

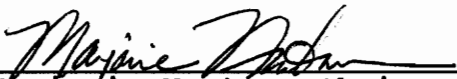
IMPACTS OF THE EC 1992 SINGLE MARKET ON
INTERNATIONAL MARKETING ACTIVITIES OF
AMERICAN INTERIOR FURNISHING TEXTILE MANUFACTURERS

by


Irena Vida

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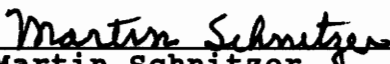
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(ABSTRACT)

The US textile industry has traditionally been import-impacted rather than export-oriented. Recent data reveal a significant growth in US textile and apparel exports, indicating that US manufacturers are aware of the importance of expanding internationally. Europe represents the second most important export destination for American textiles.

The purpose of this research was to examine the export involvement and marketing characteristics of eight US interior furnishing textile (IFT) manufacturers who market to the EC, and to determine their perceptions of how the creation of the EC 1992 Single Market would affect their future marketing strategies and market potential. The case study method, i.e., personal interviews, was used to investigate the expectations of IFT exporters regarding the EC 1992 market potential, and investigated whether they plan to adapt their export marketing strategies to the changing regulatory and business environment in the EC 1992 Single Market.

The informants were drawn from the US IFT companies participating at the Heimtextil 1993 trade show in Frankfurt, Germany. Multiple sources of evidence were used for compilation of final case study reports.

Cross-case comparisons revealed that IFT manufacturers exported up to 20 percent of

their total sales in 1992, and half of the respondents considered the EC as their primary export market. The firms were direct exporters, catered to wholesalers and distributors, and utilized a focus market niche strategy. Styling and price competitiveness were most commonly mentioned as firms' competitive advantages. The EC market was viewed merely as an extension of the domestic market. An EC-wide pricing strategy was utilized, and the profit structure in the EC tended to be higher than in the US. Marketing functions in the EC were performed by agents/distributors. Trade shows and product samples were commonly utilized as promotional tools. The executives of the companies under investigation were sensitive to the changing EC external environment and optimistic about the future market potential in the EC 1992 Single market. Major adjustments of their marketing strategies in the new Europe were related to entry modes, distribution and products.

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CHAPTER 1

INTRODUCTION

Cooperation between the European Community (EC) and the United States has historically been very strong with both sides sharing common objectives to expand and liberalize world trade. At the same time, they are competitors on world markets, and often disagree on trade policies such as those related to the agricultural sector.

The EC and the US are each others' most important trading partners. It is believed that the global trade relationship will deepen as Europe unifies its internal market with the EC 1992 program. The elimination of trade barriers among member countries will have an impact on traditional methods of production and marketing, both of which will affect US companies exporting to Europe and US companies that already have a presence in the European marketplace. According to studies conducted among American multinational corporations (MNCs) that are currently doing business in Europe, US firms can benefit as much as European firms from productivity and efficiency gains and from cost reductions on transportation and administrative items (Ryans & Rau, 1990; U.S. Department of Commerce, 1989). Some new marketing strategies will have to be employed to take advantage of the world's largest unified consumer marketplace which will be introduced with the EC 1992. Activities in the global textile and apparel sector will be affected by these changes.

Although the US textile and apparel industry is not traditionally an export-oriented industry, the EC market represents a substantial market share for American textile exports; it is the second largest destination market after Canada (American Textile Manufacturers Institute [ATMI], 1991; U.S. Industrial Outlook, 1992). American textile companies have

been successful in their export endeavors and appear to be eager to take advantage of export opportunities, particularly in the major consuming nations where trade barriers do not represent an obstacle for market expansion. As the EC 1992 Single Market is expected to convert into a market 30 percent larger than the US market in terms of population as well as into a lucrative market with increasing consumer purchasing power, it is believed that American exporters may find this market more challenging in the future (Vandermerwe & L'Hullier, 1989).

The purpose of this research was to examine the export involvement and marketing characteristics of eight US interior furnishing textile manufacturers which market to the EC, and to determine their perceptions of how the creation of the EC 1992 Single Market would affect their future marketing strategies and market potential. Using the case study method, this research investigated expectations of interior furnishing textile (IFT) exporters regarding the EC 1992 market potential, and investigated whether they plan to adapt their export marketing strategies to the changing regulatory and business environment in the EC 1992 Single Market.

This study was limited to the US interior furnishing textile industry¹ because the production is well suited to automation, mills can exploit economies of scale and scope, and they enjoy proximity of raw material sources (Cohen, 1989). These factors have given US interior furnishing textile producers a competitive advantage over imports in the domestic market, and should contribute to a good performance while competing with European and

¹ The interior furnishing textile industry has been defined as encompassing manufacturers/converters of upholstery fabrics, decorative fabrics and finished products/accessories for windows, kitchen, bedroom and bathroom. The floor covering, or carpet, segment of this industry has been excluded.

other producers in the EC 1992 Single Market. In spite of a better performance of the US interior furnishing textile industry as compared to the US apparel sector in the past decade, extensive future growth in the domestic market is not forecasted due to stagnant demand and population patterns. In order to compensate for the drawbacks in the domestic market, firms are likely to seek opportunities to expand abroad (U.S. Industrial Outlook, 1992; Vandeventer, 1991).

Existing empirical literature on the determinants of critical success factors in export marketing emphasizes the importance of the close monitoring of market changes. Losing close contact with the export market can lead to a lack of awareness of tariff and other significant policies, and of the competition from new manufacturing facilities within the lucrative markets as well as from other exporters. The 'unawareness' can subsequently lead to a loss of potentially attractive export markets (Fenwick & Amine, 1979; Madsen, 1989; Neidell, 1971). Thus, constant surveillance of export marketing strategies should be pursued at this point in time by exporters targeting the changing EC market.

Exports play a very important role in the US economy. During the past three years, exports have accounted for 70 percent of the economic growth. The growing share of exports creates trade-related jobs, the number of which have grown three times faster than overall job creation. It has been estimated that every \$ 1 billion in exports provides about 19,000 American jobs. However, there are further opportunities for US manufacturers as only one in three American companies capable of exporting actually does so (Hackman, July 1992).

There has been a lack of literature investigating successful marketing strategies for the textile and apparel sector competing in the global market. Due to a strong growth of US exports to Europe in the past years and due to the expectation that industrialized nations

represent the most significant area of future growth in textile trade (Office of Technological Assessment [OTA], 1987; U.S. Industrial Outlook, 1992; Vandeventer, 1991), research is needed on EC market issues specifically for US textile producers.

Recognizing the changes in the regulatory and business environment within the EC market, and understanding how to modify a firm's export marketing strategies in view of these changes, will be of utmost importance not only for those textile manufacturers who directly export to the European market, but also for other segments of the US textile complex which supply semi-finished products to the textile exporters. The results of this study should add to the existing body of knowledge on export marketing. Also, this research may provide an impetus for potential and practicing textile exporters to pursue new endeavors, or to upgrade their existing export marketing endeavors for the EC 1992 Single Market.

CHAPTER 2

LITERATURE REVIEW

The review of literature explores five areas of literature relevant to the objectives of this study. The first part examines the scope of trade, and specifically the scope of textile and apparel trade between the US and the EC, and presents textile and apparel trading trends of the past few years. Historical development of the European Community (EC) and the formation of the EC 1992 Single Market program are discussed in the second portion of the review. Empirical research dealing with the projected effects of the European economic integration on US companies, as well as implications for the textile industry, are the topic of the subsequent section. Specifics of the interior furnishing textile (IFT) industry are also highlighted and the selection of this industry for the study is justified. The concluding part of the literature review examines global marketing strategies and factors associated with successful exporting.

Scope of Trade Between the US and the European Community

Over two thirds of world trade takes place between developed nations which are members of the Organization for Economic Cooperation and Development (OECD), with the US and the EC as each others' most significant trading partners. Although most of the classic and modern theories of international trade explaining why international trade occurs and how existing trade patterns arise are based on inter-country differences, there have been few

attempts to explain the intra-industry trade which relates to trade in similar commodities.

Intra-industry trade is typically based on scale economies, and the manufacturing organizations engaging in such trade tend to be oligopolistic or monopolistically competitive² (Kreinen, 1991; Linder, 1961).

According to Linder's (1961) demand oriented theory of international trade called country-similarity theory (also called preference-similarity theory), a firm tends to export to markets very similar to its home market. Once a firm develops a new product in response to domestic market conditions, a manufacturer will first attempt to market the product to foreign markets most similar to its home market.

A large percentage of world trade takes place between the US and the EC, especially in the merchandise category³. Merchandise trade is divided into three broad categories: agriculture, mining, and manufactures (including textiles and apparel). Manufactures account for 80 percent of total US merchandise exports. The EC represented 25 percent of the export market for US manufactured goods in 1990, and, along with Japan and Mexico, accounted for the largest increase in US manufactured exports in recent years (U.S. Department of Commerce, April, 1991). Dynamic US export growth to the EC resulted in a US trade surplus of \$ 17 billion in 1991 as compared to \$ 6 billion in 1990 and \$ 1 billion in 1989 (Boyd, 1991; U.S. Department of Commerce, April 1991). The top markets for US exports in

² Oligopolistic competition relates to a market structure where few large firms make up each industry. Monopolistic competition relates to a market structure where there are many firms, and the entry into the industry is unrestricted, which leads to zero economic profits in the long run. However, unlike in perfect competition, firms' products are not viewed as perfect substitutes.

³ In economic analyses, merchandise trade refers to trade in all goods that add to or subtract from the material resources of a country as a result of their movement into or out of the country (Dickerson, 1991).

Europe have been the UK, Germany, France, Belgium and the Netherlands. In 1990, substantial increases in US exports were evident in smaller European markets such as Iceland, Denmark, Norway and Cyprus. Among the top US exports to the EC were aircraft and aircraft parts, computers, medical and surgical instruments, office machines, electrical apparatuses, telecommunication equipment, records, tapes and other recorded sound media (Bailey, Converse, & Humbert, 1992).

