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MARKET AND CHANNEL PREFERENCES OF MANUFACTURING EXPORTERS: A STUDY OF ZIMBABWEAN COMPANIES

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Abstract

This article reports the results of a study on market and channel selection and preferences of manufacturing exporters. The main objective of the study is to identify market and channel preferences of Zimbabwean firms. Results show that exporters from Zimbabwe target their exports at developing neighbouring markets. Exporters realise there is a high probability of failure if they focus their effort exclusively at developed markets. Although developed markets absorb a higher proportion of Zimbabwe's aggregate exports, they take only a very small proportion of purely manufactured exports. Channel selection and preferences show 19% of the exporters using sales offices to spearhead exports in regional markets but preferring agents and distributors in most developed markets.

Namiki (1994, 30) has noted that most export marketing strategy dimensions could be broadly categorised into two key components, i.e. market selection and market decision mix. Market selection can be translated into two variables: (i) the countries exported to, and (ii) the level of market segmentation within these countries. In export marketing, country selection ranges from the "nearest neighbour" approach to global orientation (Cooper and Kleinschmidt, 1985, 39; Gronhaug, 1982). The second factor in export market selection portrays the degree of market segmentation that firms employ within their export markets. This ranges from selling to one market segment to a multitude of different segments in the foreign markets (Tookey, 1964; Sweeney, 1970).

Marketing decision mix in exporting involves marketing mix adaptation policy, or the degree to which a firm adapts its marketing mix to foreign markets (Namiki, 1994, 31). In international marketing, the key consideration is whether the marketing strategy should be standardised or adapted to the conditions of the foreign market (Douglas and Craig, 1989). The degree of marketing adaptation versus standardisation is a function of product, industry, market, organisational and environmental characteristics (Buzzel, 1968; Cavusgil, Zou, and Naidu, 1993; Jain, 1989; Walters, 1986).

According to Reid (1981, 108), one can postulate that decision-makers have, *a priori,* a perceptual space of market possibilities that can be considered for foreign entry whether they subsequently do so or not. Market selection can thus be seen as a decision process which involves narrowing down from a considered set of markets for entry that can be regarded as part of the total market space available for future export activity. These market sets are determined by two types of experience: experience specific to the firm, and experience specific to the decision-maker. The firm's previous contacts with foreign markets, whether through exporting or not and the foreign exposure of the decision-maker, are likely to be critical in determining not only the size of various market sets but their specific constitution. Most researchers agree that decision-makers are likely to explore first those overseas markets they perceive as having similarity with their home market. The principle of similitude (Jaffe, 1974) suggests that foreign entrants are likely to explore first those overseas markets which, by implication, need a minimal degree of product adaptation (Kacker, 1975, 70) or pursue strategies of overseas expansion to new markets consistent with the relative ease of product modification required. Linder-Burenstam (1961) and Welch and Wiedersheim-Paul (1978) have suggested that potential exporters do not confine themselves to only making economic distinctions between foreign markets but that other evaluative criteria specific to foreign countries may be of equal importance in distinguishing acceptable markets.

Dennis and Depelteau (1985) conclude that slow growth exporters place greater emphasis on less-developed countries markets, while higher growth exporters place relatively greater reliance on industrialised markets. Das (1994, 29) concludes that, while exporting to other less developed countries may seem safer and easier, successful firms appear to be the ones willing to enter more competitive, developed markets. Cooper and Kleinschmidt (1985) found that exporters with a world orientation, as opposed to reliance on a nearest neighbour, realise a more rapid growth in export sales, while Diamantopoulos and Inglis (1988) find high involvement exporters have much broader world market coverage.

The International Marketing and Purchasing Project (IMP Group), as cited in Turnbull (1987, 123), noted that there is a marked tendency among many companies to obtain a small amount of business in many countries, rather than concentrate on a few. The researchers observe that a significant proportion of companies taking part in their study tended to pursue the easy sales in a market. Rather than make the necessary investment to establish a substantial presence in any one market, they prefer moving along engaging in the relatively simple deals. The researchers note that only by operating in a market can a company fully understand its competition and its customers' requirements, thereby integrating experiential knowledge into its operations.

