Why some companies avoid export essay sample

Economics

Introduction

More and more companies today are pinning their hopes of increasing sales by exporting their goods and services to foreign markets. Exporting goods not only provides new markets for the existing products but if chosen correctly they also provides a ready market for goods that don't have great demand in the domestic market. Apart from business reasons exporting goods and services can be really lucrative as most government provides incentives to the companies that export their products in the foreign markets and earn precious foreign exchange.

Advantages of Exporting Goods and Services

- Exports increases sales revenue for the company
- Exports helps in securing better margins as the prices secured by most companies from Singapore are higher than what they are in Singapore.
- Exports diversify business risks by expanding markets, offsetting indifferent demands in domestic market.
- Exporting products can extend product's life cycle. For example Toyota launches its various car models at different times in different markets.
- Exports can use idle capacity hence helping in achieving scales of economy.

With all the benefits, why not more and more companies start exporting their goods and services. This paper is aimed to analyze all the factors in detail which prompt companies not to export their goods and services to foreign markets. These factors can be categorized into five segments –

1. Business Practices and Internal Reasons

2. Market Structure
3. Economic Environment
4. The Legal and Political Environment
5. Language and Cultural factors

Business Practices and Internal Reasons

First we will try to analyze the internal factors which stop a company from exporting goods and services to the foreign markets.

Lack of Management Expertise

Most companies fail to go abroad with their products and services because they believe that they don't have managerial capabilities to handle the extra operational complications *(Andy Hines , 2003)* . This insecurity or pure lack of trust in managerial abilities prevents them not only from increasing their sales but also from taking advantages of the scale of economies with in the organization. Secondly the company has incur additional administrative to manage the growing business.

Changes in Organizational Structure and Business Model

The biggest roadblock which prevents a company from venturing abroad is the fear of altering the present organizational structure and business model. Companies which usually thrive in export markets are the one which able to replicate their domestic business model in export market as they have gained enormous amount of expertise in using those policies and business tools. If there is a need to tinker with that then most companies are skeptical and ready to give up their export ambitions. *(Martha Lagace, 2003)*

It is only for Big Companies

Most small and medium size companies believe that exporting goods is only the big companies sphere as they only have capabilities of committing the required financial resources and absorbing the relative risks. This assumption stops many a small and medium sized companies to stop exploring foreign markets. On the other hand the reverse is true, most big companies are public companies with a sword hanging over to deliver results every quarter. The demands from various stakeholders prevent much management to nurture a foreign market and invest in the future potentials of that market.

Export Market is only for Manufacturers

This is one of the most prominent myths in business that export markets are only for those manufacturers who have a product to sell. Most countries legislation has not even recognized selling services. But in the digital age situation has varied a lot, today service exports are catching up with products exports in the international markets. In the South-east Asian region we are witnessing a great shift in this regard. Philippines, a prominently manufacturing economy is gaining ground in exporting services. The growth of outsourcing industry in Philippines is third only to Ireland and India. It is estimated that this sector of the international business will grow much faster than any other in coming years. *(David Williamson, 2005)*

Greater Marketing Budget

As the companies have to do the hard work again of creating brand awareness among the customers of new market and building brand equity it has to spend more than what it is spending in the domestic market. The increasing expenditure can result the bottom line of the company in the short time and may affect the performance of the company on stock exchange. Another difficult task in marketing the products globally is positioning the product according to specific market sensibilities.

Additional Production Expenses

It is very rare that companies able to export the same product they are selling in the domestic market because each market is different in its own way. Most companies have to alter their packages or packaging material to penetrate in new markets. For example a green color packaging is considered environmentally friendly in western societies, green is the holy color in Islamic society but it is the color of mourning in Taiwan . So a company which is so successfully selling its product in Middle East and Europe has to change its packaging to suit to Taiwan local color consideration. Another variation which most companies find difficult to adjust is sizes of their products. Variation in sizes means extra production cost plus doubling the inventory management.

Huge expenses on Market Research

As venturing into the foreign market is always a fifty – fifty chance and companies want to tread the water carefully, they usually have to hire high cost marketing research companies.

Longer Payment Cycles

In domestic markets companies are used to having a shorter cash cycle but in the international market as the payment method is complicated, the cash cycle becomes a bit longer and companies who are heavily dependent upon faster cash flow turnovers are not willing to enter into the foreign markets.

Market Structure

Strong Domestic Market

One of the major reasons why companies try not to export their products and services is having a strong and vibrant domestic market. American companies over the last decade has slowly and gradually focused on domestic market compare to the decade before because the American economy saw a decade of boom which put money in customers pocket to spend. On the other hand Japanese companies have to look outward because their domestic demand is very limited after the World War II. Companies like Sony, Toyota really flourished in those markets and now they have more revenue coming out from outside Japan than from the domestic market.

Similarly companies from Mexico started exporting in big way a decade ago once United States opened its border for Mexican imports under NAFTA *.*
(James Heskett, 2000)

More recently the companies from Eastern European countries have flourished after joining the European Union and getting the opportunity to export their goods and services to affluent economies of Western Europe.

Highly Competitive International Market

Highly competitive international market can act as an anti-catalyst for firms wanting to enter the export markets. If a Singapore based company enters a new market it has to face competition from three sides – local companies, other Singapore based companies and competition from other countries. For example if Honda has to enter the German market than it has to face competition from Germany based companies like BMW and Mercedes, from Japanese competitors like Toyota and Nissan and from other foreign players like General Motors and Ford from United States.

Lack of Peers in the Domestic Market

Usually exports try to enter into the markets in which other players from the same industry had successful experience. When a country spots potential in new markets it sometimes inhibits to enter the market as it is uncertain about the business practices and other legal and economic procedures in that country.

