**Chapter Five**

**Marketing and New Venture Development**

**5.1. Marketing Research**

Market research is gathering and analyzing information about potential customers and competitors; the researcher would collect data from potential customers, suppliers, competitors and distributer’s investigating the possible market. Market research involves testing the feasibility of the product/service concept. Is the idea flawed? Are there people out there, who really want this type of product?

Market research involves desk and field research:

* **Desk Research**: - it can be conducted by using published market, trade directories yellow page and trade magazines. Even the financial report of a competitors company at the registrar of the companies can be a source.
* **Field Research**: - this means going out and asking customers, testing ideas and perhaps the product on them. You may be observing behavior e.g. customer’s flows in a shopping center, counting customers, counting cars or shops. You may do interviews, questionnaire or over the telephone. You may offer samples to members of the public or organize a taste panel. This research may be commissioned form a market research agency (expensive).

Market information can be collected from a wide variety of source including: Customers, the sales force, competitors, distributors, retailers, suppliers, trade associations and government bodies.

**5.2.1 How to Conduct Market Research**?

The goal of market research is to reduce the risks associated with making business decision. It can replace misinformation and assumptions with facts successful market research consists of four steps; define the objectives, collect the data, analyze and interpret the data and draw conclusions and act.

**Step 1 –Defines the objectives**:

The first and most crucial step in market research is defining the research objective clearly and concisely. The most effective way to began is for the entrepreneur to sit down and make a list of the information that will be needed to prepare the market plan. For example the entrepreneur may think there is a market for his or her product but is not sure who the customer will be or even if the product is appropriate in its present form.

Some objectives for marketing research may be:

* How much potential customers would be willing to pay for the product or service.
* Where potential customers would prefer to purchase the product or service.
* Where the customer would expect to here or learn about such a product or service.

**Step 2 – Collects the Data**

1. **Gathering data from secondary source**: - the most obvious source of information for the entrepreneur is data that already exists, or secondary data. This is usually found in trade magazines, libraries, government agencies, universities, and the internet. A search in library will often reveal published information on the industry, competitors, trends in consumer tests and preferences, innovations in the market.

Before considering either primary source or commercial source of information, the entrepreneur should exhaust all free sources i.e. Secondary sources.

1. **Gathering data from primary source**: - information that is new is primary data. Gathering primary data involves a data collection procedure→such as observation, networking, interviewing, focus groups or experimentation→and usually a data collection instrument, such as a questionnaire, observation, experimentation

**Step 3 –Analyzing and Interpreting the Result**

Depending on the size of the sample, the entrepreneur can hand-tabulate the results or entering them on a computer. The results should be evaluated and interpreted in response to the research objective that was specified in the first step of the research process.

**Step 4 – Draw Conclusion and Acts**

This is the final step in marketing research. The entrepreneur should conclude the research based on what the data collected and analyzed. And shows what actions are appropriate for the finding by adding his personal judgment.

**5.2 Marketing Intelligence**

Market Intelligence is the information relevant to a company’s markets gathered and analyzed specifically for the purpose of accurate and confident decision-making in determining market opportunity, market penetration strategy, and market development matrices. Market intelligence is necessary when entering a foreign market.

Market Intelligence can get information from two sources. Namely [Market Intelligence based on external data](http://www.dobney.com/market_intelligence.htm#external data) and [Market Intelligence based on internal data](http://www.dobney.com/market_intelligence.htm#internal data).

1. **Market Intelligence From External Data**

Market intelligence from external data is normally gathered through what is known as [desk research](http://www.dobney.com/Intelligence/desk_research.htm). This means sourcing and analyzing published information to build a picture of a market and to try and answer some specific commercial questions such as what is the market potential.

Central to successful desk research is the ability to track down [sources of information](http://www.dobney.com/Intelligence/sources.htm) and to provide the right level of analysis. For example identifying who your competitors are and analyzing their market position against yours to find strengths and weaknesses and indications of new developments.

Related to desk research is list building. This involves seeking out lists of likely prospects or partners for relationship or network building and finding out key information about the company for marketing purposes.

1. **Market Intelligence From Internal Data**

Much marketing intelligence information can come from making better use of existing information. For instance by carrying out [database analysis](http://www.dobney.com/Intelligence/database.htm) on orders taken it may be possible to understand where you have cross-sale and up-sale opportunities, or to understand what type of customers are your most profitable.

Your website may also include a high degree of valuable information about who is looking for your products and services. [Web site traffic analysis](http://www.dobney.com/Intelligence/web_traffic.htm) can help you understand what customers are looking for and why.

