Approaching european market and capital allocation on different external markets

Neamtu, Liviu

Constantin Brancusi University of Targu-Jiu, Romania

April 2007

APPROACHING EUROPEAN MARKET AND CAPITAL ALLOCATION ON DIFFERENT EXTERNAL MARKETS

Liviu Neamțu - "Constantin Brâncuşi" University, Tg-Jiu, Republicii, no 1, Romania, tel. 0726155187, e-mail: liviu.neamtu@utgjiu.ro

Abstract: Companies and capitals may face different variants of European markets, being necessary to classify these markets by establishing their importance within the whole strategy of the company. Another goal is the wish to cover as many of these markets as possible under maximum efficiency conditions by obtaining very high incomes in conditions of more and more reduced costs. The effect of these markets classifications and characterizations will be favourable for capitals development and for business development on the European markets as a central interest element for stakeholders in these businesses. The national markets within European market are in various strategic positions through their specificity, with the prevalence of a certain international marketing approach.

Keywords: market, integration degree, relations with external market, integration of activities

A first strategic position of composing markets inside European market may be considered that of the markets that have a low capital absorption capacity, forming a category of **export markets** and **unintegrated markets**. The main characteristic of these markets is represented by the fact that they are the lowest influence of the institutional markets by being the most difficult to control and organize markets of all the markets.

These markets are characterized by big capital diffusion but also big consumers categories, by having a weak request and offer structure and ordering. This means that these markets cannot offer markets concentration areas that could have sales high enough to assure high profits and possibilities to reduce global costs.

Export markets are also characterized by a weak cultural and social influence because the specific consumption segments and the possibilities of production diversification are not defined, therefore leading to the implicit development of an undifferentiated consumption. Under these conditions, developing some own production and distribution facilities turns out to be inefficient, being enough the production within adjacent markets and the import of these types of products on which a supported requested can be distinguished, therefore creating a later available market.

The most important risks are those referring to the political and law factors that compose the institutional environment incapable of assuring a certain stability and certitude regarding business development. Under these conditions, companies look at these markets as risk markets that are partially included in the business portfolio waiting for the moment when they will be developed enough to go in directly. It may be considered that these markets become interesting under the condition they display economic conditions attractive enough for accomplishing the products export. The companies that act on international markets include these markets by making exports using production and supply grounds placed in markets near them.

Another major risk of these markets is that referring to the use of intermediaries who often become independent and may decide upon price politics. Since when entering a new market, price is one of the fundamental elements together with the product, in order to create a sufficient request an exclusive distribution politics based on short distribution channels is absolutely necessary. This choice is the only one that can support the later development in the situation when the company wishes to include this new market for long time.

As promotion is an element that becomes too expensive for export markets under the conditions of a too low sales volume and a restricted control upon actions, it is enough to make a public relations department together with the product's suppliers, in order to support the supplying company image.

The second category of markets within European market is the **partially integrated markets**. At the same time they represent another development level and integration degree in comparison with the company that wants to enter a certain market and the business it develops.

These markets gain or own a great importance in time through the economic and technologic factor, but especially through the demographic and cultural factor and the consumption specificity close to the culture of the origin markets of the foreign companies. They are generally markets where request is already formed, the only necessary thing being the diversification of this consumption and enlarging the products range or activity fields that the company can develop on these markets.

The company generally has tighter relations with that external market, a primary integration in its business structures inside it being possible. Therefore a much stronger control may be done upon the developed operations. The company tends to consider these markets more and more important due to an increasing request and a weak coverage of it by the competition. Although production is generally accomplished on other markets or through the partners on this market, there also appear direct investments within it, especially at the level of commercial and auxiliary activities represented by the company's agencies, logistics, auxiliary production, etc.

The main working ways are given by partial business delocalization forms under the form of franchising or the licensers, but also operational through commercial agencies and production subcontracting parties and supply and services contracts.

Under these conditions, the company successfully develops the product offered, and the gradual adaptation of the products to local conditions and the geographic support segments positioning within the request will be possible offering new consumption models in the new market. Also, the sales support becomes to develop through powerful promotion campaigns based especially on public relations grounded on previous collaborations direction when the market used to be not integrated but also on advertisement taken from the traditional markets the company activates on and which are similar to the new market.

