

Researching Your Markets

The What's, Whys and How's of Market Research

This section covers the importance of market research and explains how it can help you succeed with exporting your product or service. Different types of market research that you may want to conduct are identified, along with detailed information on how to conduct the research. Read the following for more information.

Why is Market Research Important?

Businesses that invest time researching audiences for their products increase their chances of succeeding in the international marketplace. Researching potential markets can help you:

- identify where your product is most likely to sell
- specify market segments
- determine both domestic and international competitors; and
- establish a fair market price for your product.

Conducting a systematic market search takes time, but normally pays off in the long run. Considering many of the factors involved with exporting in the beginning will save you from misfortunes in the end.

How Should You Conduct Market Research?

The two types of market research most businesses conduct are primary and secondary market research.

Primary Market Research

In conducting this type of market research, businesses collect data directly from the foreign marketplace initiating phone interviews, employing surveys, and directly contacting potential customers and representatives. Because it is tailored to a specific company and product, primary market research is time consuming and expensive. As a result, most small businesses begin researching their markets using secondary market research techniques.

Secondary Market Research

In conducting secondary market research, businesses collect data from a number of resources including:

- International news reports (televised, in print, and on-line)
- Trade and economic statistics (in print, and online)
- Trade agencies

Generally, exporters use all of these resources in combination starting with the first two, and conclude by confirming (and gathering additional) information from Trade Managers and Export Specialists at the given agencies.

Classifying the Product

Begin conducting market research by classifying your product to gather relevant trade statistics. This section covers information that will help you understand how product classification systems relate to market research. Additionally, the most helpful classification systems are explained along with details on where you can find codes for your product, and what you will want to do with them to progress with your research.

Why Must You Classify Your Product?

Most foreign entities categorize exported (and imported) products to collect meaningful data for economic analyses. Products are first categorized broadly into groups, and then broken down into detailed classifications. There are many different classification systems. We will cover the four most common.

Knowing which classification codes represent your product can help you track where similar products are being shipped, quantities shipped, and the revenue generated off the shipments. Knowing your codes can also help you gather other relevant demographic and economic information about potential markets.

What Classification System Should You Use to Classify Your Product?

There are many types of classification systems, differing from one another in format and purpose. These are the four classification systems you need to know about to effectively conduct market research:

- [Harmonized System \(HS\) and the Schedule B](#)
- [Standard International Trade Classification \(SITC\) system](#)
- [Standard Industrial Classification \(SIC\) system](#), which is being replaced by
- [North American Industry Classification System \(NAICS\)](#)

What do you do with the classification results?

After you classify your product and ascertain the necessary codes, you will be ready to gather the trade statistics on your product. Many resources and reports exist that will help you gather market data.

What Other Aspects of Your Product Should Be Analyzed While Conducting Market Research?

As you conduct market research and classify your product, think about who your typical buyer will be. Think about who would benefit from using the product, and document the characteristics of the potential customer. Exporters with new products that are not yet classified may develop a customer profile to document the characteristics of a person or company that would buy their products. If this is the case, exporters may also want to gather trade statistics relating to the general group to which their product belongs.

Also, think about the quality of your product and the most appropriate price in any given country. To estimate a price, calculate the expense of manufacturing, storing and shipping the product, and consider increasing that number a percentage. However, your pricing structure may be affected by the economic climate of the given market, the exchange rate, and the purchasing power of your audience.

What Potential Market Trade Barriers exist?

All businesses that participate in the international marketplace are met with some type of barriers when they enter. Such barriers include:

- Tariffs or taxes imposed on imported goods that, when high, may make it difficult to sell your product profitably in a foreign market.
- Non-tariff barriers, such as laws and regulations that countries enact that protect domestic industries against foreign competition. Non-tariff barriers include import quotas or restrictions on quality of imports.
- International Standards promoted by the International Standards Organization (ISO) involves establishing quality manufacturing and service standards, and certification and monitoring world wide. Originally advocated by the European Union, around 100 nations are now considering adopting ISO processes, as seen in the ISO 9000 (a generic family of standards and quality control systems). Nations are currently debating the advantages (saving money) and disadvantages (cost to certify) of adopting international standards.
- Communication may be a problem if you do not speak your potential customer's language. Luckily, the international business language is English, hence you should be able to find someone who can speak English if you or someone in your employ does not speak the targeted market's language. Eliminate this barrier by ensuring someone on your staff knows the language (and culture) of your customer which may help put him or her more at ease.

