

How to Identify Target Markets

Summary

New exporters must initially focus on only a few markets which indicate the highest potential for a return on investment. These are called target markets. In this session we will discuss how to identify, successfully enter and develop a strategy for export markets which hold the highest potential for your products and services.

Presenter: Maurice Kogon

Our Presenter is Maurice Kogon, Director of the El Camino College Center for International Trade Development. Maurice has over 49 years of experience in the international business field as a U.S. government official, business executive, educator, and consultant. He has written, lectured, and trained extensively on international trade and has developed numerous Web-based export tools now used throughout the world. He is also a past President of NASBITE and has served on the NASBITE Board of Governors since 1999.

Maurice obtained both his Master's and Bachelor's degrees in Foreign Affairs from George Washington University.

Introduction

Welcome to the LA Export Series podcasts brought to you by the El Camino College Center for International Trade Development. Each podcast will focus on a specific export topic presented by an industry expert. Our complete series will walk you through the trade process from getting started to getting paid and delivering the goods.

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Identify The Best Markets

In our Podcast on Getting Ready for Export, we talked about the need to assess your own capacity to export and to learn what it takes to export successfully. Once you're export-ready, the next obvious questions are, "where are my best markets," and "what's the best strategy to enter each market." That's what we'll cover in this Podcast.

With some 200 countries in the world, you have many possibilities. However, not all markets are good or worth investigating. So, don't spread yourself too thin. Aim for a first cut of 5 to 10 "promising" markets; then weed these down to your top 3 to 5 "target" markets.

The "best" markets offer a combination of high comfort for your company and high potential for your products.

High-comfort markets are those you know well from personal experience. You may have lived there, have relatives or business contacts there, or know the language and culture. However, high comfort markets may not have high export potential; that is, markets with large and growing import demand, limited competition, and no significant trade barriers. These high potential markets are really where you want to be.

Market Potential Indicators

You don't need a fancy econometric model to figure out which markets are better than others. You can fairly well pinpoint the high potential export markets for almost any U.S. product or industry, if they meet these five tests. Our Podcast on Online Resources for International Trade shows you where to find the relevant information.

- This country is a large and fast growing export destination for your product.
- This country is also a large and fast growing importer of your product.
- In this country, the U.S. also has a high market share for your product.
- This country also has few or no import barriers for your product.
- This country is also recommended by experts as most promising for your product.

Market Potential Matrix

A matrix technique can help you compare market potentials for any number of countries and easily spot the most promising markets. This matrix uses 11 criteria to pinpoint country-by-country market potentials. For the five hypothetical countries listed here, a double "XX" means the criterion was significantly met for that country, a single "X" indicates somewhat met; and a "blank" means it didn't meet. The more promising markets are those with XX or X across the most number of columns. In this case, Countries 3 and 1 appear far more promising than the others. Again, the data to fill in the cells can be found on readily available Web sources, as discussed in the Podcast on Online Resources for International Trade.

Market Entry Strategy

Don't count on intuition or lucky breaks to get you into a promising market. You need to be strategic to be most successful. That means a market entry plan for each target market. One of the biggest mistakes is to assume that all markets can be approached in the same way, or the way you operate at home. While some common approaches might work in markets like ours, most markets differ in ways that must be accommodated. For example, markets might differ in their income levels, climates, sizes of people and space, languages, religions, cultural preferences, business practices, quality standards, and import regulations. Without a market plan attuned to these differences, you will not reach your market potential; or worse, make costly blunders.

Your market plan should address four key points -- distribution, pricing, promotion, and localization or adaptation. The plan should also have action and budgetary components. It should lay out specific actions to implement the recommended strategies, and what that will cost.

Distribution Strategy

Your distribution strategy should aim to maximize access to the buyers in each target market. For a first-time market, the usual strategy is either (a) to sell direct to buyers or (b) sell through local intermediaries to reach the buyers. We'll focus here on these two options. Once you're established, you might consider higher cost options, such as hiring your own in-country sales force, setting up a sales or branch office, or producing locally through a licensing agreement, joint venture, or wholly-owned subsidiary.

Ideally, you'd prefer to avoid middlemen and sell direct to actual buyers. However, this is rarely the recommended strategy. From afar, you can't easily identify the many possible direct buyers, or assess their needs, interests, and credentials. Most exporting, instead, is done through local agents or distributors. These local "reps" speak the language, know the regulations and customs, and know what the customers want. They can find and close deals, handle the payment and delivery details, and clear your goods through customs. Many specialize by industry and are equipped to stock, install and service the goods.

