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How Important Is Knowledge of the Culture Environment When Evaluating Potential Export Markets? Empirical Results from A Sample of Experienced U.S. Exporters

ABSTRACT

This article exams the importance of specific types of foreign environmental information to experienced exporters. More specifically, the relative importance of information concerning politics, market potential, economics, infrastructure, legal considerations and the culture surrounding export markets is empirically investigated. The commonly held notion that knowledge of a foreign market's culture is first and foremost of importance in regard to exporting success and failure is explored. Results indicate that contrary to popular wisdom, information related to the cultural environment of an export market is rated as the least important when export managers are deciding on which markets to enter. An explanation of these findings is offered and calls for future research put forth.

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INTRODUCTION

Business executives in the 21st century are, or will be, forced to deal in the global marketplace. The enormous growth and potential profits in overseas markets motivates this, as does the desire to survive the onslaught of global competition (Rosensweig 1998). However, when considering overseas markets, executives face relatively complex strategic planning assignments given today's rapidly shifting alternatives in terms of risk, stability, and potential returns inherent in the myriad of markets around the world.

Selecting among alternative international markets, be it for exporting, licensing, joint ventures, strategic alliances or direct investment requires information. Likewise, the assessment of information across different types of markets determines, in large part, the degree of success (or failure) achieved in the international arena (Andersen and Strandkov 1998). In theory, decision makers' perceptions of the importance of different types of foreign market information may be driven by a combination of factors (Hodgson and Uytterhoevern 1962, Stobaugh 1969, Harrell and Kiefer 1981, Carlisle 1996).

While the political climate in one country or region may be perceived as a key dimension to an international venture's success (or failure), the level of economic development may be the key in another. Likewise, while an advanced infrastructure may place one foreign market more favorably ahead of another for one industry, the existence of a stable and transparent legal system might do the same for another industry. In theory, international business decision-makers may value certain types of information differently, depending upon the specific perceived impact of such information on their firm's success (and/or failure).

One area of information related to international business success (and failure), where both scholars and practitioners have long shared the belief that "knowledge of " is universally critical is – culture (Dalgic and Heijblom 1996). Consumer needs, buyer behavior and the use/misuse of global manager's "people skills" are largely driven by cultural norms (Johansson 1997). In order to grasp the intricacies of foreign markets, it is imperative to get a deep understanding of cultural differences and similarities. Knowledge of the cultural environment of any foreign market matters for two reasons. First, it is perhaps the most important factor in pinpointing market opportunities. And second, cultural forces represent the primary determinants of any given firm's international marketing strategy and programs (Kotabe and Helsen 1998). For the most part, common wisdom and often expounded theory has it that "international marketing is a function of culture," (Terpstra and Sarathy 1997, p. 143). Therefore, information concerning culture is *the* most important ingredient to international business decision making, including decisions as to which foreign markets a given firm should enter.

This paper, focusing on experienced exporters, examines this theory in an exploratory

fashion by addressing two fundamental questions. They are: a) what information is most valuable to established exporters when analyzing foreign markets?, b) how can we explain the hierarchical importance ordering of foreign environmental information as perceived by established exporters? We begin with a framework developed to assess exporter's valuation of information.

An Export Environment Information Framework

In order to examine the issues posed in the questions listed above, an extensive literature search focusing on foreign market information was undertaken. This was followed by a series of personal interviews and one focus group session that led to the development of a comprehensive information framework relevant to export market evaluation. In turn, survey research was employed to examine the perceived relative importance (rank order) of information contained within the framework as a whole.

To begin this study, existing literature, both empirical and theoretical, related to *international marketing* (e.g., Czinkota and Ronkainen, 1998; Terpstra and Sarathy, 1997; Maclayton, Smith, and Hair 1980; Werner, Brouthers, and Brouthers 1996), *exporting* (e.g., Albaum, Strandskov and Duerr 1998; Leonidou and Katsikeas 1998; Raven, McCullough, and Tansuhaj 1994), *economic development* (e.g., Adelman and Morris 1967; Sethi 1971, Mody and Wang 1997), and *foreign direct investment* (e.g., Kobrin 1976; Kobrin, Basek, Blank & La Pombara, 1980; Nagy 1978; Aharoni, 1966, Harvey and Weidenbaum 1993) was reviewed to explore the myriad of information potentially useful to managers evaluating entry into export markets. Based upon this review, approximately 200 "indicators" of a foreign environment relevant to analyzing export opportunity were identified. To qualify as an indicator, a specific piece of information (for example, "import tariffs" in a given market) had to offer general insight into an export market's potential for success (and/or failure). The 200 indicators manifest from the literature search were then further reviewed, reduced, and eventually refined into a comprehensive export environment information framework.

