Foreign Market Analysis: Iran Pistachio as a Case Study

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Abstract: Purpose- The main purpose of this paper is to develop a procedure which enables managers to identify foreign market opportunity for a specific product. For this purpose three steps were pursued. The first was to identify effective factors on Iranian pistachio export. The second, based on identified variables foreign market segmentation was done. The third step was to rank foreign market based on effective factors and calculated weights. Design/methodology/approach- This is a descriptive-analytical research which statistical data were used. For the purpose of hypotheses testing Factor analysis, Panel data analysis and Cluster analysis were used. Findings- The estimations results show that education, geographic distance, market concentration, mobile phones per 1,000 people and population had positive and significant effect on Iran pistachio export. Based on these factors and their calculated weights, foreign markets were segmented and ranked. Originality/value-In this paper, an integrated three-stage approach was developed for analyzing export opportunities of a particular product in selected foreign markets.

Key words: Market screening % Market concentration % Market segmentation % Market ranking

INTRODUCTION

Marketing managers often seek to increase profitability and sales opportunities in foreign markets. Governmental officials and policy makers usually encourage companies to enter foreign markets in order to attain their employment and economic development goals. Studies have shown that most important factor for entering foreign market is firms' knowledge about foreign markets [1]. International marketing literature indicates that marketers are faced with frequent failures, mostly for the reason of improper foreign markets selection [2].

Incorrect choice of foreign market imposes a large cost to organizations. Understanding different environments that a company is going through for entering a foreign market is an important challenge in international marketing. Understanding of cultural differences, economic, political and legal environment of market is essential for the successful entry. So, the major part of the international marketing is dedicated to identifying and evaluating various environments [3]. If a company wants to expand its foreign markets, has to systematically assess the target markets and identifies the country or group of countries that provide the greatest opportunities. Therefore, an important aspect is to evaluate foreign market opportunities [4]. Monitoring and analyzing market opportunities are permanent responsibility of marketing manager [5]. The most common objective in international marketing research is to analyze foreign market opportunities [6]. Currently, there are more than 200 countries in the world and does not seem any company has necessary resources to arrange trade relation with all of them.

Therefore seeking an attractive export markets is an important decisions in the route of internationalization. So a careful analysis of foreign market opportunities is needed to screen. Managers are confused with diversity and complexity of foreign markets. Proper selection of foreign markets has been mentioned in detail in marketing literature and great emphasis has been put on identifying, evaluation and selection of foreign market [7]. Researchers have developed various methods and models to evaluate and select international markets [8].

Literature Review: In general, methods of analyzing foreign market can be classify into quantitative and qualitative methods. In qualitative methods, experts and managers' opinion are used to analyze the markets. Subjective judgments, limited number of countries and affecting variables are critics about qualitative methods

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[9]. That is why always managers looking for quantitative methods of foreign opportunities analysis. Quantitative methods can eliminate disadvantages. Market clustering, market estimate and market ranking are major quantitative methods for assessing market opportunities [10].

Assessment of foreign markets and choosing the appropriate target market is essential for every company which taking steps for globalization. Toyne and Walters [11] suggest three purposes for foreign markets assessment: market entry assessment, marketplace assessment and non-economic assessment. Market entry assessment identifies and selects among opportunities in new markets, Marketplace assessment covers changes within an existing market and non-economic assessment evaluates social and political environments in existing or prospective markets.

Key ingredients of foreign markets selection are rapidly and cost-effectively reducing a large number of potential markets to a small number (screening), then undertaking in-depth investigation of the short-list to select the preferable one or ones to enter [12]. The problem of selecting appropriate foreign market and too many markets and criteria should be considered for evaluating are two important issues that managers are afraid of entering foreign markets.

Considering existing literature about foreign markets analysis, one can claim yet they are not complete and comprehensive. More variables and assessment methods should be developed for foreign markets analysis. Thus this study aimed to analyze foreign markets opportunities for Iranian pistachio through the classification and ranking method. Companies that follow an overall marketing strategy for all markets should be more concern about market segmentation results since cluster analysis provides structural similarities between the markets. On the other hand the companies which are seeking to identify the best possible market for entry should use the results of market ranking.