Textile and Apparel Trade Between the US and the EC

Over 10 percent of the value of world trade in manufactures is constituted by textiles, apparel, fibers and textile machinery. Between 55 and 60 percent of the trade in this commodity area, which is of the same magnitude as world trade in raw materials, ores and minerals exclusive of fuel and ferrous/non-ferrous metals, takes place between developed countries (Hamilton, 1985).

Traditionally, the US textile and apparel industry is not an export-oriented industry. Although the US textile industry has more than 20 percent of world textile production capacity, its export penetration⁴ traditionally accounts for only a few percent in value terms (OTA, 1987). In the first quarter of 1990, the textile and apparel trade deficit amounted to 41 percent of the total US merchandise trade deficit (ATMI, June 1991). In spite of the unfavorable trade balance of this industry, exports of textiles and apparel have grown at a faster rate than imports since 1989, reaching a record annual increase of 24 percent in 1990.

⁴ exports divided by domestic production

According to the Standard and Poor's Industry Survey (Vandeventer, 1991), the dollar value of textile exports in particular has started to rise sharply, whereas much of the export growth in the apparel sector (60 percent) has been due to cut pieces sent to the Caribbean and Central America for assembly under Section 807 of the US Tariff Schedule⁵. The most important export markets for US textiles and apparel have been Canada, UK, Belgium, Japan and Mexico.

Even though the US textile industry currently has a negative trade balance with Europe, US textile and apparel producers sell increasing quantities of textiles and apparel to various European markets. The value of US exports of textiles and apparel to the EC almost doubled from 1984 to 1988 (\$495 million to \$862 million), of which textiles accounted for almost 85 percent (Jacobs, 1989).

The latest data (U.S. Industrial Outlook, 1992) indicate that exports continue to provide a significant share of growth in shipments of apparel and fabricated textile products (SIC 23). In 1991, US exports reached \$ 2.86 billion, of which the EC represented 14.2 percent of the export market share (\$ 405 million), second only to the Canadian and Mexican markets which together accounted for 29.9 percent of the market share. It is believed that the export promotion efforts of the US government in the area of apparel and interior furnishing textiles, including trade shows and export seminars, have helped to fuel a surge of exports. Great export potential for US firms exists especially in the area of interior furnishing textiles, which have generally been regarded among the finest in the world. It has been suggested that the unification of the EC markets will offer important opportunities for greater US

⁵Since these goods are re-imported into the US after assembly, they can not be considered exports in the traditional sense.

participation in the EC market, especially in light of strong growth in apparel and fabricated textile exports from 1987 to 1991 (U.S. Industrial Outlook, 1992).

US exports of textile mill products (SIC 22) reached \$3.92 billion in 1991. The EC represented 23.7 percent of the market share (\$ 914 million) in this sector of the textile industry. Again, the EC market was the second largest after Canada and Mexico with a market share of 29.5 percent. The United Kingdom and Belgium/Luxembourg were the largest markets within the EC, whereas exports to Germany and Italy were showing significant growth.

Strong growth in exports of apparel and fabricated textile products (SIC 23) as well as of textile mill products (SIC 22) in the past years has reduced the recession's impact on this industry. It seems that American textile companies are willing and able to take advantage of export opportunities, particularly in the major consuming nations where trade barriers do not represent an obstacle for expansion (Japan, the EC, Hong Kong, South Korea).

The EC, on the other hand, is the largest exporter of textiles and clothing in the world as well as the second largest importer after the US (Deloitte Ross, 1991). Although a large part of EC apparel and textile products are traded among its members, 14 percent of clothing and 42 percent of textiles produced in the EC in 1987 were exported to countries outside the Community⁶. Approximately 65 percent of the EC's textile exports were destined to other industrialized countries which did not have textile agreements with the Community (Subhan,

⁶ According to Subhan (1989), the EC had a trade surplus in apparel in 1987, while the trade in textiles was balanced in the same year.

1989). As for trade with the US, the Community annually ships textile and apparel goods totaling three times the value of the goods the US is exporting to Europe (Jacobs, 1989).

Like the US, the textile industry in the Community has been experiencing increasing competition from developing countries, and has, like all Western nations, imposed restrictions for over 30 years on imports most liable to cause market disruptions. Despite several increasingly restrictive bilateral agreements negotiated under the Multi-Fiber Arrangement (MFA), import penetration in the EC reached 38 percent in 1985, while at the same period of time, US import penetration was 29 percent (Subhan, 1989). In both 1988 and 1987, the Community exported \$3 billion of textile goods divided equally between textiles and apparel.

As a result of an informal gentlemen's agreement, the US and the EC do not place quantitative import restrictions on each others' textile and apparel goods (Dickerson, 1991). However, European Community textile exports are subject to higher tariffs in the US (up to 40 percent for some items) whereas EC imports from the US are taxed only up to 11 percent. Tariff reduction, which represents one of the disputes between the US and the EC, is being negotiated within the framework of the General Agreement on Tariffs and Trade (GATT) Uruguay Round⁷ (Coopers & Lybrand, 1991). As the world's major trading partners in manufactured goods, the EC and the US have much to gain from a successful outcome of the GATT Uruguay Round of trade liberalization talks. As both are formally advocates of free trade, they agree that the MFA should gradually be eliminated and international textile trade should be incorporated into the general rules of the GATT.

⁷ The Uruguay Round of multilateral trade negotiations covers a whole spectrum of trade issues, inclusive of quantitative restrictions, import licensing, tariffs, and other barriers to market entry. The negotiations were expected to have an impact on the trade regime imposed by the EC by 1992 on all products (Hutchinson, 1989).

The EC has strongly opposed the US proposal to replace the MFA with a global textile import quota, which would be phased out over 10 years by establishing an overall basket of free imports for each country. This "basket" of free imports would be increased by 10 percent annually until growth in trade would be completely allotted to "free imports". The Community has agreed to abandon the MFA under the conditions that the GATT rules and disciplines be strengthened, textile exporters open their markets, provisions are taken against dumping, subsidies, balance of payments and "infant" industry exceptions, and safeguard mechanisms and protection of intellectual property for designs and models are established (Subhan, 1989).

The actual outcome of the Uruguay negotiations, which will be of critical importance to the trade between the US and the EC, remains to be seen. The MFA issue, however, is inextricably linked with the integration process of the EC 1992⁸, which may have an impact on the final result of the negotiations (Hutchinson, 1989; Ryans & Rau, 1990).

The EC 1992 Single Market and Its Predecessors

The European Community was established by the Treaty of Rome in 1957, when six European countries (Benelux countries, Germany, Italy and France) formed a customs union by abolishing tariffs on trade among themselves and by imposing a common tariff on imports from outside countries. Over the next several years, six additional countries (Ireland, United

⁸ In particular the question of how EC quotas will be administered under the MFA after 1992 will be of great interest to US producers exporting to the EC. Quantitative restrictions applied by EC member states on industrial products such as textiles, automobiles and products granted preferences under GSP (General System of Preferences) are to be abandoned among the member states but will be applied community-wide to countries outside the EC.

Kingdom, Denmark, Greece, Spain and Portugal) joined the Community, and the EC transformed from a customs union to a common market. In this advanced form of economic integration, the characteristics of a customs union are combined with the abolition of restrictions on factor mobility, such as for labor and capital. The EC 1992 Single Market program proposed another major form of economic integration, i.e., a complete economic integration. In this stage of the economic union, a unification of monetary, fiscal, social, and other policies are presupposed, and a degree of political integration is implied (Balassa, 1961).

It was not until 1979 that the major move toward complete integration of the market occurred with the creation of the European Monetary System (EMS) which served to coordinate the economies of the EC members. In order to accelerate the integration process, the EC Commission which is the EC's principal executive body and the European Council of Ministers which is the main legislative body, were established. The former issued a document, called a White Paper, that listed over 300 areas where actions needed to be taken to remove physical, technical and fiscal barriers which restricted the free movement of goods, labor and capital among the 12 countries. The White Paper specified the end of 1992 as the date when the majority of these barriers would be eliminated. The main objective of the EC 1992 program is to permit the 12 nations to function as a coordinated unit in world trade, and thus enhance the EC's competitiveness, especially in its dealings with the US and Japan.

The creation of the Single Market in 1992 will result in the world's most populous marketplace in the industrialized world (325 million people), and in an affluent market (\$ 6 trillion) which will have an impact not only on foreign companies with facilities in the EC, but on the economies of all the outside countries as well. For detailed information on the

population and GNP in individual EC countries refer to Appendix A. Several studies have attempted to estimate the growth rate effects of the integrated market in the EC, but the opinions among economists about the actual gains of the future Single Market are divided (e.g., Baldwin, 1989 & 1990). It is generally estimated that over a period of five to six years, the Community's Gross Domestic Product (GDP) will increase by approximately five percent, consumer prices will drop about six percent, and the amount of exports and imports will increase (Ryans & Rau, 1990). For the purpose of this review, only the changes directly affecting US exporters will be pointed out in a subsequent section.

As for the future developments of the EC, one should not overlook the possible deepening and broadening of the EC. Whereas the advocates of the EC deepening aspire towards a tighter union, the EC supporters of its broadening want to expand the EC membership (Staff, The Economist, February 4, 1990). The EC and the seven members of the European Free Trade Area ([EFTA]; Sweden, Norway, Finland, Iceland, Switzerland, Austria and Liechtenstein) are currently negotiating an expanded European Economic Area (EEA) of 19 nations⁹. The current associates of the EC, i.e., Turkey, Cyprus and Malta, aspire towards full membership status in the future, and all the new democracies in Eastern Europe claim EC membership as their long-term goal.

Community policy toward new applicants, however, remains firm for now: the European Commission and the European Parliament decided to continue new membership talks only after the mid-1990s, as the admittance of new members would slow down the EC decision making process. However, if the EFTA countries plus Malta, Cyprus, Slovenia,

⁹ If ratified by all 19 countries, the EEA will go in effect on January 1, 1993. The prospective merger between the EC and EFTA will create the world's largest free trade area with a population of 350 million people and a combined GDP of over \$ 6.8 trillion.

