International marketing investment strategy: a three-stage model

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An increasing number of firms are finding out that in order to be competitive and grow, they must go international. Such expansion of operations has resulted in increasing numbers of multinational firms (Pugel 1988). Many firms have been extremely successful in doing business in foreign lands (Business Week, Nov.

27, 1989, Franko 1989). Numerous firms, however, have either not yet recognized or are still unsure how to address the intricacies of the international marketplace (Business Week, Jan. 29, 1990). In order to start the process for conducting business in foreign countries, or to improve current performance, firms need a good understanding of two things: how to evaluate the environment or the individual countries, and how to screen individual markets to determine their viability for productive investment. Even with those understandings; however, the question of increasing or decreasing investment in an international market is a major strategic decision for a company.

This article presents a three-stage model designed to assist managers in the process of making international marketing investment strategy determinations. The reasons for the interest in studying multinational environments and the strategies to be pursed in those environments have been summarized by Kennedy (1987). He reported the underlying causes to be: rapid internationalization of firms since World War II, increased nationalism in host countries, an increased amount of forced divestments or expropriations of corporate assets, the decreasing ability of the home governments to intervene or guarantee the safety of their investments abroad, rising instability in foreign countries and the desire for effective

global strategies by multinational companies. Business International (1981) in a survey of 90 multinational companies found four types of decisions generally being affected by their studies monitoring international business environments: 1. Status decisions, 2.

Early-warning decisions, 3. Exposure decisions, 4. Situation analysis/contingency decisions. Wind and Robertson (1983) pointed out that corporate strategy should not only provide direction for marketing decisions in other countries but also for the total set of multi-country international decisions. The complexity of the environment and the strategic nature of the decisions which need to be made in order for a firm to function competitively in that environment make it necessary to critically examine existing strategy models for their applicability in the international arena.

Despite the shortcomings of previous studies and models, attempts at reaching an understandable model for determining international business strategy have been ongoing. The marketing literature presents a number of models designed to guide managers in making strategic investment decisions. Included in that number are matrix approaches such as Shell DPM (Robinson, Hichens, and Wade 1978), Arthur D. Little (Patel and Younger 1978), GE/McKinsey (Taylor 1976), and Gladwin’s (1985). Those models have each provided a unique contribution to the strategy process but each also has distinct disadvantages. The advantages and disadvantages of each are presented in Figure 1.

Of particular concern for firms interested in the international market is the fact that these models do not take into consideration the international

environment. Many multinational companies still confront the problem of integrating environmental assessments into decision making in a systematic and objective manner. The task facing them is how to translate recognition of the business situation into action. Previous models are limited in their generalizability across different types of industries and actual environments worldwide.

In contrast, the model proposed in this article is intended to reduce these deficiencies by having higher generalizability across different types of industries, more comprehensive treatment of environmental determinants, and subsequently wider applicability to real situations worldwide. In the International Marketing Investment Strategy Model proposed in this article, risk is being considered explicitly as a component of the environmental determinant of market attractiveness, and consumer sentiment is being considered explicitly as a component of the environmental determinant of competitive position. The IMISM is intended to serve to guide the decision-maker toward the answer to the question: What should be the direction and extent of investment in marketing for an international business? The model as illustrated and explained in Figure 2, has three stages: (1) screening for acceptable or unacceptable market attractiveness and competitive position, (2) classification of business on the basis of interaction between those two dimensions, and (3) determination of strategic alternatives for the different classes of business. Stage 1: ScreeningDuring this stage, all strategic business units of a company should be screened for both their markets attractiveness in each of their individual countries of operation and their

relative competitive position with other businesses in the industry in those countries.

Such screening is necessary to determine which strategic business units are worth pursuing or which may not be worth pursing. The alternative, which this stage helps avoid, is the squandering of resources on poor prospects. The concepts of market attractiveness and competitive position are explained below. Market Attractiveness: the examination and understanding of market attractiveness is very important in determining investment strategies in a country of operation. Strategic business units need markets, which both can and will support them. In order to determine the market attractiveness of a country to the strategic business unit, the company needs information on two major factors, market potential and country risk.