Simultaneous use of both clustering and ranking methods for market targeting is preferable because it provide unique information which does not overlap. Cluster analysis shows similarity between the groups of markets but does not show the market potential. Market Ranking identifies the most attractive markets, but does not help managers to identify differences and similarities between the markets. Using one method alone will lead to suboptimal decision making [10].

Therefore, in this study two methods of market clustering and market ranking has been used. This research is aimed to answer the following questions which may concerns many marketing managers, researchers, foreign investors and policy-makers in Iran's foreign trade:

C What variables should be considered in analysis of Iran's pistachio foreign market?
C What weight should be assigned to each variable?
C How the Iranian pistachio export market can be cluster?
C How the most attractive foreign markets of Iranian pistachio can be identified?

In current competitive market, having information access is determinant of success factor for entering a foreign market [13]. Thus, for successful and efficient marketing it is essential to have necessary information about the target markets. Accurate information related to export markets and information based decisions would lead to reduce uncertainty and risk in export activities.

Considering the globalization trends, Environments that companies choose, are the result of several strategic decisions that they take in process of their globalization. Two of these strategic decisions are market selection [8] and market segmentation [14]. In marketing literature, assessing a foreign market means searching for attractive markets [9].

The international marketing literatures consistently stress international market selection and segmentation as important decision [15]. Environmental analysis and Country risk assessment, locating foreign market to direct investments and foreign market opportunity analysis are related area with market segmentation and market selection [16]. Sethi [17] suggested cultural, political, socioeconomic and religious indicators for segmentation. Huszagh *et al* [18] examined 21 countries that classified into five groups. life expectancy, average length of work week, percentage employed in services, consumer price index, unemployment rate, government spending per capita, manufacturing as a percentage of GDP, urbanization and private spending as a percentage of GNP dimensions were used. Cavusgil [19] offered clustering based on population growth, median age, number of children per household, participation of women in the work force, infant mortality rate, life expectancy and GNP per capita.

Cavusgil [7] examined 23 countries and ranked them on market size, market growth rate, market intensity, market consumption capacity, commercial infrastructure, economic freedom and market receptivity.

The overall market opportunity index and gravity models have a special place in international marketing and international economics literatures. In this study, some of these indices have been applied for foreign market opportunity analysis.

Cavusgil [7] introduced Market ranking Approach that is known as the overall market opportunity index (OMOI). In present study the dimensions of OMOI has been used since the model has received a great emphasis in marketing literature. In OMOI model 7 indices have been used to evaluate foreign market opportunities: Market size, Market growth rate, Market economy intensity, Market consumption capacity, Commercial infrastructure, Economic freedom and Market reception.

Gravity model widely used in social science and has a special place in the international economic literature. This model explains the different types of regional and international flows, including labor migration, traffic, customers visit to big shops and hospital [20]. The most important variables have been used in gravity models are: population [21], GDP per capita [21], Land areas [22], Regional trade agreements [23], geographical distance [21], language [24] and infrastructure [25].

Research Methodology: Present study, with respect to its objective can be considered as an applied- developmental research but from methodological aspect it is a correlation study. The studied population was all United Nations member states. But due to lack of information some countries are excluded in final model and only 119 countries has been studied. Data for this study is extracted from UNCTAD, World Bank, Tehran Chamber of Commerce and Industries and Mines and PC-TAS databases. In order to analyze data, Factor analysis, Panel data analysis, Cluster analysis, TOPSIS and STATA, SPSS and Excel soft ware have been used.

This study looking forward to answer the following questions:

C   What are the foreign market characteristics which affects the export opportunities for Iranian pistachio?
C   What are different segments of Iranian pistachio markets based on identified variables in question one?
C   What are ranking of Iran pistachio markets based on identified variables in question one?

To answer the first question, following hypothesize have been made.

H1: Degree of foreign market concentration affects export opportunities for Iranian pistachio.