Czechoslovakia, Hungary and Poland join the EC by the end of the century, the EC will expand to 24 members. In the very long run, republics of the former Yugoslavia, Bulgaria, Romania and the Baltic states could also be candidates for membership (Bailey et al., 1992; Staff, The Economist, July 7, 1990).

In sum, Europe is in the process of being re-designed by the EC 1992 program, which was initially formed to produce a European trading block that would be competitive with the trading blocks of America and Asia. The Community's internal and external problems, which make the future status of European integration uncertain at the time of this writing, have not been pointed out in this review. It is clear, however, that the EC 1992 program, once implemented, will have profound implications for European and non-European companies. Since most of today's industries have to compete globally for markets, technology, labor and finances, the challenges and opportunities in the EC should not be ignored.

Research on the Projected Effects of the EC 1992

Single Market on US Companies

Several studies have projected the effects of the new competitive environment in the EC on US companies which either export or already have an active presence in Europe, and the changes these companies plan to implement in their export marketing strategy, i.e., the extent to which they plan to alter their business practices as a result of the EC 1992. Research projects conducted among the US multinational corporations (MNCs) in Europe are especially relevant to this topic as those companies, having their own production and

distribution facilities in Europe, experience the changes in the European market "first hand". Due to their lengthy experiences in marketing throughout the 12-nation marketplace, they can provide important information for US companies newly engaged in international operations in Europe, or to those more experienced companies which, in view of the EC 1992 program, plan to expand in this market.

Findings of one of the earliest studies (Baker & Ryans, 1972) involving the top 100 US MNCs that marketed their products in the European Economic Community (EEC)¹⁰ revealed that almost 90 percent of the companies made direct investments in Europe as early as the 1960s and 1970s with the Common Market in mind. Almost two-thirds of the respondents indicated that their sales increased as a result of the creation of EEC and they had extremely positive views about the future effects on their business. A research project in 1989, conducted among 22 leading US multinational corporations which represented a cross-section of major manufacturing industries, including the textile industry, also revealed that the overall image of the EC 1992 was positive and that American multinational corporations would benefit from new market opportunities during the next five to ten years (Krum, 1991). The latter is supported by the findings of Yip's study (1991) which indicated that the expansion would not bring immediate financial reward and should be viewed as a long-term "payback". Vandermerwe (1989), in her survey among 80 executives of corporations headquartered inside and outside the EC, found that over 60 percent of both groups anticipated an increase in their market share in the EC after 1992. The respondents of this study saw five major opportunities in the new business environment. Increased market

¹⁰ The EC was prior to the mid-1970s called European Economic Community; at that time it was comprised of only six countries.

opportunities were expected as the pan-European market became more receptive to standardized goods and previously small niches became larger. Faster diffusion of products and services, the market becoming more homogeneous but still complex, and the ability to reduce costs were viewed as the main opportunities. Further, saving time and energy due to simpler paperwork, common procedures for safety and testing, as well as faster and easier transportation were also seen as positive outcomes of the EC Single Market program. The respondents from corporations inside and outside the EC both believed a stronger Europe and increased competitive conditions and labor opportunities were going to be beneficial for their businesses.

Much has been written about the possibility of Europe becoming a protectionist "fortress" Europe as it unifies its internal markets. According to the theory of customs unions, which explains the effect of regional integration on world production efficiency, there are two important effects of creating a customs union. The first one, a so-called "trade creation" effect, is favorable as it rationalizes production within the union while abolishing tariffs among beneficiary countries. On the other hand, tariffs and other elements of discrimination toward the non-member countries may result in replacement of imports from these countries (possibly the most efficient producers) to beneficiary countries, and lead to a so-called "trade diversion effect". The theory states that regardless of which of these effects actually exceeds the other, the creation of desirable consumption patterns may yield a net gain in welfare (Scott, 1989).

It is generally predicted that "europrotectionism" will not occur, as the EC is dependent to a large extent on resources outside its borders, and a protectionist approach would lead to retaliation from the rest of the world. Surveys among the US MNCs (Krum,

1991; Ryans & Rau, 1990) and the CEOs of "insider" and "outsider" EC corporations (Vandermerwe, 1989) have revealed strong expectations that EC 92 will produce a fortress effect through increased non-tariff barriers and more regulation for outsiders due to increased competition. In the textile industry, any such isolation is unlikely, as the Community derives a large share of its gross national product from the exports of textiles (Germeroth, 1989).

Vandermerwe (1989) examined the impact of the formation of the EC on marketing and corporate strategy in the future and the probable environmental and consumer behavior changes. She found there were some other disadvantages that the executives anticipated arising from the EC 1992. Protectionism, intensified competition, non-compliance and clumsy transition were perceived as potential threats along with the pressure on prices, inferior standards and excessive bureaucracy.

Krum (1991) identified a few components of the EC 1992 program that have been perceived to change the way business will be conducted in Europe. One of the most important components is harmonization of standards, product testing and certification procedures which will remove technical barriers to trade. Physical barriers to trade will be eliminated by removing border controls, which will result in a more efficient and less costly distribution system, leading to decreases in inventory costs and an improvement in customer service. The problem of the fiscal barriers to trade, i.e., differing value-added (VAT) and excise taxes, has not yet been solved, but most of the executives of the American MNCs feel tax harmonization would not be essential for enhancing their business (Krum, 1991).

Results of Ryans and Rau's research (1990), where a questionnaire on the EC 1992 issues was sent to 250 firms chosen from the top 1,000 US manufacturing and service organizations, were quite consistent with Krum's study regarding the above mentioned issues.

All the companies involved in this study had total annual sales exceeding \$ 3 billion, did between 10 and 40 percent of their business overseas, operated in six or more EC countries, were producers of industrial products and employed some form of entry strategy other than exporting (joint-ventures, foreign production, etc.). The respondents' assessment on the management-related issues was that a greater parity in wages across Europe would result in more flexibility in shifting managers, and that this would greatly facilitate the functioning of the US firms' subsidiaries in the EC.

Vandermerwe (1989), who obtained responses on the EC issues by means of a questionnaire using open-ended questions as well as personal interviews, concluded that the most important marketing strategy adjustment for the "outsiders" was the creation of a European presence through acquisitions and co-operation agreements in the Community.

Overall, the analysts of the new EC competitive environment after 1992 claim that the integration will lead to extensive industry sector (and cross-sector) mergers, joint ventures and other concentration efforts. These will consequently increase the competition from EC-based companies not only in the EC, but in the US market as well. The majority of business members of the US District Export Council who participated in a nation-wide survey (Ryans & Rau, 1990) on the EC 1992 issues were convinced that harmonization of the EC would lead to more interest in the EC market by US exporters, who should not only export to Europe, but should also have a strong physical presence in the new Europe. They also felt that firms should be seeking to formulate a European strategy prior to the completion of the EC harmonization.

According to Magee (1989), US companies exporting to Europe will face two major problems: the strengthening competition from more efficient European companies and the

threat of so called "europrotectionism" toward outsiders. An exporter may find it difficult to compete with European companies if no strategic planning for the EC 1992 Single Market takes place (Krum, 1991, Magee, 1989; Ryans & Rau, 1990; Vandermerwe, 1989).

Research has shown that American exporters should plan and implement a strategy for gaining or maintaining access to the EC market prior to completion of the Single Market, due to the EC's articulation of a so-called principle of reciprocity. This principle provides that the benefits of the EC 1992 reforms will be available to companies of a non-member country only if this country provides reciprocal opportunities for European firms in the same industry. In view of this principle, and to gain a secure position in the EC market, Magee (1989) recommended that US exporters open European branches, undertake acquisition of European companies, or form joint ventures with existing companies in the EC.

Marketing Strategies for the EC 1992

The most ambiguous issue in the available literature seems to be the extent to which and how the US firms should plan to and actually alter their marketing strategies due to the changes resulting from EC 1992. The move toward economic integration will not lead to a homogeneous marketplace immediately. National differences (language, culture, tastes) will still exist even though the trend toward europeanization will intensify. From the US viewpoint, pursuing pan-European marketing strategies (global and regional) and creating Euro-brands are necessary while still recognizing the importance of national marketing. For American MNCs, marketing decision making will become more centralized, with the

European Central Offices coordinating the efforts of national subsidiary companies rather than having a dominant role (Krum, 1991). The most significant marketing organizational factors needing adjustment, according to Vandermerwe (1989), are centralization of strategic marketing activities (market decisions and marketing services such as advertising), and decentralization of marketing operations, i.e., application of the strategic marketing decisions (management services should be close to the customers).

According to Yip's study (1991), which investigated the performance of the continental and national businesses in Europe and North America on the basis of return-on-investment, the EC 1992 should lead to an improvement in the performance of continental business without implementing drastic changes. As opposed to multinational businesses¹¹, continental businesses which operate across national boundaries using common market positioning were found to perform worse than national businesses and even worse than regional businesses in North America.

The EC 1992 program will have major implications for marketing strategies of firms, especially in the areas of marketing research - mainly due to anticipated changes in consumer behavior, and factors associated with marketing mix variables, i.e., product, price, place and promotion.

Marketing Research

Consolidations and mergers will lead to an increased demand for simultaneous marketing research studies in different countries. Suppliers of consumer goods in particular

¹¹ Multinational business is a collection of national businesses within a single MNC, which differentiate their products for the national market.

will need continuing marketing research as tastes/preferences are expected to start homogenizing as time progresses (Callar, 1990). From the point of view of the "outsider" corporations, the main anticipated changes in consumer behavior will include more demanding consumers with greater sensitivity to price and quality, more and better service needs, pan-European purchasing and more mobile consumers. The main changes in industrial consumer behavior entail pressure to reduce prices, Europe-wide sourcing, increased demand for services and just-in-time delivery, as well as looking for more alternatives prior to selection of suppliers in the future (Vandermerwe, 1989).

Marketing Mix Variables

Products. Some firms will want to develop pan-European products/brands in order to gain production and marketing economies. Europe-wide positioning of corporations, i.e., establishing a strong pan-European image, will become important. The effect, most probably, will be a smaller total of new products targeted at a wider population. The area of product development will become increasingly important. American producers will be able to establish uniform product lines which will not necessarily be very different from those offered at home (Ryans & Rau, 1990). A major area of concern to US exporters is EC-wide standards and regulations to test and certify product conformance to EC health, safety and consumer requirements¹². Furthermore, differentiating firms' offerings by customizing services at a regional level will be beneficial to gain a lead in some of the Euro-segments (Vandermerwe, 1989).

