CHAPTER 1
Introduction export planning

At the end of the chapter you will be able to:

1. understand the market position of countries from an international perspective and know the export development of the leading export nations;
2. name the drivers for export development within an organisation;
3. describe the elements that influence the international strategy definition;
4. explain the export planning process and its 4 phases: export policy, export audit, export plan and export roll-out;
5. explain the 10-step export plan model.

Case

Mattel: "Barbie: growing pains as the American girl goes global"

In 1976, a time capsule was buried to commemorate the U.S. bicentennial. The capsule contained items that captured the essence of America and included a Barbie doll, described as the "quintessential American". Thirty years later, Barbie has become much more cosmopolitan. Although Mattel generates about 60 percent of its annual revenue in the U.S. market, millions of girls around the world have adopted Barbie as a favorite toy; Barbie is sold in more than 150 countries. Overall, Barbie is the best-selling toy brand in the world, and Mattel is the world's largest toy maker. However, as Barbie approaches her fiftieth birthday, the fashion doll's popularity is declining at home and abroad. For example, Bratz, a competing doll line featuring racing fashions, has exploded in popularity. By contrast, in the Middle East, the hottest-selling doll line, Fulla, is associated with Islamic values such as modesty and respect. Also, young girls are gravitating towards electronics devices such as digital music players. These and other trends spell trouble for Mattel, which depends on Barbie for about 20 percent of its annual sales.

What was the secret to Barbie's first several decades of success? Ruth Handler, Barbie's creator, believed that all children needed to play with mature dolls to effectively project their fantasies of growing up (Handler's children were named Barbie and Ken). Though Mattel's executives initially believed that a doll with a womanly bosom was improper and would never sell, Barbie became an instant success with American children.

Over time, Barbie's look has changed to reflect changing fashion and cultural trends. In 1968, for example, the first black Barbie was introduced to cater to the growing African-American market. Hispanic and Asian American Barbies have also been created in response to the growth of America's other ethnic markets. It was a natural step for Mattel to target untapped groups of children in other parts of the world. A strategy dubbed "Mattel 2000" focused on the company's direction during the decade of the 1990s. As former CEO John Amerman noted, "There are twice as many children in Europe as in the U.S... Three times as many in South America and fifteen times as many in Asia... The potential market for products like Barbie... is mind boggling." However, although Barbie has been successfully adapted to cultural differences in the United States, the opportunities for international growth come with formidable challenges. Even so, according to current CEO Robert Eckert, Mattel is "dedicated to becoming a truly global company."

Europe

Mattel adopted a pan-European, region-centric approach to the Western European market. Barbie is a huge success in Europe; in Italy, France, and Germany average five Barbie dolls in their toy collections. In the early 1990s, Mattel developed a new "Friendship Barbie" to sell in Central and Eastern Europe. The new doll was less elaborate than its Western European counterpart, which sports designer clothes and accessories. By contrast, Friendship Barbie reflects the more basic lifestyle children had experienced under communism. However, although Mattel has experimented with multi-cultural dolls, the company discovered that little girls in Europe prefer the well-known American Barbie to the local versions.

The Middle East

Since being introduced in the Middle East, Barbie has faced opposition on political, religious, and social grounds. Parents and religious leaders alike object to the cultural values that Barbie and Ken portray. Writing in the Cairo Journal, Douglas Jehl noted, “To put it plainly, the plastic icon of Western girlhood is seen in the Middle East, where modesty matters, as something of a tramp.”

In Egypt and Iran, Barbie faces competition from several new doll brands aimed at providing an Islamic alternative to Barbie. As one Arab toy seller noted, “I think that Barbie is more harmful than an American missile.” Barbie’s challengers include demure-looking dolls such as Laila, who was designed according to recommendations of participants at the Arab League children’s celebrations in 1998. Laila wears simple contemporary clothes such as a short-sleeve blouse and skirt and traditional Arab costumes. Abala Ibrahim, director of the Arab League’s Department of Childhood, believes “there is a cultural gap when an Arab girl plays with a doll like Barbie... The average Arab’s reality is different from Barbie’s with her swimming pool, Cadillac, blond hair and boyfriend Ken.” [case shortened for editorial purposes]

Asia/Japan

Mattel has learned that, to be successful within a foreign culture, Barbie does not need a total overhaul but instead can be very profitable with minor cosmetic changes. For example, Barbie was successfully launched in India in 1995 and, while the core product remains unchanged, Indian dolls are painted with a head spot and dressed in sari.

