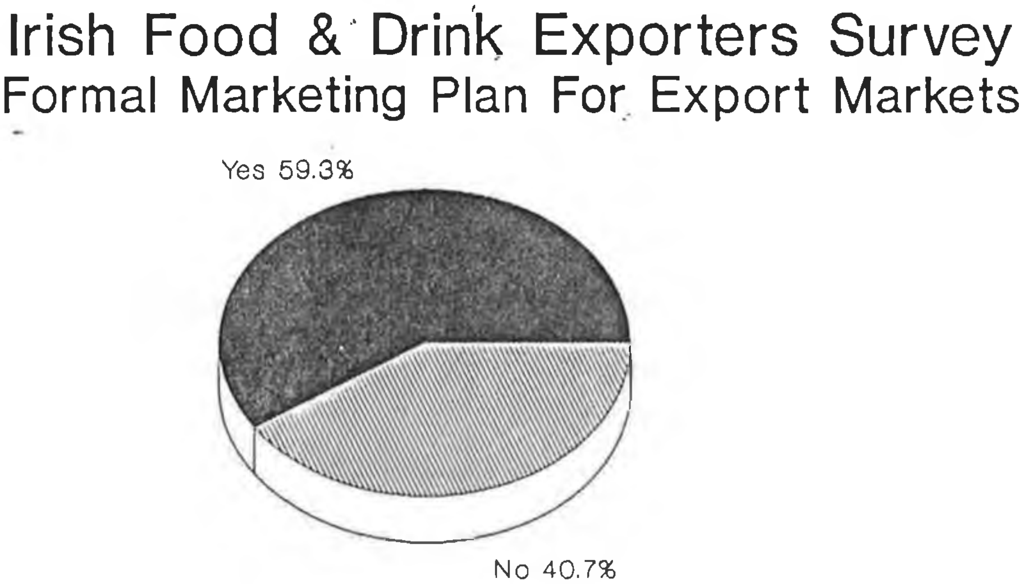


Fig. 6.13 - Formal Marketing Plan for Export Markets

When analysed by sector, results reveal that 80% of confectionery and beverages, 75% of ingredients and horticulture and 68% dairy firms all have marketing plans related to export markets. A distressing factor is brought to light when examining the fish/mariculture sector. In a sector so heavily dependent (90-100%) on export markets, 70% of firms do not have a marketing plan for export markets whatsoever, a disturbing statistic, revealing a rather ad-hoc approach to exporting. This may be chiefly attributable to the relatively small size of the firms comprising this sector. Nonetheless, a drastic change in the exporting approach of these firms as regards export planning is immediately required if risk minimisation and increased likelihood of controlled success are to be achieved. Market information should play a key role in this respect.

Of the respondents basing export activity on a marketing plan, it is encouraging to note that almost 77% base that plan on systematic market research (Fig. 6.14) [Note Fig. 6.13 also].

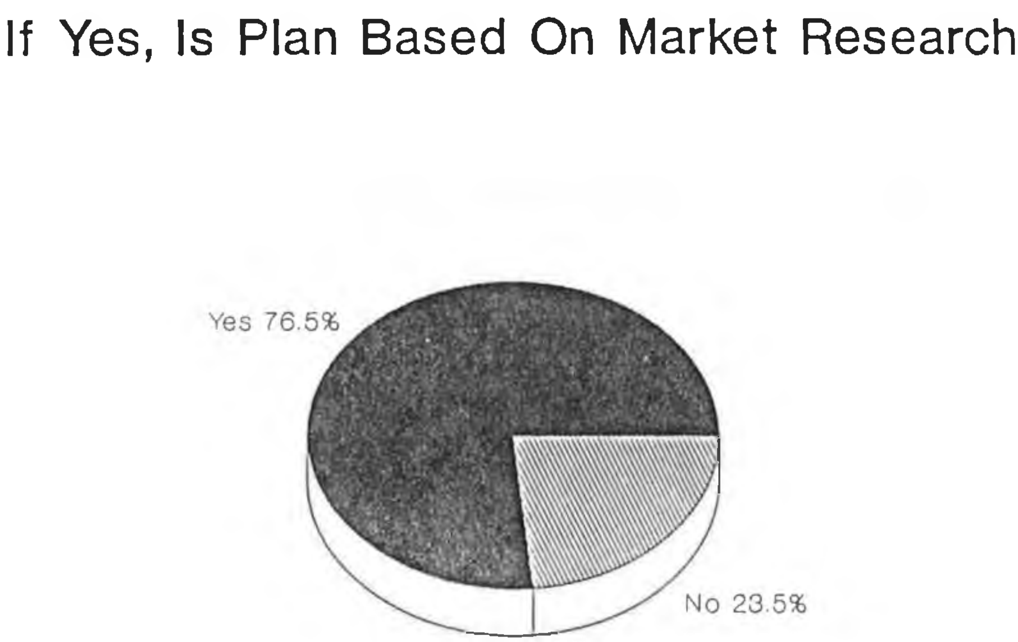


Fig. 6.14 - Use of Market Research in Formulating Export Marketing Plan

In most sectors, between 75% and 100% of firms using a marketing plan make use of market research, on which to base the plan. The exception is the confectionery sector at 56%. It is important to note that 35% of firms in this sector name quality as a crucial factor in overseas product attractiveness, and 30% cite product uniqueness as fundamental to success. As quality is a factor that is important across all sectors, product uniqueness might explain the relatively low usage of market research. It is possible that by concentrating efforts on unique products, firms are setting new market trends as opposed to using market research to pinpoint current or upcoming trends around which they can plan. Hence the firms maximise their own capabilities and strengths rather than worrying overly about external influencing factors. (Table 6.3 shows the use of marketing plans and market research, by sector)

Table 6.3 - Sectoral Analysis of Export Marketing Plan and Use of Market Research

Sector	Have Export Marketing Plan	Use of Market Research for Plan
Dairy	68%	77%
Fish/Mariculture	30%	75%
Meat	56%	75%
Beverages	80%	88%
Meals	50%	100%
Confectionery	80%	56%
Grocery	55%	100%
Ingredients and Horticulture	75%	100%

6.3.1 Irish Biscuits Ltd.

Irish Biscuits Ltd. have been exporting for approximately 100 years. This was initiated by their own sales efforts but has now evolved to using direct exporting, agents, distributors and a trading house. The small domestic market combined with strong competition and the desire for continued growth of the firm has ensured that exports form an integral part of Irish Biscuits' overall marketing strategy.