¹² The U.S. Department of Commerce has been working in the past years with EC officials and the US and European private sectors to ensure that the EC standards process and product certification procedures do not disadvantage US producers.

Pricing. Besides the management of distribution, the greatest challenge for pan-European marketers is pricing. Price rationalization is likely to occur through lower distribution and warehousing costs, and the use of lower cost producers in Southern Europe. The ability of some firms to retain high margins in high price markets will decrease, and with the possible harmonization of value-added (VAT) taxes, the firms will have less freedom in pricing (Ryans & Rau, 1990). The most commonly mentioned anticipated changes in pricing strategy in Vandermerwe's (1989) study were Europe-wide price equalization and common European Currency Unit (ECU) accounting.

Place. The distribution/logistics infrastructure and channel institutions will become more multinational. The highly fragmented retail industry will undergo a revolutionary transformation (mergers, alliances). Other factors which need to be considered are Europe-wide sourcing by industrial customers, centralized purchasing decisions and cross-border purchasing by consumers. Strengthening sales networks and distribution channels as well as building an active presence in the market were repeatedly mentioned as priorities in Vandermerwe's (1989) research. Executives responding to this study emphasized the importance of sending their staff to Europe in the future.

Promotion. The promotion area of marketing seems to be the most resistant to centralization in Europe, even after a Unified Market becomes a reality. The highly decentralized nature of personal selling, trade and consumer sales promotion and advertising are likely to remain for quite some time. Despite the penetration of satellite and cable TV across the EC, the differences in languages and culture will remain, making it difficult to

standardize advertising. Some unification of the broadcast and printed media will help marketers to establish pan-European brands (Germeroth, 1989). Due to stronger competition in the new business and regulatory environment, there will be a need to create a significant presence in this market by means of advertising and promoting image and products, and by improved public relations programs (Ryans & Rau, 1990; Vandermerwe, 1989).

Implications For the Textile Industry

All the changes occurring in the European market mentioned so far could have implications for the potential exporter of textile products. A very important ramification for the textile industry will be the introduction of the EC global quota to replace the present national quotas. Due to the earlier mentioned gentlemen's agreement, a global quota will not directly affect American exporters but it will make the European market more accessible overall and thus increase competition. Simplification of customs documentation will give firms that are already present in the EC market an incentive to sell their goods to more than one country, even though national labeling requirements are not likely to change. It is very doubtful that the differences in VAT taxes which currently vary from 9 to 25 percent for textile and apparel products would affect a textile exporter, because the VAT tax paid in one member country would be deductible when the same goods entered another country (Germeroth, 1989).

Another implication which may be of great importance to upholstery fabric exporters is the EC directive concerning fire safety in hotels. So far this directive does not propose to harmonize testing and classifying of fabric flammability, but merely reasserts that current standards now imposed by member states should represent the minimum requirements for

flammability of interior coverings and decorations in existing hotels (Hutchinson, 1989). However, the United Kingdom regulations on flammability of upholstered furniture and upholstery materials are extremely rigorous and make it difficult for the US as well as other countries to export these products to the UK. Although unlikely, a concern has been expressed about the possibility that the UK regulation might be applied Community-wide (Hutchinson, 1989).

A change that may directly enhance the ability of US textile producers to compete in the integrated market is the uniform provisions of the EC commercial agent contracts which will enable agents to negotiate and conclude sales on behalf of the US firms wherever they hope to sell their products. This provision will help to create an active presence of US producers in the market without their having to establish their own European offices (Jacobs, 1989).

The highly fragmented nature of the retail industry may initially represent an obstacle for exporters wishing to take advantage of the EC 1992. Large retail chains common to the US are rare in Europe, and the structure of the retail sector varies greatly across countries (Ryans & Rau, 1990). The primary market for textile products is concentrated in Germany, Italy, France and the UK. The remaining smaller and more fragmented markets may become more attractive as pan-European retailers develop. It should be noted, however, that the marketing of interior furnishing textile products does not always address individual consumers, but organizational consumers such as institutional buyers, governments, and furniture manufacturers. As there are distinctive differences in marketing to consumer markets as opposed to so-called industrial markets, retail establishments may not always be of utmost importance for the distribution of interior furnishing products. On the other hand, it is

expected that increased mergers and alliances between retailers after 1992 will stimulate consumer purchasing and result in different spending patterns. The plan for an integrated market will not limit the ability of US producers to establish their own retail outlets in Europe, as Article 58 of the Treaty of Rome entitles all firms with operations in the EC to be treated as European firms (U.S. Department of Commerce, 1989).

To date, limited academic research has been done on the EC 1992 issues and their implications for the non-EC organizations. However, some studies have attempted to investigate views and expectations about changes in the EC, and strategic alternatives that may be available to American producers in the new, highly competitive European marketplace. The respondents in most of these studies represented a cross-section of major manufacturing and service industries, therefore their views and suggestions for marketing strategies needing to be implemented varied greatly, according to the products and services offered. Those research projects at times included textile companies, but none of them specifically dealt with US textile and apparel firms currently active as exporters to the EC market.

Since there has been considerable growth in US textile exports to Europe in recent years, and the developed overseas countries represent the most important area of future growth in textile trade (OTA, 1987), there is a need for further research on the opportunities in the EC market specifically for US textile producers.

Interior and Home Furnishing Textile Industry

The textile sector in the US is considered a mature industry with a declining annual growth rate of total mill shipments in the past 10 years. Shipments of home-furnishing

textiles, which, along with industrial uses, represent one of the three major end uses of the textile mill products, have increased more quickly than apparel fabric shipments (OTA, 1987). In addition to the faster growth of the home-furnishing textile producers, many other producers have shifted their product orientation into home-furnishing textile markets, as production is more automated and less susceptible to surging imports¹³ than in the apparel sector. According to the American Textile Manufacturers Institute, the imports of home-furnishing textiles into the US amounted to 5.3 percent of total textile and apparel imports in 1988 (Vandeventer, 1991).

According to Cohen (1989), the home-furnishing textile market encompasses various product categories, including the upholstery fabrics, floor-coverings, linens, decorative fabrics and finished products such as draperies, comforters, bedspreads, cushions, pillows, window treatments, bathroom accessories, etc. Home-furnishing textile items are produced by two main sources. Products such as towels, blankets, sheets and bath rugs are typically manufactured by fabric mills since only a few additional manufacturing processes are involved in product completion, i.e., little value is added to the materials. Items such as curtains or comforters, which require longer sewing and cutting processes are produced in establishments engaged in manufacturing home textiles from purchased materials (Cohen, 1989; Fairchild Research Division, 1990).

In this research, the home-furnishing textile industry has been defined as by Cohen (1989), except that the floor-covering sector has been excluded as a product category. The term interior furnishing textile (IFT) industry is used throughout the study and includes

¹³ Due to a relatively low value-added in home-furnishing products, major exporting countries are motivated to focus on apparel items for which the value-added is much more substantial.

manufacturers/converters of upholstery fabrics, linens, decorative fabrics and finished products/accessories for windows, kitchen, bedroom and bathroom.

The home-furnishing textile market has been influenced by demographics, lifestyle, economic status and geographic location (Cohen, 1989; Wagner, 1986; Winakor, 1975). In addition, new housing activity, a high turnover in the existing-homes housing market, and fashion trends, especially colors and patterns, have been determined to impact this segment of the textile industry (Thomas, 1989; Vandeventer, 1991). Fashion trends inclusive of designer names, brand labels and coordinated looks are as important in the home-furnishing textile sector as in apparel, but unlike apparel, home furnishings are expected to last longer, some items as long as 10 or more years. Thus, quality and performance properties such as durability, colorfastness and stain resistance are of high importance.

Marketing of interior furnishing textiles differs from marketing of apparel products in that it is not targeted solely to household consumers but to organizational buyers as well. Due to differences in the structure of consumer and industrial markets, the decision making regarding all aspects of marketing is greatly affected. The products offered to industrial markets, for instance, may be used for various end-use purposes and the products may be in a semi-finished state. Fewer and shorter distribution channels exist for institutional buyers who are also fewer in number than individual consumers. Furthermore, institutional buyers engage in volume purchasing. Buying decisions of institutional buyers are to a much less extent based on emotion, impulse, or fashion. Specifications, manufacturer reliability and cost effectiveness play important roles in decision making. Factors such as quality, performance properties, product uniformity and delivery promptness as well as technical assistance are more important than price. Price is rarely used as a promotional tool. The major promotional

activities for products addressing institutional buyers are trade shows, publications and catalogs. Advertising typically emphasizes technical data on the product (Cohen, 1989; Evans & Berman, 1990). Overall, marketing of the interior and home furnishing textile products is less affected by the season of the year, retailer or the media than is the apparel industry.

Compared to the apparel sector, the interior and home furnishing textile industry in the US is less fragmented. As a result of mergers and consolidations in the early 1980s, there are fewer but bigger, vertically integrated mills (Cohen, 1989). For example, the sheet industry sector is dominated by four large US mills which produce 96 percent of the domestic output; in the terry towel sector, four large mills account for 88 percent of the total domestic production (Fairchild Research Division, 1990). For further information on HFT industry statistics, see Appendix B. The production is well suited to automation, mills can exploit economies of scale and enjoy proximity of raw material sources. All of these give the producers a competitive advantage over imports. In spite of the better performance of the home-furnishing textile industry in comparison to the apparel sector in the past decade, it is believed that this sector will experience slow domestic growth¹⁴ in the 1990s (Vandeventer, 1991). Finding narrower target market niches and improving merchandising techniques may stimulate consumer spending, but stagnant domestic demand and population patterns, which indicate a stable housing market, support the projection for slow growth. In order to compensate for the static demand in the US market, companies should increase their exports.