Market concentration is in relation with the number of competitors and distribution of market shares among them. There are different approaches to measuring market concentration. In this study the CR_4 index is used to calculate the degree of foreign markets concentration. The concept of concentration ratios is used extensively by the German Federal Cartel Office and other authorities[1]. The concentration ratio CR_n is defined as the market share of the n largest undertakings competing in the market.

$$CR_4 = \sum_{i=1}^{i=N} x_i$$

CR_n Market concentration ratio for n largest rivals that competing on a certain market. xi market shares of the undertakings.

H2: Distance between Iran and foreign market affects export opportunities for Iranian pistachio.

Considering the current globalization trend, one can conclude that geographical distance of two countries does not matter anymore and it can be ignored but experimental studies does not support this assumption [21]. Since distant measurement between two countries is difficult, it can be measured through the shortest distance between them, between two ports and or two capitals. In this study Geographical distance, has been measured based on the distance of two capitals.

H3: Market size of a foreign market affects export opportunities for Iranian pistachio.

Total population shows a country's gross market size while the country's urban population is called market population that is most available Index for marketers [26]. In this study market size has been measured by total population, urban population and Predicted population.

H4: Economic intensity of a foreign market affects export opportunities for Iranian pistachio.

GDP, GDP per capita and Income per capita are reliable indicators of economic development that indicate purchasing power and demand [23]. In this study, GDP per capita, energy consumption per capita and electricity consumption per capita are used as indicators of industrialization and economic development of countries which is named as economic intensity [26].

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[1]http://www.bundeskartellamt.de/GWB01-2002.pdf

H5: Cultural distance between Iran and a foreign market affects export opportunities for Iranian pistachio.

The cultural distance between Iran and other countries has been Measured based on Hofstede [27] Cultural framework and Kogut & Singh [28] method, following formula is used:

$$CD_j = \sum_{i=1}^{4} \left\{ \left(I_{ij} - I_{ip} \right)^2 / V_i \right\} / 4$$

Where I_{ij} stands for the index for the jth cultural dimension and V_I country, ith is the variance of the index of the ith dimension, p indicates Iran and CD_j is cultural difference of the jth country from the Iran. Hofstede cultural framework shows cultural distance of 74 countries. In this study, for those countries which their information was not available, the average scores of their neighbors are used.

H6: Foreign market Economic freedom affects export opportunities for Iranian pistachio.

As stated by the Heritage Foundation, economic freedom is absence of government control exercise on production, distribution and consumption of goods and services [29]. Some indices was develop by Economic freedom of the World, Heritage Foundation and *Freezer* institute for countries economic freedom measurement but in this study Heritage Foundation Index was used.

H7: Infrastructure of a foreign market affects export opportunities for Iranian pistachio.

Some researchers have focused on the impact of communication and physical infrastructure on international trade flows. Francois and Manchin [30] is divided infrastructure into two general categories, communications and transportation infrastructure. In this study, the number of television sets, Internet users, telephone lines, personal computers and mobile phones per 1,000 people are used to measure communication infrastructure. The railways and roads have been selected as the parameters of transportation infrastructure.

H8: Educational level of a foreign market affects export opportunities for Iranian pistachio.

Mullen and sheng [26] used the educational level to investigate markets potential. Percentage of school age children in secondary level has been used in many studies as a measure of Educational level [31] which has been used study also.

H9: Market Receptivity of a foreign market affects export opportunities for Iranian pistachio.

Cavusgil [7] used a criterion for ranking and clustering international markets which is called market Receptivity. Market Receptivity means being open and accessible to market. Since a country's imports alone does not show its receptivity, therefore in this study a country's imports and its total trade as percentage of GNP was used to measure market receptivity.

H10: Iran trade agreements affects export opportunities for pistachio product.

Regional trade agreement is a variable which has been included in most gravity model. List of Iran's agreements with other countries and its members is available at Tehran Chamber of Commerce and Industries and Mines. These agreements include: Business, economic and industrial cooperation, Commercial navigation, Investments Promotion and Protection, Commerce, Transit and Transportation, customs and Taxation.