The reduction of the original 200 indicators was based upon sixteen personal interviews with representatives from government agencies charged with facilitating exports, international banking institutions, and private business with known exporting expertise. In total, eight export experts were interviewed independently, each twice. A final focus group session was then undertaken with all eight interviewees participating. The overall objective of this process was to aid identification of information variables both useful to, and utilized by, practicing managers concerned with the selection of export markets.

During the first set of interviews, each interviewee was asked to consider the pre-established 200 indicators and then assemble them into an information framework that, in theory,

could guide the export market selection process. They were allowed to discard, combine, or alter the language of each indicator as they saw fit. During the second set of interviews, each interviewee was shown the initial framework developed by other interviewees. Each was then asked to reconsider his or her framework and alter it based on those aspects of other frameworks that would improve their efforts. This two step process resulted in a general consensus among the eight experts of what should and should not be included in the framework, and how each piece of information should be worded. A final focus group session, in which all eight experts participated, resulted in the agreed upon framework developed for this study. The eventual framework included a set of sixty *specific decision variables*, seventeen *subsidiary export dimensions*, and six *primary environmental dimensions*, all potentially useful to export decision-makers (these labels, used to describe the various levels of the framework, were also agreed upon by interviewees).

As shown in the Appendix, the resulting framework is thought to capture the most important aspects of the political, economic, market, culture, infrastructure, and legal environments faced by exporters. Note that each specific decision variable included in the Appendix is associated with one of seventeen subsidiary export dimensions which, in turn, are associated with one of six primary environmental dimensions. Again, each part of the framework could have direct relevancy to the success or failure of a given export venture and, therefore, each is potentially useful as criteria to guide the export market selection process. In answering the two questions posed in this study a brief overview of the framework and its parts is in order.

The Export Environment Information Framework – An Overview

Politics is the first primary dimension listed in the framework. Among the export experts interviewed in this study, interest in politics focused on the extent to which the government of an export market has the trust and backing of its people, and is sensitive toward the private sector of the economy. A key question is whether or not the politics that govern the export market generate conditions conducive to international business activities. The three main areas (subsidiary export dimensions) of interest here are: 1) the nature of present and future political *stability* in the export market as measured by the degree of centralization of political power, and the extent of representation and confidence of the people in their government, 2) the nature of *diplomatic relations* between the foreign government and home government and its effect on trade, and 3) the foreign government's *internal policies*, attitudes, and actions toward private enterprise.

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Market Potential is the second primary dimension listed in the framework. Here the central focus concerns whether the export market of interest has the necessary means to purchase imported products, and whether the needs of the market are being adequately satisfied. The

three main areas of interest here are: 1) opportunities for exporters due to the export market's current and future *demand* for products or services, and that market's ability to pay for such products or services, 2) *adaptation costs* associated with products or services in the export market, and 3) internal and external *competition* in the export market.

Dimension three of the framework is *economics*. The focus here is on an export market's industrial, consumer, and service evolution and development. Three areas of interest include: 1) the current position of the export market's *development* as measured by broad economic *performance* standards, 2) the strength of the export market in terms of its *production* of goods and services, and 3) product *consumption* trends in the export market.

Dimension four of the framework is *culture*. The nature of internal and external shared lifestyles, customs, and social relationships are of primary interest here. Two areas of focus include: 1) the degree of *cultural unity* and national integration and the extent of ethnic and cultural differences in the export market, and 2) the *cultural differences* (distance and similarities) between the export market and the home market (in this case the U.S. domestic market).

