Analysing foreign markets essay

J ONK O P ING INT E RNA T I ONA L B U S INE S S S CHO O L JONKOPING UNIVERSITY Foreign Market Analysis Should enter France? Master thesis within International Marketing Authors: Jarne, Marion Tunbjer, Michael Tutor: Anderson, Helen Jonkoping June 2006 INT E RNA T I ONE L LA HAND E L S HO G S KOLAN HOGSKOLAN I JONKOPING Utlandsk marknadsanalys Bor ga in i Frankrike? Magisteruppsats inom internationell marknadsforing Forfattare: Jarne, Marion Tunbjer, Michael Handlaggare: Anderson, Helen Jonkoping Juni 2006 i AcknowledgementsThe work of this thesis could not have been possible without the help of certain people.

We would especially like to thank Jonas Hedberg, the regional director of Oriflame Western Europe, for giving us great support and advice in our research. We would like to thank Oriflame in general for providing us with material support in order for us to conduct our empirical research. We would like to thank our tutor, Professor Helen Andersson, for giving us good advice on how to conduct the study in a scientific way. We would also like to thank the following people for contributing to the thesis in different ways: Anna Sundell, regional director of Oriflame Smaland, Sweden Francine Schoreisz, communication and training manager in the French Association of Direct Selling. Inger Karlsson, regional manager of Oriflame Jonkoping, Sweden Jack Goelst, former regional director of Oriflame Holland. Jenny Ehle, marketing manager of Oriflame Sweden Jesper Martinsson, COO of Oriflame ii Master Thesis in International Marketing Title: Foreign Market Analysis – A 5 Cs Approach Author: Jarne, Marion Tunbjer, Michael Tutor: Anderson, Helen Date: June, 2006Subject terms: Foreign Market Analysis, Foreign Market Selection, International Marketing, 5 Cs, Oriflame, Direct Sales, French

Market of Direct Sales Abstract Background The global marketplace today encompasses 6 billion people.

Many companies are beginning to see themselves as international rather than national acting on a global arena. An essential aspect of going abroad is to know where to go and why to go there. In order to be able to analyze a foreign market a company needs to do market research in the foreign market as to gather essential information. A firm which is facing a quick internationalization process is the Swedish direct sales firm of cosmetics Oriflame.

Oriflame has grown quickly in developing countries but is not present in one of the biggest market for direct sales in Europe: France. Purpose The purpose of this thesis is to develop a theoretical framework to analyze foreign markets and apply it to the French market of direct sales in cosmetics and Oriflame. Method A qualitative study based on the 5 Cs framework for analyzing foreign markets has been carried out. Seven focus groups have been conducted in France and Sweden in order to obtain information about and comparability in consumer attitudes towards Oriflame's marketing mix. Interviews have been conducted in order to get information about Oriflame as a company. Secondary data has been gathered from different sources for the theoretical framework as well as for the empirical research on issues such as culture, competition and market.

Conclusion This thesis has developed a theoretical framework to analyze foreign markets called the 5 Cs. The 5 Cs are based on: Company, Constitution, Competition, Customers and Culture. The 5 Cs is a very general framework and can be applied to a wide range of foreign markets and firms and was in this case applied to analyze a real world case of Oriflame and France. The analysis of the empirical findings found that there is potential for Oriflame to enter the French market in terms of consumer preferences and general market characteristics.

However, it also found that what will probably determine everything in the end is whether Oriflame can be strategically committed to enter a mature West European market like France. iii Magisteruppsats inom Internationell MarknadsforingTitel: International Market Analysis – The 5 Cs Approach Forfattare: Jarne, Marion Tunbjer, Michael Handledare: Anderson, Helen Datum: Juni, 2006 Amnesord Utlandsk Marknadsanalys, Val v Utlandska Marknader, Internationell Marknadsforing, 5 C, Oriflame, Direktforsaljning, Franska Marknaden for Direktforsaljning Sammanfattning Bakgrund Manga foretag borjar se sig sjalva som internationella mer an nationella och agerar pa en global arena. En viktig aspekt i att ta sig utomlands ar att veta var och nar. For att kunna gora en utlandsk marknadsanalys sa maste foretaget gora en marknadsundersokning i det utlandska landet och fa in information. Ett foretag som just nu ar inne i en intensiv internationaliseringsprocess ar Oriflame ar det svenska foretaget inom direktforsaljning av kosmetka Oriflame. Oriflame har vaxt snabbt i utvecklingslander men ar inte narvarande i en av de storsta marknaderna for direktforsaljning i Europa: Frankrike.

Syfte Syftet med den har uppsatsen ar att utveckla ett teoretiskt ramverk for att kunna analysera utlandska marknader och sedan applicera detta pa den franska marknaden for direktforsajning av kosmetika och Oriflame. Metod En kvalitativ studie baserat pa de 5 C: na ramverket for analys av utlandska marknader har utforts. Sju stycket fokusgrupper har annordnats i Frankrike och Sverige for att kunna fa information om franska och svenska konsumenters attityder i relation till Oriflames marknadsforings mix och for att kunna jamfora resultaten. Intervjuer har utforts for att fa mer information om Oriflame som ett foretag. Sekundar data har samlats in fran olika kallor for det teoretiska ramverket och liksasa empirisk forskning pa omraden som kultur, konkurrens och marknad.

