# MARKETING STRATEGIES FOR INCREASING THE SERVICES EXPORT PERFORMANCE. THE CASE OF DEVELOPED COUNTRIES VS. EMERGING COUNTRIES

**Assist. Corina Grigorovici Ph.D Student**
**"Dimitrie Cantemir" Christian University**
**Faculty of International Business and Economics, Bucharest, Romania**

**Abstract:** The activity of export of services is novel and complex in comparison with the export of goods and the same marketing techniques cannot always be applied as they are applied for the goods. The study develops a framework for examining the export strategies of firms from emerging economies and their performance in foreign markets. The result is that cost-based strategies enhance export performance in developed country markets and differentiation strategies enhance performance in other developing countries. Adapting marketing mix variables to the specific needs of developed country also enhances export performance. The relationship between geographical diversification and export performance is nonlinear.

**Keywords: marketing strategy, services, export, differentiation, cost-leadership, developed countries, emerging countries, performance**

## 1. Marketing strategies and export performance

The studies that have examined the behaviour and the performance of the exporting companies have first of all, identified the attitudes and the characteristics of the management (e.g. the experience on foreign markets, cultural orientation, tendency to risk), the company's characteristics (the size of the company, the international experience), the variables of the export market, of the sector and service as key element, in explaining the initiation and the performance of the export. (Aaby and Slater, 1989; Rosson and Ford, 1982). These studies point out as well a few methods of quantifying the export's performance, the tendency toward exports included, (Rosson and Ford, 1982), the level of the sales for exports (Madsen, 1989) and engaging in exports (Diamantopolous and Inglis, 1988).

Although the organizational characteristics and the managerial risks have an impact on the international behaviour of the services company (the decision of initiating exports), the actual global competitive environment requires the proactive application of the specific export strategies in order for the company to have success on the external markets.

In order to explain the export performance, I took into consideration three strategic distinct factors: *cost-leadership competitive strategies and differentiation, standardization of the marketing elements on the external markets and geographic diversification of the exports.*

**Leadership strategies through differentiation costs** refer to the way the services company develops an advantage toward the competitors. The companies that follow a differentiation strategy aim at creating a service that the consumers will perceive as unique. This usually materializes through a superior brand image, technology, and service for consumers or innovative services (Miller and Friesen, 1986a). The objective of the companies that follow a differentiation strategy consists of consolidating the clients' loyalty and creating new entry barriers for the newcomers on the market. The cost-leadership strategy implies offering the consumers a value comparable with that of other services, but at lower prices (Porter, 1986). According to Porter, the cost-leadership requires "the aggressive building of favourable locations, the pursue of cutting costs through experience, fixed costs and continuous control, as well as reducing the costs for the research-development area, maintenance, sales resources and advertising" (1980:35). This strategy can ensure incomes over the average as the company that follows the cost-leadership strategy can diminish the prices in order to get closer to those of the competitors and still to obtain a profit (Miller and Friesen, 1986b).

**Marketing standardization** can be defined as the stage where the exporting company uses the same marketing programs on different external markets (Samiee and Roth, 1992). On one hand, the exporting company can develop marketing programs that are different in terms of services, prices, distribution and promotion on external markets. On the other hand, the company can develop only one marketing program that is implemented on all the export markets. As strategy, standardization of the marketing elements is similar to the market segments differentiation strategy put forward by Chrisman, Hofer and Boulton (1988), which has two approaches: (i) a differentiated approach o the market likely to adaptation and (ii) homogeneous approach of the market equivalent to standardization (Carpano, Chrisman and Roth, 1994; Douglas and Wind, 1987; Porter, 1986). It has to be pointed out that the marketing standardization strategy is different from the cost-leadership and differentiation strategy. The latter refers to the position of the company in respect to the competitors, and marketing standardization targets the consistency of the marketing programs between the domestic and the foreign markets, as well as between multiple markets. Thus, the companies that follow cost- leadership strategies or differentiation can implement either standardized marketing programs or their own programs on specific markets.