Infrastructure is the fifth primary dimension listed in the framework. Hindrances and advantages to the realization of export operations due to fundamental business foundations are key here. The three main areas of interest include: 1) the extent and nature of the export market's physical *distribution* infrastructure, 2) the extent and nature of the export market's *communications* infrastructure, and 3) *geography* and climatic conditions that affect the business enterprise in the export market.

The sixth and final dimension of the framework is the *legal* environment of an export market and the degree to which it prevents or restrains business activities and imports. The three subsidiary dimensions here include: 1) *tariffs and taxes* in the export market, 2) *non-tariff barriers* of the export market and 3) *other legal* considerations besides tariff and non-tariff barriers (e.g., visa requirements, laws affecting agents, intellectual property protection).

As noted previously and shown in the Appendix, each of the six primary environmental dimensions, and related seventeen subsidiary export dimensions, are further defined and refined by sixty specific decision variables. As the study progressed, each of the specific decision variables was randomly sequenced in a questionnaire and associated with a five-point rating scale ranging from: (1) this information is extremely important to me in making a decision to export to a foreign market, to (5) this information is unimportant to me in making a decision to export to a foreign market. Additionally, a "don't know / no opinion" response category was provided for each specific decision variable.

The Empirical Study – Sample Selection and Response Rate

A judgmental sample of 275 exporting companies in the northwestern part of the United States

was selected to represent established organizations whose managers face export market selection decisions. These companies were selected based upon the judgment of seven international business experts (three from the government sector and four from the international banking sector of the region) who worked closely with exporters in the area. Each company selected had an identifiable manager who was known to have direct responsibility for his or her company's exporting activities. Selected companies represented 22 different Standard Industrial Codes (SIC).

Each company (and identified manager) selected for inclusion in the study was sent an introductory letter explaining the purpose of the research and requesting participation in the study. One week later, the actual questionnaire, along with a cover letter reiterating the purpose and request for participation, was sent. A final reminder letter was sent to each company two weeks later. Completed questionnaires were received from 137 of the 275 exporting firms selected. Since 14 companies selected were no longer in business, the effective response rate was approximately 52 percent (i.e., 137 responses from a universe of 261 firms). A random sub-sample of non-responding companies was contacted by telephone in order to identify possible differences between respondents and non-respondents. This analysis of non-responding firms indicated that any non-response bias present in the study was negligible.

Self reported titles, or positions held, by responding individuals are summarized in Table 1.

As shown, for the most part, key decision-makers of the responding firms completed the questionnaires. As such, study results can be assumed to be representative of key managerial decision-makers, as opposed to lower-level clerical staff. Questionnaire data also indicated that most respondents could be considered experienced exporters (71 percent of respondents had more than five years of exporting experience) who played a key role in export decision making (79 percent of respondents indicated that they regularly analyzed export opportunities for their company), and who were committed to future exporting activities (more than 60 percent of respondents expected more than 20 percent of their firm's sales to come from exporting in the next two years).

RESULTS

The first question posed in this study asks – what information is most important to established exporters when analyzing foreign markets? The overall importance ratings, for each of the six environmental dimensions, for the respondents as a whole, are reported in Table 2.

Observe that *market potential* was ranked as the most important of all primary environmental dimensions (mean equal to 2.35), and *culture* was ranked least important (mean equal to 3.73).

TABLE 1. Self-Reported Title / Position of Respondents

TITLE/POSITION	NUMBER OF RESPONDENTS
PRESIDENT	34
VP MARKETING	19
MARKETING MANAGER	19
EXPORT MANAGER	15
SALES MANAGER	14
GENERAL MANAGER	12
CHIEF EXECUTIVE OFFICER	3
INTERNATIONAL SALES ENGINEER	3
CHAIRMAN	2
OWNER	2
MARKETING ASSISTANT	2
OPERATIONS MANAGER	1
CORPORATE SECRETARY/EDITOR	1
CUSTOMER SERVICE MANAGER	1
MANAGER SEMINAR DEPARTMENT	1
SENIOR MARKET ANALYST	1
PURCHASING MANAGER	1
SECRETARY TREASURER	1
ADMINISTRATIVE ASSISTANT	1
NO TITLE REPORTED	3
TOTAL	137