Its commitment to export marketing can not be underestimated. The myriad of exporting modes used, a marketing director to oversee exports, a systematic export marketing plan based on market research and a well-priced range of quality products for export ensure that commitment.

Commitment to export markets is enhanced by its flexibility towards products and packaging. In many ways it can be said that Irish Biscuits is niche-market orientated. Emphasis is placed on product (taste), packaging (I.B. is particularly strong), and promotion. Using these strengths and objectives as a base, Irish Biscuits seeks out niche opportunities in affluent markets which fit in with its formal written plans outlining priority markets and targets.

Once priority markets have been designated, Irish Biscuits generally employs market research consultants to carry out a macro and micro analysis of the market in question to locate the niche for its particular product. It also employs consumer researchers to examine consumer perceptions of the product intended for that market. This has proved very successful for Irish Biscuits in the past, in American and Canadian markets.

Therefore commitment to export markets is very important to Irish Biscuits who believe that quality, competitive pricing, good packaging and promotion, flexibility, and using market research to identify the correct product for the correct market or market niche will ensure success in foreign markets. This is a strategy which should be emulated by other Irish food and drink exporters.

6.4 Factors Influencing Export Activities

This section is primarily concerned with the fourth objective outlined earlier. This was as follows:

> 4. Isolating important factors affecting export sales now and pinpointing factors of potential importance for future consideration.

In examining the objective it is wise to determine the respondents' views concerning expected changes in export sales trends over the next five years (Fig. 6.15). Changes over this period of time would have enormous impact on medium term planning and should therefore be monitored carefully.

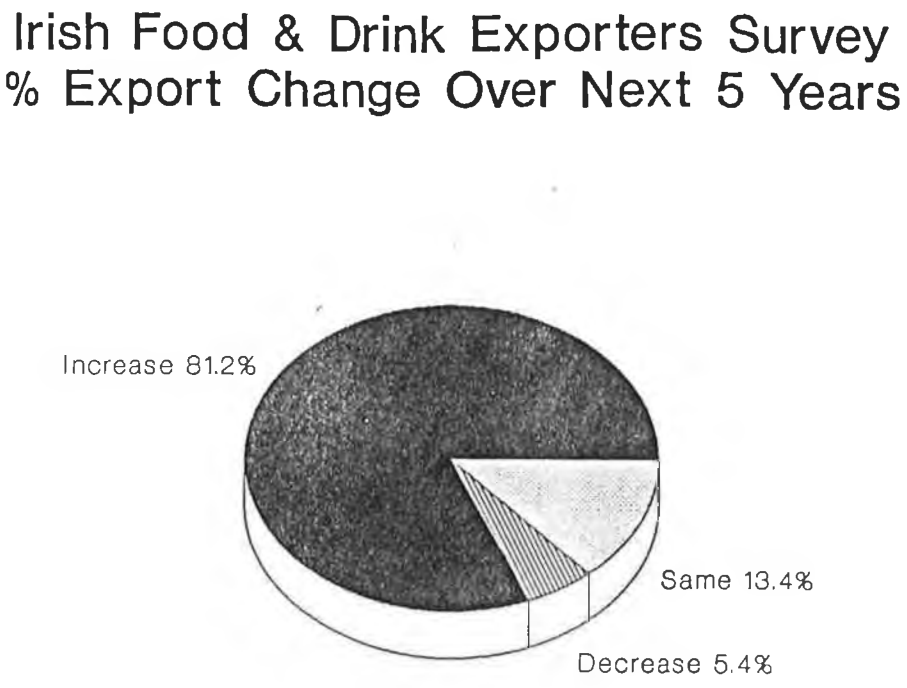


Fig. 6.15 - Percentage Change in Exports Over the Next Five Years

Survey results have revealed quite a positive outlook towards the future in the Irish food and drinks industry as 81% of respondents expect their exports to increase over the next five years. However, when this is analysed by sector (Table 6.4), the meat industry appears to be the most static. This indicates either that exports are approaching saturation point or that competition in these export markets is quite strong.

Results from other sections of the survey would indicate, however, that competition on export markets is the key factor here, given that 50% of all firms in the meat sector cite competition-related factors (i.e. "competition", "price") as either primary or secondary factors affecting their export sales trends.

Of note also is that the ingredients and horticulture sector would appear to be on the decline. 50% of firms in this sector anticipate the export market for their products to remain static (25%) or indeed to fall (25%).

Table 6.4 - Sectoral Analysis by Firm of Export Change Over the Next Five Years

SECTOR	INCREASE	DECREASE	SAME
Dairy	95%	-	5%
Fish/Mariculture	74%	7%	19%
Meat	62%	-	38%
Beverages	100%	-	-
Meals	100%	-	-
Confectionery	95%	-	5%
Grocery	82%	18%	-
Ingredients and Horticulture	50%	25%	25%

For the food and drink industry on a macro level, it is significant to note that the 5/4% of firms expecting an export decrease are not from the major exporting sectors in terms of volume of exports, and that export increases are expected in all major sectors i.e. beverages, confectionery, dairy and fish/mariculture. It is important, however, to note that of those expecting export increases, 35% of respondents anticipate a change in the region of 20% or less. At the other extreme, 24% of respondents expect an increase to the magnitude of 100% or more, and some as much as 300%.

When the % change expected is further examined by sector, the stagnancy expected by the meat industry is further evidenced. 38% of firms expect no change while 40% of firms expect a modest 10-20% increase change in sales.