¹⁴ Kurt Salmon and Associates' short-term projection (cited in Fairchild Market Research Division, 1990) for home textiles in 1990 was one to three percent increase, and only moderate prosperity in the US for most of the decade.

The Challenge of Exporting Interior Furnishing Textiles
to the EC 1992

US textile exports have grown considerably in recent years, indicating that American textile firms are aware of the importance of expanding to overseas markets, and possess the capabilities to do so. According to DuPont Vice President, David Barnes, American exports are "competitive today because of the scale efficiency, higher capacity utilization, and the higher productivity of American fiber and fabric producers as well as the downstream industries" (OTA, 1987, p.82).

As the integration of the EC markets is expected to result in a lucrative market of 325 million people, the EC 1992 may represent a very attractive destination for US interior furnishing textile exporters' products. The Community has been traditionally a major export market for external textile suppliers, as apparel expenditure in 1988 amounted to ECU 166 billion and expenditure on carpets, interior furnishings and household linens was ECU 35 billion. As the standard of living has risen, "the Western European consumer has responded by showing a greater willingness to pay more for an article which is of better quality, has a higher fashion content or is otherwise more innovative" (Subhan, 1989, p.48).

Vandermerwe and L'Hullier (1989) studied key demographic aspects of the EC 1992 consumers, and concluded that once physical, fiscal and technical barriers are removed, Europe will convert into a market 30 percent larger than the US market, and with age groups more evenly distributed, providing a very stable market. The authors also indicated that, although the purchasing power of the average European is lower than that of the average

American, it is expected that as Europe starts prospering in the new environment, consumers' incomes and expenditures will increase.

Marketing Strategies And Successful Exporting

In order to achieve the objectives of this research, literature pertaining to the determinants of successful exporting activities constitutes an integral part of the literature review.

Up-to-date knowledge of exporting can be viewed from two broad perspectives: the external environment level, and the business strategy level (Aaby & Slater, 1989; Dahringer & Muehlbacher, 1991). The external level, which encompasses macro economic, political and legal, social, physical and cultural aspects, is not within the control of the individual firm. These macro parameters are considered as given constraints which need careful consideration while assessing market potential and while planning export strategies. The majority of the exporting literature focuses on the business level, i.e., on aspects related to the managerially controllable variables affecting export performance: a) a firm's export marketing strategies and b) a firm's characteristics and competencies.

In their comprehensive review of literature for the period 1978-1988, Aaby and Slater (1989) concluded that there is no universal rule for developing a general export strategy program that would lead to a good export performance. They pointed out, as did several earlier studies not included in Aaby and Slater's synthesis of export literature, that there are certain factors which contribute to a firm's success in foreign markets. These, and other aspects of internal influences on export activities, are reviewed in this section.

A Firm's Export Marketing Strategy

As a theoretical concept, export marketing strategy lacks clear definition. Neidell (1971) and Fenwick and Amine (1979) equated the concept exclusively with marketing mix variables, whereas the majority of more recent studies indicate marketing strategy to be a much broader concept. Louter (1991), who attempted to determine factors which increase the chances of export success, defined marketing strategy in terms of a) the scope dimension (number of countries a company exports to and market segmentation), and b) the competitive dimension, which divides the marketing mix into price and non-price factors which are product quality, a product's uniqueness and price, standardization vs. differentiation issues, marketing process (information and planning) and entry strategy. Madsen (1989), who found marketing export policy to be the most crucial factor for export success, measured marketing policy by multiple indicators: a priori market research, planning and control, export intensity, entry mode, adaptation of marketing mix variables, product strength, price competitiveness, communication intensity, and channel support. Aaby and Slater (1989) developed an integrative model of export performance based on the export literature from 1978 to 1988, and included the following variables in their export strategy concept: market selection, use of intermediaries, product mix, product development, promotion, pricing, and staffing. Cooper and Kleinschmidt (1985) examined export strategy in terms of market selection and product policy.

Since findings of the above mentioned studies indicate that certain aspects of an export marketing strategy increase the chances of success in export markets, the most viable aspects of marketing strategy will be reviewed in detail.

Product

Developing a unique, high quality product for the export market was found to have a strong impact on export performance (Louter, 1991; Madsen, 1989). Adaptation of export products exerted a significant influence on differentiating between successful and unsuccessful exporters in Fenwick and Amine's 1979 study. Their thesis was supported by Weinrauch and Rao (1974) who stated that it is mandatory to accommodate marketing mix variables to the unique aspects of the export environment, and by Neidell (1971) who found that, along with price, a "flexible product" was a major determinant of export success. However, Christiansen, da Rocha and Gertner (1987) concluded that standard product and multiple product lines are more important for a firm's success in foreign markets. Diamantopoulos and Inglis (1988) concluded in their study that differences between high and low involvement firms were not significant in terms of product adaptation and export product base.

Technological variables, i.e., research and development spending, product advantages and sales of new products, were found to have a consistent impact on the export growth measure of export performance (Cooper & Kleinschmidt, 1985). Aaby and Slater (1989) pointed out that the importance of technology intensiveness of a product depends on the export markets a firm chooses; if a firm markets to developed countries, technology may be an essential source of the company's advantage, and in this case, low cost competition is not important. Madsen (1989) found that a strong product not only increases consumer satisfaction and enhances chances for export success, but enables a firm to find better agents, get channel support and create deeper commitment within the firm itself.

Price

Regardless of the measures used for monitoring export performance, several studies found that price competitiveness and price advantage were not significant indicators (Cooper & Kleinschmidt, 1985; Madsen, 1989). However, Weinrauch and Rao (1974) found that, although pricing and credit adjustments were important for export success, they were perceived as the most difficult to alter by potential exporters. Neidell (1971) noted that the price structure and required channel markups must be thoroughly understood, and Cost, Insurance, and Freight (CIF) price quotation may be necessary. Flexible pricing, allowing quotation in domestic and foreign currencies, was not found to be significant in distinguishing successful from unsuccessful exporters (Fenwick & Amine, 1979). Other important aspects of pricing decisions were found to be the use of discounts and credits for buyers, relying on price policy relative to competition in the export market, and consideration of internal costs (Aaby & Slater, 1989; Christiansen et al., 1987).

Distribution

Most of the reviewed literature revealed that the choice of an agent/distributor, channel support, a close relationship with the channel members, delivery and service are crucial factors for effective exporting (Aaby & Slater, 1989; Fenwick & Amine, 1979; Louter, 1991; Madsen, 1989). Neidell (1971) recommended that it was preferable to omit certain markets if good representatives were not available, rather than to risk a poor reputation. Finding adequate representation was found to be the most pressing problem facing all exporters in this study.

Promotion

There has been no consensus among researchers with regard to the impact of this marketing mix variable on export performance. While Neidell (1971) states that there is "a primary requisite to assign an executive as an export manager who could devote a major portion of his time and energy to export promotion" (p.42), others found another aspect of promotion, i.e., communication intensity such as personal contacts in the target markets, more significant for export success (Madsen, 1989; Weinrauch & Rao, 1974). However, when promotion is used, it is important to adjust promotional aspects to local markets, as the promotion has to meet legal, cultural, linguistic and other requirements of a foreign market. The degree of standardization of promotion thus becomes a crucial issue which affects costs of the product and its distribution. Since promotion is the most visible element of the marketing mix, exporters should bear in mind that it is most vulnerable to misinterpretation and misuse (Dahringer & Muehlbacher, 1991).

Market Entry Strategy

A firm's entry strategy is very often considered as one of the most important decisions in international marketing strategy (Fenwick & Amine, 1979; Louter, 1991). Madsen, in his 1989 empirical export study, refers to entry mode as the extent to which a firm chooses to carry out the export marketing functions itself as opposed to buying them in the market through agents and distributors. He found no universal association between entry strategy and export performance of the firm. Louter concluded in his 1991 study that the commitment to invest in foreign markets, inclusive of flexibility, reliability and a consumer-oriented approach, greatly increases chances for export success.

Root (1987) classified entry modes into the following categories, each subsequent category involving a higher degree of risk, but exerting more control over foreign marketing operations:

- a) Export entry modes (indirect exporting, direct exporting involving agent/distributor or branch/subsidiary),
- b) Contractual entry modes (licensing, franchising, technical agreements, service or management contracts, etc.), and
- c) Investment entry modes (sole venture or joint venture, e.g., new establishment or acquisition).

The selection of the market entry mode depends on several external factors in the exporting and home countries, as well as on the factors internal to the firm. The external factors include market, production and environmental aspects in the exporting country and several aspects in the home country. Important internal factors a company has to consider while making decisions about the entry mode are related to the product (the degree of product differentiation, adaptation required for foreign markets, and technological content of the product), and to a firm's resource and commitment factors.

A company competing in global markets will gradually change its initial entry mode selection in order to gain more control in its target market but has to, in return, assume greater market and political risks (Dahringer & Muehlbacher, 1991; Keagan, 1989).

Market Selection and Market Segmentation

Foreign market selection was found to be an important explanatory variable of the firm's export success. Diamantopoulos and Inglis (1988) found that high involvement firms

tend to target a larger number and more diverse export markets. Firms with world orientation realized a more rapid growth rate in export sales than did firms targeting nearest neighbor markets in Cooper and Kleinschmidt's 1985 study.

Louter related the "scope dimension" of marketing strategy to various indicators of export performance (export/sales ratio, export profitability, relative export profitability, and perceived degree of firm's success). His findings are consistent with Piercy (1982) and support the situational approach. The number of countries exported to, and the degree of concentration on certain markets, depended on the industry, goals of the company and the target market conditions. Louter concluded that targeting a customer niche (focus strategy) contributed to export success. However, if the markets were not segmented, a standardized marketing mix would improve chances for success due to economies of scale and lower marketing costs.

A Firm's Characteristics and Competencies

Almost without exception, all empirical export studies found that management commitment/expectations and management perceptions/attitudes were both extremely important predictors of a firm's success in foreign markets (Fenwick & Amine, 1979; Louter, 1991; Madsen, 1989; Neidell, 1971).