DISCUSSION

The results of this study indicate that experienced managers consider a variety of information to be important when selecting export markets. However, as in most business decisions, the various pieces or types of information related to the choosing of export markets are not all equally important (again, Table 2). The second question posed in this study asks – how can we

TABLE 2. Average Importance Ratings Assigned to Six Environmental Dimensions

ENVIRONMENTAL DIMENSION	MEAN IMPORTANCE RATING	STANDARD DEVIATION	RANK ORDER OF IMPORTANCE
MARKET POTENTIAL	2.35	0.59	1
LEGAL	2.90	0.70	2
POLITICS	3.16	0.82	3
INFRASTRUCTURE	3.52	0.69	4
ECONOMICS	3.63	0.74	5
CULTURE	3.73	0.70	6

N = 137

explain the hierarchical importance ordering of foreign environmental information as perceived by established exporters?

Clearly, based on the criteria considered by managers in this study, information concerning the overall *market potential* of an export target is most important. More specifically, information concerning a given export market's demand for and ability to purchase an imported product, the cost of adapting ones product or service in such a market, and the nature and degree of internal and external competition (i.e., are the needs filled by my product or service adequately satisfied?), is considered paramount by exporters in this study.

Next, information related to *legal* considerations, specifically tariff and non-tariff barriers and other related aspects such as laws affecting agents, intellectual property protection, and travel requirements, were considered most important. Following this, information concerning the *politics* surrounding an export market was considered most important. Specifically, political stability, diplomatic relations, and internal political policies (all of which can determine the conditions that are conducive to export success and failure) are key pieces of information here.

Information related to the export market's *infrastructure* was ranked fourth in terms of importance. Here the focus is on the nature and extent of physical distribution and communications infrastructure in a foreign market. The next important type of information concerns the extent of overall development in an export market. Broad *economic* indicators, including growth in GNP, consumption trends, level of reserve currency, education, use of modern technologies, and natural resource wealth are the focus of this fifth dimension. *Culture* was ranked

sixth in terms of important export market information. Here, information concerning the subtleties of a specific export market is desired. This includes insights into the similarities and differences of a market's culture relative to one's home market. In this case, knowledge concerning the various cultural groupings (along with their respective demographic, psychographic, lifestyle, and value profiles) is focused upon.

Upon deeper consideration, one can acknowledge that these findings reflect a logical and objective valuation of export information by experienced international managers. Indeed, one could imagine a series of questions being asked, the answers to which would either support or not support future consideration of a given export market or markets. The **first question** would be – is the market really there? Or more succinctly, is there a demand for my product or service in the market or markets that I am considering (i.e., market potential)? **Second**, if there is a viable market, can I get into it? That is, is the market open to my firm or is it closed due to laws, regulations, or existing business activities that will restrain my export activities (i.e., legal dimensions)?

If the answers to these two questions reflect positively on a given export market, the **next question** is – will the market remain open, or will political problems and turmoil close it (i.e., politics)? If questions dealing with all the previous issues can be answered in a positive light, the **next logical question** becomes – can I get my products to, and into, the export markets I am considering, and can I keep abreast of my business in such markets once I am there (i.e., infrastructure as represented by transportation conditions to and in the market, along with warehousing, wholesaling and retailing conditions, and communication technology within the market)? **Next** comes a set of **questions** dealing with the long-term viability of an export market. That is, is the market evolving in terms of consumer, industrial and service production, and consumption?

The fact that the cultural dimension was rated as least important may come as a surprise to beginning or novice exporters, who are told consistently, that to be successful in international business, you must know the culture of the foreign market (see for example Lee 1966, Ricks 1983, Harris and Moran 1987, Terpstra and David 1990). How can it be then that information related to culture was ranked as the least important of all? Again, upon reflection, a logical and objective understanding of this dilemma can be garnered.

Perception that a given export market a) has the necessary demand, b) is open, c) will remain open, d) is conducive to entry, and e) is evolving and thus has long-term potential, leads one to seek the necessary intelligence represented by f) cultural information, which at this stage becomes important to success in export ventures. It is not that information on a market's culture is unimportant, it is that cultural information becomes important only after the first questions posed have been answered in an affirmative manner. There is little reason for

an export manager to seek out the myriad of details on an export market that will give him or her a deep understanding of its relevant cultural nuances if the market potential, legal and political environment, infrastructure conditions, and economic realities relegate it to be of little or no potential.