The third strategic component is the exports diversification. The number of foreign markets targeted by an exporting company is a strategic option that can have important implications for the exportation general performance of the company.

As the emerging economies compete on the export markets in services sectors with high added value, the success of their exports will depend on their ability to develop and implement unique competitive strategies. When developing cost-leadership strategies or differentiation, the companies have to adjust their comparative and competitive internal advantages, as well as the ones specific to the location, to the demands of the external environment in which they compete. Because of the relatively poor technologic base, the companies focus mainly on the services that are at a mature stage of life cycle, removing any other competitive advantage derived from the development of the innovative services and/or of the process technologies. Even so, the companies that derive from emerging economies have certain comparative advantages due to the reduced production costs and manpower. The main issues concerning the development of the competitive export strategies for the companies from the emerging countries would be the following: (i) given their cost related advantages, should these companies refer to cost-leadership as being the primordial competitive strategy on the external markets? Since they don't have innovative services to offer, can these companies differentiate their services on the external markets and thus, delimitate their competitive weapons towards the competitors? Is it viable for these companies to use an integrated strategy through which to simultaneously accomplish the differentiation and cost-leadership? I have examined in the following paragraphs the viability of using by the companies that derive from emerging economies, the individual competitive and integrated strategies as well as their implications on the performance.

The markets of the developed countries are characterized by a harsh competition (due to the free market economic philosophies, to the presence of a big number of companies endowed with resources that compete on the markets of some specific services, as well as those of consumers) and dynamics (due to the continuous introduction of innovative services and to the frequent changes of the consumers' preferences). The companies from the emerging countries that export on these markets have a disadvantage in comparison with the local companies because the latter ones have more financial, managerial and technological resources, stable brands and innovative services. In addition to that, the researches (Cordell, 1993) have shown that the consumers from the developed markets perceive the services and the brands from the emerging countries in a negative way, and generally, they are equivalent with the low price and poor quality. The image of an inadequate quality, focusing on services that are at the maturity stage of life cycle and the competitors endowed with resources become an obstacle for the companies from the emerging countries in delimiting an advantage through services differentiation. Even so, the companies from the emerging countries have cost related advantages toward their competitors from the developed countries. These advantages are due to the more reduced research-development activities of the companies from the emerging economies, services development and marketing costs that on the other hand arise from focusing on mature services and the absence of expenses oriented toward the development of the brand and of the other interest areas. Thus, the companies from the emerging countries will have successes in the developed countries as a result of using a strategy based on costs that allow the multiplication of the comparative cost advantages. Moreover, a low price-low cost strategy is compatible with the perceptions and the expectations of the consumers regarding the services produced within the emerging economies.

The characteristics of the emerging markets are different from those of the developed countries because the protective environment together with the state control have created situations where consumers either face a lack of services, either with a limited offer. Because of these factors, the competition on the market is quite limited, the retrenchment of the demand for certain types of services being substantial (Arnold and Quelch, 1998; Gillespie and Alden, 1989). Thus, the emerging countries have ensured great opportunities for the foreign products together with the liberalization of their markets. But still the question is what competitive strategy will lead to a superior performance for the companies from the emerging economies that penetrate in other developing countries? The companies from the emerging economies have no cost specific advantage compared with the companies from other developing countries because the marginal differences of costs won't be appreciated because of the transportation costs and the maintenance of the scheduled and non-scheduled tariff barriers. Therefore, a costs based strategy may not be very efficient in the emerging countries. On the other hand, the companies originating in these countries can differentiate their services from those of the competitors in order to build an advantage. The consumers from the emerging countries perceive the foreign services as having a higher quality and therefore are willing to pay a superior price for these services to the disadvantage of the local services (Hulland, Todino and Lecraw, 1996). These observations suggest that the exportations from the emerging countries can amplify the positive perceptions of the consumers through services differentiation towards the ones from the origin country and can build in time long-lasting brands. In addition to that, the implementation costs of the differentiation strategies are lower in the developing countries than in the developed ones because the first ones are less competitive markets characterized by a small number of local competitors with famous brands.