Slutsats Den har uppsatsen har utvecklat ett teoretiskt ramverk for att analysera utlandska marknader som kallas for de 5 C: na. De 5 C: na ar baserade pa: Company, Constitution, Competition, Customers och Culture. De 5 C: na ar ett valdigt generellt ramverk och kan bli applicerat pa en stor mangd olika marknader och foretag men har i det har fallet anpassats till en studie pa Oriflame och Frankrike. Analysen av det empiriska materialet kom fram till att det finns potential for Oriflame att ga in pa den franska marknaden i termer av konsumentpreferenser och marknadsinformation. Det som dock kan avgora i slutandan ar huruvida Oriflame har som strategisk malsattning att satsa pa en mogen vasteuropeisk marknad som Frankrike. v Table of Contents 1 Introduction .

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 1 1 Introduction This chapter will introduce the preface and background of

the thesis. The problem and research questions will put forward what to be researched and why it is interesting and also be linked to the purpose. Limitations will illustrate the scope of the study and definitions will clarify terms used in the thesis. . 1 Preface We decided to write our master thesis within international marketing in early 2006 at Jonkoping International Business School. The topic of the thesis would be a combination between our interests. Marion Jarne is a French exchange student who did internships for cosmetic firms like L'Oreal, Henkel, and Colgate-Palmolive in France, and would like to write about the French market and cosmetics. Michael Tunbjer is a Swedish student with great interest for international marketing as well as the process behind foreign market selection, would like to write about how to analyze foreign markets. After some screening of candidates, the perfect candidate Oriflame was contacted. We noticed that Oriflame, being one of the leading firms within direct sales of cosmetics in the world, was not present in France. Thus we contacted Oriflame and asked whether they were interested in a market analysis of the French market of direct sales. The regional director of Oriflame Western Europe, Jonas Hedberg, contacted us soon afterwards and said Oriflame might be interested in such a study. 1. 2 Background Marketing products and services around the world is not a new phenomenon. It has been done for thousands of years. Products have been traded across borders throughout human history, extending back beyond the Silk Road that once connected the East to the West from Xian to ancient Rome 2000 years ago (Kotabe & Helsen, 2004). The global marketplace of today consists of a population of 6 billion people and many firms today see themselves as international rather than national. The competition from foreign countries on the home-market forces national firms to go abroad as well to become more competitive (Doole & Lowe, 2004). The world is shrinking fast. Ease of travel and communication means that whenever one talks of marketing one should talk about international marketing. Any firm selling its products to more than one country is involved in international marketing and should plan its international strategies in an integrated and structured fashion (Majaro, 1982). The decision to go abroad or which foreign market to choose is not always easy. The firm needs a lot of information and research about the foreign market in order to know whether the market is actually attractive or not (Hollensen, 2004). Johnston and Beaton (1998) argue that the single most important factor in foreign market selection is the fit between the organization, its management, its product and the specific market. They also stress the importance of having good market research and blames the lack of it as one of the main reasons why many firms fail when going abroad. Wood and Robertson (2000) argue that a foreign market analysis should contain a 2 certain list of factors of the foreign market such as political factors, market potential, economical factors, culture, infrastructure and legal factors to be successful. Solberg (1997) suggests that if a firm is lacking of international experience and has a weak position in the home market it should refrain from going abroad all together. A multi-national firm which is facing difficult decisions whether to enter specific markets or not is Oriflame; Oriflame is present in over 55 countries around the world and has approximately 1, 7 million consultants working as independent sales people. Even though Oriflame is Swedish and is located in Western Europe (Oriflame, 2005), it is not present in one of the most important market for direct sales or cosmetics in Western Europe: France (Euromonitor, 2003). Oriflame was present in France in the 70’s and 80’s but left in the early 90’s according to the regional director of Oriflame Western Europe (Jonas Hedberg, personal communication, 06-03-15). The reason they left the market was due to managerial inconsistency and problems with the social security laws of France in direct sales according to the former national manager of Oriflame Netherlands, who was working in Oriflame at the time they left France (Jack Goelst, personal communication, 06-03-23). Jesper Martinsson, COO of Oriflame, claims that the main reasons Oriflame has chosen not to enter the French market again is that Oriflame has invested most of its energy in expanding in developing countries such. According to him the French market is too mature with too much competition and the social security laws for sales consultants is too complicated (Jesper Martinsson, personal communication, 06-05-29). Oriflame has also experienced problems in other big Western European markets like the UK which Oriflame recently let go off as a franchise after having run on loss for several years (Oriflame, 2005). According to Patrik Linzenbold, manager of investor relations of Oriflame, the reason Oriflame left the UK was due to strategic inconsistency and management problems (Patrik Linzenbold, personal communication, 06-04-28). Today Oriflame is faced by competition from other multi-national direct sales firms of cosmetics like Avon on a global level (Jonas Hedberg, personal communication, 06-03-15). This situation resembles what Doole and Lowe (2004) refers to the type of competition in which each country on the global marketplace is like a piece in a game for who will have the highest growth, the highest profit and be the market leader worldwide. In this type of competition one could ask oneself whether Oriflame can afford to not be present in France, the third largest market for direct sales in Europe (Euromonitor, 2003). 