Mattel has had more difficulty conquering the world’s second-largest toy market, Japan. The Japanese toy market is worth $8 billion in annual sales and is vital if Mattel is to achieve its goal of becoming more global. The Japanese market is notoriously difficult to penetrate as Mattel has found during 20 years of doing business in the country. Companies entering Japan must contend with complex distribution systems and intense competition from Japanese brands. Furthermore, dolls have a strong tradition in the Japanese culture with a heritage of over 800 years and ceremonial importance.

Mattel’s initial attempts to market Barbie in Japan met with limited success. Management presumed that Barbie’s success in other markets would be replicated in Japan. As John Amerman, CEO of Mattel in the mid-1990s, noted, “They didn’t know what that product was, and it didn’t work.” To boost sales, Mattel enlisted the services of Takara, a Japanese toy specialist. Through focus groups, Mattel learned that Barbie’s legs were too long and her chest too large – in short, Japanese girls did not relate to Barbie’s physical attributes. Also, Barbie’s eyes were changed from blue to brown, and the doll ultimately took on a look that was appealing to the Japanese children’s sense of aesthetics. The Takara Barbie was born.

Although sales improved, a licensing disagreement prompted Mattel to terminate the relationship with Takara and search for a new partner in Japan. Takara continued selling the doll as Jenny, which, ironically became a competitor to the new Japanese Barbie. In 1986, Mattel joined forces with Bandai, Japan’s largest toy company. Bandai produced Maba Barbies (“Ma” for Mattel and “ba” for Bandai) with wide brown eyes. Due to its similarities to the Jenny doll, however, Maba Barbie was withdrawn from the market before it achieved success. [...] Once again, market success eluded Mattel. Mattel was committed to neither Japanese style nor an American style and competed poorly against dolls whose identity was well defined. However, Mattel realized that its competitive advantage lay with its American culture. Though Mattel had attempted to adapt to Japanese culture, Mattel discovered once again that girls prefer the well-known Barbie to the local versions. In 1991, Mattel ended its relationship with Bandai and opened its own marketing and sales office in Tokyo. Mattel introduced its American Barbie to Japan and experienced success with “Long

Hair Star Barbie", which became one of the top-selling dolls in Japan. Although financial losses mounted until 1993, in 1994 Barbie made a profit in Japan with sales almost doubling since its reintroduction. [...]
Writing in Mattel's 1999 Annual Report, acting CEO Ronald Loeb promised that the company "will proactively adapt its products to local tastes, economic conditions, and pricing, rather than viewing the rest of the world as an extension of our U.S. strategy." At the same time, Richard Dickson, senior vice president of Mattel's girl's consumer products worldwide, believed Barbie's global strategy must originate from a perspective of worldwide cohesion. He noted, "If I go on a plane from France to Japan to the United States and there's a Barbie billboard, you're going to sense that it's the same Barbie [in all three countries]." To facilitate its global approach, Mattel has given the U.S. President of Barbie the full responsibility for the brand around the world. [case shortened for editorial purposes]

Source: Revised and updated originally written by Alexandra Kennedy-Scott, David Henderson, and Michel Phan, ESSEC Business School. Warren Keegan, Mark C. Green, *Global Marketing*, 5th edition, page 143-145, Pearson Education. 2008.

1.1 Internationalisation of the organisation

The struggle for success of Mattel's Barbie in foreign markets is a typical example for many companies going abroad. Adaptations to specific customer target groups in the foreign market are no guarantee for successful internationalisation. Even Mattel with its enormous marketing skills and brand positioning power of the brand "Barbie" faced difficulties in finding the right mix of global versus local adaptation.

This book on *Export Planning* will take you on a journey showing how to have your organisation go international, set up international marketing, and execute its first sales and order deliveries. In other words, how to plan and implement *international market development.*

Chapter 1 provides an overview of the content of this book. Internationalisation of the organisation requires a clear strategic commitment and vision/mission of the firm. Next, the process of planning and organising the internationalisation, the *export planning process* means a systematic approach in entering and developing the international business. This chapter introduces the role of export for countries, and role of export management within a firm. It shows the overall export planning process with its four phases: export policy, export audit, export plan and export roll-out. Finally it presents the 10-step export plan structure which is used as a guideline throughout this book.