Neidell (1971) concluded that "... a key to successful international operations may be more a matter of attitude rather than adherence to any specific practice or policy" (p. 39). Attitude and commitment, product adaptation and number of years of experience were found to be the only variables exerting significant influence in distinguishing successful from

unsuccessful exporters in Fenwick and Amine's (1979) study. However, the authors noted that caution is required while interpreting causality; export results may create positive attitudes rather than the reverse. Madsen (1989) also questioned the direction of causality in his findings; whether top management support leads to better export performance or vice versa. The same issue was raised by Diamantopoulos and Inglis (1988) when they found that a larger number of staff responsible for export sales and separate export departments were typical for high export involvement firms. They recognized that more staff is allocated to exporting as a result of higher export sales.

Madsen (1989) found that the most important explanatory variable for successful exporting was country-specific experience, as it leads to a better understanding of market mechanisms, a network of personal contacts (also significant in Louter, 1991), communication with market participants, and better decisions regarding planning and control of export activities. The same study investigated the impact of management perceptions regarding market characteristics such as market attractiveness, trade barriers, physical and psychological distance of the buyer's market, and attractiveness of the domestic market. The author concluded that perception of market attractiveness bears strongly on the volume of export sales, as it creates more commitment within a firm and leads to better adaptation of export products as well as to closer market contacts. Madsen's findings are consistent with those of Cooper and Kleinschmidt (1985), who found that firms which perceive the domestic market to be very attractive tend to have poorer export performance.

A firm's size does not appear to be a dependable determinant of export success, unless it is linked to financial strength factors or variables related to economies of scale. Christiansen et al. (1987) found a firm's size to be significant while differentiating between

exporters and non-exporters, whereas Cooper and Kleinschmidt (1985) established a negative relationship between size and export intensity. Diamantopoulos and Inglis (1988), however, found organizational variables such as a firm's size, age and number of years of export experience to be unrelated to firms classified as high or low export involvement firms.

Management competencies such as export planning and control of export activities, market knowledge and information gathering, and language/communication capabilities have even more influence on successful exporting than do firm related characteristics. Setting clear and consistent goals, international vision, willingness to take risks, and positive perceptions were found to be crucial determinants by several researchers (Aaby & Slater, 1989; Dahringer & Muehlbacher, 1991; Louter, 1991; Neidell, 1971).

Diamantopoulos and Inglis (1988), who attempted to identify differences between firms with high and low export commitment, operationalized export involvement in terms of export intensity (export sales to total sales ratio). Firms with an export-to-total sales ratio greater than 50 percent were classified as high involvement exporters, and the remaining firms were classified as low involvement exporters. The results of their study indicate that operational aspects of exporting as well as allocation of export staff do contribute to differentiating between high and low export involvement firms. When comparing the two types of exporters to general firm characteristics and several export characteristics, they found that high involvement exporters tend to employ a larger number of export staff, possess a separate export department, serve more diverse export markets and interact with fewer export assistance agencies.

In summary, current research supports the thesis that certain factors internal to the firm can be quite dependable determinants of export performance, regardless of how the latter concept is operationalized. The most commonly used approach for measuring export success is either to separate firms into categories of exporters and non-exporters, or to measure export performance in terms of rate of growth in export sales and percentage of total sales accounted for by exports. Also, firms pursue export endeavors for the benefits associated with long-term growth and profitability.

Although the research reviewed almost exclusively examined micro influences on export success, recognizing changes as well as reacting to changes in the external environment are equally important. Several researchers concluded that close monitoring of market changes is extremely important for competing in global markets (Fenwick & Amine, 1979; Madsen, 1989; Neidell, 1971). An awareness of the laws and regulations affecting commerce in export markets as well as those in the exporter's own country is essential in planning and implementing export strategies.

CHAPTER 3

STATEMENT OF THE RESEARCH PROBLEM

This chapter presents the statement of the research problem, and outlines the objectives of the study. The conceptual framework of the research, based on the strategic concept of marketing, strategy formulation and exporting as an international marketing activity, is also introduced in this chapter. The declarative hypotheses for research objective two, and their justification constitute the next section. Finally, the limitations encountered while conducting the study as well as assumptions of the research are discussed.

Research Problem and Objectives

The purpose of this research was to examine the export involvement and marketing characteristics of eight US interior furnishing textile manufacturers who market to the EC, and to determine their perceptions of how the creation of the EC 1992 Single Market would affect their future marketing strategies and market potential. Using the case study method, i.e., personal interviews, this research investigated the expectations of interior furnishing textile (IFT) exporters regarding the EC 1992 market potential, and investigated whether they plan to adapt their export marketing strategies to the changing regulatory and business environment in the EC 1992 Single Market.

The first objective of this study was to describe the export involvement of the eight IFT manufacturers in terms of each firm's overall export intensity and export intensity for the EC market, geographic coverage, the number of product markets and number of years of

actively pursuing foreign markets. This objective also included an assessment of the firms' export marketing characteristics in terms of firms' customers, employment of foreign sourcing strategies, factors which determine export sales, entry modes, market segmentation strategies, product related issues as well as pricing, promotional and distributional characteristics of each firm's marketing mix. Furthermore, base information of the surveyed companies was gathered, including the nature of products, the size of the company, the number of years of exporting to the EC market, and the existence of a separate export department, and the export staff.

The second objective was to determine perceptions of the IFT export executives regarding the changes in the regulatory and business environment which will be introduced with the EC 1992 program; whether these changes will affect the market potential in the EC and will necessitate adaptation of their currently practiced export marketing strategies including the entry modes, market segmentation as well as product, price, promotional and distributional factors of the marketing mix.

Conceptual Framework

The conceptual framework for the study is based on the strategic concept of marketing, and on Keagan's (1989) conceptual framework for a firm's strategy formulation, both of which appear essential for global marketing management. As the only differences between domestic and global marketing stem from differences in national environments, a basic strategic concept of marketing can be applied to the dynamics of doing business abroad. Furthermore, the conceptual framework for this study is based on an understanding of export

marketing as a form of a firm's international activities, and on determinants of successful exporting. Keagan (1989) noted that " the essence of successful exporting is to apply the marketing concept to the task" (p. 554).

The Strategic Concept of Marketing and Strategy Formulation

A clear understanding of the marketing discipline and its strategic concept is, according to Keagan (1989), imperative for the development of a successful global marketing program. The concept of marketing has undergone considerable changes within the past three decades (see Table 3.1).

As opposed to the old concept of marketing with a focus on making a "better" product and selling it to potential customers, the "new" concept of marketing in the 1960s emphasized customer satisfaction and profits by shifting the focus to marketing mix variables, i.e., product, price, promotion and distribution. The latest definition of the concept of marketing came about in the 1980s and retained the features of the "new" definition but also focused attention on a firm's external environment, and on stakeholder¹⁵ benefits instead of on profits through customer satisfaction. According to this strategic concept of marketing, understanding customers in relation to competition, government policy/regulation, economic, social, political and other macro forces which have an impact on the target market, is of utmost importance. Marketing has been viewed as a combination of concepts, theories, practices, experiences and

¹⁵ Stakeholder includes any person or group (stockholders, employees, customers, state, country, community, etc.) interested in the outcome of a firm's activity.

Table 3.1

Definitions of Marketing

THE EVOLVING MARKETING CONCEPT			
CONCEPT	FOCUS	MEANS	END
Old	Product/Service	Selling	Profit via sales
New	Customers	Integrated marketing	Profit via customer satisfaction
Strategic	Environment	Strategic management	Stakeholder benefits
THE MARKETING MANAGEMENT PROCESS			
Marketing is a process of focusing the resources and objectives of an organization upon opportunities in the environment.			
THE MARKETING DECISION MIX			
Product decisions (design, durability, size, service, etc.) Pricing decisions Place decisions (physical distribution and channel structure) Promotion decisions (advertising, promotion, personal selling) Information			

Source: Based on Global Marketing Management (p.5) by W.J. Keagan, 1989. Englewood Cliffs, NJ: Prentice Hall, Inc.

procedures. This discipline has been traditionally defined as a set of activities (involving the marketing decision mix) and as a business process of focusing a firm's resources and objectives on opportunities and challenges in the environment (Evans & Berman, 1990; Keagan, 1989).

There is essentially no difference between domestic and global marketing since the requirements for success in markets abroad are the same as in the domestic market (Dahringer & Muehlbacher, 1991; Keagan, 1989). The only differences between domestic and international/global markets stem from differences in national environments. Therefore, global marketing success is, to a large extent, dependent upon an understanding of major environmental dimensions in the world markets.

As emphasized in most of the existing literature, competing on a global level is essential for today's businesses. If a firm fails to recognize opportunities and face challenges beyond its national scope, it risks losing its domestic market share to more dynamic global competitors. The driving force of a firm expanding to foreign markets is not only the attractiveness of foreign markets and the realization of the firm's full potential through growth and expansion, but to ensure its survival as well.

In order to comprehend the complexity of global marketing, several key concepts need to be identified. One of the main concepts pertaining to both domestic and global marketing management is the marketing strategy of an organization. Marketing strategy lacks clear definition, and has been defined differently for various research purposes. In general, a marketing strategy is conceptualized as a response of a firm to the business environment, and a response to creating stakeholder benefits.

Keagan (1989) proposed a conceptual framework for strategy formulation and divided the framework into eight distinct phases (Figure 3.1). The first phase includes three basic strategic dimensions: a firm's external environment, a firm's internal environment and stakeholder benefits. The second phase deals with assessing and identifying opportunities and threats in the external environment and the strengths and weaknesses of the firm. The third phase is based on the previous two, and involves determining the firm's goals and objectives. A firm's major motives for business are identified, and its distinctive competencies (products, markets, capabilities, results) are determined in the following phase. Phase five consists of the development of strategic plans and programs for each of the functioning areas of business (manufacturing, marketing, R & D, control, finance, human resource, etc.). Phases six and seven involve plan implementation, control of actual implementation of a firm's programs as well as constant surveillance of the external and internal environment. The last phase, which is timing, links the strategy formulation of the past, the present and the future. The timeline (across the bottom of Figure 3.1) shows the relationship between assessment of past events, identification of the present market/other conditions, and anticipation of the future conditions in the external and internal environments of the firm. Although a marketing strategy is always implemented in the present, accounting for past experiences and anticipation of future conditions are integral parts of it.