Selection of markets has also been related to strategies of diversification (marketing to many country-markets with no selectivity in the apportionment of efforts) and concentration (marketing to a small number of export country-markets, selectively devoting resources to a small number of key markets). Stolper and Samuelson (1941) note that the total market for most types of products is too heterogeneous for market management to derive maximum value from an analysis of it as a whole. From an export perspective, the BETRO Report (1977), in its analysis of British exporters, concluded that some of the successful companies tend to concentrate (as a matter of conscious policy) on a few products or a few markets. Piercy (1981, 32-33), in another study of British exporters, found that firms marketing mainly in response to unsolicited orders (mostly passive exporters) did make up a larger proportion of market concentrators than market spreaders. This provides limited support for the expected finding that reactive exporters would adopt market spreading and active exporters would be associated with market concentration. However, he goes on to note that it seems active exporters exported to a large number of markets to gain adequate export volume, but they tend to concentrate most efforts on a much smaller number of most important markets. He concludes that it seems passive and active exporters do not differ widely in their choice of export strategy although there are some differences in the reasons for the choices made.

On channel selection, researchers have found that performance in exporting is strongly linked to the kind of relationship developed between the exporter and overseas agents and distributors. This relationship is, in turn, related to certain characteristics of participant companies, i.e., their stake, experience, and the amount of uncertainty involved in the relationship. Research notes that the destination of exports affects the type of channel strategy utilised by exporters. According to Cannon (1980, 40), the distance and alien nature of many overseas markets has created a situation in which, at home, many firms are actively engaged in promotion and selling, but abroad, they often rely more heavily on independent distributors or agents. Chan (1984, 19) examined the export strategy of Hong Kong firms in clothing and electronics and concluded that firms tended to perform an increased proportion of export channel functions for existing channel intermediaries as a response to increases in export markets competition and trade restriction. He also observed that firms switch their channel structure from indirect exporting to more direct forms of exporting as a response to changes in the export markets environments.

Direct exporting arises when the manufacturer performs the bulk of the export channel functions itself through its own export department at home, deals directly with foreign-based intermediaries, and/or establishes sales subsidiaries in foreign markets. On the other hand, indirect exporting occurs when the manufacturer's products are sold in foreign markets but no special activity for exporting is entered into by the firm. The exporter mainly exports through domestic-based intermediaries in this mode. A strong relationship has been noted to exist between channel directness and higher export profitability. This is attributable to better control and higher involvement by the exporter in the distribution channel. When companies have sufficient resources to afford the more direct methods of reaching their overseas markets, they tend to use more such channel intermediaries. Smaller firms tend to rely more on indirect methods of exporting (Chan, 1992, 20).

METHODOLOGY

This study was a wide industry wide survey covering manufacturing exporters in Zimbabwe. It was conducted during the last quarter of 1999. Study variables tested in this research were derived from relevant literature based on export studies conducted in other countries and from common experiences of exporters in Zimbabwe and other countries.

Significance of this study

This study addresses one of the most significant areas in relation to the future economic development of Zimbabwe. For a long time, businesses in Zimbabwe have focused on the domestic market, paying little regard to opportunities in international markets. The manufacturing sector is no different. However, the sector has seriously suffered from loss of domestic market due to depreciating purchasing power yet, ironically, some firms have remained intransigent in the face of these losses.

Research objectives

The objectives of this study are:

i. To investigate market selection and entry preferences of Zimbabwe's manufacturing exporters.
ii. To investigate channel preferences of Zimbabwean manufacturing exporters.
iii. To investigate the relationship between market and channel preferences *vis-à-vis* export growth and performance.

Sampling

All sampling units interviewed in this study were from a single industry. The purpose behind selecting a single industry was to minimise sample heterogeneity, which could significantly diminish the power of empirical findings and study implications. The focus was on manufacturing exporters. The general population was 461 firms. The sampling frame was derived from the Zimtrade[1] database. The source however, also comprised companies *not* involved in export operations although they are into manufacturing.

For a firm to be part of the sample it had to fulfil the following criteria:

i. a manufacturing firm exporting directly to its client(s) in another country or countries; and/or
ii. a manufacturing firm exporting through an agent and/or distributor and/or some such other intermediary to another country or countries; and/or
iii. a manufacturing firm which has a subsidiary in a foreign country or is in a joint venture with a manufacturing partner, or has a sales office in a foreign country through which it exports.