Once the company is extended on the new market, it will be able to mange its commercial much better by being able to successfully develop a marketing strategy materialized by a better price management possibility on the basis of specific investment but also of the request within the market. The company will also be able to have a bigger control upon the distribution within the market, gradually requiring intensive distribution forms by having the possibility to enlarge those channels with intermediaries that may cover bigger and bigger areas from the new market. The aggressive promotion on the new markets will be able to be better managed through a careful selection of advertising environment using mass forms and being at the same time oriented towards auditorium segments. The advertisement expenses will have to be divided between these partial integrated markets and fully integrated markets in order to provide lower expenses and a more flexible price politics.

During market evolution, it may display a volume increase and an effective manifestation at the level of all consumption groups and on the entire market area, transiting towards a new specific level of **completely integrated markets**. They are very important markets for international business of the company by being earned markets that bring substantial incomes and profits to the company.

Completely integrated markets benefit from a coherent institutional environment that promotes foreign capital development and at the same time from a multiculturalism that allows the development of multiple business forms and products by having bigger consumption availability in comparison with any other type of market.

The disadvantages of such markets are connected to a certain form of sales capping on medium term as a consequence of decreased possibilities of offer innovating and consumption re-stimulation. The segments dependence and consumers groups of a certain type of consumption leads to the facilitation of leading companies apparition and oligopolies. At the same time, all the usage forms and usage variants begin to be used and the existence of a new potential request is not possible anymore, as it is replaced by an available one. The perspectives of economic increase and technologic development are gradually decreasing, showing a certain economic capping of these markets on medium term and the development of a direct competition between powerful competitors on the market.

A company that manages to transform a market from its own portfolio into a completely integrated market will pass to direct investments in that market and portfolio in target areas and that can support the main activity. As strategic markets, the companies tend to allocate more and more of their own capital and the capital of strategic partners on the respective market. These markets are often regionally integrated and products are made through the participation of several neighbour markets. These completely integrated markets allow export towards third states situated in the region with weekly integrated markets.

Promotion is gradually achieved in an independent way on these markets and supplementary capitals are allocated in order to advertise on every available channel for a powerful support of extremely diversified portfolios in areas of the same market. Beside advertisement forms, the aspect connected to the sale force that tends to represent the main market penetration form are very well organized. The more and more elaborate forms of merchandising and commercial negotiation become the strong point providing lower costs / product unit for commercial type activities. Also, the research – development and market studies allow a more intense adaptation of lower costs products as a consequence of acquiring a great experience through a long time activity in the respective market.

Bigger problems may arise regarding the product that tends to become voluminous and aged and in time allowing the success of derived products that can integrate new utilities. At the same time, there are aspects connected to production costs that may go beyond control in the situation when the production volume is increasing as a consequence of the request on the external market and third export markets.

Critical markets are the maximum development level of a market from the markets portfolio of a company. These markets are considered to be national markets being placed under the direct management of the company's headquarters. These markets supply maximum of the company's profit and income as they are markets that may provide the success but the company's survival also. The falls of some critical markets may generate the bankruptcy of some global companies.

All the critical markets from the company's portfolio are integrated in the so called ground market or central market. They are made up as a unitary whole, as a unique market on which unitary marketing strategies and politics develop.

The company's output is accomplished integrated as its specialization on products and markets. Therefore, in order to divide risks, every activity may be separately managed and at the same time identically for every perfectly integrated external market. There are therefore created production points that support the supply for several markets, the model being close to the classic support forms at the same time, with the difference of some identical price and quality products for every portfolio markets and with distribution networks of selective type. In order to accomplish production, there will be chosen those markets that provide cheap raw materials and power sources but also cheap but qualified work force. At the same time, these markets will have to provide easy access to technology at lower costs.

A second risk division form may be accomplished through market specialization and through allocating a certain part of the company's whole activity to every market. Therefore, Japanese companies from the machine industry make different subassemblies on different markets avoiding to allocate complete capitals towards a sole market. This implies a maximum supply and sale sector development in which a very strict control upon costs will have to be made.

Disregarding of the capital allocation form, the strong points of the companies on such markets will be made up of forms of distribution and post sale services integration on every market and also the reduced costs levels obtained by allocating the capital on the markets and obtaining low costs but also through scale economies resulted from product specialization and standardization.

References

1. Neamțu, L. – „Strategic Management", Universitaria, Craiova, 2006, pg. 32-41

2. Neamțu, L. – "International Marketing", Academica Brâncuşi, Tg-Jiu, 2007, pg. 128-132

3. Toyne B., Walters P. – „Global Marketing Management. A Strategic Perspective", Allyn and Bacon, New York, 1993, pg. 154-156