EVALUATION OF ENTRY AND PENETRATION STRATEGIES TO MIDDLE EAST MARKET UTILIZING A MULTI CRITERIA DECISION ANALYSIS APPROACH

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ABSTRACT
Companies decide to invest abroad as they confront with saturation in their home market or as they want to achieve growth in different markets. In most cases, this move towards new markets could be considered as part of the broader internationalization process, especially for big companies. The selection of a new market represents one of the most important decisions that the companies deal with while going abroad. The next important decision will be how to enter the market as well as what strategies to use to penetrate the chosen market.

This study aims to identify and prioritize the criteria those will be used for the evaluation of entry and penetration strategies through a multi criteria decision model to support Turkish companies which plan to enter and penetrate Middle East market with packaged food products. For this purpose, an Analytic Hierarchy Process (AHP) based decision making process is utilized. First of all, strategy evaluation criteria are identified resulting from the interviews with foreign trade specialists, managers, and consultants as well as the literature survey. Then, questions regarding to pairwise comparison of criteria are posed to these experts to reveal the relative importance of the related criteria. Finally, recommendations based on the findings are presented to the companies intending to invest in this market.

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1 INTRODUCTION

Foreign markets offer great opportunities for the companies who want to expand their operations abroad and gain reputation outside their home countries. Such companies hold common characteristics such as innovativeness, adaptation to new markets, exploitation of economies of scale and scope, and faster operation of all process. Although market entry modes can vary, exporting is the starting and common phase of the process and may evolve to more advanced forms of international expansion [1, 2]. It is accepted today that there are substantial benefits to be gained from exporting for both companies and governments.

The decision to enter overseas markets is often the decision of one person or a small group of founding shareholders who take the initiative. Interviews with retail managers in France showed that the basic decisions to internationalize were often taken intuitive [3]. On the other hand, international marketing strategy should include answers not only to questions as “what”, “when”, “where” consisting of pre-entry phase, but also “how” in terms of international operations related to entry and penetration. Market orientation should guide decision makers in their export activities; managers should support their decisions relating the understanding of market environment, identification of market potential, selection of target market and design of penetration strategies.

Governments and several associations support companies’ efforts in their international operations. Foreign Economic Relations Board of Turkey (DEIK) is such an institution which aims to pave the way for the Turkey’s relations with foreign countries as well as international business communities [4]. Engaging in relations with research institutions and universities is among the responsibilities of this organization. In accordance with this responsibility, Foreign Economic Relations Board and Istanbul Technical University Management Faculty cooperated on a project which investigates market entry and penetration opportunities in selected country markets. This study is a part of this broader project which focused on Middle East market with packaged food products and it aims to prioritize criteria which evaluate entry and penetration strategies through a decision model to support Turkish companies.

According to World Bank Doing Business 2011 Report [5], the ten economies with the most business friendly regulation as reflected in their ranking on the ease of doing business are Singapore, Hong Kong SAR-China, New Zealand, United States, Denmark, United Kingdom, Norway, Ireland, Sweden, and Saudi Arabia. Among these countries, Saudi Arabia is in the best position in terms of geographical proximity to Turkey. Besides, Saudi Arabia is ranked as the first country in the Middle East region which is under investigation of this study.

2 PROPOSED DECISION MODEL

An Analytic Hierarchy Process (AHP) based decision model is utilized to support Turkish companies which plan to enter and penetrate Saudi Arabian market with packaged food products. AHP proposed by Saaty [6], is a powerful and understandable methodology that allows groups or individuals to combine qualitative and quantitative factors in decision making process. AHP can be used for complicated and unstructured problems as it uses a hierarchical model having levels of goal, criteria, possible sub-criteria, and alternatives. The rationale for using hierarchies is based on Miller’s paper [7] on “The Magical Number Seven, Plus or Minus Two: Some Limits on Our Capacity for Processing Information” indicating that the capacity of human short term memory is seven separate items, plus or minus two. Accordingly, the brain of a regular human can simultaneously process, differentiate, and deal with at most 7 factors; for some people this limit can be decreased to 5, for some other people it can be increased to 9. Therefore when people faced with a complex problem, in order to understand the problem better, they must break down the problem into its smaller constituent parts and construct a hierarchical model to represent it.
The proposed model aims to prioritize the related criteria and sub-criteria evaluating the entry and penetration strategies through a multi criteria decision process. The stages of this process are given at the following sections.