- Distribution arrangements may present barriers if the market has not yet been explored by other U.S. businesses. Political and transportation infrastructures must be available for you to distribute your product or service most effectively. Connecting with a distributor or intermediary early in the process may help you identify if this barrier is of concern.

Does your product need to be modified?

Under certain conditions, product modifications are necessary to conform with foreign government regulations. Modifications may also be necessary due to geographic, climatic, cultural, and electrical standards of foreign markets. If adaptations were not considered previously, be sure to analyze this aspect now to confirm that modification costs do not exceed your projected profits (making the product too expensive and unprofitable to export).

Determine Markets to Research Further

Once you have identified potential markets, considered competition, and looked at the feasibility of market entry, you will want to further research and evaluate those markets. The next section will take you through evaluating your target markets, and present information that you will need to think about to successfully enter the international marketplace.

Before you go on, make a list of 5 - 10 potential markets to target. Choose 3 - 5 large markets, and 3 - 5 smaller markets covering the bases of opportunities for potential international sales. Keep in mind, you'll further narrow your scope as you define the best target market identified through your research.

Determine Characteristics and Risks Associated with Each Market

Identify characteristics and risks specific to the markets you are considering. These issues are covered in more detail below, and include:

- Market Size
- Market Growth
- Market Accessibility
- Economic Stability
- Political Climate
- Cultural Climate
- Environmental Factors
- Geographical Factors

Market Size

When examining market size, look at the overall population. Then, estimate the percent of potential buyers within that population. Look at the numbers that suggest how much the population spends on this type of import. While doing so, identify if there are domestic or international competitors already providing a similar product. If there are, what is the production rate of each? If possible, determine the price your competitors are charging, and compare your product's price and quality against theirs.

Entering smaller markets where few competitors have set up shop may give you the opportunity to start at the "ground" floor and grow with the market. However, if you enter smaller markets beware of the barriers you may encounter as a result (e.g., transportation and political infrastructure problems).

In researching demographics, look at the unemployment trends and educational levels of consumers in the target market. The more sophisticated the target market, the more difficult it may be to compete. Also identify the language and dialects spoken within a particular market and evaluate if you have the resources to communicate with customers in their language.

Market Growth

Examining the growth of the market over the last few years will tell you if it is consistently growing or shrinking. Look at the last three to five years of import history for your product (if available) within a given market. Also look at trends and growth forecasts. What do they tell you about the market and its

potential for growth? Has it reached its peak? Is the market saturated with like products? Are the number of imports increasing or decreasing? If the numbers are increasing consistently, this indicates that the market is expanding. Seriously consider markets that are larger with strong growth potential to increase profit margins and reduce production costs.

Also consider the industrial development stage of your market. Those that are just beginning to industrialize may not have need for the latest technology. However, some markets developing industrially may take advantage of the progress made in more developed markets and leap ahead bypassing earlier innovations and adopting later technology to help build their infrastructure (e.g. the Middle East is considering fiber optics for telecommunications instead of copper wire due to its quality and price structure).

Market Accessibility

Many factors influence market accessibility. The following is not an exhaustive list, but it may help you assess how accessible the market is to you and how accessible your product is to your targeted customers:

- Import duties and tariffs costs may make sending your goods (or services) into the foreign marketplace unprofitable. To determine the duty or tariff rate, contact a trade agent to help you identify the Harmonized Tariff section which corresponds to your product. Remember, each country has its own schedule of duty rates.
- Local and foreign suppliers may influence your marketplace accessibility. Be sure you know who your international competitors are. Compare the price and quality of your product with the competition's.
- Sales representatives located within the country to which you wish to export can represent your product and act as an intermediary. Representatives may be able to give you ideas of the best ways to access the market and customers through different channels of distribution.
- Promotional practices, such as how you advertise and promote your product will affect how much of the targeted market will have access to (and know about) your product.