Having thus examined the current and expected changes in volume of exports and sales trends, it would seem highly applicable to look at the market factors responsible for present sales trends, and which play a role in determining future sales and hence export strategy. As is to be expected, these factors are many and varied, but one which comes to the fore time and again is "quality". (Fig. 6.16)

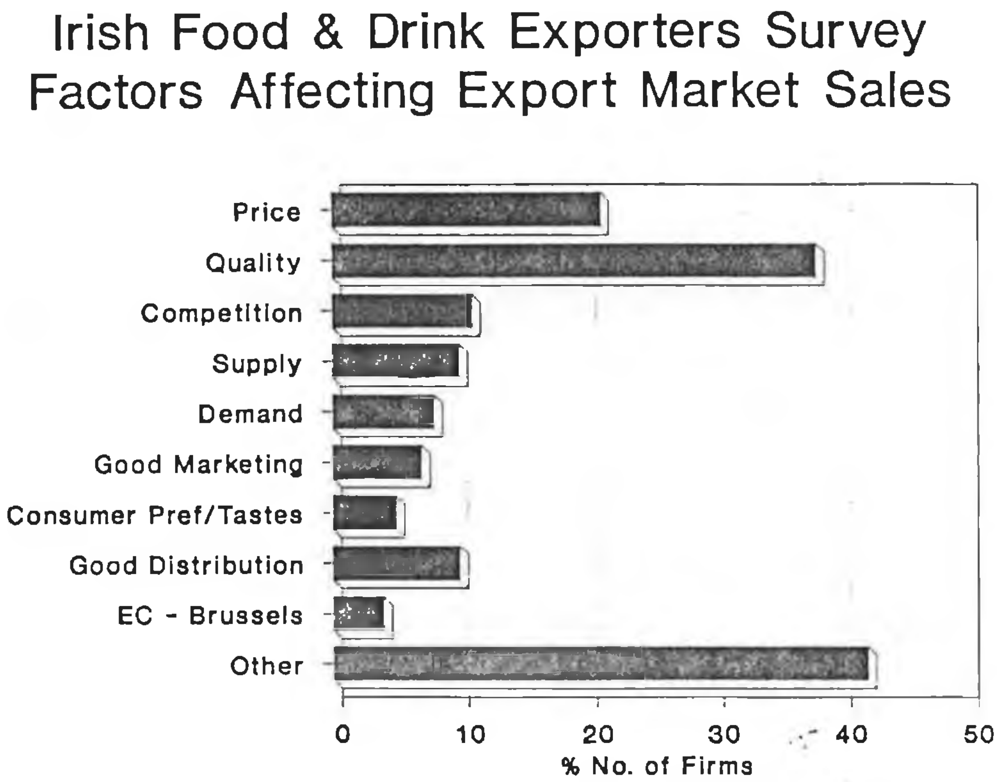


Fig. 6.16 - Factors Affecting Export Market Sales

38% of firms state that the quality of their products is an important element which affects sales. This is evident across all sectors. Price (21%) is the next most important cited factor. Price is particularly relevant to the fish/mariculture sector with other factors crucial to sales in this sector being competition and supply. This is due to the nature of the product and as expected is cited far more frequently in the dairy and fish sectors than in grocery, confectionery and meat.

The beverages and the confectionery sectors list good distribution as particularly important for sales. This is absolutely vital in the case of the beverages sector where 60% of firms export over 60% of production. Thus, the survey reflects the need for good marketing strategies as well as efficient and informative distribution channels.

Price is a major element affecting sales trends in the confectionery and grocery sectors. It is of particular importance to the grocery sector (60%), a sector which also notes cost factors as fundamental to export success. This indicates that the grocery sector deals primarily with commodity products where price is the most important selling point.

Legislation passed by the European Community in Brussels is of particular interest to the meat sector, being cited (albeit primarily as an obstacle) by 20% of all firms in this sector. The confectionery sector (24%) must also carefully observe EC legislation with regard to food additives, product definitions and packaging.

The secondary factors affecting export sales (Fig 6.17) are almost identical to the primary factors noted in figure 6.16. This merely serves to illustrate different firm priorities. Nevertheless, one factor of note is that of currency fluctuations. This is a problem encountered by all exporting firms irrespective of sector.

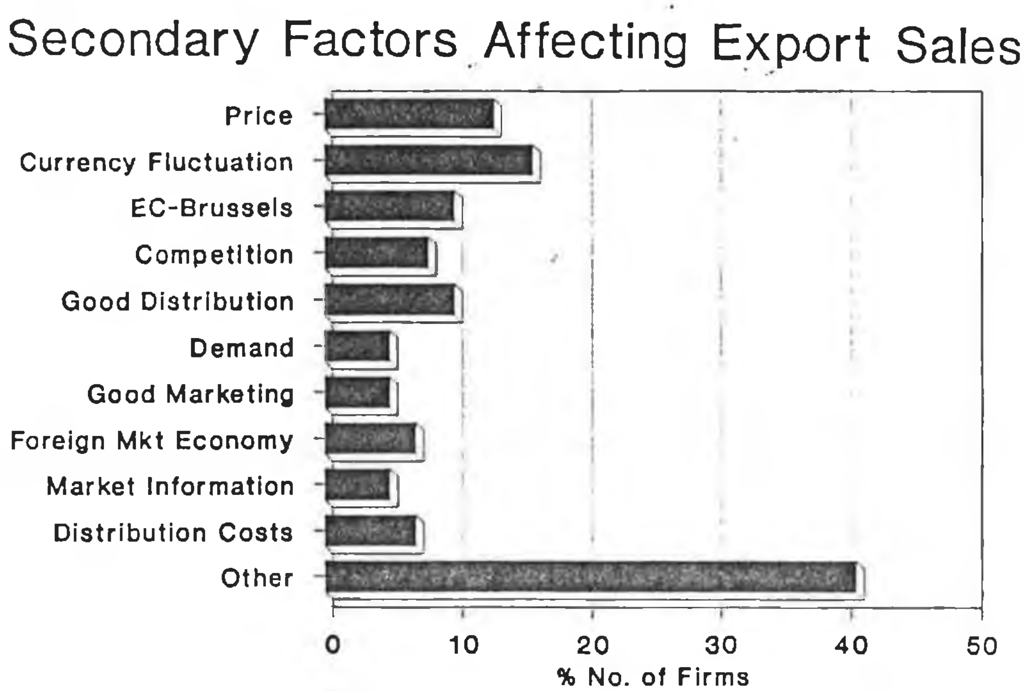


Fig. 6.17 - Secondary Factors Affecting Export Sales

Also of secondary importance as cited by all sectors is price while EC legislation (confectionery), foreign market information and good marketing (beverages) are also influential.