2.1 Structuring Stage

First of all, the authors of this paper acting as decision analysts made interviews with foreign trade specialists, managers, and consultants from 11 different organizations to identify the evaluation criteria for entry and penetration. The participant experts were professionals in organizations that have business relationships in Middle East and operate in packaged food products sector.

The revealed lists of criteria generated through the interviews were combined together and refined at the backstage by the decision analysts. The final list of criteria is given in Table 1.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Sub criteria</th>
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| Consumption related market characteristics | Consumption tendency  
Consumption per person  
Income growth  
Substitute product consumption per person  
Population growth |
| Pricing trends                   | Average product price of competitors  
Sales commissions  
Substitute product prices  
Price discrimination based on location  
Price discrimination based on time |
| Easiness of market entry         | Political climate  
Taxes and liabilities  
Standards, labeling, test and certification requirements  
Quotas  
Geographical proximity to home country |
| Competition conditions           | Market concentration  
Free market conditions  
Vertical Integration (competitors with retailers) |
| Distribution opportunities       | Ease of operation with channel members  
Physical distribution conditions  
Availability of alternative distribution channels  
Proximity to potential markets |

2.2 Modeling Stage

At the second stage, in accordance with AHP, pairwise comparison questions were posed to the same respondent group. In practice, this means that a pair of elements in a level of the hierarchy is compared with respect to parent elements to which they relate in the level above. A survey is conducted for this purpose. At the survey questionnaire, questions are asked in pairwise comparison manner using 1-9 ratio scale of AHP to assess judgments of the experts concerning the relative priorities of the evaluation criteria and sub-criteria.
The decision analysts visit experts again to provide them with a brief explanation of the criteria and sub-criteria in the decision model as well as the pairwise comparison approach. The experts were then requested to fill out the survey questionnaire.

2.3 Analysis Stage

Based on the judgments of the participated experts, the relative priorities of the related criteria and sub-criteria were revealed in this stage. The geometric average of the responses of the experts to each pairwise comparison question based on ratio scale was calculated. The pairwise comparison matrices formed for sub elements with respect to parent elements were then filled with these combined judgments. Eigenvectors, from where the relative priorities of the sub elements can be read, were finally extracted from the pairwise comparison matrices.

In this study, Team Expert Choice software [8] utilizing AHP was used for all computations of the relative priorities of the criteria and sub-criteria with respect to aggregated judgments of the individual experts at the previous stage.

3 THE Findings

As aforementioned the iterative stages of AHP was utilized to identify and to prioritize the related criteria and sub-criteria evaluating the entry and penetration strategies. The priorities are given in the following figures.

![Figure 1: Priorities of the Criteria for the Evaluation of Entry and Penetration Strategies](image)

As can be seen in Figure 1, the most important criterion for the goal “the evaluation of entry and penetration strategies” is the “competition conditions” (41.9%). Three criteria, namely, “easiness of market entry” (20.8%), “distribution opportunities” (19%), and “consumption related market characteristics” (14.5) follows this criterion. “Pricing trends” (3.8%), on the other hand, is not regarded as an important criterion.
Figure 2: Priorities of the Sub Criteria for Competition Conditions

The priorities of the sub criteria for “competition conditions” are evenly distributed (Figure 2). “Market concentration” (36.2%) is found slightly more important than the others.

