



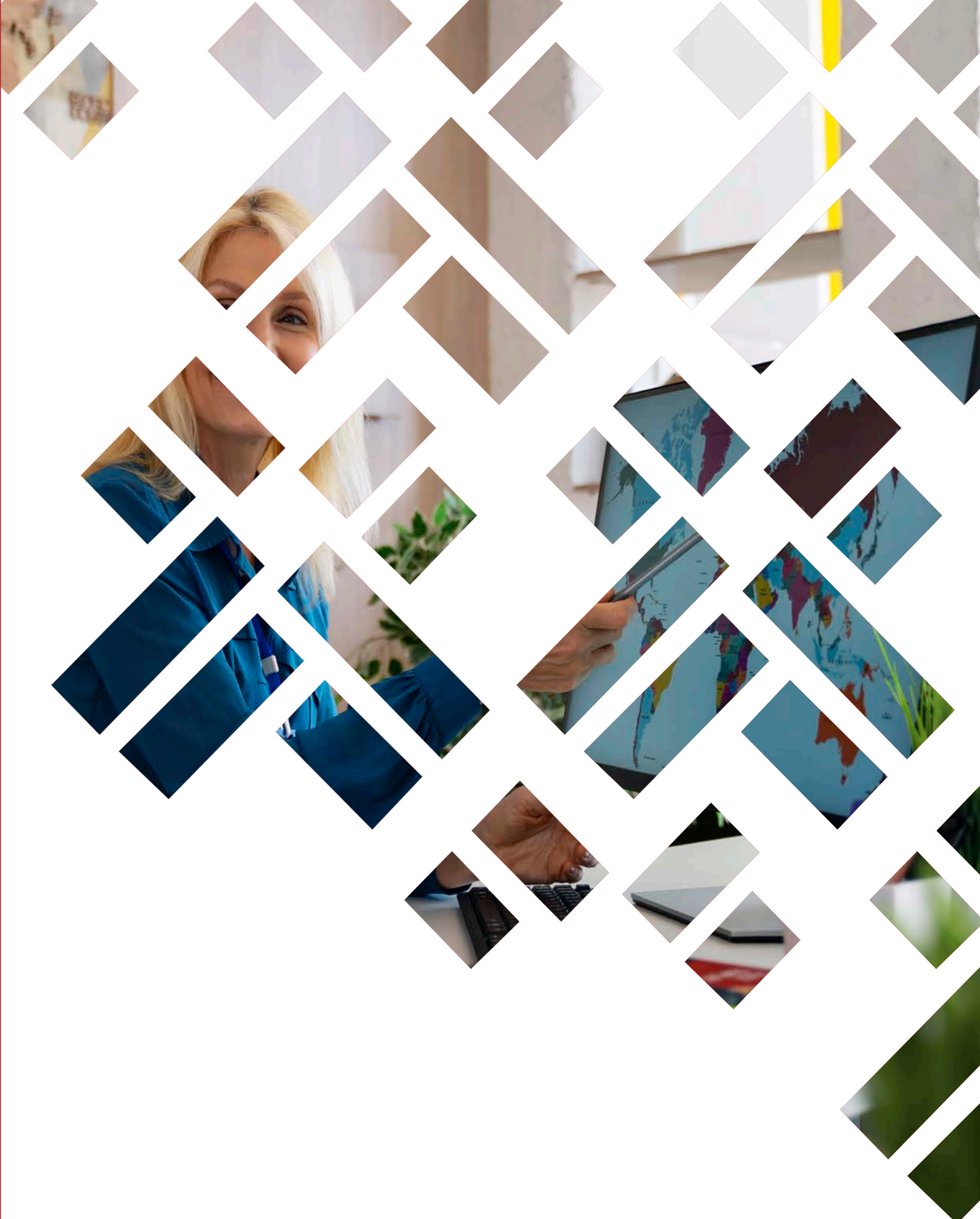
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# SHETRADES MENA GUIDEBOOK TRAINING MATERIALS