1. 3 Problem Marketing research is fundamentally important in the international marketing process. Even though it can not reduce the uncertainty to zero it can ensure that decisions are being made on knowledge rather than guessing (Doole & Lowe, 2004). Doing international market research does not differ much from domestic market research. The objectives, tasks and methodologies are similar but the scope, issues, complications and inevitable cost of international marketing research make it a very specialized activity. Marketing research always demands a very clear comprehension of the reasons for the research. International marketing research requires an even greater understanding of which resources to allocate to a multinational study and the results which might come out of such expenditure (Majaro, 1982). If a firm does not do its foreign marketing research in the right way it can often prove a costly mistake (Kotabe & Helsen, 2004). According to Andersen and Buvik (2002) many firms in reality do not even do a systematic market analysis when going abroad. 3 Instead, they rather use a rules-of-thumb approach. Majaro (1982) states this as a reason as to why many firms fail in their internationalization process. Thus the issue of how to conduct a foreign market analysis is of general interest. Not only does an analysis need to include certain factors but it also needs to be practical enough to be used by firms in reality. Doing an analysis of the French market for Oriflame could be a good way to first be able to develop a theoretical framework, then showing how to test it and finally illustrating which results that type of analysis could generate. 1. 4 Research Questions Given that this thesis is focused on analyzing foreign markets it is necessary to know what to do research on and how to do it, thus the first question is: Which factors should be included in a theoretical framework to analyze foreign markets? As this thesis will use a real world study of Oriflame and the French market the theoretical framework must be applied to Oriflame and the French market of direct sales for cosmetics, thus the next question is: How can the theoretical framework be applied to a real world study of Oriflame in regards to entering the French market of direct sales? 1. 5 Purpose The purpose of this thesis is to develop a theoretical framework to analyze foreign markets and apply it to the French market of direct sales in cosmetics and Oriflame. 1. 6 LimitationsThis study will not give an absolute answer to whether Oriflame should enter the French market or not; rather it will present its research in the form of recommendations in terms of what to consider if entering the French market. 1. 7 Definitions There is some word that we need to define so that the readers have a precise idea from the beginning of the thesis of what they mean and thus avoid misunderstanding. Analysis: study of such constituent parts and their interrelationships in making up a whole. Consultant: independent sales contractor working for direct selling companies. Direct Selling: Direct Selling is the process whereby independent business people, or distributors, market and sell products directly to the consumer without having to make 4 significant investments in the infrastructure normally associated with the establishment of traditional – bricks-and-mortar retail outlets. Multi-level direct selling companies do not own retail outlets, nor do their distributors, and do not in general advertise or promote their products in the traditional retail environment (Euromonitor, 2003). Multi-level direct selling (also known as “ multi-level marketing”, “ network marketing”): it is a “ system of selling in which agents employ other agents and they in turn employ agents, and so on. Other related terms for such schemes include “ pyramid selling” (Euromonitor, 2003)”. Person-to-person direct selling: it involves face-to-face sales by a company representative who sells directly to the consumer. Includes door-to-door selling and telesales (Euromonitor, 2003)". Party-plan direct selling: involves one-to-many sales by a company representative who arranges sales " parties" (Euromonitor, 2003)". 5 2 Presentation of Oriflame In this chapter, Oriflame the company, will be briefly presented as it is in focus for the study of this thesis Oriflame was founded in Stockholm, Sweden in 1967 by the two brothers Jonas and Robert af Jochnik and is today one of the leading cosmetic direct sales companies in the world with over 1, 6 million consultants and 5000 employees. Oriflame is a direct selling company with a network marketing plan. Direct selling is a process in which independent sales consultants market and sell products directly to the company without having to make significant investment in the infrastructure normally associated with establishing traditional retail outlets (Oriflame, 2005). The direct selling of cosmetics is a booming and rapidly growing industry, even so Oriflame outperforms the general market index. In 2005 Oriflame's sales increased with 14 per cent up to 765, 7 million Euros, the average number of sales consultants increased by 8 per cent and the operating profit landed on 106, 7 million Euros (Oriflame, 2005). Oriflame has a product range of more than 600 products in the categories Skin Care, Colour Cosmetics, Fragrances, Toiletries and Accessories. A lot of emphasis is put on constantly re-innovating and launching new products which resulted in that 250 new products were launched in 2005 alone. Oriflame's target group consists of women, men and children who want to use their products as well as people who want to sell them (Oriflame, 2005). The overarching goal of Oriflame is to becoming the number one direct selling beauty company. In order to get there, the company has four internal strategic cornerstones. 1) People and Culture which deals with attain the best professional employees to help make the company the Natural First Choice. Certain steps are being taken towards this by for example launching the Oriflame Management Academy which will educate Oriflame managers in culture, management and provide integration and cooperation within the group. 2) Network Marketing Focus deals with the importance of further communicating the appeal of the network marketing plan externally to consultants as well as internally to employees.) Brands and Products which deals with the continued creation of great beauty products and communication of brands and products to its consumers and consultants. The slogan “ Natural Swedish Cosmetics” will further be used to communicate the Swedish origin as well as the honest and straightforward way the company works and its inspiration from nature. 