

# Method of export strategy formulation for manufacturing or trading company

## *Návrh metodiky exportní strategie výrobní nebo obchodní společnosti*

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**Abstract:** The objective of the paper is to present one method that solves the problem of election of a suitable export strategy using method of multi criteria evaluation. The initial hypothesis assumes limited financial and personal resources of a company generating necessity of incremental penetration to export markets with dependence on budget and expected results. The method also assumes individual choice of a single export strategy for each market. Number of formulated export strategies equals to the number of penetrated markets. The process of formulation of a new strategy consists of two steps. In the first step, an export market is chosen and in the second step, one of the export strategies is attached to the export market. The company management according to the company orientation and the management experience creates criteria for market selection. The method is supported with software that leads the company management through the entire process of export strategy formulation. The final order of suitable export strategies for the chosen market allows management to elect the best ranked variant or discuss about the order of export strategies and justify the diversion from strict mathematic evaluation of entered data.

**Key words:** export, market, export strategy, management, multi criteria evaluation, software

**Abstrakt:** Cílem příspěvku je představit jeden z postupů řešících otázku volby vhodné exportní strategie s využitím metody vícekritériálního hodnocení variant. Výchozím předpokladem metodiky je omezení disponibilních zdrojů výrobní nebo obchodní společnosti, finančních a personálních, a z toho plynoucí postupné pronikání na exportní trhy v závislosti na možnostech a očekávaných výsledcích. Metodika dále předpokládá individuální volbu exportní strategie pro každý trh. Počet formulovaných exportních strategií je totožný s počtem oslovených exportních trhů. Proces formulace exportní strategie probíhá ve dvou krocích. V prvním kroku je vybrán exportní trh a ve druhém kroku je exportnímu trhu přiřazena vybraná exportní strategie. Kritéria pro výběr trhu jsou volena subjektivně vedením příslušné společnosti s ohledem na zaměření společnosti a zkušenosti managementu. Metodiku podporuje software, který iteračním způsobem vede management celým procesem volby exportní strategie. Výsledné pořadí vhodných exportních strategií pro příslušný trh umožňuje managementu vybrat nejlépe hodnocenou variantu nebo diskutovat nad pořadím navržených variant a zdůvodnit odklon od přísně matematického hodnocení vložených dat.

**Klíčová slova:** export, trh, exportní strategie, management, vícekritériální hodnocení variant, software

## INTRODUCTION

The contemporary subject discussed inside structured and stabilized young Czech companies is becoming the alternative of further expansion with exports. Foreign companies realize their potential not only in the country of their seat, but in other countries, too. Their connection to international division of labor takes place in the globalization stage of the world economy and presents in various shapes: from direct

exports via dealerships to joint-ventures or international holdings.

Globalization and international expansion belong in the beginning of 21<sup>st</sup> century among the most important strategic influences to entrepreneurship environment. It is a reaction to new technologies that demand change in the thinking of entrepreneurs.

Exporting activities historically served to companies for improvement of economic results and also for improving self-confidence on international field

and for geographical diversification of risks. National borders gradually lose their original importance and international trade is becoming a key factor for the existence of the majority of companies (Lynch 2000, Keegan 1999).

The aim of this paper is to project a way of export strategy formulation to companies with limited financial and human resources and also with limited experience in this field.

Among the defined export strategies, there belong (Berkowitz 1997, Klein 1995, Jakubíková 1997, Táncošová 1996, Veber 2000, Beneš 2004):

- Direct export
  - Distributor
  - Dealer
  - Other types of liasons
- Foreign subsidiary
- Licence
- Foreign daughter company
- Joint-venture
- Franchising
- Barter

## MATERIAL AND METHODOLOGY

The proposal of method of export strategy formulation is based on multi criteria evaluation method. Criteria were specified according to the methods (Šunka 2001, Žufan 2000):

- Sequence method
- Score method
- Method of comparison of pairs

Tools for formulation exports strategy were programmed in Visual Basic for Microsoft Excel XP language.

Expert interactions were used widely during application of the proposed method.

## RESULTS

Attractiveness of foreign market from the point of view of a company is determined by many factors. I present my own method, based on which foreign markets shall be sorted according to attractiveness, as each company understands it.

The aim was to create a method that would be applicable generally for entrepreneurs of each industry. It was necessary then to considerate a variable number of factors and also different weights of factors for each company.