## HOW TO EXPORT GUIDE: SELECTING AN EXPORT MARKET



This exporting guide has been produced by SheTrades MENA  
hosted by the Dubai Department of Economy and Tourism



# **SELECTING AN EXPORT MARKET**

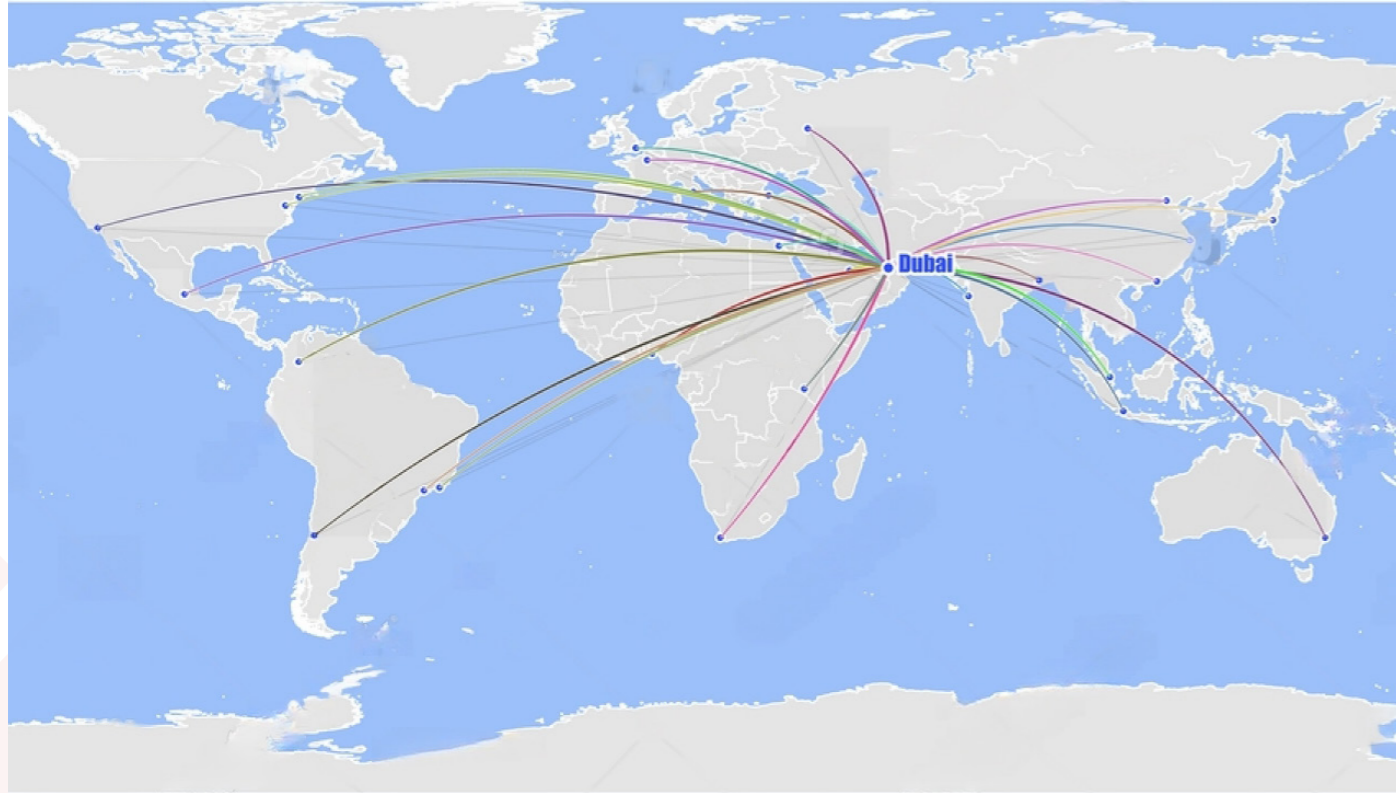
## STEP 1: Creating the initial list of export markets