Given the above mentioned reasons, it can be suggested that the relation between the competitive strategy and the performance on exports, meaning the efficiency of the cost- leadership strategies and differentiation, will depend on the type of external market on which they are implemented. With other words, the following possible hypothesis can be stated:

*H1: Using the cost-leadership strategy improves the performance on exports for the companies that have oriented towards the developed countries rather than for those that have targeted the emerging countries.*

*H2: Using a differentiation strategy improves the performance on exports for the companies that have oriented towards the emerging countries rather than for those that have targeted the developed countries.*

Porter (1980, 1986) has argued that although the companies can successfully follow both strategies under certain circumstances, such an approach can't be supported because of the specific requirements of each strategy (extensive research-development activities and promotion expenses for the differentiation strategy versus scale and goal economies, and low control for the cost-leadership). Therefore, Porter has suggested that "a company has to choose one of the two strategies because the achievement of the cost-leadership and differentiation are, usually, inconsequent and the differentiation is expensive" (1985: 17-18).

Hill, on the other hand, has pointed out that the differentiation can be a way for the companies to acquire a general low-cost position and thus, cost-leadership and differentiation isn't necessarily inconsequent. Then again there are many situations where establishing a backed competitive advantage enforces the company to simultaneously follow both low-cost and differentiation strategies (1988: 401).

In the following paragraphs I'll analyze the capacity of the companies from the developing countries to follow both cost-leadership and differentiation strategies. The circulated reason for this situation is a mix of factors referring to the nature of the services exported by the companies originating in the emerging economies, as well as their low endowment with resources that will encourage the implementation of a very expensive integrated strategy therefore with a negative impact on the export performance.

Hill (1988) suggested that following both of the above mentioned strategies can determine a superior performance when the company pushes the demand curve towards the exterior by increasing the differentiation expenses, but in the same time it can ensure that the change occurred in the cost's curve is lower than the motion of the demand's curve. He has also identified certain elements that will support the company in fulfilling dual task: the ability of making the difference between scale and goal economies and those that derive from learning. Similarly, Karnani (1984) has underlined that the companies can obtain lower costs independently of the scale strategy that can allow the success of the cost-leadership and differentiation.

But still it has to be mentioned that not all conditions for successfully implementing these strategies are available for the companies from the emerging economies. To begin with, the goal economies and the effects of learning are less relevant as the majority of the companies from the developing countries have a limited offer of services, thus eliminating the possibility of cutting costs through apportioning the resources between more services. Secondly, these companies focus on services that are at their growing and maturity stages of life cycle which can't afford them to diminish faster the costs respect to their competitors. Thirdly, the relative lack of experience on the foreign markets and the weak endowment with resources comparatively with the competitors from the developed countries, places them in a comparative disadvantage and therefore following the two strategies can be expensive for these companies. Thus, combining the elements regarding the service, the experience and the resources disables the companies from the emerging countries to implement an integrated strategy on the foreign markets. These reasons support the following hypothesis:

*H3: Using simultaneously the cost-leadership and differentiation strategies by the companies from the emerging countries it's in a negative report with their export performance.*

## 2. Marketing standardization and export performance

Yip (1992), Samiee and Roth (1992) have identified a series of benefits from using the standardized approach on the external markets. First of all, important cost economies can be achieved by developing one or more marketing programs and implementing them on multiple markets. Secondly, the efficiency of the marketing program increases as the company focuses more resources that support standardized marketing programs. Thirdly, the consistency of the marketing program (for e.g., in terms of services and promotion) eliminates the confusion that haunts the consumers and intensifies the acknowledging of the brand among the consumer segments. In the fourth place, a standardized approach allows the company to enter faster a new market and to cut down the costs of simultaneous entries on multiple markets.