4) World Class Service deals with the importance of delivering a world class service to consultants and consumers. Oriflame should continue to use the interaction with consumers and consultants as an opportunity to differentiate the company from competitors (Oriflame, 2005). Oriflame mainly uses two marketing tools: the mouth-to-mouth method through its 1, 6 million consultants and its product catalogue. The catalogue is distributed in 6 regional versions, in 35 different languages and 78 million copies around the world. A new catalogue is distributed in every 3 to 4 weeks which means 12 to 18 editions per year. The new editions are used as a way to keep in season and always stay fresh with new products and offers in order to attract customers as well as consultants. Oriflame is a highly internationalized company and is today present in more than 50 countries. The organization of the company is decentralized with local sales companies taking full responsibility for managing their sales consultants and delivering products. The sales companies are organized into three main areas: Sales & Marketing, Operations and 6 Finance & Administration. All sales companies have their own warehouse facilities and are nationally managed. All subsidiaries receive global support in terms of marketing, sales, global supply, business development, finance and IT. The company has whole owned sales companies in 45 markets and acts through franchise arrangements with local distributors in 12 countries. The most important market for Oriflame is in Eastern Europe, the CIS & the Baltic which make up for 51 % of their sales. Until 1986 Oriflame was only working in the Western European market. After that a series of successful establishments in other continents pursued. After the dismantlement of the USSR, Oriflame was one of the first direct sales companies to penetrate the CIS and the Baltic region which is a reason to its big success in those areas. Sales increased across all areas of Oriflame operations in 2005 with 16 % in the CIS & Baltics, 16 % in Central Europe & Mediterreanean, 28 % in Latin America, 9 % in Western Europe and 4 % in Asia. Figure 2-1: Oriflame in the world (Oriflame, 2005) 7 3 Foundation of the 5 Cs – Analyzing Foreign MarketsThis chapter will explain the foundation of the framework used for foreign market analysis in this thesis 3. 1 Literature review on analyzing foreign markets When analyzing foreign markets one needs to take other factors into consideration then when analyzing domestic markets (Hollensen, 2004). At the same time, many of the factors are quite similar. Wood and Robertson (2000) conducted an extensive study on existing literature related to international marketing in order to summarize the main ideas on what type of information firms value when analyzing foreign markets. They came up with six specific categories: 1) Political factors, dealing with political stability in the country and political relations between the country and the firm's host country 2) Market potential, in terms of how big the demand for the products could be, the cost associated with adapting to the local market and the intensity of the competition 3) Economical factors in terms of general economic development in the country and consumer trends 4) Culture, in terms of cultural unity in the country and the distance in culture between the country and the host country of the firm 5) Infrastructure, dealing primarily with the physical distribution infrastructure and market communication infrastructure 6) Legal factors concerning things such as tariffs and laws in general. Jain (1989) found similar results in a literature review on standardization and adaptation research and found five crucial factors firms need to consider when deciding how much they should adapt their marketing program across different markets: 1) Target market, including geographic area and economic factors 2) Market position, dealing with market development, culture, market conditions and competition 3) Nature of product, dealing with the type of product and product positioning 4) Environmental factors, involving the physical environment, legal environment, political environment and marketing infrastructure 5) Organization factors, relating to corporate orientation, headquarters-subsidiary relationships and delegation of authority (Jain, 1989). Kotabe and Helsen (2004) use a 12 C approach to analyze international markets.) Country, dealing with general country information 2) Concentration, in terms of the structure of the market segments 3) Culture, dealing with cultural aspects 4) Choices, about competitors 5) Consumption, in terms of general market characteristics 6) Contractual obligations, referring to legal issues 7 Commitment, relating to access to the market and tariffs 8) Channels, dealing with distribution 9) Communication, about promotion 10) Capacity to pay, in terms of pricing 11) Currency, referring to exchange rate and stability 12) Caveats, other factors to be aware of. The factors mentioned by Jain (1989), Wood and Robertson (2000) and Kotabe and Helsen (2004) seem to relate to what Andersen and Buvik (2002) would call a systematic approach to foreign market analysis. Andersen and Buvik (2002) argue that there are two schools of foreign market selection: systematic and non-systematic. The systematic school proposes a structured and formalized process in selecting a foreign market. The firm should be able to identify choice criteria such as macroeconomic, political, cultural factors as well as marketspecific indicators such as market size, competition, channels of distribution and costs of doing business in the market. In contrast to the normative approach of the systematic school, the unsystematic school is more descriptive and aims to describe how firms generally behave. Several studies have found that many firms generally do not use a 8 systematic approach but rather a “ rules of thumbs” procedure which might be because of lack of information or opportunism. Research has also found that the nonsystematic approach is more common among smaller companies than large multinational corporations which are use to internationalization. The issue of psychic distance has been discussed as a major factor in the nonsystematic selection processes. Psychic distance is defined as anything that prevents the flow of information between firms and markets including factors such as differences in culture, political systems, language, level of education and level of industrial development (Andersen & Buvik, 2002). The psychic distance method often results in firms targeting neighboring countries since the geographical proximity generally means that the physical distance is relatively small as well (Papadopulus & Denis, 1988). The nonsystematic approach follows in the lines of the Uppsala School, in which a sequential pattern of entry in foreign markets together with an incremental deepening of commitment of each market (Johanson & Wiedersheim-Paul, 1975). 