When asked in the survey to cite the most important feature of their products, as perceived by exporters, which makes their product particularly attractive on export markets, Figure 6.18 clearly illustrates how 61% of all firms cited "quality" as being of fundamental importance. Price too is cited across all sectors as giving Irish products a competitive advantage overseas.

Fig. 6.18 - Attractiveness of Irish Exports

Of particular note, however, is product uniqueness. The differentiation of products is primarily reflected by the dairy and confectionery sectors, thus illustrating consumer attitudes and the neeed to be distinctive among numerous competing products of similar price. The "Irishness" of the products is also reflected across each sector supporting the national image theme mentioned by the author in chapter one. This image is further enhanced by the fact that Ireland's environmentally green reputation is considered an asset in the dairy, fish/mariculture and meat sectors.

The latter two issues give rise to a thought provoking question; should Ireland persist in using this green image as a promotional tool? While it is proving successful at present it would appear prudent not to use this feature as a critical element in any prolonged promotional campaign. Should any event occur which would alter this pure and natural image which Ireland undoubtedly has with respect to the food and drink industry, the image of Irish products would be severely tarnished. Instead it might prove more productive in the long term to promote definite product characteristics such as consistent high quality, uniqueness, price, additive free and freshness, complemented by good distribution and service.

6.4.1 Irish Distillers

Irish Distillers, an Irish firm which owns all the major Irish whiskey brands and now forms part of a larger international group, has been exporting since its formation. Its main objective in exporting is to accelerate firm growth. Exporting began through its own sales efforts and continues today by means of direct exporting only.

The whiskey sector of the drinks industry is brand-image dominated and as such leaves Irish Distillers in a very strong position. It also has a strong cash flow from domestic operations. Due to the nature of this industry (production/maturation process spanning a number of years) information flow and planning are crucial. Irish Distillers have export plans covering medium term plans and (product-based) long range plans in operation. These plans are systematically reviewed on an annual basis.

Irish Distillers believe in moulding its export activities to suit its plans rather than responding to outside influences. Investment plays an important part in this approach. In 1984 they were using a shotgun approach in many markets, but in the period 1985-1990 they have taken a much more selective approach which has proved very successful. Now, Irish Distillers, based on its plans, seeks out partners in foreign markets willing to build a market for its Irish whiskeys. This involves sharing all costs and profits equally.

The nature of this sector also necessitates heavy investment in advertising to build and maintain brand strength. This trend has become increasingly important in an industry which at this stage has become almost oligopolistic in nature. Taste is one aspect which is a big promotional issue and thus which needs to be fully exploited, given that Irish whiskey is the fastest growing segment in the mature whiskey market.

Other factors which will have an effect on Irish Distillers export sales are the harmonisation of taxes and VAT in 1992 - this will primarily affect duty free sales. Moreover, the level of financial aid given to the opening Eastern bloc markets will be significant - more aid implies more disposable income. Currency fluctuations also play an important role in sales trends.

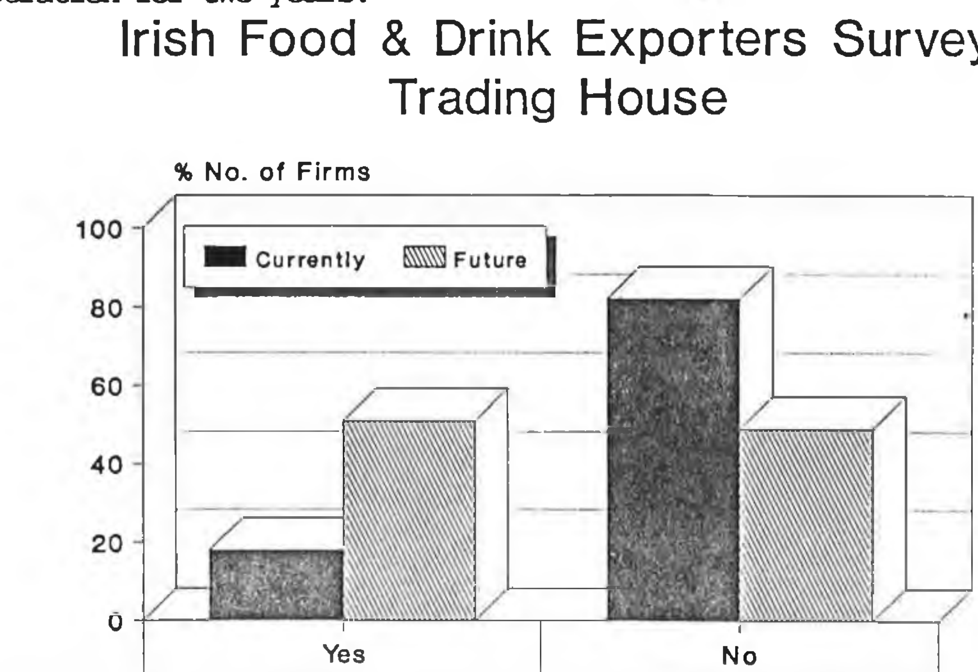
Therefore, it can be seen that many outside influences which cannot be planned for can have a significant impact on export sales. Despite this, it is commendable that Irish Distillers places heavy emphasis on planning and investment in export marketing infrastructure in order to maintain and increase export sales.