Technological Differences

In a recent endeavor to push American products in Indian market, the government of United States asked Indian government to allow the import of Harley-Davidson bikes in India. Even with governmental influence Harley Davidson is not in position as off now to export to India as the environmental norms in India are different than the one present in America. Harley – Davidson have to upgrades it technology to Euro III norms to able to sell its bikes in India. (Traci Purdum, 2006)

Product Life Cycle Difference

Similarly there can be differences in the product life cycle of a product in similar markets. For example when Motorola first launched its product in Singapore, it showed the same advertisement that was running in United States – a man hammering his phone to show the durability of the product. The advertisement couldn't able to generate any enthusiasm as most people in Singapore find it useless. Why? To most people in Singapore, the mobile phone was luxury item and they keep it carefully rather than an average American who freely uses it and thus having a good probability of dropping it.

Lack of exporting information

Even though situation has improved a lot with the advent of internet but problems still persist with information regarding exports of goods *(Debora L. Spar, 2001).* In pre internet days the only sources of finding a buyer outside were Embassy of that particular country and a reference from fellow exporter. Today the situation has vastly transformed, an interested exporter can easily find a directory of importers interested in his products online. Another form of information lacunae, which use to be part and parcel of international market were tariffs on the goods imported by the respective country. In the last decade or so though generalization of tariffs has taken place across the world due to World Trade Organization but many spaces are still left to be filled. Tariffs and duties information is vitally critical as they could determine the price competitiveness of a particular product in that market.

Economic Environment

A country's economic environment includes both the macro economic factors and micro economic factors. It is a sum of country's sources of domestic livelihood and the allocation of resources. As not all of the world's economies operate at same efficiency level so there are natural variation in foreign market compare to domestic economic scenario.

Few barometers to gauge the economic health of the economy are crucial and they can influence the company's decision to enter the market or not.

- Population and Income – The number of people decides the total size of the market and their income determines their purchasing power. Cumulatively population and income determines the total present market.
- Structure of consumption – Nation's overall market is determined by the structure of consumption or the people. For example the Americans are a much more consumerist society than Switzerland even though the per capita income of both the countries is all most same.
- Concept of Economic advancement is characterized by the factors as comparative allocation of labor force to agriculture, energy available in large amount at low cost per unit, high level of gross national product and income, high level of per capita consumption, relatively low rates of population etc .

Micro Environment

Competitive edge of the economy is one of the vital factors in determining the export market, for example China has the largest population on the planet so it's natural that it has huge market for garments and apparels. Apparel exporter from turkey is interested in tapping the market and starts his market research. After research he came to know that China is also the biggest exporter of garments across the world and there is little or less opportunity present in China for garment exporters.

Both the macro economic factors and micro economic factors make up the economic environment of the export market. While it may seem relatively easy to pinpoint the current competition in the international market, analysis of competition in the future if very difficult because you never know which companies from where suddenly becomes interested in the potential market you are eyeing for. This uncertainty of international market thwarts away many of the potential exporters

The Legal and Political Environment

The next biggest hurdles which the exporters faced are the political and judiciary system of various export markets. Each country has its own rules and regulation regarding business in their own country and exporter has to follow the law of the land.

Form of Government

What form of government is ruling the country – is it democratic government, is it socialist government, is it runs by a dictator, the company first has to evaluate the political climate of the country. Each company has an internal culture which determines what sort of political structure they deal with best. For example some companies are comfortable negotiating with dictators while other with higher moral obligation towards its customers doesn’t enter into those markets. The clear example is the French and Russian companies which has huge oil deals with Saddam even though he was a military dictator.

Strength of Judiciary

Strength of judiciary can also determine whether a company should enter a foreign market or not. Sometime or other an export company do get entangled in legal procedure so the company has to evaluate whether the problem will be sorted out or not or how fast it can be sorted out and what sort of punishments are there in that particular country. For example Microsoft has launched its XBOX in all the major markets of the world last year but decided not to launch it in Indian market. The reason given by Microsoft was that the law to control piracy and copyright infringement is very low in the country so it can’t risk of loosing revenue in other markets due to piracy from India.

Language and Cultural Factors

What really make international markets, are different cultures across countries. Culture influences every aspect of company’s endeavor to enter foreign markets. A company has to make decisions based on its prospective customers and customers action are shaped by their lifestyles and behavior patterns as they stem from their society’s culture. Thus the products people purchase, the attributes they value in those products, the opinion they accepts are all cultural based choices *(Judith A. Ross, 1999)* . For example flag waving is very common in United States and it is very easy to find flag on various products there but in Germany it is almost the opposite. National flag waving is not an activity of jest in Germany so people don't often put that on products.

Similarly many of the cars which are so enthusiastically targeted to women in the western markets can't be promoted in Saudi Arabia as cars for women as driving for women is not acceptable in Saudi society.

These differences and uncertainty are explained as psychic distance concept. The psychic distance is measured as the difference between the home country and export market. The concept suggests that the more the similarities between the home market and export market, the greater the probability of a company succeeding in the foreign market.

Conclusion

Although it is easy to categorize a country's environment into political, socio-cultural and economic aspects but they overlap each other and the true nature of the exact influencing power of all these factors is hard to quantify. In international markets competition is not only provided by already established players but also lurking in side from hundred and thousands of companies looking for new opportunities to grow. The company does have control over the business practices and internal factors but it exerts less or no control over factors like political, cultural and economic environment of the company. We have analyzed how organizational and managerial characteristics along with cultural and political factors can all influence a company's decision to enter foreign markets. The combination of all these factors provides us a broad list of problems an exporter can face in international markets. All an intelligent management can do is to plan ahead before entering a market and structure the company to face the future challenges.

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