3. 2 The 4 Cs This thesis deals with the topic of analyzing foreign markets. However, in order to understand the background of the framework the factors included in a normal market analysis have been be explained, these factors also constitute the foundation of the first 4 Cs in the 5 Cs framework. According to Kotler (2005) firms operating in a market need to understand and be able to utilize the resources, competencies and strategies they have. This thesis names this component Company as it represents the firm itself and what it has at disposal. Further, Kotler (2005) stresses the importance of firms having knowledge of political and legal factors in the market of which they are operating in. This thesis names this factor Constitution as it represents legal and political factors. Kotler (2005) also emphasizes the need for firms to design their marketing mix in a way which attracts customers. Additionally the firm also needs to know the size of the market and its growth. This thesis names this factor Customers, as it deals with everything concerning the customers and general market characteristics such as growth, size and general economic indicators. Porter (1980) stresses the importance for a firm to understand the competitive forces of the market it is operating in. This thesis names this factor Competitors, as it deals with everything concerning competitive forces. See figure 3. 1 for a descriptive framework of the 4 Cs: Company, Constitution, Customers and Competition and how they function in a normal market analysis. Figure 3-1: The 4 Cs 9 3. 3 The 5 Cs Comparing the factors mentioned as important when analyzing domestic markets by Kotler (2005) and Porter (1980) with what Wood and Robertson (2000) and Jain (1989) wrote about analyzing foreign markets one finds many similarities. All of the original 4 Cs are clearly represented in the foreign market analysis theories. Even though the concepts might have different meanings in a domestic and in a foreign context they still relate to the same issues. Yet, one of the factors which are mentioned is new: culture. According to Wood and Robertson (2000) culture is a major factor to consider when analyzing foreign markets. It relates to all of the other factors. That is why this thesis adds Culture as its fifth C. Once the firm has analyzed the foreign market it needs to ask itself whether it will enter the foreign market or not, if the answer is yes, it will need to know how much it will have to adapt its marketing program to the new market. See figures 3. 2 the 5 Cs. Figure 3-2: The 5 Cs Company deals with the firm's resources as mentioned in Barney (1991) as well as organizational issues within firm mentioned by Jain (1989) such as strategies and competencies. Majaro (1982) argues that it is essential to find a fit between the firm and the international market. Hollensen (2004) states in order to go to a foreign market the firm needs resources to do so as well as the competence and strategies to utilize them in an efficient way. Constitution deals with political, legal, economic and technological factors as mentioned by Wood and Robertson (2000) and Jain (1989) as being crucial when analyzing a foreign market. The firm needs to deal with the political and legal factors on the home market as well as on the foreign market. The trade regulations as well as the political relations have an impact on both markets. Competition deals with the competitive forces within the new market as described in Porter (1980). The firm entering the new market needs to consider issues such as competitive rivalry, threat of substitutes, bargaining power of suppliers and buyers as well as threat of new entry (Porter, 1980). As the competition also relates to the market and things such as market growth and market potential, this thesis will include general market characteristics under this section as well. 10Customers deals with the customers of the foreign market and how they perceive the marketing mix of the firm. This can be related to several of Kotabe and Helsen’s (2004) Cs such as Channels, Communication and Currency. Hollensen (2004) divides the marketing mix into product, price, place (distribution) and promotion. All of these parts needs to be attractive to the customers of the foreign market are to accept them. Different cultural factors might have an impact on what type of promotion is acceptable in certain cultures and economic factors might influence which price can be feasible (Hollensen, 2004). Culture deals with the culture of the home and the foreign market as is mentioned in Wood and Robertson (2000) and Kotabe and Helsen (2004). Hofstede (1991) refers to culture as a system of beliefs, values, expectations and goals shared by members of a certain group. It is essential to understand culture and how it relates to all of the other Cs since it deals with people and the society they have created (Hofstede, 1991). All of the 5Cs are strongly interrelated; each factor depends upon all of the other factors. If one factor is inferior compared to the others, the decision to enter the foreign market might be negative. For example, even if all of the other factors are positive the cultural differences between the two markets might simply be too big which makes it too costly to operate in the foreign market. Another example is that even if all of the other factors are positive, the Company might not have the resources or skills available to enter the foreign market. Papadopolous and Denis (1988) argue that even if some factors are negative on a foreign market other positive factors might more than make up for it such as low political stability put in relation to huge market demand. 3. 4 Why the 5 Cs? The main reason to use the 5 Cs framework over the other frameworks presented in chapter 3. 