The first step towards identifying a foreign market is to compile a list of potential countries that an exporter can enter. There is no 'golden rule' as how to select the initial list of countries. Nevertheless, one can use a number of different methods to compile the list of potential markets. The main methods used by exporters tends to be the following:

- Enter markets which are 'easy' – as a first time exporter, it is better to learn in an easy market and over time more difficult markets can be considered.
- Proximity of the market – markets which are closer to Dubai are easier to service in terms of logistics, follow up, payments etc compared to markets which are further a field.
- Similarities in language – markets which use the same language be it Arabic or English are more convenient than one where the language is different. The reason for this that communication with the importer, documentation, product labelling, marketing etc. becomes simpler when the importer and exporter share the same language.
- Common business culture – similarities in business culture between the importer and exporter be it the manner in which business is conducted or the payment terms that are offered make the process of exporting much easier.
- Logistics – at the end of the day the exporter is looking to ship its products to the foreign market in order to receive payment. Therefore, logistics are important and it is better for an exporter to target markets with established logistical links from Dubai rather than ones where the transport routes are yet to be established.
- Past or current knowledge – it is easier for an exporter to enter a market in which it has past or current knowledge. Even if the knowledge is superficial it is better than not having any in the first place. Moreover, if the knowledge is first hand experience of the country it adds considerable weight to the selection of the market.
- Overall risk – of course all exporters want to maximise profit however they need to take into consideration the level of risk entailed in a particular market. At the end of the day the exporter has to make an assessment of the relative risks of exporting to a particular country in terms of the potential revenue that can be generated against the risks that it faces.
- Over extending exporter resources - all exporters have finite resources and this may limit the selection of a particular market in that certain countries may over stretch the resources of the company compared to others. For example, a market with established legal and business framework will not utilise as much of a company's resources as say an undeveloped market. On the other hand, distance of the foreign market may mean that the company's staff are travelling long distances which takes them away from their normal tasks.

## The importance of selecting the correct export market

One of the most important decisions that an exporter needs to make is to select the 'correct' foreign market for his goods or services. Selecting the correct market can lead to immediate success while an incorrect market cannot only lead to substantial losses but also long term damage to the company's operations. Therefore, appropriate foreign market selection is an important challenge for the exporter and cannot be left simply to subjective decision making. In order to select the correct foreign market, an exporter needs to go beyond personal preferences and intuition. The process of market selection requires the exporter to undergo three essential steps namely data collection, whereby the most recent information on potential export markets is obtained. Second, the exporter needs to make appropriate comparisons between the different markets. Third, an exporter needs to appreciate that he cannot enter every single market at the same time and needs to prioritise markets based on current resources and market potential.



## Data Collection

- Once the initial list of potential foreign markets has been compiled, the exporter needs to collect the appropriate data. The type of data largely depends on the product or service to be exported. Nevertheless, all exporters need to collect general data on the potential markets which can be categorised as follows:
- Political factors – this covers a broad spectrum of aspects such as the level of intervention in the economy via government owned or controlled entities and subsidies to domestic producers to the overall stability of the government. The political factors allow the exporter to identify important areas for the economy based on government policy. Moreover, political factors capture the relative risk of the country.
- Economic factors – there are a number of economic aspects that an exporter can examine but the most important is the current and future output or performance of the country and is usually measured using gross domestic product, inflation and exchange rates. Generally speaking, the higher the economic performance of a country the better the prospects for an exporter.
- Social factors - the demand for a product or service is usually affected by social changes which themselves are determined by various factors such as religion, culture, advertising etc.
- Technological factors – the level of technology determines not only the products and services to be exported but also the marketing and distribution channels. Some countries are faster at technology adoption while others tend to be more selective.
- Environmental factors - at the most basic level, environmental factors include factors such as the weather but at the broader level it also includes regulation and controls which restrict the sale of certain products.
- Legal factors – this covers the legal environment in which the exporter will operate and includes rules and regulations affecting the sale of the good or service. It is important to bear in mind that the legal structure impacts on the exporter's costs.