6.5 Irish Firms' Attitude Towards Special Trading House Scheme

This section will discuss the fifth objective:

5. Identifying and evaluating the new initiative (Trading Houses) introduced by the Irish Government in an effort to boost exports.

The reaction of firms in the Irish food and drink industry towards the use of trading houses as illustrated in figure 6.19. To date only 18% of all respondents actually use trading houses. This is nonetheless encouraging, given that the Special Trading House scheme has only been in operation for two years.



	Yes	No
Currently	17.9	82.1
Future	51	49

Fig. 6.19 - Current and Future Use of Trading Houses

The primary reasons cited by firms for not using trading houses are recorded in figure 6.20. Results show that 24% of respondents perceive no advantage to using a trading house while 6% prefer their own marketing system and a further 8% have their own foreign market operations. It is perhaps indicative of the relative newness of the scheme that 11% of firms have had no contact with, or experience of trading house operations. What is encouraging however is that another 5% declared that trading houses were unable to help them, and that a further 6% are at present negotiating with trading houses. This shows that some firms are actively considering use of trading houses as opposed to dismissing them entirely. It could be that there is a need for the Government, or perhaps even the trading houses themselves, to embark on a familiarisation programme in order to promote the advantages of using trading houses. This might dispel the prevailing notion, as expressed above by 24% of all firms, that use of a trading house would provide no beneficial aspects whatsoever.

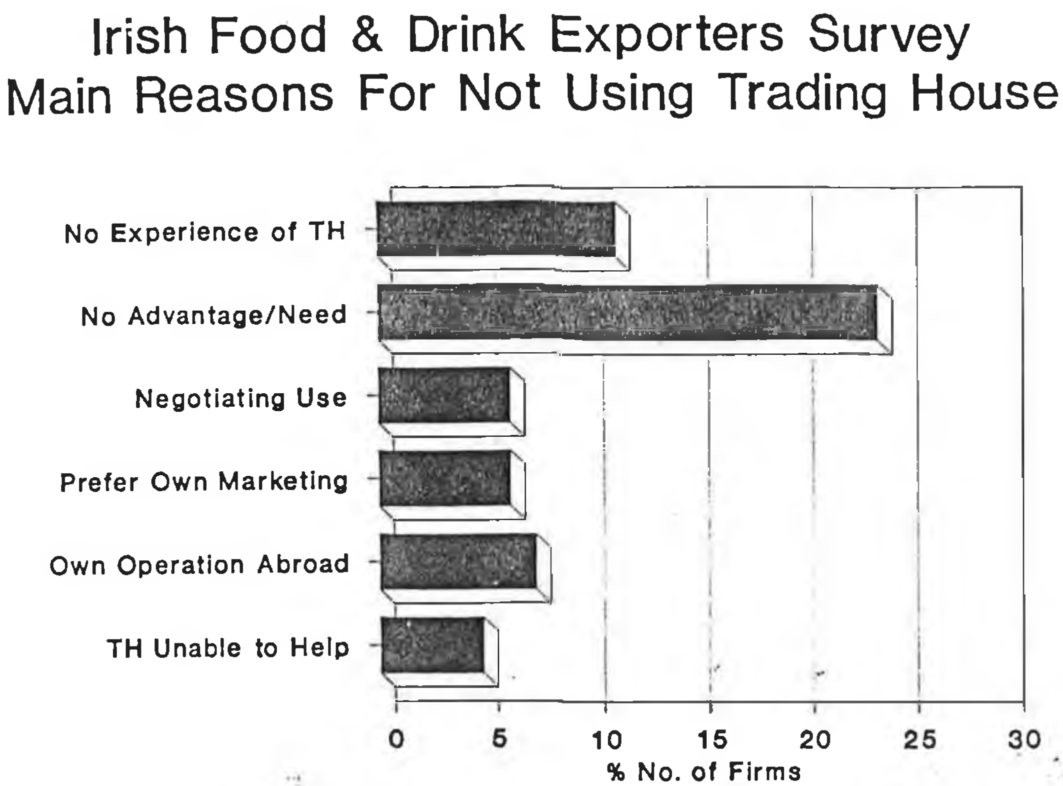


Fig. 6.20 - Main Reasons for Not Using a Trading House

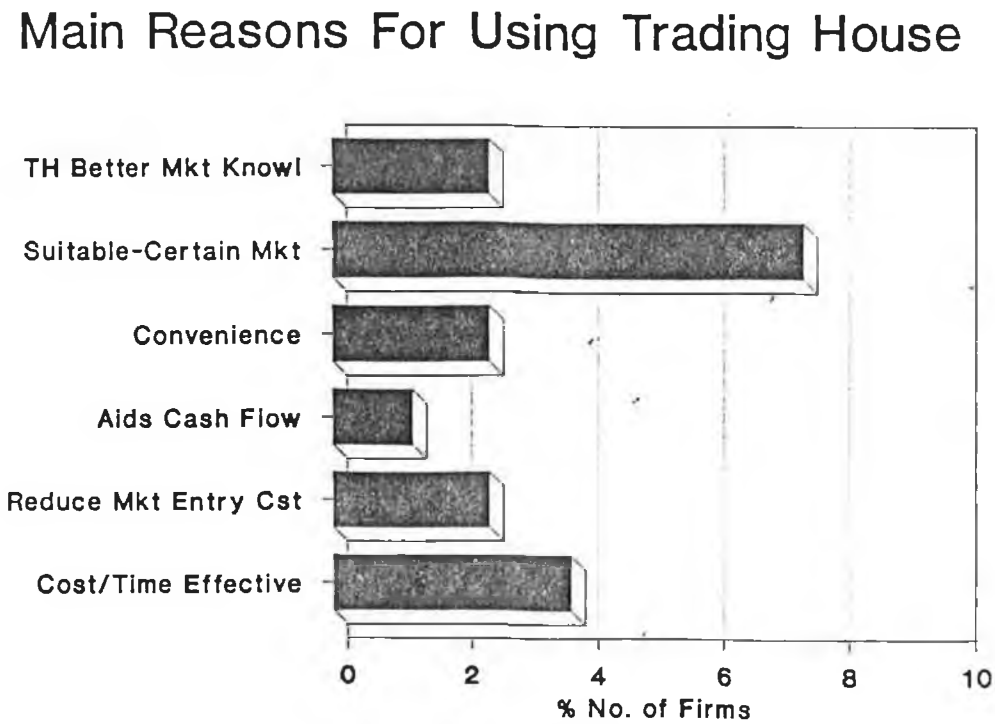


Fig. 6.21 - Main Reasons for Using a Trading House

When analysed by sector it is noticeable that the dairy and fish/mariculture sectors are particularly dismissive in this matter. Survey results also showed that the more experience a firm had in terms of years exporting had no bearing on the decision for or against trading house use.