Many companies start internationalisation of their business during and after a successful growth phase. Most of the time, opportunities are spotted or customers put requests forward to deliver the products and / or services abroad. Figure 1.1 shows an overview of the export development of the largest export nations in the world between 1980 up to 2007. Historically, the United States of America and Germany are the two largest export nations in the world. However, as can be seen from the graph, China has been climbing up to 2nd position, leaving the U.S. behind. The statement "China is the factory of and for the world" is very much true in this respect.

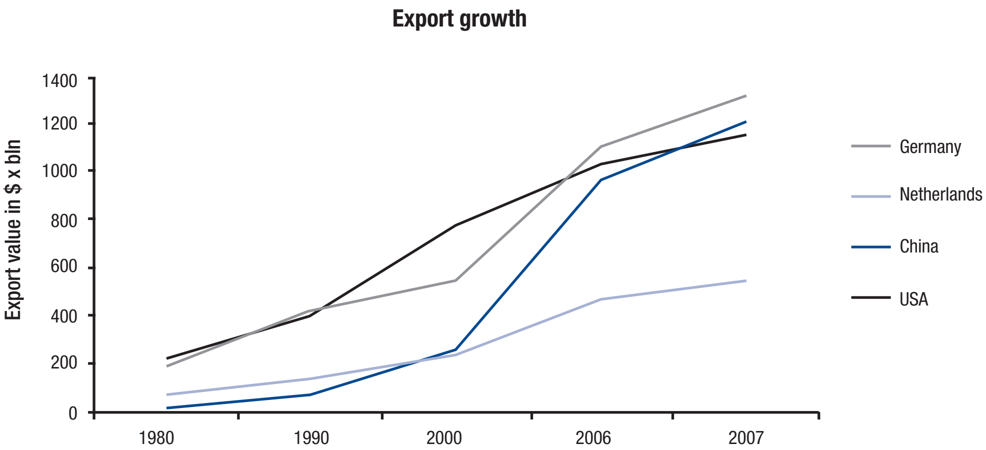


Figure 1.1 Export development of largest export nations

Table 1.1 Top 15 largest export nations worldwide

		1980	1990	2000	2006	2007
1	Germany	192.9	421.1	551.8	1,112.00	1,326.40
2	China	18.1	62.1	249.2	968.9	1,217.80
3	USA	225.6	393.6	781.1	1,038.30	1,162.50
4	Japan	130.4	287.6	479.2	649.9	712.8
5	France	116	216.6	327.6	490.4	553.4
6	Netherlands	74	131.8	233.1	462.4	551.3
7	Italy	78.1	170.3	240.5	410.6	491.5
8	United Kingdom	110.1	185.2	285.4	448.3	437.8
9	Belgium	54.3	114.2	188.4	369.2	430.8
10	Canada	67.7	127.6	276.6	389.5	419
11	South Korea	17.5	65	172.3	325.5	371.5
12	Russia	...	...	105.6	304.5	355.2
13	Hong Kong	20.3	82.4	202.7	322.7	349.4
14	Singapore	19.4	52.7	137.8	271.8	299.3
15	Mexico	18	40.7	166.4	250.4	272

The Netherlands is a relatively large export nation, considering its small geographic size and population, maintaining 6th position on the world ranking. The high ranking of The Netherlands may be not so surprising as Dutch people always have been traders for many centuries and founded many cities far away. For example, Nieuw Amsterdam = New York, and Batavia = Jakarta. Table 1.1 provides an overview of the top 15 largest export nations in the world. Surprisingly, the United Kingdom and Russia are not so high on the list, which is a little bit strange if you look at the history of both nations; especially for the UK. The United Kingdom had a lot of colonies all over the world in the past. They were the centre of the industrialisation age in the 19th century. However, they somehow lost track the last 100 years, and no longer play a major role in exporting, especially industrial products.

Why have some of these countries been able to maintain their export position and others somehow lost track? Will these leading countries also keep their position in the next 100 years? Let's look at the positioning of countries from a marketing point of view.