1 is that it is more comprehensive and easy to use. The fact that it is 5 Cs rather than a list of various factors make it more pedagogical than what is suggested by Jain (1989) Wood and Robertson (2000). The reason why it is better than the 12 Cs framework suggested by Kotabe and Helsen (2004) is that it is more comprehensive with 5 Cs than 12 Cs. Even though the 12 Cs model has 7 more Cs than the 5 Cs they roughly include the same factors. The 5 Cs is a very general framework covering a wide range of theoretical issues which means it can be used in analyzing a wide type of different markets for different firms. This means that in order to be applicable in specific cases certain adjustments might be necessary. For this thesis the framework of the 5 Cs has been adapted to direct selling, Oriflame, France and Sweden. Thus this particular adjustment of the framework is only applicable for the analysis of this study. 11 4 The 5 Cs frameworkThis chapter will in more detail explain the underlying framework of each and everyone of the 5 Cs 4. 1 Company This chapter will present Company which deals with the resources, competencies and strategies of the firm for which the foreign market analysis is carried out. Barney (1991) defines firm resources as all assets, capabilities, organizational processes, information etc. controlled by a firm in order for it to implement its strategy that improve its efficiency and effectiveness. Dollinger (1999) argues that a resource is any thing or quality that is useful. Barney (1991) divides resources into three categories: physical capital resources, human capital resources and organizational capital resources. Physical capital resources are the physical technology used in a firm, its equipment, geographic location and access to materials. Human capital resources are the training, experience, judgment, intelligence and relationships that are possessed by individual employees in the firm. Organizational capital resources are things such as a firm's planning procedures, controls, coordination systems as well as informal relations between a firm and its environment. Dollinger's (1999) division of resources is pretty similar with the exception that he adds reputational and financial. Reputational resources are the perceptions that people in the environment have of the company such as brand or company image. Financial resources are represent money assets such as the firm's borrowing capacity, ability to raise new equity and the amount of cash generated by internal operations. Barney (1991) argues that a resource may give a firm a competitive advantage or sustained competitive advantage. A competitive advantage is a value creating strategy not currently being implemented by any other strategies. A sustained competitive advantage is the same as a competitive advantage but with the addition that it can not be copied by a potential competitor. A sustained competitive advantage is characterized by four factors: they are valuable, they are rare, they are imperfectly imitable and they are non-substitutable. A valuable resource is as suggested earlier valuable because it enables the firm to implement strategies that improve its efficiency and effectiveness. A resource can be considered to be rare when only a few number of firms possess it. A resource can be imperfectly imitable for three reasons: historical conditions, casual ambiguity and social complexity. Historical conditions relate to long-term processes, which have developed over time to acquire the resource. Casual ambiguity exists when the link between the firms controlled by the firm and competitors do not understand their link to its sustained competitive advantage. Social complexity occurs when the resource is part of very complex social phenomena beyond the control of management. The last requirement for a resource to result in a sustained competitive advantage is that it is non-substitutable, i. e. that there is not strategically equivalent valuable resources that are themselves rare and imperfectly imitable. A competence is an activity or process through which an organization deploys its resources effectively. Competencies can be among individuals as well as organizations (Johnson et al, 2005). A core competence is the collective knowledge of an organization. It is activities and 12 processes through which resources are deployed in such a away as to achieve competitive advantage in ways that others can not easily imitate or obtain (Hamel & Prahalad, 1990). Alkhafaji (1995) lists abilities that are essential for global managers: 1) Ability to perform in a team setting 2) Ability to manage change 3) Ability to manage staff diversity 4) Ability to communicate in different cultural settings 5) Expertise in developing global strategic skills and turning ideas into action 6) Ability to change thinking 7) Ability to create, learn and transfer knowledge 8) The expertise to form joint ventures or strategic alliances. Gooderham and Nordhaug (2003) refer to these types of abilities as meta-competencies which they argue are necessary within multi-national companies wherever change is necessary such as in an international context when entering new markets. Andersen and Strandskov (1998) emphasize the firm's competencies in working internationally as imperative when choosing which foreign market to enter. If the company has a high level of experience from entering similar foreign markets then the process will be facilitated. Ghosal and Nohria (1993) argue that there are four types of international strategies: global, multi-domestic, transnational, and international. A global company uses a highly centralized control from the HQ with well-defined roles of the subsidiaries. There is a high level of optimization of different activities, specialization of plants for low costs with economies of scale. There is small adaptation to local markets. This strategy can result in too much concentration and there is little ability to respond to changes. The multi-domestic strategy emphasizes different product/service offerings to local markets. The decision making is decentralized and allows the subsidiaries to act like national companies. The drawbacks of this strategy are that it increases the company cost structure and adaptations might backfire. The transnational strategy tries to optimize trade-off of efficiency, local adaptation and learning. Innovation occurs in the entire firm and it capitalizes on communication and knowledge. The difficulties with this strategy is that it is difficult to find optimal locations and its difficult to achieve knowledge transfer. The