Confirmatory Factor Analysis: To examine the validity of Measurement tool, Formal validity and confirmatory factor analysis was used. Variables with little or no effect on the factors were removed thereby measurement validity was increased. It should be noted that for Confirmatory factor analysis, the following measure should be tested: Kaiser-Meyer-Oklin Measure of Sampling Adequacy, Bartlett's Test of Sphericity and Cumulative percentage of variance criterion. The results of analysis are shown in Table 1:

Infrastructure: Numbers of television sets, telephone lines and personal computers per 1,000 people and Rail Transportation variables were eliminated from final model because their Eigen values were less than one and they have low loadings factor.

Market Size: Variables such as urban population and Predicted population were eliminated because their Eigen values less than one and they have low loadings factor.

Economic Intensity: Variables such as energy consumption and electricity consumption per capita were eliminated from final model because their Eigen values were less than one and they have low loadings factor.

Table 1: The result of Confirmatory Factor Analysis

Factor	Number of variables	Percentage of variance explained	Eigenvalues
Infrastructure	7	80.247	2.127
Kaiser-Meyer-Olkin Measure of Sampling Adequacy=.670 Bartlett's Test of Sphericity=79.207 Sig=.000			
Market size	3	68.583	2.057
Kaiser-Meyer-Olkin Measure of Sampling Adequacy=.614 Bartlett's Test of Sphericity=1691.456 Sig=.000			
Economic Intensity	3	87.998	2.640
Kaiser-Meyer-Olkin Measure of Sampling Adequacy=.659 Bartlett's Test of Sphericity=1316.173 Sig=.000			
Market *Receptivity*	2	98.486	1.970
Kaiser-Meyer-Olkin Measure of Sampling Adequacy=.605 Bartlett's Test of Sphericity=1292.577 Sig=.000			

Market Receptivity: Total trade as percentage of GNP variable was eliminated from final model because its Eigen values were less than one and it has a low loadings factor.

Research Model and Panel Data Analysis: After conducting a confirmatory factor analysis and identifying the Variables, the research model has been resulted as follow:

$$y_j = b_0 + b_1 cd + b_2 ef + b_3 ed + b_4 gd + b_5 ci + b_6 mp + b_7 road + b_8 gdp + b_9 pop + b_{10} im + b_{11} fta + e_{it}$$

Where is the Iran pistachio export to a specific country (j), cd (cultural distance), ef (degree of economic freedom), d(geographic distance), ci(concentration index), mp (mobile per 1000 people), pop(total population), Im(product import), fta(free trade agreement).

Unit Root Test: Before estimating the model, it is required to test the stationary of all the variables in estimations. Despite it is common to use Dickey-Fuller and Augmented Dickey-Fuller tests to examine stationary in time series data, but they cannot be used for panel data. For this reason, Levin, Lin, Chu test have been used [32].
Null hypothesis of the test indicates non stationary of the variables. Thus, if the calculated statistics is bigger than at the 5% level of significant, null hypothesis is rejected. The calculated statistics showed that all variables at significant level were stationary.

Heteroscedasticity Test: Considering the important Heteroscedasticity effect in estimating standard deviation of coefficients and statistical inference issue, it is required that before dealing with any estimation, the existence of Heteroscedasticity should be confirmed. Table (2) shows the results of Heteroscedasticity test. In order to test variance equality, Likelihood-ratio test was used. The investigation of chi-square statistics about model showed that null hypothesis of variance equality is rejected and the problem of Heteroscedasticity test was observed.