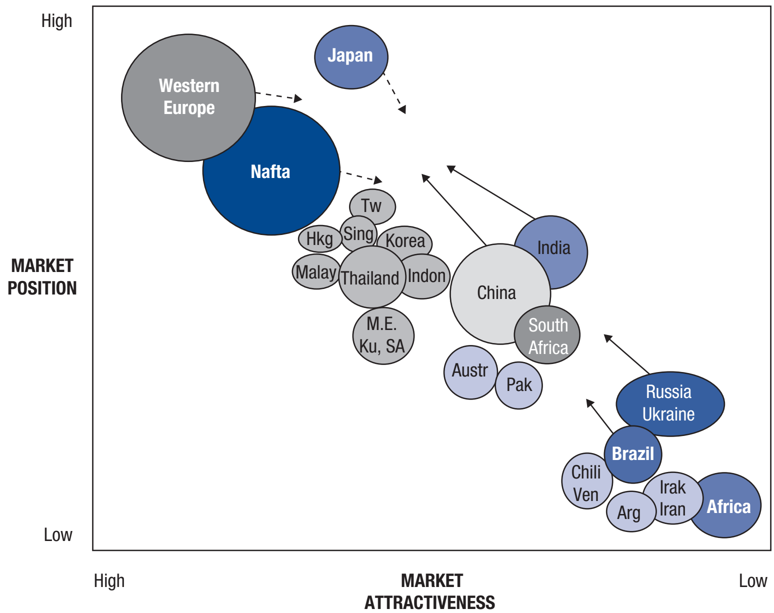
1.2 Country position and market attractiveness

Although you probably would not immediately think about this, but countries do compete with each other: for example, on tourism, medication and health centres, logistic ports and distribution, financial centres, innovation and centres of excellence in specific technology fields. Like companies, countries also have to position themselves as centres of production and/or services in the different industries. Michael Porter[1] has written a book entitled *The competitive advantage of nations*, in which he presents six factors which lead to competitiveness of nations:

- *Factor advantages*. Basic: advantages in raw materials, climate, location, low and middle level of educated workers. Advanced: modern telecommunication, modern infrastructure, highly educated workforce and specialised research centres.
- *Type of domestic demand*: Refers to the structure of domestic demand and its focus (high level versus not so sophisticated), size, growth pattern and availability of transfer mechanisms to other countries.
- *National competitiveness*: Refers to the intensity of competitiveness, its number of competitors and the framework in which competition takes place, like culture, governmental support, level of travelling, relationship types between companies and their customers.
- *Network of internationally competing suppliers*: Allows for faster information input of new technologies, insights and innovations.

- *Coincidental factors*: Unplanned occurrences, like strikes, innovations, war, currency exchange fluctuations.
- *Governmental policy*: Focusing on the first four factors to stimulate its economy.

It is clear that countries need to develop their economy to increase their Gross Domestic Product (GDP) and income per person. However, depending on these six factors, countries have different starting positions. Some countries are relatively small, but have a highly educated population – like Singapore – and other countries are very large, but have a low educated workforce – like South Africa. As a result of these factor differences, countries have a different market position and market attractiveness in the world's economies.
Figure 1.2 presents a country ranking overview based on market position and market attractiveness.[2] Western European countries, NAFTA region (United States of America, Canada, and Mexico) and Japan formed the big trade blocks of the 1980s. Over the last 15 years, the BRIC countries (Brazil, Russia, India and China) have been developing fast, and China and India in particular are set to determine the world economy in the future.



Perspective 1995 to 2050

- BRIC countries are developing fast.
- Mature markets of Western Europe, Japan and NAFTA are stagnating.

Figure 1.2 Country ranking overview 1995 towards 2050

Source: A. Kok & Partners.

To move up on the market positioning and market attractiveness ladder, countries have to work on the aforementioned factors for competitive advantage. That is why a lot of countries try to create centres of excellence for specific products or services. For example, China very much focuses on manufacturing; India focuses on information technology services. The Netherlands focuses on trading and logistics, "Mainport to Europe", agriculture (flowers), and banking and financial services just to name a few. Germany focuses a lot on engineering, chemicals, machine and car manufacturing. What do you think is the main focus of Middle Eastern countries today? What do you think it will be in the next 30 years? Middle Eastern countries currently rely heavily on exporting oil. However, as oil wells are drying up, these countries are shifting their attention more and more towards tourism, trading, and financial services. Just look at all the development activities taking place in Dubai. In conclusion, countries need to position themselves in order to maintain and have further development of their economies and enable their population to enhance their income and quality of life.

1.2.1 Markets versus sourcing

Another aspect, for countries as well as for companies, is the development of customer markets and regions to execute the sourcing and manufacturing. Smaller countries form regional trade blocks to create a substantial internal market and enable local regional sourcing at attractive regional duty and tax rates. For example, Europe is expanding its European Union to enlarge its internal market size and population. And it also creates opportunities for low-cost sourcing from Eastern European countries. Furthermore, North America created NAFTA and is very much working on strengthening relationships with South America to both create a bigger market and have an attractive local sourcing region as well. In addition, Asia is developing the ASEAN trade community to foster an internal Asian market region and local regional sourcing. Figure 1.3 shows an overview of these developing "trade blocks".