CONCLUSIONS

The conclusions stated here must be taken within the context of the limitations of the sample selected for study. Our sample represents only one geographical area of the U.S. and findings could systematically vary by area of the country or countries from which exporters operate. Clearly, further research in this area is needed.

Our findings are also limited to the specific decision variables (and corresponding subsidiary export dimensions and primary environmental dimensions) used in the study. These variables were cited in the literature as most appropriate for international venture analysis and personal interviewees and survey responses generally confirmed their importance. None-the-less, there may be other variables of concern to practicing managers. Again, further research is called for here.

Also, readers must keep in mind that this is an exploratory study, undertaken to examine general rankings of export information importance within the context of selecting among potential export markets. The rankings of importance as shown in Tables 3 should thus be looked upon as "food for thought" for managers analyzing their potential export markets, and not a surefire paradigm to be followed in all cases. Opportunities and challenges in export markets vary by individual firms and their products. Further, opportunities (and challenges) can change as world markets change. What may be a critical piece of information for one venture, at a given time, may be trivial for another venture at another time. Export managers will always be required, at least to some degree, to rely upon experiences and judgement when analyzing information on export markets. Thus, no concrete generalizations can be, or are, made in this study.

With these limitations in mind, this study found broad support for the conclusion that practicing export managers, who are faced with export market selection decisions, consider a wide range of information identified in the normative literature as important. The theoretical framework developed and refined through a literature review, personal interviews, a focus group, and the exploratory survey research, provides a conceptualization scheme useful to both experienced exporters and to businesspeople with no export experience. Export decision-makers can use the results of this study as a starting point for their information gathering and analysis, as well as monitoring, of export markets. This study offers the beginning point through

which exporters, or would-be exporters, can develop their own specific, objective frameworks to compare various export alternatives.

As stated previously, this study offers "food for thought" in the area of analyzing and selecting export markets. It should be taken as just that, a place to begin in order to objectively contemplate the opportunities and challenges of export markets around the world. ■

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Appendix Information Framework of the Export Environment

Primary Environmental Dimensions	Subsidiary Export Dimensions	Specific Decision Variables (Written Description Used in Survey)
Politics	Stability	(1) Political strength of leadership in the foreign country
		(2) Degree of freedom of the political opposition in the foreign country
		(3) The degree of local labor unrest and the foreign government's ability to deal with the current and future labor unrest
		(4) Degree of foreign country's domestic instability (e.g., rebellion, political kidnappings, riots, guerrilla wars)
	Diplomatic Relation	(5) Degree of normal diplomatic relations between U.S. and the foreign country and vice versa
		(6) Extent of restrictions on free and open trade with the foreign country due to political frictions (e.g., U.S. freeze on U.S. technology exports)
		(7) Extent of foreign government's use of incentives to encourage private business
	Internal Policies	(8) The ability of the foreign government to enforce its diplomatic policies with respect to trade (for example, ability of foreign government to enforce policy of limited trade with U.S)
		(9) Actual size of the private sector in relation to the government sector in the foreign country
Market Potential	General Demand	(10) Potential foreign buyers' ability to pay for your product
		(11) Average annual sales of your type of product or service in the foreign country
		(12) Future trends and growth rate of the foreign market that your product or service would be sold in
		(13) Opportunities for you to offset cyclical swings in the U.S. market demand for your product by entering a foreign market

Appendix (cont.)

Primary Environmental Dimensions	Subsidiary Export Dimensions	Specific Decision Variables (Written Description Used in Survey)
	Adaptation Costs	(14) Parts and technical service support needed and available for your product in the foreign country (15) Need to change your product specifications due to differences in foreign buyers' tastes and preferences or technical requirements (16) Degree of test marketing and promotion required to assure adequate sales of your product in the foreign market (17) Credit and financing normally extended to buyers in the foreign country (i.e., industry standards for financing sales to a foreign market)
	Competition	(18) Types and number of competitive products on the market in the foreign country (19) Competitors' market share, coverage, and growth rate in the foreign market (20) Advantages and weaknesses of competitors in the foreign market (e.g., the uniqueness of competitor's product and facilities for distribution) (21) Price levels on competitive products as compared to your C.I.F. price (costs, insurance, and freight) in the foreign market
Economics	Development and Performance	(22) Gross National Product and per capita income in the foreign country (23) Availability of U.S. dollar reserves in the foreign country (24) Education and employment levels in the local foreign population (25) Inflation rate over the past five years in the foreign country (26) Trends in the foreign country's balance of trade (surpluses vs. deficits)

Appendix (cont.)