While market potential determines whether a country can support the business, country risks involve determining whether a country will support a business. There is a tradeoff between market potential and country risks involved in the determination of market attractiveness. Market potential is the ability of a country to support a business. It is based on the economic, social, financial, and demographic resources with which the country is endowed.

Country risk, the other major factor determining market attractiveness, has been defined by Kennedy (1987) as elements of risk inherent in doing business in the economic, social, and political environment of a country. Sources of secondary data on market potential and country risk are numerous: World Bank, United Nations, Business International, Euro monitor,

US Department of Commerce and Industry, Economist Intelligence Unit, Predicast, Frost and Sullivan. To use the data on market potential and country risk, weights are assigned to each of these component variables in accordance to their perceived importance to the company. Business Environmental Risk Index (Haner 1975), Mayer (1985), and Kotler (1984) have demonstrated the use of such weights and can be referred to as an example of this process. The final scores for each country are computed by figuring out the sum total of scores on factors determining market attractiveness. The individual countries may then be classified as either being in an acceptable or unacceptable range of market attractiveness based on the firm’s beliefs about what constitutes a combination of minimum market potential and maximum risk feasible for investment.

The ISISM model’s other determinant of investment strategy; competitive position is similarly evaluated in the screening stage. Competitive Position: businesses must maintain some advantages over their competitors in order to convince consumers to patronize them instead of their competitors. They do not have to be the best, but they must possess some combination of factors that give them an access to consumer patronage. Overall competitive position in a market is determined by two major factors – industrial competence and consumer sentiment. Industrial competence is the ability of a strategic business unit to compete in a particular industry in a given market.

It is determined by the ownership-specific advantages, location-specific advantages, and internalization incentives (Dunning 1981). Consumer sentiment is the attitude of consumers toward the strategic business unit. It

is determined by the attitude of the consumers toward the product or service quality, and the pricing, advertising, and retailing activities of the strategic business unit (Gaski and Etzel 1986). There is more than one approach to determining competitive position. Porter (1980) gave a structural framework for analyzing industries. Within his framework, the nature and degree of competition in an industry is seen as dependent on five forces: (1) the threat of new entrants, (2) the bargaining power of buyers, (3) the bargaining power of suppliers, (4) the pressure from substitute products, (5) the rivalry among existing competitors.

The use of Porter’s (1980) approach would require highly difficult subjective evaluation of industrial competence, and the administration of a questionnaire. Dunning developed an easier approach, which is more objective and less time consuming. Dunning (1981) determines competitive position on the basis of ownership-specific advantages, location-specific advantages, and internalization incentives. Ownership-specific advantages are assets or rights, which are exclusive to the enterprise that owns them.

Location-specific advantages are factors, which are external to the enterprises, which use them and are not transferable or mobile across national boundaries. Internalization incentives are gains to the enterprise, which arise from replacing external mechanisms of resource allocation with internal administrative means of asset allocation. The studies identified above (Porter 1980; Dunning 1981) have been limited to industrial competence as the sole determinant of competitive position, and have explicitly excluded consumer sentiment in the determination of competitive position in the context of international strategy. The IMISM explicitly

considers consumer sentiment as a major factor of competitive position. Consumer sentiment toward a brand is inextricably involved with developing, maintaining, and increasing market share (Jacoby and Chestnut 1978).

The attitudinal measures seem to offer a great deal more than the strictly behavioral measures in terms of measurement capability and actual understanding of the phenomenon (Jacoby and Chestnut, 1978). Copeland (1923) suggested that an extreme attitude toward a particular brand might have a special effect on buyer behavior. Gaski and Etzel (1986) presented an " index of consumer sentiment toward marketing." This index measures sentiments toward product quality, price, advertising, and retailing.