Finding Agents And Distributors

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Representation Agreements

Finding the "right" overseas reps is crucial. If they don't perform well, you'll not only forfeit opportunities, but may not be able to terminate. Therefore, you must be careful and selective in your search. Getting good foreign reps is a three-step process:

First, find the prospects in each market
Second, screen and select the best prospects
Third, formalize the relationship in an Agent/Distributor Agreement

How do you find the prospects? Although they might approach you first, more likely you'll have to find them. This can be frustrating and costly. You can find many names, say from on-line directories, but contacting each one takes time and may not pan out. More pro-actively, you can solicit reps in trade lead systems, check with trade associations, ask suppliers of complementary products who their foreign reps are, attend trade events that attract foreign distributors, and the like. As another option, you could try the Commerce Department's International Partner Search or Gold Key Service. For a modest fee, a Commerce specialist in the country will interview prospects known to be qualified and reputable and let you know who's interested and why.

Once you find some prospects, you'll need to screen them to make sure they're a good fit. Five qualities to look for are :

One, an experienced rep with a solid track record; expertise in your product area; and well connected to the buyers.

Two, a capable rep that can promote, stock, install and service your product and train users if needed.

Third, a motivated rep who is enthused about your product and able and willing to give it priority.

Fourth, a loyal rep who would not represent a competitor or ditch you for a competitor.

Fifth, an honest rep with a good reputation and good bank and trade references

Pricing Strategy

Once you find the right partner, you should formalize the relationship with an Agent/Distributor Agreement. Such agreements typically specify the country or region to be covered, whether it's exclusive or non-exclusive for that territory, mutual responsibilities, performance goals, duration, and other matters. Our Podcast on International Matchmaking covers Agent/Distributor Agreements in more detail.

Promotion Strategy

You won't sell much if the buyers don't know who you are. Promotion is a must. Your promotion strategy should aim to attract inquiries and leads. The promotion plan should spell out the techniques to be used; how much to spend; and who will do it – you, your overseas rep, or with shared responsibility and cost.

You can do broadcast promotion or targeted promotion, or a combination of both.

Broadcast promotion uses media with worldwide exposure to reach many markets at once. The advantage is low overall cost per lead. Your own company Website, if meant for business, is already broadcasting your message globally. Anyone in the world, at any time, can potentially see it, contact you, and even buy online if set up for E-commerce. However, you can't rely solely on your Website, as it may get lost in the mass of millions of other Websites. Other broadcast techniques include electronic directories and trade lead systems; press releases, trade press ads, and articles in industry journals.

Targeted promotion aims at just the market or audience you want to reach. Examples include direct fax or e-mail, telemarketing, paid ads in local media, trade shows and missions, technical seminars, and sales trips. Most countries have adequate media to support any of these methods. If you have foreign reps, they can share the cost to do some or all of the promotion in their areas.

Localization And Adaptation Strategy

Exporters may need to adapt their products and business practices to conform to local market conditions. As mentioned earlier, most countries have differences that truly make a difference. Without knowing better, you could offend buyers with the words or symbols in your sales literature or in the color or shape of your product or packaging. Your product could be the wrong size for the market or considered unsafe, unhealthy, or technically incompatible under local regulations. It could taste wrong or violate dietary customs. To appeal rather than offend in "different" markets, you may need to adapt the product itself, or your packaging, or marketing materials.

To know when to adapt, do some research on the cultural, economic, environmental or legal situations in each country. The Podcast on Online Resources for International Trade discusses where to find that information.

Credits

Thank you for listening and special thanks to Maurice Kogon for sharing his valuable time and international business insights. Check out our full line of LA Export Series podcasts on our website www.ExportAssist.org where you will find information on additional export topics with complementary tools and resources.

This podcast is brought to you by the El Camino College Business Training Center, a trusted resource delivering high-quality training and assistance to help meet your need for a more productive and competitive workforce. The Business Training Center is part of the El Camino College Community Advancement Division and is proud to be part of the state's economic development mission to advance California's economic growth and global competitiveness through quality education and services focusing on continuous workforce improvement, technology deployment, and business development. Funding for this podcast was provided by the El Camino College Center for International Trade Development and a Statewide Collaborative for Business Computer Information Systems Education mini-grant from Coastline Community College.

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