What will be the direction of Russia and the former states of the Soviet Union? What will be the position of India on the world market? The internal size of these markets is already huge enough to support a sufficient internal market size and sourcing region. The Middle East is working very hard to create financial – and trading – hubs to develop its own markets in the region, and export abilities out of certain potential African sourcing regions.

1.2.2 Internationalisation equals globalisation?

After making the side step to market positioning and attractiveness of countries, let us go back to the internationalisation of companies. Four questions are relevant. What are drivers for companies to start export development and internationalisation? Is internationalisation similar to globalisation? What is exporting? Is exporting the same as international marketing?

EUROPE	NAFTA	ASIA?**	MIDDLE EAST/AFRICA?**
MARKETS W.Europe E.Europe	MARKETS North America	MARKETS Japan Asian Tigers*** S. and E.China Korea	MARKETS Middle East India/Pakistan? N.Africa S.Africa
SOURCING W.Europe (HCC)* E.Europe (LCC)	SOURCING USA/Canada (HCC)* Mexico (LCC) S.America (LCC)	SOURCING Malaysia/Korea (HCC)* China (LCC) Vietnam/Indonesia (LCC) Laos/Cambodia (LCC)	SOURCING Middle East (HCC)? India/Pakistan (LCC)? Africa (LCC)

*** HCC = High Cost Countries focusing on hi-tech technologies**
LCC = Low Cost Countries focusing on relatively low tech mass production
**** Asia and Middle East/Africa could become the next trade blocks in the world.**
***** Asian Tigers: Singapore, Hong Kong, Malaysia, Taiwan, Thailand a.o.**

Figure 1.3 Developing markets and sourcing "trade blocks"

Drivers for export development and internationalisation

First of all, the most common drivers behind companies' international ambitions are:

- Market development as a strategy
- Need to follow its customer
- Competition
- Opportunities

"Market development as a strategy" refers to the growth model of Ansoff. When companies reach a mature stage in their home market, market development, i.e. internationalisation, is one of the possibilities to further grow the business.
"Need to follow its customer" refers to the demand / requirement of the company to follow the customer abroad. For example, automotive suppliers have to follow the big car manufacturers into low-cost countries to keep their business.
"Competition" refers to the need to follow or proactively enter a country or region to face or be ahead of its competitor's internationalisation efforts.
"Opportunities" refer to the external trends which offer market opportunities in certain countries or regions.

Types of internationalisation: EPRG model of Perlmutter

Secondly, exporting is not the only form of internationalisation. Perlmutter[3] described four types of organisations that have a different internationalisation process. This model is called the EPRG model:

1. Ethnocentric organisation
2. Polycentric organisation
3. Region-centric organisation
4. Geocentric organisation

In the ethnocentric type the organisation is driven by its home market. Decisions are taken based upon what is good for the home market. Export orders are handled out of its home market and are viewed as additional sales.

In the polycentric type the organisation is locally oriented, meaning each foreign country has its focus on local culture and needs. Multinational organisations (MNO) very often have local subsidiaries in countries to be able to understand and adapt to local needs and respect the local culture.

In the region-centric type the organisation focuses on regional market needs instead of country needs. This internationalisation setup moves towards the "trade block" developments we discussed before.

In the geocentric type the organisation acts as a transnational organisation. A transnational organisation views the world as its marketplace and creates centres of excellence in these regions where it makes the most sense. There is no difference between the firm's home market and other international markets.

Internationalisation as a process is different from globalisation. **Globalisation** is the result of trading, i.e. selling and sourcing in different markets, on a worldwide scale.[4] **Internationalisation** can have its scope on a smaller scale, focusing on international trade between certain countries; however it could also include a more global approach. See the aforementioned internationalisation types from Perlmutter. So, internationalisation is a part of globalisation.

What is exporting?

Exporting means marketing, selling, and distributing goods or services from one country to another country or countries. It includes importing and reselling goods or services as well. From a classical point of view, exporting refers to the ethnocentric and polycentric organisation type as defined by Perlmutter: the organisation is internationalising by means of selling products or services towards other countries.

Exporting versus international marketing

The last relevant question on internationalisation focuses on whether there is a difference between exporting and international marketing. The definition of