When the above criteria were applied to the 461 companies, only 200 companies emerged as the target population. The general population therefore comprises 200 companies that are exporting and 261 that aspire to export but had *not* exported anything at the time of conducting the study according to the Zimtrade database. Although all the 200 companies involved in exporting at the time of the study had been targeted as the study sample, only 124 participated in the study. Refusals on grounds of confidentiality were the main reason for failing to interview the other 76. The *response rate* in this study was therefore 62%.

Data Collection

A structured questionnaire was used to collect the data. The questionnaire was pre-tested in five in-depth interviews with marketing managers responsible for export operations. Based on the pre-test, revisions were made to the questionnaire to ensure there was adequate content and construct validity in each of the questions in the questionnaire. The reliability of the scales used was evaluated on the basis of the Cronbach alpha. All the scales used in the questionnaire had to have a Cronbach alpha value greater than 0.50. (The Cronbach alpha is a coefficient for measuring internal reliability of measurement scales such as those found in a questionnaire).

Pre-test was only limited to five companies because the pre-test target had been predetermined at 2.5% of the total sample. Interviews

1 Zimtrade is Zimbabwe's export agency. It operates as an autonomous arm of the Ministry of Industry and Commerce.

were conducted over a period of four months, with each interview lasting approximately 45 minutes to one hour. Companies interviewed were located in different towns in the country. Respondents interviewed in the study were either chief executive officers or marketing executives who know about export operations of the company. Attention was paid to identifying the most knowledgeable individual in the firm to provide the required information. First, questionnaires were sent to the companies to be involved in the study. This was followed by a telephone call to each company seeking an appointment. Secondary sources provided substantial background information for the study.

Variables and operational measures

Variables focused on in this study are:

a) Market selection preferences; and
b) Channel selection preferences.

Dependent variable

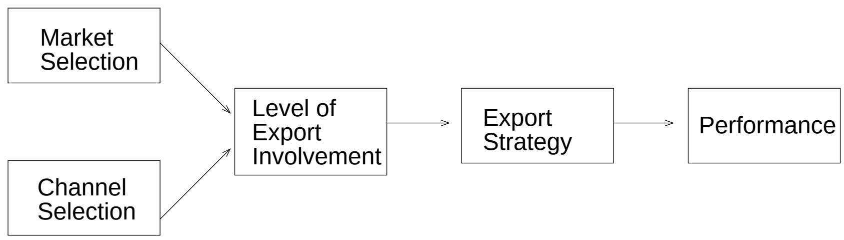
The *major dependent* variable used was *export performance.* Export performance is conceived as the accomplishment of strategic as well as economic objectives (Cavusgil and Zou, 1994, 1). Export performance was derived from a constellation of factors rather than a single measurement. The factors used to define export performance were i.) export sales volume; and ii.) exports as a percent of total sales during 1998. The assumption used in coming up with this criterion was that the two factors had equal weighting in the combination. Profit as a variable is not included as a performance measurement due to problems such as different accounting systems (Banhardt, 1968) used by individual organisations in coming up with the final profit figure. Companies tend to vary quite significantly in terms of factors charged to operating profit before coming up with the net profit hence the decision to leave out that factor.

Traditionally, export performance in export studies has been measured by a single variable, i.e., export intensity. This measure has been found to provide "a good indication of both how deeply involved a firm is in exporting and how successful the firm is at exporting" (Axxin, 1988, 61). Research concedes the usefulness of such a single measure for such a multidimensional activity is overvalued and may be misleading. There appears to exist a convergence on the conclusion that studies which measure export performance along a continuum of success or those that propose a multidimensional approach reflect an improvement over the categorical approach, since a single measure for export activity may indeed be misleading (Reid, 1981, 104; Aaby and Slater, 1989, 16).

Operational model

The model in this study postulates that market selection and channel selection have a combined influence on level of export involvement commitment by a firm. The level of firm commitment to exporting has a direct impact on export strategy hence the performance (See Figure 1 below).

Figure 1:
MODEL OF MARKET AND CHANNEL SELECTION INFLUENCE ON PERFORMANCE



Market selection involves selecting the target countries to which the company intends to export. Implied in the country-market targeting process is the targeting of a specific market segment. Markets that are targeted can be both in the developed or developing countries. The targeting process presumes the exporter has conducted a market assessment and is therefore satisfied with its potential performance.