The principal reasons for using trading houses are outlined in figure 6.21. Although only 18% of firms use trading houses at present, it is noted that they are particularly suitable for certain markets (eg Japan). Moreover, they are cost/time effective, convenient and also help reduce market entry costs.

The outlook for the future is more promising (Fig. 6.19). Clearly a marked increase in the use of trading houses is expected, although many of the same reasons emerge as far as not using them is concerned (Fig. 6.22). Of the 51% of firms who say they would use trading houses, a large proportion still need to be convinced of expected benefits (Fig. 6.23). Again this illustrates the need for a promotional programme aimed at informing all potential trading houses users of the benefits on offer. This is something which should be done soon if the Special Trading House scheme is to have a revolutionary and hopefully lasting effect on Irish exporting modes.

Table 6.4 shows a breakdown of firm size and use of trading houses now and that expected in the future. As can be seen from the table, the potential increase in trading house use throughout firms of all sizes is extremely encouraging. Yet again, however, a promotional campaign would both secure and quicken firm decisions in that direction.

Table 6.5 - Firm Size: Use of Trading Houses Now and in the Future

Firm Size	Now	Future
1-10	22%	46%
11-30	0%	41%
31-50	29%	58%
51-200	10%	62%

Future Use Of Trading Houses

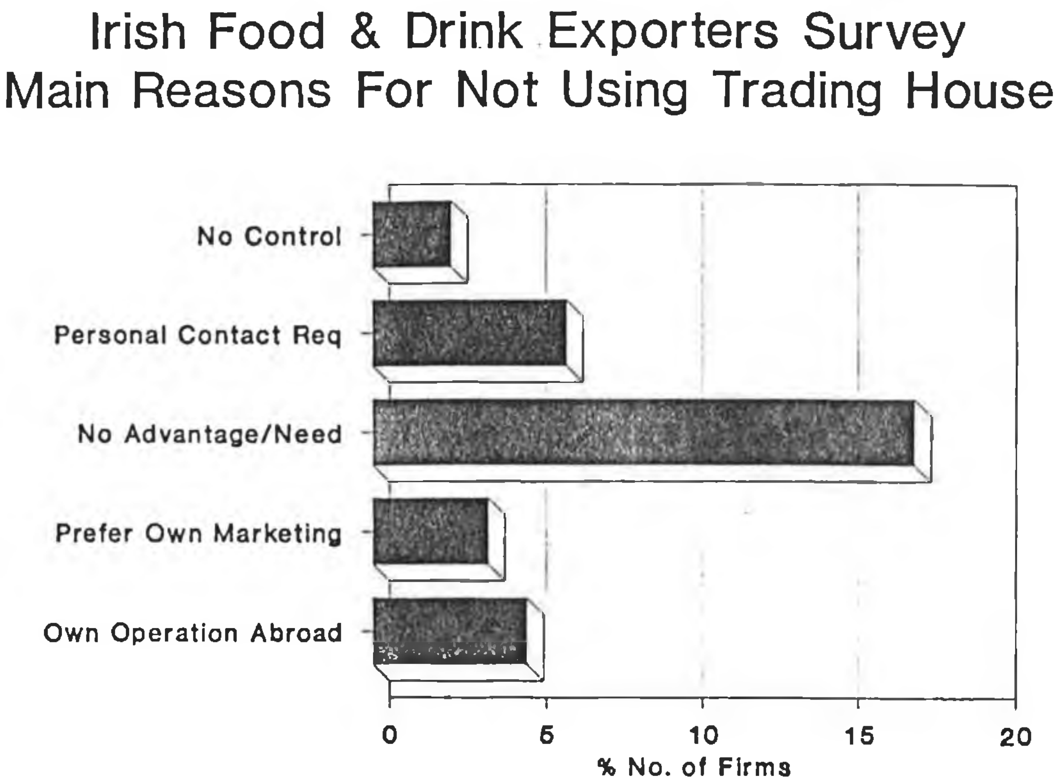


Fig. 6.22 - Main Reasons for Not Using Trading Houses in the Future

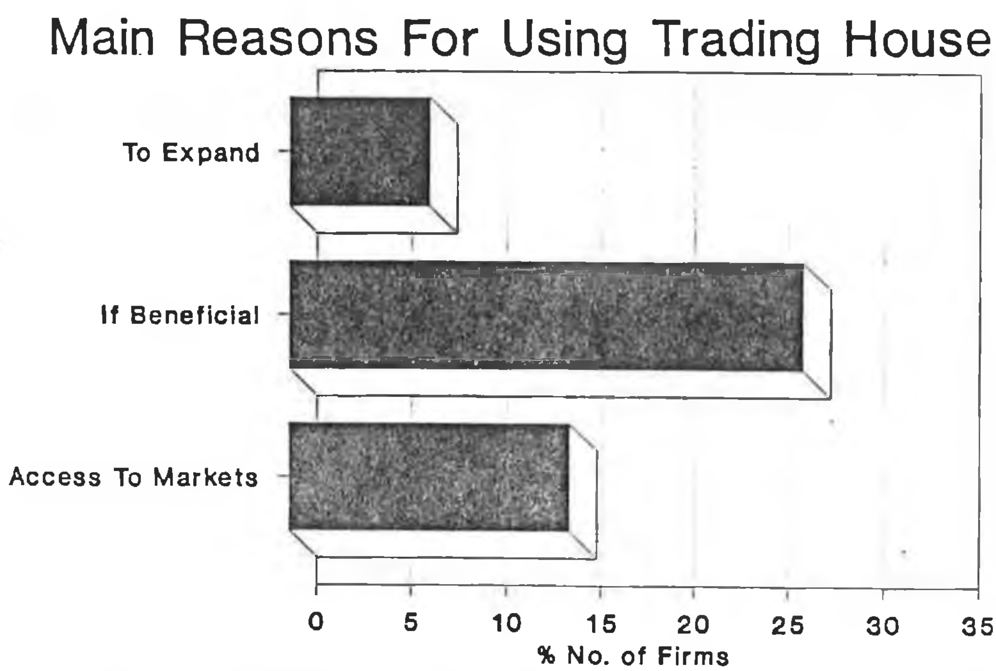


Fig. 6.23 - Main Reasons for Using Trading Houses in the Future

6.5.1 Tipperary Natural Mineral Water Co. Ltd.

Tipperary Natural Mineral Water first became involved in exporting five years ago via a trade fair. Since then its business has expanded as have its distribution methods. Now Tipperary N.M.W. exports directly, via agents and distributors and via a trading house.

Having invested heavily in developing its operations, Tipperary N.M.W. expects to increase its share of the export market considerably. It plans for each market on a day-to-day basis and places great emphasis on its distributor relations. The appeal of its brand name is another feature on which export success is dependent.

Low cost of market entry is what encouraged Tipperary N.M.W. to use a trading house. By doing so it increased its sales and more notably, it diversified its export base. While Tipperary N.M.W. is aware of the convenience of this low cost entry strategy, it is also aware of the pitfalls. It realises that a certain amount of control is lost concerning product destination and that it has zero control over the retail price.

Yet, despite these reservations, using a trading house has proved successful. It is another element in a strategy which has enabled the firm to gain market share on its main competitors. In this respect, Tipperary N.M.W. has got it right - trading houses should form part of a market entry/export strategy, and should not be regarded as the sole entry mode available. By using trading houses to supplement other entry modes, the potential for export success is increased significantly.

Conclusions

A questionnaire complete with explanatory covering letter was sent to a total of 243 firms, randomly selected from the Irish Food and Drink Exporters Directory. An overall response rate of 48% was achieved, covering a good cross-sectional base from which to draw conclusions. The questionnaire was designed to cover four distinct areas: a) export development of the firm, b) firm characteristics - internal structure of the firm pertaining to export activities, c) factors influencing export activities, d) Irish firms' attitudes concerning the Special Trading House scheme. These areas facilitated results of the survey to be analysed in terms of, and as answers to, the five objectives initially established by the author before research was begun. The conclusions drawn here in summary form, shall be outlined in terms of those five objectives:

1. To determine the reasons behind the decision of small to medium sized Irish firms to export.

The primary two reasons, as highlighted in the survey responses, for which Irish firms pursue an exporting path, are matters both of necessity and desirability. The former is the more significant of the two, with 71% of all firms surveyed citing the limited size of their Irish domestic market as one of their primary reasons for exporting. The second, which although less cited at 56%, is that of firm growth.

2. To discover the initial market entered and to see how the firms have extended operations since penetrating that market.

The survey results established that 60% of all firms exported to the U.K. as their first foreign market. This is, of course, due to the cultural proximity of the aforementioned. Moreover 90% of all firms cited their first export order as going to the U.K. or mainland Europe. To a very large extent, the Irish food and drink industry is still heavily dependent on the U.K., with 73% of all firms currently selling on that market. As far as duration of time exporting, over 50% of all respondents have been exporting for 10 years or less, showing the sustained growth which has occurred in the industry over the past decade. 77% of all firms surveyed began exporting through their own sales efforts - i.e. off their own bats - and this trend, coupled with the need to maintain control, has been continued with 82% of firms currently using direct exporting methods. The emergence and relative growth of Trading Houses over the past two years must also be noted, with 18% of all firms now availing of this facility.

3. Find out how committed these firms are to these markets.

Several indicators are extremely useful in examining how committed firms are to export markets and to exporting in general. The first of these is the volume of produce exported. The food and drink industry as a whole is extremely dependent on exports with, for example, more than 50% of all firms in the fish/mariculture and meat sectors exporting between 90-100% of their total produce. A second indicator is the "company position" of the individual taking ultimate exporting responsibility. 44% of all respondents named the MD as responsible in this area, reflecting the size and limited resources of the vast majority of firms in this industry. 50% of all firms fall into the "small firm" category as defined by the IDA, with the fish/mariculture sector representing the extreme in this case with 93% of its firms meeting these criteria. On the other hand, however, commitment may be more readily seen in sectors comprising larger firms, where resources are more plentiful i.e. in the beverages sector, the most advanced in this industry, 66% of all firms have a marketing/export manager, thus displaying export commitment. A third indicator is the existence (and quality) of a formal export marketing plan. Of all the firms surveyed, only 60% have such a plan and this is predominantly made up of large firms, given that survey results also revealed that 70% of all fish/mariculture firms do not have an export plan at all. Of those firms who do, only 77% base it on systematic market research. This is a somewhat disconcerting statistic given this industry's dependence on exports and on the market revolution inevitable given current Eastern bloc events and the eve of 1992. The fourth indicator examined by the survey is the quality and volume of information provided by the distribution channels currently favoured by this industry. 80% of all firms receive useful feedback from their respective distribution channels, with trading houses coming out top of the list for information supply. Of those firms who do not receive useful information, 52% employ fewer than 10 people, thus indicating much more a lack of resources with which to implement (more advanced) market information systems, than a lack of market commitment on the part of smaller firms in this industry.

4. To isolate important factors affecting export sales now, and pinpointing factors of potential importance for future consideration.