Their questionnaire may be easily personalized for individual strategic business unit use in each country of operation by limiting its frame of reference to the product or service offered by the strategic business unit in the country of interest. To use the data on industrial competence and consumer sentiment, weights are assigned to each of these component variables in accordance to their perceived importance to the company, in a manner similar to that illustrated for market attractiveness. The final scores are found by figuring out the sum total of scores on the variables determining competitive position. The individual businesses may then be classified as either being acceptable or unacceptable in competitive position based on the firm's belief on what constitutes a combination of minimum industrial competence and minimum positive consumer sentiment feasible for investment.

Stage 2: ClassificationIn the second stage of the model, individual businesses are classified and placed in their appropriate cells in a two-by-two International Marketing Investment Strategy Matrix (Figure 3). Market attractiveness is on the vertical axis and competitive position is on the horizontal axis. The axes are divided into acceptable and unacceptable ranges based on the subjective evaluation of the decision-makers of the company's attitude toward risk, i. e. the amount of risk the company wants to take for a certain amount of expected financial payoff.

The position of the strategic business unit on the matrix is determined by the intersection of scores on both axes. A score above the minimum acceptance point on an axis places the company in the acceptable range for further investment, and a score below the minimum acceptable range. Four environmental groups are created by the combination of acceptable and unacceptable ranges on the two axes:(1) Expansion Opportunity: Acceptable Market Attractiveness, Acceptable Competitive Position. In this cell, the business is in a market that has good potential for growth and the level of risk involved is low. The business enjoys financial strength, and has good control over supply and distribution.

The consumer sentiment toward the business is favorable.(2) Caution Indicated: Acceptable Market Attractiveness, Unacceptable Competitive Position. In this cell, the business is in a market that has good potential for growth and the risks involved are low, but the business is not in a position to take advantage of it, because of its weak competitive position in the industry. Control over supply and distribution, or inefficiency and lack of access to adequate finances is the reason for this position. Consumer

sentiment toward the business is not favorable.(3) Maintenance of Current Market Position: Unacceptable Market Attractiveness, Acceptable Competitive Position.

In this cell, the business is in a market that lacks potential for growth or the economic, social, or political risks may be too high. However, the business maintains good financial position, and has control over supply and distribution. Consumer sentiment is favorable toward the business.(4) Retraction from the Market: Unacceptable Market Attractiveness, Unacceptable Competitive Position. In this cell, the business is in a market that has no potential for growth and the risks involved are too high. The business does not have access to adequate finances and technology, and lacks control over supply and distribution.

Consumer sentiment is against the business. Stage 3: Strategic AlternativesAfter a firm has classified a strategic business unit as belonging to an environmental group, in the third stage of the model, it is in a position to determine appropriate strategy. Examples of possible strategies applicable to each of the four environmental groups are described below.(1) Expansion Opportunity: In this environment, the company should increase investment in the business' marketing efforts and pursue a strategy of expansion. Investments should be made in new products and innovations to maintain an edge over the competition, promotion should be increased to create additional awareness and also to provide reinforcement, and distribution channels should be increased to reach out to more consumers or make consumer access more convenient.

Pricing should be at the higher end of the industry rates.(2) Caution Indicated: In this environment, the company should be selective in the business’ marketing investment, and pursue a strategy of caution. Investments in apparently promising areas should be moderately increased, and investments in questionable areas should be moderately curtailed. Pricing should be at the lower end of the industry rates. If investments in this cell are drastically changed, too much may be spent in apparently promising areas which may not be so, and too little may be spent in apparently less promising areas which may prove otherwise.

(3) Maintenance of Current Market Position: In this environment, companies should retain the present level of the business’ marketing investments and pursue a strategy of maintenance. Pricing should be at the industry average rate. The idea is to maintain its consumer base and keep its market share. The relatively stable returns from this cell can provide funds for investment in other businesses in other cells. Since this cell offers low additional market potential, a price that is higher than the industry average may guide consumers to competitors.

(4) Retraction from the Market: In this environment, companies should stop investment in the business’ marketing efforts and pursue a strategy of retraction. The price should be at the lower end of industry rates in an effort to dispose off existing inventory and get the maximum possible salvage value. The longer the company stays in this market, the more it stands to lose financially.