international strategy is based on the sharing of the knowledge of the parent company's knowledge and expertise. Core competencies are centralized and only minor adaptations are needed across different markets. The drawbacks of this strategy is that it misses optimization of different activities and are vulnerable to political and economic risks. Entry strategies that company used to enter international markets are necessary to examined as well. They are exporting, franchising, joint venture, and wholly owned subsidiaries (Kotabe and Helsen, 2004). Hollensen (2004) claimed that the export entry modes indicates a process that transfers products of the firm which are manufactured in the domestic market or a third country to the host market either directly or indirectly. According to Kotabe and Helsen (2004) Franchising is an arrangement that the franchisor offers the franchisee the right to use trade names, trademarks, business models, and/or know-how of the franchisor's in a given territory for a specific time period, in return, the franchisor gets royalty payments and other fees. The franchising package might include the marketing plan, operating manuals, standards, training, and quality monitoring (Kotabe and Helsen, 2004). In order to expand companies' global operations to enter foreign markets, especially in emerging markets, joint venture prove to be the most viable way to do so (Kotabe and Helsen, 2004). According to Kotabe and Helsen (2004), with a joint venture, the foreign company agrees to share equity and other resources with other partners to establish a new entity in the target country. Typically, the partners are local companies, but they also can be local government authorities, other foreign companies, or a mixture of local and foreign players (Kotabe and Helsen, 2004). Last but not the least, some companies prefer to enter new markets with 100 percent ownership namely, wholly owned subsidiary (Kotabe and Helsen, 2004). It is also the most expensive method of market entry, because it requires 13 the greatest commitment in terms of management time and resources between headquarter and subsidiaries (Doole and Lowe, 2004). 4. 2 Constitution This chapter will present Constitution, including political, legal, economical and technological factors the firm needs to take into consideration when analyzing foreign markets. The constitution part deals with some of the macroenvironmental factors, which the firm trying to go international will be exposed to. Doole and Lowe (2004) uses the SLEPT (Social/Cultural, Legal, Economic, Political, Technological) framework to analyze this environment. The Social/Cultural environment however will be analyzed more carefully another a separate section in Culture. The political environment encompasses any national or international political factor that can affect the firm's operations or decision making (Doole & Low, 2004). A country's political environment could have detrimental effects on foreign businesses operating in that country. Political events or conditions in the host country severely impact the profitability of a business and the security of its investments. This is because of, for instance, government policies and decisions that include changes in tax laws, restricting expatriate employment, and also the expropriation of an organization's investments. Therefore conditions such as government stability, taxation policy, foreign trade regulations, and social welfare policies must be carefully looked into (Johnson et al. 2005). When going international a firm needs to know what type of legal environment it is operating it. The legal environment relates to all of the element of the marketing mix (Majaro, 1982). The laws constitute the rules of the game for business activity (Doole & Low, 2004). Thus before investing in a country it is of crucial importance to look into the country's legal factors such as competition law, employment law, health and safety and product safety law (Johnson et al. 2005). Hollensen (2004) and Kotabe and Helsen (2004) divides the political/legal environment into two areas: the home country environment and the host country environment as well as the international environment. The home country environment encompasses issues such as the home political and legal environment affecting international relations. The host country environment deals with issues in the export market. This involves political risks in the export nation as well as legal issues such as import restriction, market control, local-content laws, labor restrictions and more. The international environment deals with issues effecting two or more countries such as trade unions or international trade laws. A country's economic conditions will directly affect organizations operating in that country. For example, if disposable income increases, people spend more and if it decreases, they cut back spending on certain items. Similarly, the uncertainty in predicting exchange rates means that expected profits may or may not be realized once the foreign currency has been converted into the organization's home currency. Therefore, certain economic factors must be given due attention before investing in a country. These factors include GDP trends, disposable income trends, interest rates, inflation, unemployment rate and the stability of the currency (Hollensen, 2004, Johnson et al. 2005). 14 The technological environment is essential for the international marketer especially for issues considering communication and gathering information. The Internet has revolutionized the way we do business and IT the way we are able to communicate and store information. Certain nations are more advanced than others in this regard which means that a firm going international must understand the technological environment of the country it is going to (Doole & Lowe, 2004). 4. 