There are a number of different sources for data but the common ones include the following:

- The internet
- Magazines and newspapers
- Trade directories and press
- The statistics bureau or centre of the foreign country
- International and Multi-national organisations such as IMF, World Bank etc.
- Reports from market intelligence companies
- UAE embassy in the foreign country
- Talking to other exporters

In some cases exporters may need to commission whole or part of this research from Dubai Export Development Corporation or a private consultant.

## Type of Data to be Collected

A common mistake that exporters tend to make is that they do not examine all the necessary data for their list of potential markets. Simply looking at general macroeconomic data will not ensure the success of their product in that market. Exporters also need to look at the level of tariffs, market openness, distribution infrastructure and so on which all affect profitability of the product. Moreover, it is important to remember that foreign products compete with domestically produced goods and hence the exporter will need to undertake some level of competitor analysis. Some of the types of data that an exporter needs to identify are listed below:

### ■ Geographic and Physical Environment.

- Total population, growth and density trends
- Distribution of the population by targeted age groups.
- Distribution of population by urban, suburban, and rural areas.
- Climate and weather variations. How will these affect the product or service offered?
- Shipping distances from the point of export.
- Age and quality of the transportation and telecommunications infrastructure.
- Adequacy of shipping, packaging, unloading and other local distribution networks.

### ■ Political Environment

- Whether the system of government is conducive to conducting business?
- To what extent the government is involved in private business transactions?
- Government's attitude to importing.
- Whether the political system is stable.
- Government's attitude towards the dismantling of quotas, tariffs, and other trade barriers?

### ■ Economic Environment

- Whether the country is committed to fostering higher levels of imports and exports?
- Predicted economic growth levels.
- Gross national product and balance-of-payments situation.
- Percentage share of imports and exports in the overall economy.
- The country's import to export ratio.
- Rate of inflation, and foreign currency or exchange regulations.
- Per capita income of the target country. Are income levels increasing?

### ■ Technological Environment

- High expectations of consumers
- System complexity
- Increased productivity
- Need to spend on R&D
- Demand for capital