On a macro level, export sales are expected to increase among 81% of all respondents. On closer analysis, however, it is noted that the majority of firms in the meat sector expect sales volumes to remain static, in this case due to competition on foreign markets. Sales are expected to drop in the ingredients/horticulture sector. Upon examination of the factors influencing sales exports trends, quality was the factor cited by the majority of firms, followed by price as being the most significant primary and secondary factors respectively. Other main factors cited were currency fluctuatuon, good distribution and EC legislation, as dictated by Brussels. The importance of quality in this industry was reinforced when 61% of firms cited this as the most important element contributing to their product attractiveness on foreign markets. Competitive advantage is furthered abroad by the uniqueness of many products in this industry, coupled with the "green" image of Ireland abroad.

5. To identify and evaluate the Special Trading House scheme introduced by the Irish Government in an effort to boost exports.

In the two years since the Trading House scheme has been in operation, 18% of firms in this industry have begun to avail of the facilities offered by this export mode. The main advantages on offer are reduced market entry cost, convenience for certain markets, cost/time effectiveness and cash-flow benefits. It is, however, more encouraging to note that while 24% of firms see no benefits to using a trading house, 6% of all firms are currently negotiating with a trading house, 5% have said, upon enquiry, that the trading house was unable to help them and 11% had, to date, no contact with or experience of trading houses. Given these figures and given that a further 40% of firms currently not using a trading house say they would consider future use (if there were perceived advantages), perhaps an awareness campaign organised by the trading houses would familiarise firms with the facilities on offer and secure improved future use of this up-coming export mode.

Each of the five objectives initially outlined has been achieved through detailed macro and micro analysis of the sections of questionnaire responses relevant to each objective. As a whole research in this area has thus proven to interesting, informative and successful.

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APPENDICES

IRISH FOOD AND DRINK EXPORTERS SURVEY

CONFIDENTIAL

NOT TO BE PUBLISHED, FOR ACADEMIC USE ONLY.

Classification Data

Company Name: ______________________________

Company Address: ______________________________

____

____

Telephone No: ______________________________

Contact Name: ______________________________

What industry sector represents the major part of company turnover?

- Dairy Products ☐
- Fish Products/Mariculture ☐
- Meat/Meat Products ☐
- Alcoholic and non-Alcoholic Beverages ☐
- Ready Prepared Meals ☐
- Confectionary - Flour & Sugar ☐
- Other Grocery incl. Petfoods ☐
- Ingredients and Horticultural Products ☐

PLEASE TICK APPROPRIATE BOXES

1. How many people are currently employed by

   * your company ____________________
   * your group of companies (if applicable) ____________________

2. About how many years has your company been exporting? ____________

3. How did your company first get involved in exporting?

   * Unsolicited order ☐
   * Distributor/agent getting in touch ☐
   * Own sales effort ☐
   * CTT initiative ☐
   * Other (specify) ____________________ ☐

4. How does your company export <u>now</u>?

   Directly ☐

   Indirectly (Agent) ☐

   Indirectly (Dist.) ☐

   Trading House ☐

   Other (specify) ________________ ☐

5. Does your company get useful market information from your distribution channel?

   YES ☐

   NO ☐

6. What is the primary reason, and another good reason your company is exporting?

(Mark 1 for primary reason)
(Mark 2 for other)

Domestic market too small	[ ]
Company growth	[ ]
More profitable	[ ]
Strong domestic competition	[ ]
Survival	[ ]
Following the competition abroad	[ ]
Unique product	[ ]
Other (specify) ________________	[ ]

7. Who has the executive responsibility for exporting in your company?

Company position (not name) _________________________

8. Does your company have a formal marketing plan related to export markets?

YES	[ ]
NO	[ ]

If YES, is it based on a systematic market research?

YES	[ ]
NO	[ ]

9. What percentage of your production/sales is exported? _________ %

10. Do you expect to increase or decrease this over the next 5 years?

Increase	[ ]
Decrease	[ ]
Same	[ ]

If a change is expected, by how much? ________ % approx

11. Based on your experience, what is the most important factor affecting your sales trend in export markets?______________________________

____

12. What other factors, if any, are likely to influence your export sales? ________

____

13. What countries does your company export to at present?

____________ ____________

____________ ____________

____________ ____________

____________ ____________

14. What country was first exported to? ____________

15. As you see it, what one particular characteristic makes your products attractive to overseas buyers? ________________________________

____

16. A Trading House is an organisation which offers small to medium sized firms an opportunity to export via their services.

Are your currently using a Trading House?

YES ☐

NO ☐

Why? ____

Would you consider using one in the future?

YES ☐

NO ☐

Why? ____

Thank you very much for your co-operation.

DUBLIN CITY UNIVERSITY
Ollscoil Chathair Bhaile Átha Cliath
DUBLIN BUSINESS SCHOOL

DUBLIN 9, IRELAND.
Telephone: 370077. Facsimile: 360830. Telex: 30690.

4th June 1990

RE::IRISH FOOD & DRINK EXPORTERS SURVEY

Please allow me to introduce myself. My name is Reg Quinlan and I am a Masters Research Student in the Dublin Business School. I am currently conducting an Industry-wide survey among executives and top managers of Irish Food & Drink Exporters. The purpose of this research is to examine the factors affecting exporting in this industry.

Your company is one of those selected from the Irish Food & Drink Exporters Directory and your participation is important for the accuracy of the research. Therefore I should be grateful if you would take a few minutes to complete the attached questionnaire and return it in the enclosed stamped addressed envelope.

All replies given by you will be treated as strictly confidential. Results of this survey will be presented in such a way that it will be impossible to identify individual companies.

I should of course be very pleased to let you have a copy of the results of the survey if you wish.

If you have any queries about the survey, I shall be pleased to talk to you at Tel:: (01)370077-Extn.463.

I look forward to receiving the completed questionnaire from you soon. Thank you very much for your help and co-operation.

Yours sincerely

____

Reg Quinlan

Management Division
Head of Division: Professor P.M. Chisnall