Channel selection involves selecting the channel through which the exporter is going to penetrate the market. The selection process assumes focusing on a channel or intermediary that offers optimum results in reaching the end user and profitability. The process also assumes the selected channel offers minimum conflicts.

Level of export involvement represents the extent to which the exporter is involved in exporting. This is measured by the export ratio. The export ratio represents the ratio of export sales to total sales of the firm. This measurement is a relative measurement expressed in percentage terms.

Export strategy is viewed in this model as the outcome of the interaction among the three variables, i.e. market selection, channel selection, and export involvement level. Successful and/or unsuccessful strategies translate through the influence of the independent variables on performance.

Level of analysis

Analysis of results in this study was mostly focused at firm level although generalisations were at sector-level. Theoretical justification for firm-level analysis is in the theory of internalisation (Buckley and Casson, 1985; Rugman, 1981), which proposes that, in an imperfect market, companies should internalise the firm-specific advantages, both tangible and intangible, to extract maximum economic rent. This study deliberately avoided using the individual product-market level as the unit of study due to attendant problems associated with tracing the strategic line and the corresponding behaviour of the firm on each individual product. Results in studies conducted using firm level as the entity of study show reliability and are, therefore, generalisable.

Hypotheses

The following hypotheses are proposed:

H1: The transaction frequency of manufactured exports to less developed countries (LDCs) is higher than frequency with developed markets.

H2: Manufacturing exporters in LDCs prefer to use indirect rather than direct channels in exporting.

H3: Manufacturers in LDCs follow domestic competitors to traditional markets where products from the exporting country already have a positive image as a risk hedging mechanism.

Analysis and interpretation

Results in this study were measured using frequency and the Spearman correlation coefficient (Ps). The analysis in this study deliberately used a qualitative approach rather than a quantitative approach. The Spearman correlation coefficient had to have a significance level of $p \leq 0.05$ to warrant further investigation and thorough discussion.

FINDINGS

Market selection and diversity

Results in this study show that a high proportion of manufacturing export destinations of Zimbabwean products are developing countries. In the profile of destinations, developing countries constitute 57% whilst developed countries comprise 43%. Although there is higher transaction frequency between Zimbabwe and other developing markets, this does not correspond to total exports value contributions. Data from the Reserve Bank of Zimbabwe reveals that, as at end of 1998, developed markets that are Zimbabwe's trading partners were absorbing 48% of the country's total exports, while the developing markets (all being neighbouring countries) were absorbing 32%. The last 20% are thinly distributed among various other markets (Reserve Bank of Zimbabwe, *Weekly Economic Highlights*, 1999, 1). The pseudo-contradiction between having a bigger number of developing markets as destinations but absorbing a smaller value of Zimbabwe's exports and, on the other hand, a smaller number of developed countries absorbing the larger value proportion is a result of the product composition and transaction size involved. A large component of Zimbabwe's exports comprise primary commodities. By their nature, primary commodities involve large transactions. The destination of the large component of the country's primary commodities is the developed markets. Manufacturing exports are mainly being targeted to the developing markets because this is where they can enjoy reasonable competitive advantage. Technological superiority of developed markets makes them virtually impenetrable by exporters from developing markets. Highly competitive markets such as UK, USA, Germany, Japan, Italy, and the Netherlands absorb between 40% and 50% of all Zimbabwe's exports destined for the developed world. Few manufactured exports, notably textile and clothing, have however, managed to establish stable market niches in developed markets. Eighty percent of the developing markets in the destination profile are neighbouring markets within the Southern Africa Development Community (SADC) or in the Common Market for Eastern and Southern Africa (COMESA). Table 1 below provides the profile of Zimbabwe's export destinations and the frequency a country-market is reported by respondents as a destination.

Although Zambia and Malawi lead the table in the profile of transaction frequency and popularity among exporters as destinations for manufactured exports, they place third and eighth in aggregate terms respectively as per 1998 national trade data. Notable in the table is that, of the top ten highly frequented destinations, only UK is a developed market. There is therefore a concrete tendency by Zimbabwe's manufacturing exporters to target markets of comparable size especially African markets or economically weaker markets. Apparently, this is a deliberate strategy based on the logic that manufactured exports stand a better chance of penetrating or establishing long-term markets in par or weaker destinations. Also of the top ten most frequented markets, only Kenya and UK are not within the SADC regional block or neighbours. These results further strengthen the observation noted above: exporters prefer targeting markets of comparable size, or comparable competitiveness. But beyond this is the fact that popular destinations are mainly neighbouring markets. In interviews, companies were asked, if given a choice, whether they would prefer focusing on developed markets or developing markets or balance their choice of destinations. Responses show 40.3% preferring developing markets and 21% developed markets.