Even though companies can build competitive advantages by standardizing the marketing programs, this approach has equally its limitations. The biggest regress is probably the one related to the implementation. In the case of the multinational companies, the managers of the branches responsible with the marketing can be reluctant in offering full support to the standardized programs imposed by the mother company (Kotabe, 1992), because they perceive it as being a limitation of their autonomy. This issue becomes even more critical for the exporting companies where the marketing programs are implemented by independent providers that tend to favour their own strategies founded under local circumstances. Moreover, the exporting companies have less power of making transactions with local distributors than the multinational companies. Besides the implementation difficulties, developing a standardized strategy can be burdened by the cultural, economic and political constrains as well (Douglas and Wind, 1987). The researches have shown that the success of the standardized approach depends on the nature of the sector where the company competes, the global industries having a greater tendency towards standardizing than the multi-domestic ones (Porter, 1986).

In order to fructify the advantages of the standardization strategy, the companies can follow two possible approaches. In one hand, they can extend the marketing programs developed for the domestic markets in the foreign countries. This approach works for the companies with stable brands that address to similar segments from different countries. On the other hand, the companies can develop in a proactive way, global programs and services by incorporating in them the consumers' preferences and of other external factors from different countries. This action usually requires high marketing and research-development costs, a superior involvement of the branches on the different markets, global marketing and production coordination and long periods of time between launching an order and executing it (Kotabe and Helsen, 1998). Essentially, both approaches require a mix of favorable conditions (lasting global brands, resources for the development of the marketing programs, etc.) in order for the company to enjoy the benefits of standardization. The issue is whether the companies from the emerging countries have such favourable conditions.

As I've mentioned above, most of the companies from the emerging countries confront themselves with a relatively limited base of resources, a lack of brands (or at least of global brands), services that are at a mature stage of life cycle, and not enough experience on the foreign markets. In addition to that, because most of these companies are at the embryonic stage of the process of internationalization, they do not have subsidiaries on the foreign markets. These characteristics make it even more difficult to implement a standardized marketing strategy, either by extending the internal marketing programs on the foreign markets or by a proactive development of the global standardized programs and services. Moreover, the empirical studies focused on the exportation activity (the basic way that the companies from the emerging countries participate on the international market) suggests that the exporting companies will obtain a superior performance on the foreign markets by adjusting the marketing elements to their specific needs (Cavusgil and Zou, 1994), as the approach oriented towards the market (accommodation) prevail the cost economies of the standardization strategy. Therefore, it can be advanced the hypothesis that, although the exporters originating from the emerging economies can obtain certain immanent benefits of the standardization (such as lower marketing costs, market advantages, etc.), given their lack of experience on the foreign markets (which increases the difficulty of proactive incorporation of the heterogeneous preferences of the consumers in their standardized offers) and the limited capacity of making transactions in relation with the local distributors (compromised implementation), they will be successful by adapting their marketing strategy on individual markets, especially in the first stages of the international expansion. Therefore, the following hypothesis can be advanced:

*H4: The degree of standardization of the marketing elements on the foreign markets by the companies from the emerging countries is in a negative relation of dependence with the export performance.*

Even though the negative impact of the standardization on the export performance has been predictable, this association can be stronger in the case of the developed countries. On one hand, the market conditions of these countries are very different from those encountered by the companies from the emerging economies on their domestic markets. Because of the cultural distance (Kogut and Singh, 1988) between the developed countries and the emerging ones, as well as the competitive environment of the former ones, the exporting companies originating from the developing countries have to modify their marketing elements in order to be successful on the markets of the developed countries. On the other hand, the analyzed companies face economic and infrastructure conditions similar to the ones from their own countries in other developing countries. The reduce cultural difference and the limited request from the emerging countries exercises on the exporters a lower pressure to adapt their marketing programs, allowing them to extend their internal marketing programs over the markets of other developing countries.

*H5: The negative relation between marketing standardization and the export performance is stronger for the companies that are oriented towards the developed countries rather than for those that target the emerging countries.*

### 3. Diversification and export performance

The diversification on a foreign market or on multiple markets allows the company to build and to support a competitive advantage by reaching the scale and goal economies, by obtaining synergies in geographically dispersed locations, by amplifying the property, location and internalization advantages, etc. (Dunning, 1988; Hitt, Hoskisson and Kim, 1997).