3 Competition This chapter will present Competition dealing with issues concerning competitors as well as general market characteristics. When evaluating a foreign market the firm needs to have some understanding of the competitive conditions on the market. If the competition is too hard there might not be enough room for new entry and if it is not so hard entering the market might be a very worthwhile idea. Porter (1980) developed the five forces framework in order to asses the attractiveness of a industry or sector. The first force is threat of new entry. The threat of new entry is based on the extent to which there are barriers to entry. These are factors that will be necessary to deal with for new entrants if they are to enter successfully. The first factor is economies of scale which relates to how much cheaper a firm within the industry can produce per unit once production increases. The second factor is the capital requirements of entry which deals with how much capital is required to enter a market in terms of setting up the operations, launching a product etc. The third factor is access to supply or distribution channels which concerns the availability of channels to get the product to the customers. The fourth factor is customer or supplier loyalty which deals with how difficult it is for a competitor to “ steal” customers from another company. The fifth factor is experience which deals with how easily a competitor can learn or acquire the experience to succeed within an industry. The sixth factor is expected retaliation which deals with how the industry will respond to a new market entry. If the retaliation is expected to be forceful then perhaps it is wise to stay out of the industry. The seventh factor is legislation or government action which is about legal constraints within an industry or government policies. These issues have been discussed more fully in section 4. 2 under Constitution. The eighth and final factor is differentiation which handles the issue of how much customers value the differentiation of a product and how easy it is to imitate by competitors (Porter, 1980). The second force is the threat of substitutes. Substitution reduces demand for certain products and customer can switch to alternatives if they seem more attractive. Substitution can appear in different forms. The first form is product-for-product substitution which relates to the extent to which a product can replaced easily by another similar product, for example busses substituting for trains. The second form is substitution for need which deals with how one product can render the need for another product obsolete, for example do-it-yourself instruction books might reduce the need for trained professionals. The third and final form is generic substitution which occurs where products and services compete for disposable income, for example cinemas competes with restaurants for available household expenditure (Porter, 1980). 15 The third and the fourth forces are the power of buyers and suppliers which can be considered together since have similar effects in limiting the freedom and profitability of the firm. Buyer power is likely to be high when certain conditions take place. The first is when there is a concentration of buyers meaning that the buyers have a high level of cooperation and substantial purchasing power and are able to pressure the suppliers. The second condition is when the cost of switching supplier is low and involves little risk. The third condition is when there is a threat of the supplier being acquired by the buyer, so called backward integration and might occur if the producer can not get prices at a satisfactory level. From the other perspective, supplier power is likely to be high when a set of other conditions are present. The first condition is when there is a concentration of suppliers rather than fragmented suppliers with small negotiation power. The second condition is when the switching costs from one supplier to another is high. The third condition is when there is a possibility of the suppliers to compete directly with their buyers, which is called forward integration (Porter, 1980). The fifth and final force is competitive rivalry which deals with organizations selling similar products and services for the same target group. There are a series of factors that affect the degree of competitive rivalry within an industry. The first one is the extent to which the competitors are in balance. When competitors are of a similar size the competition tends to be fierce as one organization tries to gain dominance over another. The second factor is the growth rates of the industry. When the growth rate of the industry is high then firms can grow through the growth of the marketplace and not only by taking market shares by competitors. The third factor is the extent of high fixed costs in an industry, if they are high and capacity exceeds demand then firms are forced to either cut down on production or enter fierce rivalry with their competitors resulting in lower margins. The fourth factor relates to if there are high barriers of exit to an industry. If for example a high level of investment is non-transferable there might be difficulties in companies in scaling down on capacity if it exceeds demand. The fifth factor is once again differentiation, the less differentiated products are within an industry the easier it is for consumers to switch products (Porter, 1980). 4. 4 Customers This chapter will present Customers which deals with the consumer attitudes towards the marketing mix of the firm in the foreign market. 4. 4. 1 Product Before entering a foreign market the firm needs to have a sense whether the market will accept its product in a welcoming way or not. The product is perhaps the most important thing a company needs to take into consideration in its global marketing mix in order to succeed in a foreign market (Hollensen, 2004). According to Kotler (2005) a product is defined as a good that the firm is offering to the market for attention, acquisition, use or consumption and can satisfy a want or a need. Products do not only consist of tangible goods but also of things such as services, personnel, places, organizations and ideas. The product can essentially be defined on three different levels. The core product is the most basic level and addresses the question: What is the buyer really buying? The core product 16 stands at the center of the entire product. It is made up of problem-solving services or core benefits that consumers desire. The second level is the actual product which is built around the core product such as quality level, features, design, a brand name and packaging. The third level is the augmented product which consists of additional consumer services and benefits such as after-sales service, delivery and credit or warranty. Kotler (1997) also argues that when going international the core product is the easiest thing to standardize across different markets where as the augmented level in terms of services, installation, guarantees etc. is the most difficult (Kotler, 1997). Branding is an essential part of the product in international marketing. Branding is linked to the image and what people think about the f