Table 1
PROFILE OF MANUFACTURING EXPORT DESTINATIONS

Country/market	**Number of exporters to market**	**Frequency (%)**
Malawi	90	18.4
Zambia	83	16.9
South Africa	63	12.9
Botswana	59	12.0
Mozambique	37	7.6
Namibia	22	4.5
UK	18	3.7
Tanzania	17	3.5
DRC	16	3.3
Kenya	13	2.7
Germany	10	2.0
USA	8	1.6
Uganda	6	1.2
Australia	5	1.0
Mauritius	5	1.0
Sweden	3	0.6
Ghana	3	0.6
France	3	0.6
Netherlands	2	0.4
Italy	2	0.4
Switzerland	2	0.4
Malaysia	2	0.4
Angola	2	0.4
Nigeria	2	0.4
Ethiopia	2	0.4
Swaziland	2	0.4
China	2	0.4
Japan	2	0.4
Denmark	1	0.2
Belgium	1	0.2
Canada	1	0.2
Austria	1	0.2
Portugal	1	0.2
Hong Kong	1	0.2
Seychelles	1	0.2
Thailand	1	0.2

Source: Survey results

The remaining 38.7% prefers to balance its market portfolio. The common reasons advanced for preferring developing markets are two pronged: (a) developing markets are more lucrative than developed markets; and (b) targeted developing markets are closer to home. The main reason advanced for preferring developed markets is that of prompt payment. A close scrutiny of these responses shows that most exporters regard developed markets as dicey and too competitive. Buyers in the developed markets are regarded as extremely mean. They attempt to squeeze the exporter of all the margins thus rendering export business to developed markets a loss maker in the end. When analysed, this reason, in conjunction with one of the minor reasons proffered that exporters from developing countries are not treated as equal business partners by clients in developed countries, then it becomes clearer why most would rather target other developing markets.

Exporters were asked if they have marketing plans ready to enter new export markets and which markets they are targeting. Fifty-five percent responded in affirmative and 44% indicated they have no such plans. Of particular note is the fact that of the targeted potential destinations, 58.6 % are developing markets and these are markets already being exported to by other manufacturers from Zimbabwe. The remaining 41.4% is targeting other traditional markets mainly in Europe and North Africa. Other than a single mention of the Gulf States by one exporter, all the other potential targets are already export destinations of Zimbabwean firms (See Table 2). There is no indication of an intention to pursue other markets such as those in South America or expanding into new markets in Asia other than following counterpart domestic exporters into traditional regional, European and North American markets. It is convincingly clear that this is a risk hedging mechanism. Exporters appear comfortable using information from other domestic exporters to decide which markets have a low risk factor and are penetrable. They appear to compare their competitiveness at home against that of other manufacturers who have established successful export markets before deciding to venture into new markets. If other domestic exporters are doing well in a given export market it tends to attract other hesitant exporters to follow suit. A very negligible proportion of the exporters in the study are prepared to enter completely new markets with 'exotic' conditions not known to experienced exporters. This tendency confirms what has been proposed in the psychic distance model by researchers such as Kogut and Singh (1988), Benito and Gripsrud (1992, 464) and Johansen and Vahlne (1992, 13).

Table 2
POTENTIAL EXPORT MARKETS TO BE ENTERED BY EXPORTERS IN THE NEAR FUTURE

Country	No. of potential new entries	Frequency (%)
Mozambique	18	15.3
Malawi	15	12.7
South Africa	12	10.2
DRC	11	9.3
Botswana	10	5,5
Zambia	8	6.8
Tanzania	6	5.1
UK	5	4.2
Namibia	5	4.2
Kenya	5	4.2
Germany	3	2.5
USA	3	2.5
Ghana	3	2.5
Mauritius	2	1.7
Uganda	2	1.7
Sweden		3.8
Switzerland	1	3.8
Denmark	1	3.8
Malaysia	1	3.8
China	1	3.8
Nigeria	1	3.8
Canada	1	3.8
Ethiopia	1	3.8
Portugal	1	1.8
Gulf States	1	1.8