Finally, don't overlook knowledge about customers, markets and competitors that comes from your staff. Often this is a poorly tapped source of information.

**5.3. Competitive Intelligence /Analysis/**

Competitive Intelligence is a special form of market Intelligence as it typically involves sourcing and gathering information on a continuous basis to enable you to keep track of who your competitors are and what they are doing and planning. Because of the danger of accusations of industrial espionage, there are some strict ethical codes about how competitive intelligence can and cannot be carried out.

As Competitive Intelligence is normally carried out on an on-going basis, central focus is in putting together structures that will enable information to be gathered, collected and reviewed in a regular and frequent fashion.

In particular, you should be able to obtain competitive information not just from published information, but also from comments and ideas picked up from customers, suppliers, partners and associates. However, often companies do not have systems in place for this information to be reported, analyzed and communicated.

**A basic Competitive Intelligence function would include:**

* Monitoring the press and journals for article, press releases and job adverts
* Benchmarking competitive products and services
* Monitoring and collecting promotional materials
* Taking views from customers, suppliers and partners
* Monitoring for company reports and analyst reports
* Attending exhibitions and conferences and membership of trade associations
* Monitoring patents
* Maintaining regular searches and reports on the internet
* The importance of market and competitive intelligence if an organization wants to be close to the market it needs to fully understand it, including the roles that the competitors and customers play there. Some of the benefits are:
* Market and customer orientation – promote external focus
* Identification of new opportunities – e.g. identify new trends before our markets and competitors
* Early warning of competitor moves – enable counter measures
* Minimizing investment risks – detect threats and trends early on
* Better customer interaction –intensified customer market view
* Better market selection & positioning – understand where your offer fits and discover untapped or under-served potential
* Quicker, more efficient and cost-effective information – avoid duplication of report acquisitions and expensive consultant work.

**5.4. Marketing Strategies**

A small firms to service and grow they should know some marketing strategies In order to succeed in business a firm should have some advantages over its competitors.

The aim of any competitive strategy is to cope with and, if possible change the rules in value of the company.

According to Michael porter, in his book on competitive advantage claims that five forces that determine competitiveness are፡

* The power of business
* The power of suppliers:
* The treat of new
* The treat of substitute
* The intensity of rivalry

1. **Economies of Scale -** How the total cost per unit produced changes as more units are produced. Thus, the potential for economies of scale in a high capital intensity industry like chemicals is great, where as in retailing the potential savings are much smaller. Total cost include production, selling, and distribution costs and are therefore dependent up on the state of technology, the size of the market, and the location of potential customers.
2. **Niche Marketing -**A small business will not be able to survive as a small business in the long run in an industry where economies of scale are important. Following a niche strategy is having a differentiated, specialist product or service often goes hand in hand with having a well targeted market segment. It is important for small firms since it offers a better chance of selective, sustainable growth than the ‘big-bang’ strategy.
3. **The life-cycle concept-** The life cycle concept is a relatively simple idea, which provides a useful framework for looking at the development of either products or services and a small business. The idea is that every product or service faces a life cycle of four stages listed as follows: -

* Introduction
* Growth
* Maturity
* Decline

Clearly the marketing strategies that you use at different stages of a product life-cycle can be different. For example, in the introduction stage you may decide to low price to capture the market as quickly as possible.

1. **Diversification strategies**

* Introduce new product (diversify the product)
* Go into new market (diversify the market)

In search for further growth, a business has four options

1. Stay with the base product or service and its existing market and simply try to penetrate the market further. This is selling more of the same product to the same market.
2. Develop related or new product for the existing market (product development)
3. Develop related or new market for the existing product (market development)
4. Move into related or new market with related or new product.

Market development is to be preferred to product development because; developing new customer is less risky than developing a new product. The strategies discussed above are called **horizontal strategies.**

Two further strategies for growth open to the small firm are: -

**First**- ‘backward vertical integration’ – they become own supplier of some basic raw materials or services

**Second**- ‘forward vertical integration’ they become own distributor or retailer.

**5.5 International Markets**

International marketing is the export, franchising, joint venture or full direct entry of a marketing organization into another country. This can be achieved by exporting a company's product into another location, entry through a joint venture with another firm in the target country, or foreign direct investment into the target country. The development of the marketing mix for that country is then required - international marketing. It can be as straightforward as using existing marketing strategies, mix and tools for export on the one side, to a highly complex relationship strategy including localization, local product offerings, pricing, production and distribution with customized promotions, offers, website, social media and leadership. Internationalization and international marketing meets the needs of selected foreign countries where a company's value can be exported and there is inter-firm and firm learning, optimization and efficiency in economies of scale and scope. The firm does not need to export or enter all world markets to be considered an international marketer.