### ■ Social and Cultural Environment

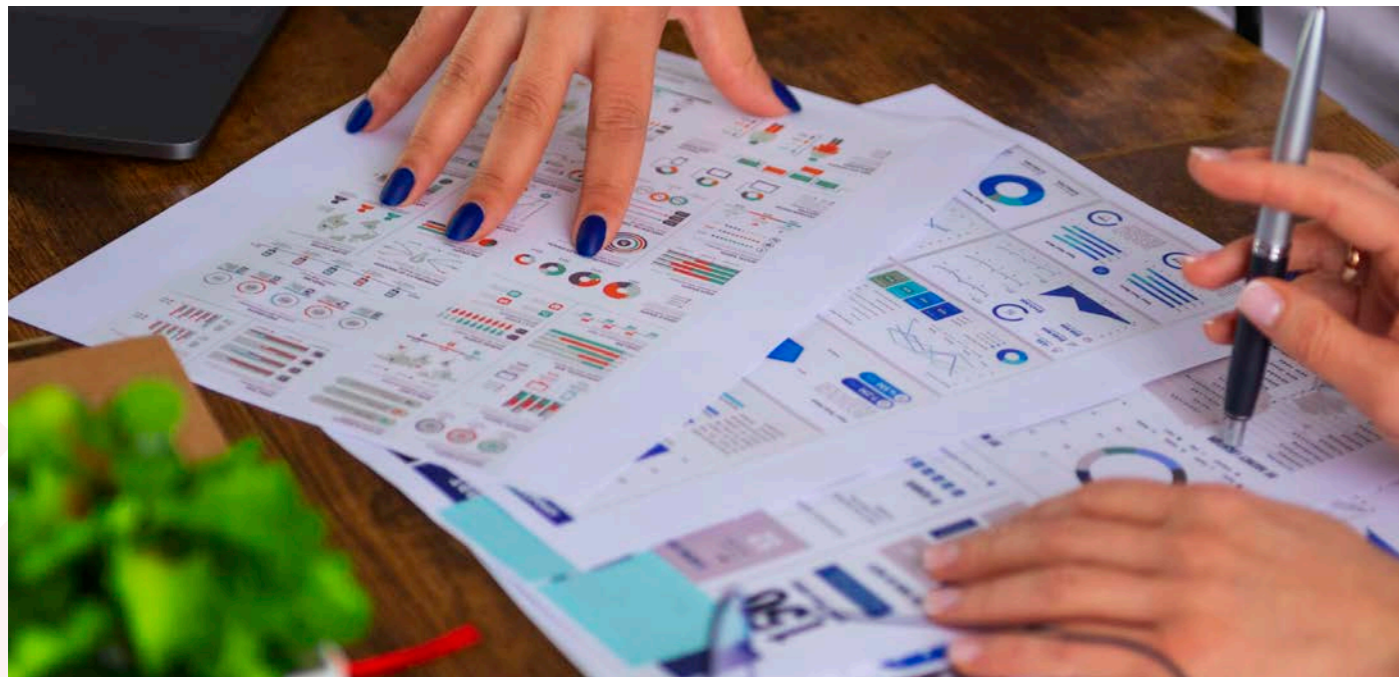
- Percentage of discretionary income spent on consumer goods
- Percentage of people who are literate. What is the average educational level achieved.
- Percentage of the population identified as middle class.

## ■ Legal

- To what extent the target market is similar to the home market.
- Whether the product or service needs translation or adaptation.
- Summarize the legal aspects of distributorships for each country.
- Documentary requirements and the technical or environmental import regulations covering the product
- Whether the market is closed to foreigners, despite the appearance of a free and open market.
- What intellectual property protection laws would affect the product or service.
- Where a commercial dispute arises, does the judicial system offer a fair and unbiased review?
- Are tax laws fair to foreign investors? What is the rate of tax on repatriated profits

## ■ Product Potential

- Whether there is an identified need for the product in the target market.
- Percentage of the product or service produced in the target market and what percentage is imported.
- Is the product or service understood and accepted by the target market.
- Extent of general level of acceptance for imported products.
- How many foreign competitors are in the market now and from which regions?
- UAE share of products available in the market.
- Who are the major competitors?
- What are the key brands in the market?
- What are the niche market areas?
- What are the marketing and distribution channels?
- Whether established agents exist
- Legal protection for intellectual property
- Likelihood of consumers moving to the exporter's product/service



## STEP 2: Assessing Potential Foreign Markets

Once the data has been obtained the exporter needs undertake an extensive analysis of each potential market. There is one main tool that an exporter can use to understand and evaluate a potential market. The first is a SWOT analysis which examines the following:

- Strengths – these are aspects that the exporter can build on to penetrate into the foreign market.
- Weaknesses – these tend to be the limitations however they need not hinder the exporter from entering the market but are simply areas that need to be managed or covered.
- Opportunities – these are aspects that an exporter can capitalise on for example a Free Trade Agreement allows an exporter to exploit the lack of tariffs and so on.
- Threats – these are the dangers of entering a particular market and the exporter needs to be aware of them. Some of the threats may be outside the control of the exporter while others can be managed. In the case of the former political risk is outside the control of a country but exchange rate volatility can be managed through hedging.