Source: Survey results

Results in the study also show a tendency toward market concentration by manufacturing exporters. (Concentration is being operationalised as one to five markets/countries. Diversification is being operationalised as six markets/countries and above). The mean number of export markets for the whole group is four. This tendency is also observed in the allocation of sales among market destinations. Exporters allocate a higher proportion of their sales to developed markets in instances where the market portfolio comprises both developed and developing markets. New market additions show no shift in strategy from concentration to diversification or from developing towards developed markets. On the influence of size on market selection, researchers have concluded that:

> Small firms tend to choose soft markets where conditions of entry are easy because of bilateral agreements, preferential tariffs, and payments agreements, and the larger firms are more likely to be found in hard markets where entry is conceivably more difficult (Hirsch and Adar, 1974).

Channel selection

Results in the study reveal a strong tendency toward preferring direct exporting by manufacturers. Nineteen percent of the respondents have sales offices in their export markets. The distribution shows focus on neighbouring markets, which corroborates the observation that there is more interest in exporting to neighbouring markets than to distant markets as long as the neighbouring markets are lucrative enough. Table 3 shows the distribution of sales offices in the export markets.

Table 3

Country	Frequencies	(%)
South Africa	12	29.3
Malawi	9	22.0
Zambia	7	17.1
Botswana	5	12.2
Mozambique	5	12.2
Namibia	2	4.9
Tanzania	1	2.4

Source: Survey results

Results show a trend in which more export business is generated in markets hosting more sales offices. As seen in the Table, more manufacturers have sales offices in South Africa than any other market. In aggregate terms South Africa is Zimbabwe's biggest trading partner in the region, thus the distribution. Interestingly the further the distance of an export market the lower the number of companies with sales offices in the market. Respondents were also asked if they use agents and distributors as intermediaries. Fifty three percent said they did. An analysis of the markets in which exporters use agents and distributors shows similar trends of concentrating marketing effort on neighbouring markets. Use of agents and distributors shows Zambia, Malawi, South Africa, Botswana, and Mozambique constituting 66.4% of the responses. While there are no sales offices located in developed markets, agents and distributors are widely used in UK, Germany, USA, Australia, France, and

Sweden. A negligible proportion of exporters deal directly with the final consumers and this is confined to exporters of very expensive equipment.

CONCLUSIONS

Results in this study reveal three outstanding conclusions, namely:

a) Manufacturing exporters are more focused on developing markets in the region than on developed markets.
b) A new manufacturing exporter is likely to enter a developing country-market as a matter of priority than a developed market.
c) Channel preferences show use of sales offices concentrated exclusively in regional markets. Although agents and distributors are also widely used in developing markets, their use is skewed toward developed markets.

Although in aggregate terms the country exports more to developed markets, most of Zimbabwe's manufacturing exports are destined for developing markets. The main preference is neighbouring markets within the SADC regional block. Although there is no blanket trading agreement among regional countries in trade, bilateral agreements could be attracting focus on the region. The regional preference is strengthened by the fact that developing markets are regarded as more profitable than developed markets. They are also seen as relatively flexible in negotiations than their developed counterparts. The question of proximity to top markets also plays a crucial role in the selection of market destinations. Because Zimbabwe is landlocked, the issue of proximity is an important factor in the export decision.

The exporters are likely to start exporting by seeking to market in other developing markets. A simplistic assessment of this behaviour is that the new exporter feels less burdened in terms of the risk of failure carried than entering developed markets at time of entry into exporting. Although developed markets operate on bigger transaction sizes compared to developing markets, the risk of sales returns is much higher than in developing markets especially neighbouring markets whose conditions are much closer to ours.

Channel preferences are mainly also quite closely associated with whether the target market is developing or developed. Sales offices are concentrated in neighbouring markets because of the higher transaction frequency between the exporter and the clients. Foreign agents are commonly used in developed markets. Close analysis reveals the use of agents and distributors in developed markets is based on the fact that these intermediaries remove a lot of burden from the exporter because they tend to approach the exporter with concrete business. Developed markets, being highly competitive, could be difficult to penetrate by directly approaching end users. Agents and distributors are in a better position to push through the export product.

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