Table 2: The result of Heteroskedaticity test for research model

Test LR

Prob	Value
0.0000	78.18

Table 3: The result of model estimation

Variables	p-value	Z statistic	Coefficient
Constant	0.203	-1.27	-4.9367
Cultural Distance	0.104	-1.63	-0.6734
Economic Freedom	0.621	-0.50	-0.0157
Education	0.018	2.37	0.0228
Geographic Distance	0.013	-2.49	-0.0001
Concentration	0.0001	4.24	3.9455
Mobile	0.0001	3.48	0.0293
Road	0.624	0.49	0.0007
GDP	0.166	-1.39	-0.00003
Population	0.001	3.37	0.5144
Import	0.169	-1.38	-0.0154
Trade agreement	0.688	0.40	0.2128
R^2:	0.5932		
Hausman test:	0.9949		
F Leamer:	0.000		

To resolve the problem of heteroscedasticity, the method of generalized least squares (GLS) was used in the estimation model. It should be noted that Toda (1994) has shown that the LR tests need a very large sample size, 300 or more observations. In this study used 50 countries information from 1997 to 2006.

Model Estimation: F- Leamer test was used before estimating the model. The results show that panel data should be used for estimation. Panel data analysis has the merit of using information concerning cross-section and time-series analyses. It can also take heterogeneity of each cross-sectional unit explicitly into account by allowing for individual-specific effects [33]. Panel data analysis gives more variability, less collinearity among variables, more degrees of freedom and more efficiency [34]. The result of the model estimation is shown in Table 3.

Table 4: The result of clustering and TOPSIS analysis

Country	Cluster	Rank	Country	Cluster	Rank	Country	Cluster	Rank
China	1	1	Sri Lanka	7	41	Panama	7	81
India	5	2	Sweden	8	42	Albania	8	82
United State	6	3	Madagascar	7	43	Costa Rica	7	83
Indonesia	3	4	Cameroon	7	44	Armenia	8	84
Brazil	10	5	Syrian Arab	7	45	Lithuania	8	85
Pakistan	4	6	Chile	7	46	Malta	8	86
Russian Fede	9	7	Netherlands	8	47	Lebanon	8	87
Bangladesh	4	8	Kazakhstan	8	48	Trinidad and	8	88
Japan	9	9	Ecuador	7	49	Jamaica	8	89
Mexico	9	10	Guatemala	7	50	Oman	8	90
Philippines	2	11	Cambodia	7	51	Botswana	8	91
Vietnam	2	12	Zimbabwe	7	52	Dominica	8	92
Germany	2	13	Malawi	7	53	Namibia	7	93
Ethiopia	2	14	Niger	7	54	Swaziland	7	94
Egypt, Arab	2	15	Belgium	8	55	Norway	8	95
Turkey	2	16	Mauritius	8	56	Suriname	8	96
Thailand	2	17	Portugal	8	57	Denmark	8	97
France	2	18	Hungary	8	58	Guyana	7	98
United Kingd	2	19	Senegal	7	59	Fiji	7	99
Italy	2	20	Zambia	7	60	Belize	7	100
Ukraine	2	21	Cuba	7	61	Comoros	7	101
South Africa	2	22	Greece	8	62	Singapore	8	102
Colombia	2	23	Tunisia	8	63	Gabon	8	103
Spain	2	24	Czech Republ	8	64	Bahrain	8	104
Sudan	7	25	Belarus	8	65	Latvia	8	105
Argentina	7	26	Dominican Re	7	66	Georgia	8	106
Poland	2	27	Bolivia	7	67	Kuwait	8	107
Kenya	7	28	Azerbaijan	8	68	Cyprus	8	108
Canada	7	29	Bulgaria	8	69	Bosnia and H	8	109
Algeria	7	30	Honduras	7	70	Brunei Darus	8	110
Morocco	7	31	Austria	8	71	Luxembourg	8	111
Peru	7	32	Switzerland	8	72	Ireland	8	112
Malaysia	7	33	Jordan	8	73	Iceland	8	113
Venezuela, R	7	34	El Salvador	7	74	Faeroe Islan	8	114
Saudi Arabia	7	35	Paraguay	7	75	Slovenia	8	115
Mozambique	7	36	Kyrgyz Repub	8	76	Qatar	8	116
Romania	7	37	Nicaragua	7	77	Estonia	8	117
Ghana	7	38	Slovak Repub	8	78	Maldives	8	118
Yemen, Rep.	7	39	Finland	8	79			
Australia	7	40	New Zealand	8	80			

