Exporting your business: How to crack a new market

IE Singapore recently hosted Mr Frank Lavin—former US Ambassador to Singapore and US Under Secretary of Commerce for International Trade—to give a talk on “Export Now: 5 keys to entering new markets”. Sharing his views on exporting in today’s climate, Mr Lavin talks about selecting the right global marketplace for your products as well as the practical challenges of language and logistics.

The worst thing you can do is nothing. Frank Lavin — former United States Ambassador to Singapore and a man who helped negotiate the landmark US-Singapore Free Trade Agreement in 2003 — argues that adopting the same tactics and strategy that served you in your home market will not work overseas. Singapore companies have always had to export to get ahead.

Exporting to a new market should always be evaluated via a set of business decisions to determine the chances of success. A company’s capabilities should be aligned with their vision. In any company there are limits to these capabilities. If a business lacks management bandwidth, decisions must be made as to what should be prioritised or diminished so as to concentrate on making the new market entry a success.

Which market?

Perhaps the most important decision a company can make is which market they will choose to enter. The obvious choice would be to pursue the greatest opportunity — whether that is population size or customer spending power — such as the US or the BRIC countries of Brazil, Russia, India or China. Yet, it may be wiser to enter a geographically, socially or culturally proximate market, rather than the one that promises the greatest dividends.

Entry into the bigger markets should be weighed against the complexity of market entry. Managing the risk involved with entering an unknown market is of critical importance, and bigger is not necessarily better.
Proximity

Despite an increasingly globalised world, if a market is geographically far away, it will be more difficult to manage affairs there. The first two years are especially vulnerable and require a hands-on approach that is difficult to achieve without incurring high cost. In contrast, a geographically proximate market removes this degree of difficulty from the equation.

An example of an Asian company that pursued an incremental strategy of new market entry is Malaysia's Royal Selangor. Today it is the world's largest pewter maker, but it grew from small beginnings since it expanded out from Kuala Lumpur and into the rest of Malaysia in the 1940s and 50s. The company’s first move was into the nearby markets of Singapore and Hong Kong in the 1970s, before entering Australia and eventually Europe and Japan by the 1980s. While choosing nearby markets is obviously not the only factor in Royal Selangor's success, their clear strategy of gradual expansion allowed them to enter, consolidate earnings, learn, and move again, gaining experience and customers in the process.

For Singapore companies, the degree of risk associated with entering immediate neighbours such as Malaysia or Indonesia may well offset the relatively limited market potential when compared to a regional giant such as China or the US. The ASEAN Free Trade Area (AFTA) offers a raft of advantages on trading goods originating within ASEAN with import tariffs in the range zero to five percent. There are exceptions; newer members such as Cambodia and Vietnam have a longer time frame to bring their tariffs into line, and some sensitive products such as rice and medical goods are exempt. However, the various FTAs within the AFTA offer Singapore, and other Southeast Asian, companies an inherent advantage when entering their neighbours’ markets.

Consumer and Cultural Affinity

Assuming that the potential customers in a new market share the same demographic as your home market is understandable. However, while they may share many of the same consumer characteristics, there are enough differences to demand a tailored entry strategy for each new market.

Key to this is the absence of consumer affinity with your brand, product or
service. In general, most companies entering a new market will not enjoy the same rapport, credibility and brand status as in their home market. Although these are passive strengths, their absence is an enormous challenge when attempting to establish a rapport with consumers.

To compensate, there are a number of options. Companies can choose to follow their existing customers into new markets. Service providers, for example, should seek to leverage any of their customers’ cross-border reach. Delivering the same service to an existing customer in a new market significantly diminishes the need to build brand identification and loyalty.

Similarly, entering into a market with an unfamiliar culture or language can be daunting. Latin America has enormous opportunities for Singapore companies in particular. The continent’s demand for infrastructure and the city-state’s proficiency in urban solutions would seem to be a natural fit; however, the linguistic and cultural differences make operating here difficult. So far, Keppel is one of the few companies to have made major inroads, operating production yards in Brazil alongside the country’s semi-public energy corporation Petrobras.

**Complexity of Entry**

China, with its extensive cultural, linguistic and historical links to Singapore and position as the world’s second largest and fastest-growing economy, could be seen as a natural destination for many Singapore companies. There are undoubtedly opportunities to be had. Since its inception in 1996, Singaporean valve manufacturer and distributor Star Controls has succeeded in establishing itself as one of the market leaders in China, with operations there far outstripping those at home.

However, if a company is moving overseas for the first time, China may not be the place to go. China has less transparent processes than most European or North American markets, as well as restrictions on certain industries, such as media or cosmetics. While there is scope for international competition, companies need to be sure that there assets — including intellectual property and brand name — are protected.

One way of managing risk in an unfamiliar environment is through setting up a joint venture. Asia Pacific Breweries (APB), the brewers of Tiger beer,
established a joint venture in Mongolia in 2007, becoming the first foreign brand beer to be brewed in the country. Building on existing consumer familiarity with the brand — Tiger has been sold in Mongolia since the early 1990s — APB was able to bring its pre-existing systems, processes and quality control to bear in the brewing process, while leveraging on its local partner’s range of contacts and distributors to increase market share.

The competitive map in new markets is also different. This sounds obvious but a lot of companies do not think this through. Both they and their competitors may be operating in different market positions in the new market. Their plans do not always cover the specific actions they will need to take to carve out a market segment.

Success in Exporting

Despite being essentially a niche product, Tiger Balm has become one of Singapore’s most recognisable brands. The Haw Par Corporation’s length of operations was a key factor in their success, as the Singapore-based company first marketed Tiger Balm in markets such as Hong Kong, China, and what was then Siam and Malaya — all places with consumers that have a cultural affinity towards the product. The revenue and experience earned in the ‘near abroad’ enabled Haw Par, in collaboration with local distributors, to bring Tiger Balm to the US.

Haw Par’s success in exporting their speciality, boutique product to a market and consumers that had little or no brand awareness or affinity of it was a triumph of understanding their own capabilities and acting accordingly. Yet, it is a decision that should not be taken lightly.

Companies should understand the competitive landscape of the new market before entering it. In the digital age, information is widely available, but speaking to contacts in the supply chain may also give you human insight that Google searches cannot. Exporting should always be a case of cost benefit: for the marginal cost of the business activity, is the marginal benefit going to be greater in the home market, or overseas? If your home market is at saturation, then entering a new market makes sense. Pepsi, for example, has far higher growth rates overseas than in the US. If not, companies can look at the expansion opportunities at home, before deciding to move overseas.