STAKEHOLDER VALUES	ENVIRONMENT	ORGANIZATION	STAKEHOLDER VALUES
STRATEGIC DIMENSIONS Economic, Sociocultural, Political, Technological, Markets, Costs, Competitors, Customers, Government	Human resources/capabilities Marketing, Finance, Manufacturing, Engineering, R&D	Size/growth Profitability/return Geographic, Social responsibility, Aesthetics, Style, Ethics	Relative importance
STRATEGIC PROCESS: Identify, Assess	Key assumptions, opportunities, threats, trends	Key assumptions, strengths/weaknesses	Objectives and Goals
DETERMINE IDENTIFY DRIVING FORCE OF BUSINESS AND DISTINCTIVE COMPETENCE	CATEGORY Products, markets Capabilities Results	STRATEGIC AREA <ul style="list-style-type: none"> • Products offered, markets served; knowledge of customers; financial resources/structure, new product development • Technology, Production capability, Method of sale, Method of distribution, Natural resources • Size/growth • Profitability/return 	
DEVELOP INTEGRATED PLANS AND PROGRAMS	Control, Engineering, Finance, Human resources, Manufacturing, Marketing, R & D, Social responsibility		
PLAN IMPLEMENTATION	Obtain and commit resources to plans and programs. Manage resources.		
CONTROL	Compare implementation results with plans and programs. Compare environmental, organizational, and value assessment with key assumptions. Recycle to phase 1.		
TIMING	The strategy timeline links past, present, and future		
Evaluate and assess	Annual operating plan/budget	Forecast, plan, and program	Guide plan
Past	Present	One year	Medium term Long term

Source: Based on Global Marketing Management (p.5) by W. J. Keagan, 1989, Englewood Cliffs, NJ: Prentice Hall, Inc.

Figure 3.1 A Conceptual framework for strategy formulation

Exporting

As the world becomes increasingly specialized and integrated, national economies become more dependent on supplying and servicing markets located outside their national boundaries. Thus, exporting plays an important role in the world economy.

Export marketing is defined as the global marketing of goods and services that are produced in a foreign country with a focus on the customer and the external environment (Keagan, 1989). Exporting is one of the most common and well-established forms of international activities of firms. As opposed to higher levels of entry mode which include investments in manufacturing and marketing establishments abroad, exporting requires substantial investment in promotional aspects of the marketing mix only. Thus, the perception of exporting as a low-investment alternative of a firm's global operations does not hold true. A firm's decision to either export or employ more complex international operations should not alter the basic marketing plan, which is different from the sourcing plan of the company. Location of a firm's production facilities is purely a function of factor costs (transportation costs, tariff and duty charges, entry barriers, supply and delivery considerations) whereas the firm needs to invest in marketing to a target market regardless of its sources of product supply for that market.

Export marketing requires understanding of the target market environment as well as the application of marketing tools such as identification of market potential, employment of market research, decisions regarding product, price, distribution and promotion. Also, organization, planning and control are integral parts of export marketing.

Determinants of Successful Exporting

Exporting can be viewed from two perspectives: an external environment level and a business strategy level (Aaby & Slater, 1989; Dahringer & Muehlbacher, 1991). The macro parameters such as economic, sociocultural, political, technological, legal and others cannot be controlled by individual firms. However, these factors need careful consideration while assessing market potential and planning export strategies. In an attempt to determine critical factors for export success, current empirical export literature mainly investigates factors internal to the firm. Apart from a firm's ability to plan for and deal with its macro environment, a firm's export marketing strategies and a firm's characteristics and competencies were found to be closely related to a good export performance.

The most viable aspects of a firm's export marketing strategy were found to be the firm's decisions pertaining to product, price, distribution and promotion (Fenwick & Amine, 1979; Louter, 1991; Madsen, 1989; Neidell, 1971; Weinrauch & Rao, 1974). Marketing entry mode as well as the selection of target markets and market segmentation were also identified as determinants of successful exporting (Cooper & Kleinschmidt, 1985; Diamantopoulos & Inglis, 1988; Fenwick & Amine, 1979; Louter, 1991; Madsen, 1989; Root, 1987).

The most significant factors affecting export performance, however, are not related to product characteristics or other aspects of the marketing mix, but to a firm's characteristics and competencies. The majority of empirical export studies found management commitment, their expectations, perceptions and attitudes to be critical predictors of a firm's export performance (Cooper & Kleinschmidt, 1985; Fenwick & Amine, 1979; Keagan, 1989; Louter, 1991; Neidell, 1971). More specific aspects of this variable influencing the export

success of an organization are the number of export staff responsible for export sales, the existence of a separate export department, the number of years of experience of export executives, country specific experience in foreign markets, the perception of market potential, and close market contacts. Export planning and control of export activities, market knowledge, information gathering, and communication capabilities were also found to bear importance on successful exporting (Aaby & Slater, 1989; Dahringer & Muehlbacher, 1991; Louter, 1991; Neidell, 1971).

The conceptual framework for this study is presented in Figure 3.2. It is based on a strategic concept of marketing (Table 3.1) and Keagan's (1989) framework for strategy formulation (Figure 3.1), specifically its phases relating to strategic dimensions and timing. The variables selected are strongly based on the existing literature pertaining to formulating a global marketing strategy, determinants of successful export marketing as well as aspects of the changing regulatory and business environment in the EC 1992, all of which may have a profound impact on a firm's future strategies, plans and perceptions of the market.

STRATEGY FORMULATION FOR THE EC 1992 MKT

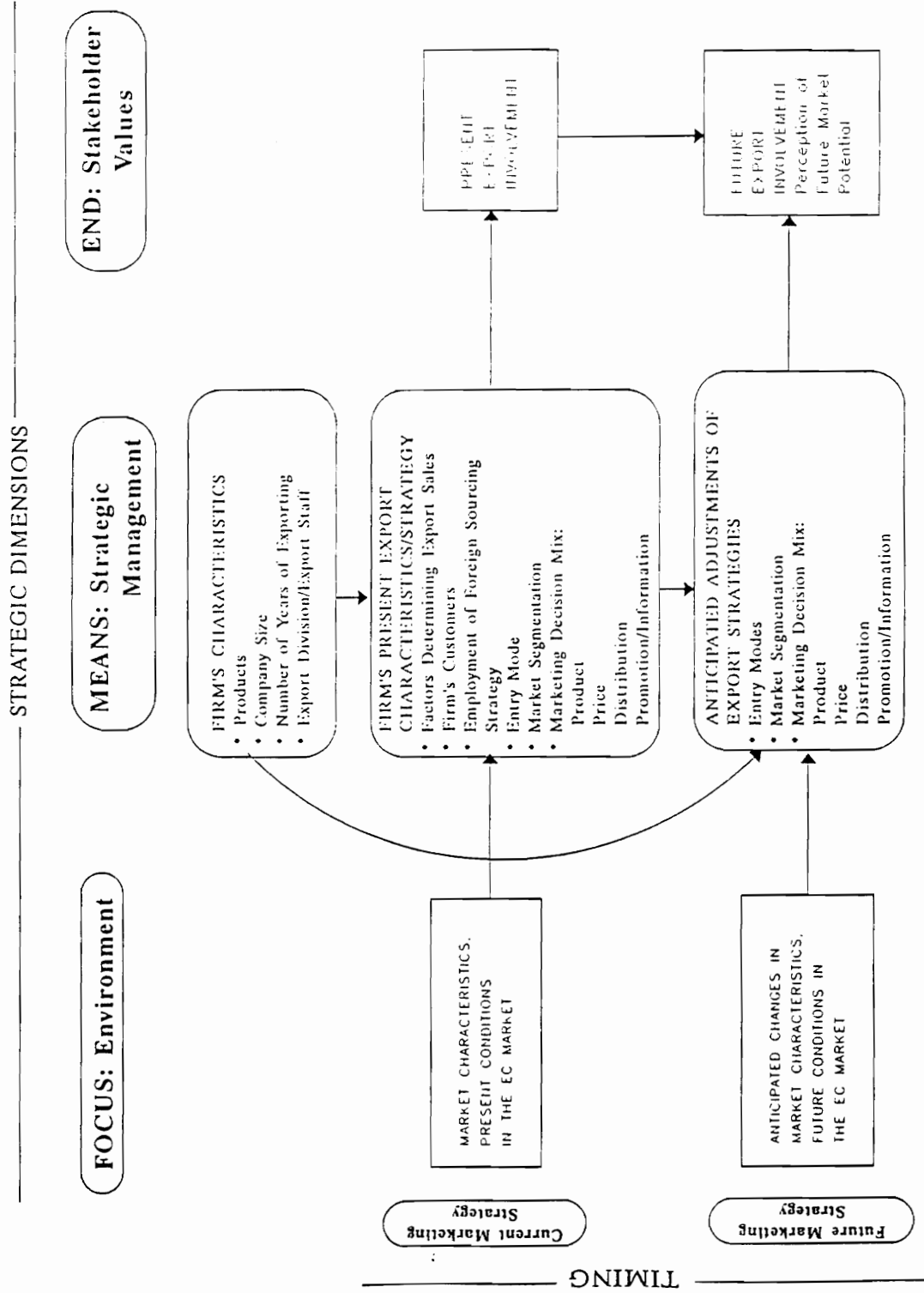


Figure 3.2 Conceptual framework for the study

Theoretical definitions

Export involvement pertains to the extent to which a firm's business is dependent on its overall export activity (a firm's overall export intensity), and on export activity to the EC market (a firm's export intensity in the EC market) as well as geographic coverage and number of national product markets in the EC.

Overall export intensity refers to a firm's export sales as a percentage of its total sales.

Export intensity for the EC market refers to a firm's export sales to the EC 1992 market as a percentage of its total export sales.

Geographic coverage refers to the number of different geographical regions in the world representing a company's export destination.

National product markets in the EC relates to different country members of the EC 1992 Single Market which a firm chooses to serve.

Export marketing strategies for the EC 1992 is a multidimensional construct and will be investigated in terms of the following "sub-variables": entry modes, market segmentation, and product, price, and distributional and promotional factors of a firm's marketing mix.