The results of the estimations show that education, geographic distance, market concentration, mobile used per 1000 people and total population have positive and significant effect on Iran pistachio export. The above results can be explained as follows:

It can be said that foreign markets with high educational level consumers, sufficient income and their familiarity with pistachio nuts, have higher demand for Iranian pistachio. Market with higher educational level, is more attractive. Iran has a greater pistachio export to distant countries. Being away Iran from the developed countries and High demand of Iran Pistachio in these countries, is one of the reasons for such a result. Probably their results can be explain in that way most developed country has a distance with Iran.

Market concentration has positive and significant effect on Iran's pistachio export. Probably this is the result of Iran's high quality pistachio and Iran's exercise as a monopolist in pistachio markets.

In the countries with a better communication infrastructure, the flow of business is more rapid. Market size is an important issue for many market decisions

because the purchase of some goods has a direct relationship with market population. Larger markets are more attractive for marketing managers.

Foreign Market Clustering and Ranking: Cluster analysis was used to investigate the second research question. Given the identified market characteristics as influencing variables on Iranian pistachio exports, cluster analysis was used to segment the foreign markets for Iranian pistachio. Based on Cavusgil *et al* [10] study and the results incurred by different methods of cluster analysis and also researcher judgment, it is recognized that 10 clusters is the most suitable number for global market segmentation. Cluster analysis is divided into two categories: hierarchical and non hierarchical. Non-hierarchical method is appropriate for cases where prior knowledge available about the number of clusters. Therefore, Non-hierarchical - K means- method is used that the results can be seen in Table 4.

In order to rank the markets, TOPSIS model is used. Based on educational level, geographic distance, market concentration, mobile used per 1000 people and total population variables and their obtained Weights (result of first research question) foreign market was ranked. The results can be seen in Table 4.

Limitations and Future Research
Limitations of the Study Are:

C   Due to lack of data on Iran pistachio export according to SITC classification for period of 2007- 2009 the research analysis has been confined to a period 1997 - 2006. But recent trend changes may lead to different results.
C   In this study political consideration of Iran with other countries and its allies has been ignored which it may mislead the results.
C   The issue of Iran sanctions is another important factor in its export opportunity which has not been considered in this study.
C   Commonly used Variables such as bargaining power of customers or suppliers for in-depth foreign markets analysis also has not been considered due to limitations of research methodology.

Suggestions of Present Study for Future Research Are as Follow:

C   In order to reach more precise decision for market entering another step should be taken which is deeper analysis of high ranked markets.

C   Integrating qualitative and quantitative methods to eliminate limitation of research methodology for considering qualitative variables affecting foreign market opportunities.

Conclusion and Recommendation: Large number of foreign markets and the variables affecting export opportunities, for a given product, lead to managers' confusion. For this reason, a systematic approach is required to guide managers in foreign market selection. The aim of this study is to reduce the complexity of market selection by presenting an analytical approaches based on readily available secondary data. This study proposes a three-stage model for assessing foreign markets. First, influencing factors on export opportunity for a given product should be identified and their weights should be calculated. Second, based on identified factors markets should be clustered. Third, based on identified factors markets should be ranked. Market concentration, is a new determinant factor in foreign markets opportunity analysis which has been considered in this study that has been ignored by previous studies.

By comparing countries which included in a specific group (result of clustering) with those countries which actually Iran has pistachio export to them, it can be identified those countries with potential export opportunity that have been ignored. For example Colombia, Germany and Italy are included in Group Two and Iran has not any export to Colombia in 2006, while Colombia can be considered as an export opportunity for Iran's pistachio.

According to the results China, India, America, Indonesia and Brazil respectively are ranked one to five as most attractive markets for Iran's pistachio. But actual export data for 2006 shows China was ranked as fifth, India as third, America as twenty fifth and Indonesia as twenty seventh and Brazil as seventy fifth. Therefore, it can be concluded that further emphasis should be put on those potential countries.

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