Primary Environmental Dimensions	Subsidiary Export Dimensions	Specific Decision Variables (Written Description Used in Survey)		
Production	Strength	(27) The degree of use of modern, efficient methods in the creation of products and services in the foreign country (relative skill level of labor force)		
		(28) Wealth of the foreign country in natural resources and the extent of their development		
		(29) The diversity and range of all products produced in the foreign country versus those imported		
	Consumption	(30) Per capita ownership of consumer goods in the foreign country (e.g., cars, radios, TV's, etc.)		
		(31) Per capita food consumption in the foreign country		
		(32) Per capita energy consumption in the foreign country (e.g., oil, gas, coal)		
		(33) Per capita industrial goods consumption (e.g., steel, cement, glass) in the foreign country		
		Culture	Cultural Unity	(34) Number of different cultural groupings, such as ethnic, religious, racial, and language groups found in the foreign country
				(35) Extent of harmony or friction between different cultural groups in the foreign country
				(36) Differences in life styles and customs of various groups in the foreign country
Cultural Differences	(37) Extent of adoption of American way of life in the foreign country			
(38) Percent of the business community who speak English, and the extent of adoption of American business practices in the foreign country				
(39) Preferences and prohibitions in the foreign country with respect to numbers, colors, shapes, sizes, and symbols on products and in promotion of products				
(40) Differences between U.S. and foreign views on the use of your product				

Appendix (cont.)

Primary Environmental Dimensions	Subsidiary Export Dimensions	Specific Decision Variables (Written Description Used in Survey)
Infrastructure	Distribution	(41) Costs and efficiency of transportation to the foreign country from the U.S. (airlines, shipping lines, etc.)
		(42) Costs and efficiency of transportation within the foreign country (roads, highways, railroads, trucking, etc.)
		(43) Costs and efficiency of physical handling and warehousing in the foreign country (in the port of entry and throughout the foreign country)
		(44) Extent of development of wholesale/retail system in the foreign country
	Communi- cations	(45) Costs and efficiency of communications to the foreign country from U.S. (e-mail, telex, telephone, post office/other mail, telegraph)
		(46) Costs and efficiency of communications within the foreign country (i.e., commercial broadcast media, print media, promotional agencies)
		(47) Costs and efficiency of trade fairs and industrial exhibitions in the foreign country
	Geography	(48) Total land area of the foreign country and description (i.e., mountain range, rivers, natural harbors, land locked)
		(49) Climatic characteristics in the foreign country
		(50) Natural disaster potential in the foreign country (earthquakes, volcanoes, floods, windstorms)
Legal	Tariffs/Taxes	(51) Exact tariffs, import duties, and taxes assessed by the foreign country on your products
		(52) Tariff concessions allowed by the foreign country (i.e., drawbacks, preferential tariffs)
		(53) Common markets or regional trading blocks to which the foreign country belongs

Appendix (cont.)

Primary Environmental Dimensions	Subsidiary Export Dimensions	Specific Decision Variables (Written Description Used in Survey)
	Non-tariff	(54) Product standards imposed by the foreign country (e.g., local assembly laws; product packaging and labeling requirements; local safety and environmental regulations) (55) Required documentation, import procedures, and quotas imposed by the foreign government (56) Extent and nature of the foreign government's participation in trade (e.g., foreign government procurement policies)
	Other Legal	(57) Visa requirements in the foreign country (restriction on travel imposed by foreign government) (58) Foreign government's laws affecting relationships with agent's distributors (e.g., severance pay, compensation) (59) Laws regulating and restraining advertising and promotion in the foreign country (60) Patent, copyright, and trademark protection in the foreign country