Economic Stability

Many factors affect economic stability of a marketplace (and country). Determine if the economic climate is thriving or diving? Recessing or growing? If possible, identify the GNP growth rate and per capita income. Also, ascertain the unemployment rate of the country. This will affect how much of the market can actually spend money to buy your product. Markets that are stable and growing are obviously more attractive to conduct business with.

Additionally, consider the availability of U.S. dollars in the target market. What is the exchange rate between the U.S. dollar and that of the country in which you will sell your product? Besides unequal access to the dollar, another factor that may keep your customers from purchasing your product may be a trade deficit, which could be important if customers are able to obtain import permits.

Lastly, note that foreign countries undergoing economic and industrial development may not collect and disseminate trade statistics. If they do, these statistics may be in a form that cannot be easily interpreted. When such important market information is missing or not understandable, consult a trade agent or eliminate the market.

Political Climate

Many questions must be asked regarding the political climate of a potential market. Such questions include:

- On what type of political system is the country and market based? Is the system stable?
- Will the governmental system affect your customer's ability to import?
- Will the political system affect tariff rates and licensing requirements?
- Is the legal system supportive of international trade?
- Are there legal tariff and non-tariff barriers? And are there incentives of which you should be aware?

- If the market is politically unstable, how might that affect economic stability?
- What is the overriding attitude for doing business with companies in the United States?
- Has the market or country adopted the International Standards Organization's ISO 9000 processes?

Cultural Climate

With over 300 countries in the world, many have their own language, customs and culture. Being educated on the culture and values of your target markets will increase your success in the international marketplace.

Although the international business language is English, it may not be that way for long. It is to your advantage to speak the native language of your customer and understand his or her culture in order to communicate more effectively. Make sure you utilize your staff resources to their fullest to accomplish this task.

Customs and culture also affect consumption of goods. Factors like colours, numbers, and communication fit this category. For example, when considering product or promotional gift colours, keep in mind that white is the colour of death in China and Korea, whereas purple is seen in the same light in Spain. In the U.S. yellow implies cowardice, whereas it takes on religious and mystical undertones in India. Study the cultural differences of the target markets and of your own. You may be surprised how a product that is fully accepted by a U.S. market is negatively rejected by its foreign counterparts.

Environmental Factors

Environmental factors such as climate can influence modifications you must make to your product in order to sell it in a given market. Determine if humidity or other climate issues will affect the product performance or appearance as it is in transit or as it is used or consumed.

Geographic Factors

Geographic factors can also affect your success in a given foreign market. Such factors include, transportation to the country or market and legal restrictions on travel. To enter a foreign market, a transportation system must be in place (i.e., there must be a way for you to get to your foreign customers). Keep in mind the longer and more remote the distance is to the market, the more the transportation and travel costs will be.

Determine Necessary Product Modifications for Each Market

Considering characteristics and risks associated with each market, contemplate how your product must be modified to be sold successfully in each market. The costs of product adaptations add up quickly. Ponder what modifications are necessary and evaluate if the costs make the product unprofitable to export. Target those markets where minimal modifications are needed.

Identify Feasible Markets to Target

Having completed many of the steps of market research, analyze those markets that have the highest potential. As you research, you will find you have narrowed down your list from many potential markets to two or three markets most likely to purchase your product with minimal modification, and for an acceptable price.

Once you have evaluated and targeted your markets, visit them to confirm your research findings and begin to think about an export strategy. If possible, cluster potential markets and visit them all in one trip. You may want to think about representation and meet with a few distributors while you are there. Gather relevant data about travelling to your target market. Always keep in mind your budget and time