Let us accept an assumption that a company has limited resources that can be inverted into export

activities. It is necessary then to choose a suitable export market as the first step. Selection of the optimal export strategy for the market follows in the second step. The process of generation of export strategies is demonstrated on the Figure 1.

The result of my investigation consists of two-iteration software, TRH.xls (Market) and ESES.xls (Export Strategy Evaluation Software), based on multicriteria evaluation method.

The input of the software TRH.xls is formed of the list of potential export markets (as many as convenient) and consequently of list of criteria for market evaluation (suggested 6 criteria, but technically possible up to 250 criteria) and finally of weights of criteria (percentage):

- distance of a market from CZ (km)
- market dimension (millions of inhabitants)
- GDP growth (%)
- political stability (1 to 10 points)
- length of building season (1 to 10 points)
- market saturation (1 to 10 points)

First three criteria are measurable in exact units. Filling the values in the software is a question of data collection, at the moment by internet.

Next three factors are of abstract type or finding exact values would be extremely complicated and would result in unacceptable high costs. Those case criteria were discretely estimated on the scale 1 to 10

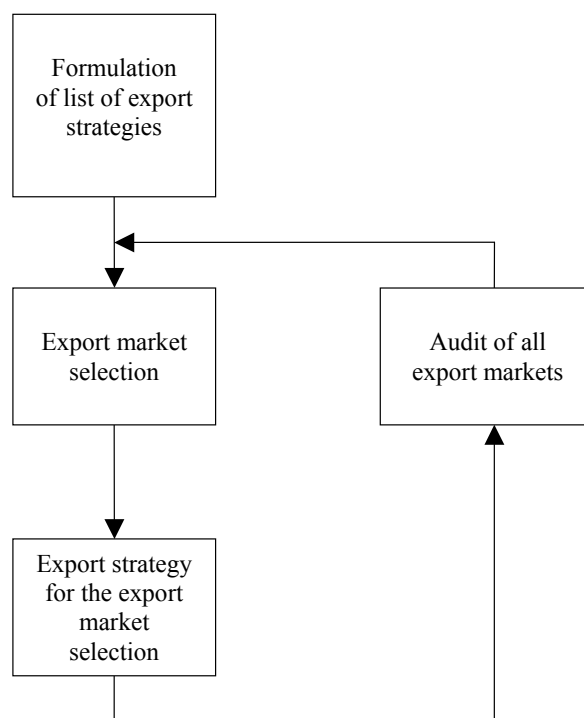


Figure 1. Procedure of the generation of export strategies

where 1 equals to the less and 10 equals to the most preferable value of the export market. It is an advantage during estimation of the criteria that management does not see direct influence of estimated values to final result – sequence of export markets sorted by attractiveness.

The sheet of criteria values is filled and criteria weights are to be established. Weights must be determined in percentage and filled in the green cells upon each criterium. The total of weights must result to 100% otherwise software warns management about mistake.

The procedure is started with “Sort Markets” button. In the first step, criteria are recalculated into relative values to allow the software to compare otherwise incomparable factors. The sum of each criterium values equals to 1. In the second step, each criterium is multiplied by its weight to express relative importance of the factor. Final values are then summed for each market to gain a spaceless number expressing attractiveness. The number falls into <0; 1> interval. As the last step, the list of foreign markets is sorted according to attractiveness.

The sorted list of foreign markets is accompanied with percentage of attractiveness of each market relative to the most attractive market (Figure 2).

Based on the output of TRH.xls software, one foreign market is selected to be penetrated. For such market a convenient export strategy must be chosen.

The instrument for choice of export strategy to a specific market is the software ESES.xls. Its algorithm is based on multi criteria evaluation method too. Inputs for program execution are entered in this order:

1. Market name, number of managers involved and date
2. Typical market characteristics (selection from a prepared list)
3. Weights (importance) of the selected market characteristics
4. Sorting of prepared list of export strategies related to each selected market characteristic, independently by each involved manager

The output consists of the list of prepared export strategies sorted according to convenience to the foreign market. Importance of each involved manager is not reflected. All involved managers entering independently their estimated values are considered as equally important.