**Elements of the Global Marketing**

Not only do standard marketing approaches, strategies, tactics and processes apply, global marketing requires an understanding of global finance, global operations and distribution, government relations, global human capital management and resource allocation, distributed technology development and management, global business logic, inter firm and global competitiveness, exporting, joint ventures, foreign direct investments and global risk management.

The standard “Four P’s” of marketing: product, price, placement, and promotion are all affected as a company moves through the five evolutionary phases to become a global company. Ultimately, at the global marketing level, a company trying to speak with one voice is faced with many challenges when creating a worldwide marketing plan. Unless a company holds the same position against its competition in all markets (market leader, low cost, etc.)

**Product:** A global company is one that can create a single product and only have to tweak elements for different markets. For example, Coca-Cola uses two formulas (one with sugar, one with corn syrup) for all markets. The product packaging in every country incorporates the contour bottle design and the dynamic ribbon in some way, shape, or form. However, the bottle can also include the country’s native language and is the same size as other beverage bottles or cans in that same country.

**Price:** Price will always vary from market to market. Price is affected by many variables: cost of product development (produced locally or imported), cost of ingredients, cost of delivery (transportation, tariffs, etc.), and much more. Additionally, the product’s position in relation to the competition influences the ultimate profit margin. Whether this product is considered the high-end, expensive choice, the economical, low-cost choice, or something in-between helps determine the price point.

**Placement:** How the product is distributed is also a country-by-country decision influenced by how the competition is being offered to the target market. Using Coca-Cola as an example again, not all cultures use vending machines. In the United States, beverages are sold by the pallet via warehouse stores. In India, this is not an option. Placement decisions must also consider the product’s position in the market place. For example, a high-end product would not want to be distributed via a “dollar store” in the United States. Conversely, a product promoted as the low-cost option in France would find limited success in a pricey boutique.

**Promotion:** After product research, development and creation, promotion (specifically advertising) is generally the largest line item in a global company’s marketing budget. At this stage of a company’s development, integrated marketing is the goal. The global corporation seeks to reduce costs, minimize redundancies in personnel and work, maximize speed of implementation, and to speak with one voice. If the goal of a global company is to send the same message worldwide, then delivering that message in a relevant, engaging, and cost-effective way is the challenge.

Effective global advertising techniques do exist. The key is testing advertising ideas using a marketing research system proven to provide results that can be compared across countries. The ability to identify which elements or moments of an ad are contributing to that success is how economies of scale are maximized.

**5.6.1. Forms of Entering International Market**

Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures and direct investments. Each succeeding strategy involved more commitment, risk, control and profit potential.

**A. Indirect Exporting**

Companies typically starts with indirect exporting that is they work through independent intermediaries to export their products. There are four types of intermediaries.

* **Domestic based export merchant-** Buys the manufacturer’s products and then sells them abroad.
* **Domestic based export agent**- Seeks and negotiate foreign purchases and is paid a commission. In this export type, trading companies are Included.
* **Cooperative organization**- Carries on exporting activities on behalf of several producers and is partly under their administrative control. Often used by producers of primary product – fruits, nuts and so on.
* **Export Management Company**-Agrees to manage a company’s export activities for a fee.

Indirect export has two advantages: -

1. It involves less investment and
2. It involves less risk

**B. Direct Export**

Companies eventually may decide to handle their own exports. The investment and risk are some what greater. The company can carry on direct exporting in several ways;

* 1. **Domestic based export department or division**- An export sales manager carries on the actual selling and draws market assistance as needed. The department might evolve into a self – contained export department performing all the activities involved in export and operating as a profit center.
  2. **Overseas sales branch or subsidiary**- An overseas sales branch allows the manufacturer to achieve greater presence and programs control in the foreign market. The sales branch handles sales and distribution and might handle warehousing and promotion as well. It often servers as a display center and customer – service center also.
  3. **Traveling export sales representation**- The company sends home – based sales representatives abroad to find business.
  4. **Foreign – based distributors or agents**- The company can hire foreign based distributors or agents to sell the company’s goods. These distributors and agents might be given exclusive rights to represent the manufacturer in that country or only limited rights. Whether companies decide to enter foreign markets through direct or indirect exporting, one of the best ways to initiate or extend export activities is by exhibiting at an overseas trade show.