The SWOT analysis is a detailed examination of the past behaviour of a particular market and country. As such the analysis is objective in nature and uses the data referred above. A SWOT analysis is extremely effective in allowing an exporter identify the following:

- Assess the market potential for the product or service concerned,
- Method of entry into the foreign market that whether the exporter should set up an independent foreign presence, use a distributor, agent etc.
- Areas where the exporter can create a competitive advantage in foreign markets,
- Shore up areas of weakness
- Developing a contingency or back up plans for problem areas
- Developing an export plan

## Conducting a SWOT Analysis

Once the data has been obtained the exporter is in a position to conduct a SWOT analysis. There are many ways in which a SWOT analysis can be conducted. The most common and perhaps the easiest is technique is simply to list the four areas along with the sub-points and to tick the box that refers to the impact on the company's expected performance. The tick box method allows the exporter to immediately identify areas where the problems are concentrated as well as the countries which have the largest number of issues.

# SWOT Matrix

Factor	Country A				Country A				Country A			
	S	W	O	T	S	W	O	T	S	W	O	T
Demographic and physical environment												
Population size, growth, density.												
Population: age distribution.												
Population: urban and rural distribution.												
Climate and weather variations.												
Shipping distance and frequency.												
Air freight facilities.												
Physical distribution and communications network.												
Regional and local transportation facilities												
Market segments												
Market positioning												
Market growth rate												
Market size												
Political and Legal environment												
System of government.												
Attitudes to foreign trade.												
Political stability and continuity.												
Government involvement in business.												
National trade development priorities.												
Existence of Free Trade Agreement												
Fair and free trade mind set.												

Tariffs												
Consumer information and labeling requirements												
Environmental regulations												
Labour requirements												
Legal stability												
Economic environment												
Overall level of development												
Economic growth: GDP												
Inflation												
Income Disparity												
Level of Industrial Sector												
Share of imports in total trade												
Currency fluctuations												
Capital or exchange rate controls												
Disposable income and expenditure behaviour												
Social, Cultural and Technological												
Literacy and education level.												
Existence of middle class												
Similarities/differences relative to home market												
Language barriers												
Established marketing channels												
Technological development												
Business etiquette												
Level of competition – number of firms												

## STEP 3: Identifying Priority Markets

The SWOT analysis allows the exporter to identify the strengths, weaknesses, opportunities and threats without actually selecting the country. In order to identify the country an exporter needs to extend the SWOT analysis by allocating points for each aspect. There are many ways in which points can be allocated and the following is an example:

Strength = +2 points  
Opportunity = +1 point  
Weakness = -1 point  
Threat = -2 points

This point system assumes that an existing strength is important for a new entrant and hence the two points while on the other extreme a threat is viewed negatively. Similarly, an opportunity is a potential that the company can exploit but it may not materialise hence the one point. The same is true of a weakness because the assumption is that it can be managed through some form of risk management strategy and is not as severe as a threat. Of course each exporter can change the point system based on its own assumptions. Using the hypothetical situation below where for each of the potential five countries we have totalled the points for each part of the SWOT analysis. In doing so we are able to say that using the same measurement system to evaluate all the five countries the exporter is best advised to enter Saudi Arabia first. However, before an exporter can enter the Saudi market it needs to produce a detailed export plan.

### SWOT Ranking

Country	Demographic and physical environment	Political environment	Economic environment	Social, Cultural and Technological	Total
USA	12	10	10	3	35
Australia	6	8	8	7	29
Saudi Arabia	8	6	10	14	38
Brazil	4	5	6	2	17
Japan	10	8	8	4	30

## Test Market

The real test of any product or service is its acceptance in the foreign market which can only be judged through the level of sales. Therefore, an exporter may wish to 'dip their toes' in the foreign market through a pilot test. In order to test the market the export need not enter into an expensive process of establishing a foreign presence or signing with a local distributor or agent. A pilot test can be carried out through a participation in international exhibition or fairs whereby an exporter can obtain immediate feedback on their product. Moreover, an exporter can use internet based marketing and distribution as a test mechanism. A pilot test will allow the exporter to fine tune the product to meet foreign tastes and preferences as well as to determine an appropriate marketing and pricing strategy.

SheTrades MENA  
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