Software ESES.xls was tested by application company for Latvian market. The sorted list of export strategies is presented in Table 1 as a result of the software

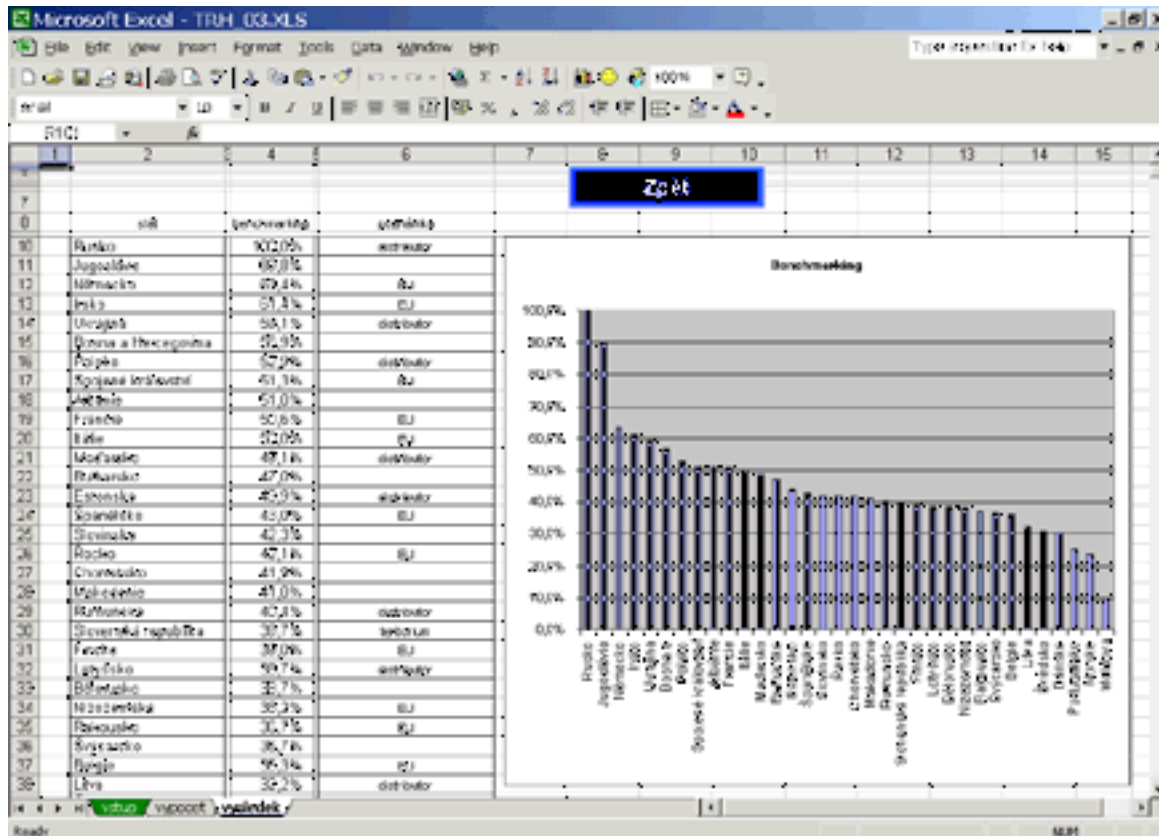


Figure 2. Result of TRH.xls – European markets sorted by attractiveness of the application company

Table 1. Result of sorting of export strategies for Latvian market using ESES.xls software

5 Latvia		
Final sorted list of export strategies		
strategy	result	manager 1
Direct export	1.225	1.225
Subsidiary	1.200	1.200
Daughter company	1.000	1.000
License	0.825	0.825
Franchising	0.750	0.750
Barter	0.250	0.250

routine. The strategy of direct export is considered as the most convenient.

## CONCLUSION

Software confirmed sense of conceptual admission to managerial deciding about export issues that is very complex. The suggested procedures are capable to save much time of top management during acceptance of strategic decisions.

It is not possible to expect self-salvation effect of any "manual" of this process without a creative and individual admission and without a critical evaluation of the situation based on self-experience.

I believe that management of a young company with no export experience can imagine a plan of further

steps after studying the suggested tools. I wish success to such companies.

Methods of market situation analysis are applicable in home territory as well as in foreign markets. Strict using of these methods for decision making about export strategies is even more important because foreign environment is generally less familiar to the management than home environment. Using these methods, the management can avoid mistakes that would not appear in home territory.

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