**C. Licensing**

Licensing is a simple way for a manufacturer to become involved in international marketing. The licensor gives license a foreign company to use a manufacturing process, trademark, patent, or other item of value for a fee or royalty. The licensor thus gains entry into the foreign market at a little risk. The licensee gains production expertise or a well-known product or name without having to start from scratch.

There are several forms of licensing arrangements:

1. **Management contract**- The company can sell a management contract to the owners of a foreign hotel, airport, hospital or other organization to manage these businesses for a fee.

Management contracting is a low risk method of getting into a foreign market, and it yields income from a beginning. Management contracting prevents the company from competing with its clients.

b) **Contract manufacturing**- The firm engages local manufacturers to produce the product. Contract manufacturing has the drawback of giving the company less control over the manufacturing process and the loss of potential profits on manufacturing. However, it offers the company a chance to start faster, with less risk and with the opportunity to form a partnership or to buy out of the local manufacturer later.

c) **Franchising**- A company can enter a foreign market through franchising, which is a more complete form of licensing. Here the franchiser offers a franchisee a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchiser.

d) **Joint Venture-** Foreign investors may join with local investors to create a joint venture in which they share ownership and control.

Forming a joint venture might be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical or managerial resources to undertake the venture alone. Or the foreign government might require joint ownership as a condition for entry.

Joint ownership has certain drawbacks. The partners might disagree over investment, marketing or other policies i.e. one partner might want to reinvest earnings for growth, and the other partner might want to withdraw these earnings.

**e) Foreign Direct Investment-**The ultimate form of foreign involvement is direct ownership of foreign-based assembly or manufacturing facilities. The foreign company can buy part or full interest in a local company or build its own facilities. As a company gains experience in export, and if the foreign market appears large enough, foreign production facilities offer distinct advantages.

**5.6.2. Benefits of International Marketing**

The benefits include: -

**1 Grow your business**- When trading internationally the “universe” of potential clients and suppliers will increase significantly. Just imagine increasing the number of potential clients by 100 percent each time you start selling in a new country. In all likelihood, this will probably be much easier than trying to expand your market place in your “home” country.

**2 Diversify risk**s- The idea that a business relies solely on one market and directs all its resources into a single currency may prove to be more risky than it may first seem. Just look at the number of unprecedented global “disasters” (financial meltdown, earthquakes and unrest in the Middle East) over the last few years and the drastic impacts these have had on markets. Your home market could contract or even disappear, but your business may be saved by the revenue it generates overseas.

**3 Better margins**- As well as seeing increased sales, you may well enjoy better margins. Sterling which is currently weak may give you a head start when exporting. Pricing pressure could be less and it could also reduce seasonal market fluctuations.

**4 Earlier payments**- When working with companies overseas, both you and your customer will want to execute the transaction in the safest and most efficient manner possible. One of the many advantages when trading internationally is that overseas payers often pay upfront. This reduces payment risk and may well help your working capital.

**5 Less competition** - The ability to stand out amongst competitors is a crucial factor in business. When there are fewer competitors, this task is made easier. By making the product or service available to worldwide buyers, you instantly create another life line for the business by being in less competition and increasing the possibility of standing out. This will in turn boost sales potential and allow your business to flourish.

**5.6.3. Barriers to International Marketing**

The major legal, political and economical forces affecting international marketers are barriers created by governments to restrict trade and protect domestic industries. Examples include the following: -

* **Tariff:** - a tax imposed on a product entering a country. Tariffs are used to protect domestic producers and / or to raise revenue. E.g. Japan has a high tariff on imported rice.
* **Import quota:** - a limit on the amount of a particular product that can be brought into a country. Like tariffs, quotas are intended to protect local industry.
* **Unstable governments**: - high in debt-ness, high inflation, and high unemployment in several countries have resulted in high unstable governments that exposed foreign firms in business risks and profit repatriation.
* **Foreign exchange problems:** - high indebtedness and economic and political instability decrease the value of a country’s currency. Profit repatriation for foreign firms is not available in many markets.
* Foreign government entry requirements and bureaucracy. Government places many regulations on foreign firms. For example: - they might require joint ventures with the majority share going to the domestic partner, a high number of nationals to be hired, limits on profit repatriation etc.
* **Corruption:** - an official in several countries requires bribes to cooperate. They award business to the highest briber rather than the lowest bidder. Etc.
* **Technological pirating**: - a company locating its plant abroad worries about foreign managers learning how to make its product and breaking away to compete openly. I.e. machinery, electronics, chemicals, pharmaceuticals area