Figure 3: Priorities of the Sub Criteria for Easiness of Market Entry

“Political climate” (37.6%) is stated as the most important sub criterion for “easiness of market entry” as given in Figure 3. “Taxes and liabilities” (26.9%) is the second important sub criterion according to experts’ judgments.

Figure 4: Priorities of the Sub Criteria for Distribution Opportunities
“Ease of operation with channel members” (41.5%) and “physical distribution conditions” (34.9%) are regarded as the important sub criteria for “distribution opportunities” (Figure 4).

**Figure 5: Priorities of the Sub Criteria for Consumption Related Market Characteristics**

As can be seen in Figure 5, “consumption tendency” (50.7%) has the highest priority among “consumption related market characteristics” sub criteria.

**Figure 6: Priorities of the Sub Criteria for Pricing Trends**

Figure 6 exhibits the rankings of the sub criteria for “pricing trends”. The participated experts assessed two of them more important than the others: “average product price of competitors” (34%) and “sales commissions” (29.8%).

4 CONCLUSION

How to enter new international markets as well as what strategies to use to penetrate the markets are important decisions as aforementioned. An AHP-based multi criteria decision model is proposed to support Turkish companies which plan to enter and penetrate Saudi Arabian market with packaged food products. As a result, criteria for strategy evaluation are prioritized. Comments based on the priorities are presented to the professionals at related companies and Foreign Economic Relations Board.
“Conditions in the competitive landscape” is found as the most important factor affecting the evaluation of entry and penetration strategies. Actually, local companies being the lifeblood of domestic sectors may set serious barriers for the newcomers in many markets. The situation could be worse if market concentration is high in the targeted sector since it will not be easy to take market share from these established companies. Also, competition can be very severe when governments of the host countries interfere damaging the operability of free market. The findings of the research support these arguments where “market concentration” and “free market conditions” are found as the most important factors by the respondents in terms of “competition conditions”. The presence of “vertical integration” is seen as another important threat to competition.

Managers when making their decisions for entering or penetrating a new market should consider the stability of the country. As revealed in this study “political climate” is reported as the most important factor for “easiness of market entry”. Political fluctuations may bring economic, commercial or financial problems. Therefore, companies hesitate to enter markets with political instability. On the other hand, “taxes and liabilities” is another factor affecting easiness of market entry. High taxes in number and value may hinder the efforts of companies in their international activities.

Companies will be in expectancy to penetrate easily to the market they enter. There are evidence from many invested markets that distribution channels may pose an important mobility barrier for the newcomer company. That’s why it is important to easily operate with channel members. This study is in line with this argument and proposes “ease of operation with channel members” as the most factor affecting “distribution opportunities”. Also, “physical distribution conditions” is an accompanying factor having high impact on the same issue.

It is no doubt that consumers’ attitudes and consumption behaviors in the host country will affect entry and penetration decisions of companies. Among consumer characteristics, the most important factor is found as “consumption tendency” as expected. Saudi Arabian consumers’ consumption trends justify this finding; it is reported that they prefer to dress their meats with several sauces having important share in packaged food products sales [9].

Finally, “average product price of competitors” and “sales comissions” are stated as most important “pricing trends” factors. Competitors’ price offers can have a significant effect especially when the company attempts to position its product for the first time in the new market as well as while penetrating that market. Therefore, companies should monitor pricing trends of their counterparts to design appropriate marketing strategies in the given markets.

A case study can be conducted for a Turkish company entering Saudi Arabian market with packaged food products. The importance of criteria revealed in this study can be utilized to evaluate entering or penetration strategies of this specific company. As the decision model proposed is flexible, this study can be extended with the prioritization of criteria evaluating the strategies of entering and penetrating Saudi Arabian market with other products than packaged foods. The decision model can also be utilized in entering and penetrating other countries as well. The findings of further studies can be compared with those of this study and the comparison can be an insight for the companies in their international operations.

5 REFERENCES

[4] The web site for Foreign Economic Relations Board of Turkey (http://www.turkey-now.org)