For the exporting companies, the main benefits of the exports diversification come from four sources. In the first place, the exporters have to face out the exposure at higher currency rates than the multinational companies because their costs are expresses in national currency and the profit from the selling of the services in convertible foreign currency. This leads to superior transactional risks given the fact that the exchange rates (especially in the emerging economies) are volatile and the currency exchange markets don't exist for certain currencies. Thus, a major benefit of the exports' diversification consists in minimizing the transactional risks by engaging in commercial exchanges expressed in multiple currencies (Dominguez and Sequeira, 1993). In the second place, the companies can address to a wider area of market by targeting similar segments of consumers in the destination countries of the exports. This advantage of exports diversification is more important for the companies whose services address to limited segments of the market. For such services, the market's potential saturated and the only way to extend its dimension is by targeting some segments from different countries. In the third place, it's about scale advantages of the exports diversification. The promotion programs of exports initiated by the governments of some emerging economies aims to amplify the exports sales thus motivating the companies to develop services designated especially for the export markets. In this case, the only way of obtaining scale advantages consists in increasing the sales abroad, which can be accomplished by targeting simultaneously more foreign markets. In the fourth place, according to the organizational learning developed by Kogut and Zander (1993) and to the internationalization theory (Johanson and Vahlne, 1977), the exporting companies can use the accumulated knowledge in one country to orient themselves towards other economically and culturally similar foreign markets. This comes to say that the exporting companies can obtain and conduct their competitive advantages by targeting multiple foreign markets for their services.

The exporting companies have to face some challenges of the diversification similar to those that the multinational corporations are confronted with (Hitt, Hoskisson and Kim, 1997). In the first place, the growing geographic diversification amplifies the coordination of the managerial costs of the export operations. Cavusgil and Zou (1994) and Madsen (1989) have suggested that among the important determinatives of the exports performances are the support offered to the foreign distributors and the commitment towards the specific exports markets. Thus, the increased geographic diversification can assign the managerial resources on the target markets, diminishing the capacity of supporting the marketing programs of the foreign distributors. In the second place, the geographic diversification increases both the needs of the information processing managers, because they are confronted with a culturally diversity of markets, and the transacting costs that manifest because of the tariff and non-tariff related barriers from the different countries.

The previous discussion suggests that the exporting companies have to determine the best level of the export diversification, there is the point where the benefits prevail over the costs. The best point will be a function of the company's base resources, and to a certain extent, of its services, showing a non-linear relation between the exports diversification and their performance. The growing export diversification will determine a superior performance until a certain point, beyond which the diversification costs surpass the benefits, thus diminishing the export's performance. Consequently, the following hypothesis can be advanced:

*H6: The relation between the diversification of the exports of the companies from the emerging countries and their export performance has the shape of a reversed U; the ramp is positive in the case of moderate levels of exports diversification and negative for the high levels of diversification.*

## REFERENCES:


| | | |
|---|---|---|
| 1. | Anderson W. E., Fornell C., Rust T. R. | „Customer satisfaction, productivity, and profitability: differences between goods and services", *Marketing Science*, Vol. 16, No. 2. (1997) |
| 2. | Aulakh S. P., Kotabe M., Teegen H. | „Export strategies and performance of firms from emerging economies: evidence from Brazil, Chile, and Mexico", *The Academy of Management Journal*, Vol. 43, No. 3. (Jun., 2000) |
| 3. | Blois J. K. | „The structure of service firms and their marketing policies", *Strategic Management Journal*, Vol. 4, No. 3. (Jul. - Sep., 1983) |
| 4. | Cadogan W. Jh., Diamantopoulos A., Siguaw A. J. | „Export market-oriented activities: their antecedents and performance consequences", *Journal of International Business Studies*, Vol. 33, No. 3. (3rd Qtr., 2002) |
| 5. | Cavusgil S. T., Zou S. | „Marketing strategy-performance relationship: an investigation of theempirical link in export market ventures", *Journal of Marketing*, 58 (1), 1994, pp.1-21 |