Entry mode of the firm refers to a company's selection of the entry mode strategy when marketing to the EC market, i.e.,

1) Export Entry Modes (indirect exporting, direct exporting involving agent/distributor or branch/subsidiary), 2) Contractual Entry Modes (licensing, franchising, technical agreements, service or management contracts, etc.), or 3) Investment Entry Modes (sole venture or joint venture, e.g., new establishment or acquisition).

Product adaptation relates to the extent to which products sold to the EC 1992 market undergo some form of modification to make them more marketable. Product adaptation may involve altering physical aspects of the product, or changing the product's packaging or brand name in order to meet technical or marketing requirements of the market.

Market segmentation strategy relates to the strategies of defining a market in terms of national markets, regional markets, or one global, pan-European (Europe-wide) market. The degree of market segmentation refers to the number of segments/niches the firm caters to within the EC 1992 market.

Non-price competition involves differentiation of the product, style, service, speed of delivery, design and quality.

Market potential refers to market prospects in terms of anticipated magnitude of export level improvement, intensity of current and future competition, markets/regions with high future potentials, and export executive's attitude toward the future market potential for the firm's products.

Research Hypotheses

Since the first objective of the study is purely descriptive, no related hypotheses were developed. The following declarative hypotheses are proposed in relation to objective 2.

Hypothesis 1

IFT export executives surveyed will perceive that the creation of the EC 1992 Single Market will enhance market potential over several years, i.e., firms currently involved in exporting to the EC market believe that they can increase the level of their export involvement in the EC within a period of five to ten years.

Rationale for Hypothesis 1

Findings of one of the earliest studies on EC issues (Baker & Ryans, 1972) involving the top 100 US MNCs that marketed their products to the European Economic Community (EEC) revealed that almost 90 percent of the companies made direct investments in Europe as early as the 1960s and 1970s with the Common Market in mind. Almost two-thirds of the respondents indicated that their sales increased as a result of the creation of EEC, and they had extremely positive views about the future effects of the EC on their businesses. A 1989 research project involving 22 leading US multinational corporations representing a cross-section of major manufacturing industries, including the textile industry, also revealed that the overall image of the EC 1992 was positive, and that American multinational corporations would benefit from new market opportunities during the next five to ten years (Krum, 1991).

Further, over 60 percent of respondents in Vandermerwe's (1989) study anticipated an increase in their market share in the Community as a direct result of the EC 1992 program. The executives surveyed in this study viewed increased market opportunities, ability to reduce costs of doing business, a "stronger" Europe, more competitive conditions and the ability to save time and energy as major advantages in the EC after 1992.

Hypothesis 2

In order to integrate the changes in the EC 1992 Single Market and capitalize on them, surveyed IFT export executives plan to gradually alter at least some if not all of their currently practiced export marketing strategies. Several areas of marketing strategies were taken into consideration.

a) IFT export executives believe that there will be a need for expanded entry modes, i.e., firms practicing a certain level of entry mode plan to employ a higher level of entry mode strategy. For example, firms which are currently engaged in indirect exporting (the lowest level of export entry mode) will start using direct agents/distributors or branches/subsidiaries; firms which are presently engaged in the latter, i.e., a higher level of export entry mode, plan to employ contractual or even investment entry modes.

b) IFT export executives believe that their firms will be prone to use regional and global pan-European market segmentation rather than national segmentation.

c) The surveyed firms will target more market segments/niches within the entire EC 1992 Single Market than they currently do.

d) IFT export executives plan to gradually develop pan-European (European-wide) products/brands which will not necessarily be very different from products sold in the US market.

e) A certain degree of product adaptation will be necessary in spite of the harmonization of regulation in the EC 1992, but the products will be standardized for the whole market.

f) IFT export executives believe that there will be upward pressure on prices in the EC 1992 due to intensified competition.

g) Some degree of price rationalization in the EC 1992 will be possible.

h) The export executives believe that there will be a need for adjustments in their firms' distribution and sales networks strategies.

i) The IFT export executives believe that firms' promotional efforts in the European market will not undergo major changes within the next five to ten years.

Rationale for Hypothesis 2

The analysts of the new EC 1992 competitive environment claim that the integration will lead to extensive industry sector (and cross-sector) mergers, joint ventures and other concentration efforts. These will consequently increase the competition from EC-based companies not only in the EC but in the US market as well. The majority of business members of the US District Export Council who participated in a nation-wide survey (Ryans & Rau, 1990) on the EC 1992 issue were convinced that harmonization of the EC would lead to more interest in the EC market by US exporters, who should not only export to Europe but

have a strong physical presence in the new Europe. They also felt that firms should be seeking to formulate a European strategy prior to the completion of the EC harmonization.

The most ambiguous issue in the available literature seems to be the extent to which the US firms should alter their marketing strategy due to the changes resulting from EC 1992. The move toward economic integration will not lead to a homogeneous marketplace immediately. National differences (language, culture, tastes) will still exist, even though the trend toward europeanization will intensify. From the US viewpoint, pursuing pan-European marketing strategies (global and regional) and creating Euro-brands are necessary, while still recognizing the importance of national marketing (Krum, 1991).

The EC 1992 program will have major implications for marketing strategies of firms, especially for factors associated with marketing mix variables, i.e., product, price, place and promotion. According to Ryans and Rau's 1990 study, major changes are expected to occur in the marketing mix variables.

In the area of product development, some firms may want to develop pan-European products/brands in order to gain production and marketing economies of scale. The effect, most probably, will be a smaller total of new products targeted at a wider population. Overall, product development will become increasingly important. American producers will be able to establish uniform product lines which will not necessarily be very different from those offered at home.

Besides the management of distribution, the greatest challenge for pan-European marketers is pricing. Price rationalization is likely to occur through lower distribution and warehousing costs, and the use of lower cost producers in southern Europe.

The distribution/logistics infrastructure and channel institutions will become more multinational. The highly fragmented retail industry will undergo a revolutionary transformation (mergers, alliances). Other factors which need to be considered are Europe-wide sourcing by industrial and institutional customers, centralized purchasing decisions and cross-border purchasing by consumers.

Promotion, on the other hand, seems to be the most resistant to centralization in Europe, even after a Unified Market becomes a reality. The highly decentralized nature of personal selling, trade, and consumer sales promotion and advertising are likely to remain for quite some time. Despite the penetration of satellite and cable TV across the EC, the differences in languages and culture will remain, making it difficult to standardize advertising. Some unification of the broadcast and printed media will help marketers to establish pan-European brands (Germeroth, 1989).

Limitations

As the case study method was used as a research tool, the most significant limitation of this research is its sample size. However, the case study method enables researchers to emphasize the detailed analysis of a limited number of events (Emory, 1985), and to provide an explanation of complex situations, which cannot be thoroughly examined through the use of other methods (Yin, 1989).

The sample was drawn from the US companies participating at the Heimtextil 1993 show, who were sponsored by the US Department of Commerce and by the North Carolina Department of Commerce. The companies seeking sponsorship/assistance from government

organizations at foreign trade shows are typically in the intermediate stage of their export involvement. Thus, veteran participants of European trade shows were selected. The investigator recognizes that US companies setting up their own stand at the show, i.e., without sponsorship, would represent a better sample as they apparently invest more in their marketing activities in the EC. These companies are probably deeply involved in marketing to the EC countries and would represent the best informants for the study. However, as contacts with companies were initiated through the US Department of Commerce and the NC Department of Commerce, only companies sponsored by them were asked to participate.

Systematic personal interviews were used in order to gain in-depth understanding of the marketing strategies and export characteristics of the firms catering to the European market. The interviews were conducted at the Heimtextil show in Germany and at company offices in the US during the researcher's visits to companies which exhibited at the Heimtextil 1993 show. The Heimtextil trade show primarily serves as an opportunity for IFT manufacturers all over the world to sell in Europe on a direct-export basis and develop contacts with new clients. Interviews at the show were interrupted due to pressing business demands. The interviews conducted at the manufacturers' sites in the US had the advantage of less interruptions than interviews conducted at the show.

The sample was limited to the IFT export executives who responded to the investigator's request to obtain a time slot for an interview at the show in Frankfurt, Germany, or at the company's headquarters in the US. It was also limited to companies' representatives who agreed to share information about their export activities and their views pertaining to the marketing strategy changes necessary due to the new business environment

with the EC 1992 Single Market program. Cooperation on the part of the export executives of American IFT manufacturers was essential in order to complete this research.

As some aspects of the future strategic planning for the EC market may be confidential information for the firms, some potential lack of strategic information was an additional limitation for this study.

Further, this study was limited in its industrial scope; it was limited not only to an industry, i.e., the textile industry, but to a specific branch of the industry, i.e., the interior furnishing textile industry. For the purpose of this study, the IFT industry has been defined as encompassing upholstery fabrics, decorative fabrics and finished products/accessories for windows, kitchen, bedroom and bathroom. The basis for this delimitation was to control intra-industry differences. A major consideration in this choice was the nature of the IFT industry, which should enable American producers to compete successfully with European and other manufacturers in the EC market as well as lead to more interest in exporting to this market.

The study was limited to a specific geographic export location, the EC market. This delimitation was deemed necessary in order to achieve the objectives of this study.

Assumptions

The researcher assumes that all informants, i.e., export executives, with whom personal interviews were conducted, provided honest and accurate information. It is assumed that subjective opinions of export executives are more relevant than objective ones, since it is believed that the management tends to be guided more by their individual experiences than by objective knowledge about the world.

It is also assumed that the interpretation of the meaning of the questions and major concepts was consistent between the respondents and the interviewer, especially since there were opportunities for clarification during personal interviews which were supplemented by follow-up telephone conversations. In addition, all respondents received the investigator's written compilation and were asked to review it.

CHAPTER 4

PROCEDURE

This chapter describes the case study method, its data collection procedures and analysis, and the steps undertaken in conducting the research project. Beginning with the justification for the selection of the case study method as a research strategy, this chapter also explains the criteria used for the final selection of the eight companies under investigation, and reports the process of data collection.

The Rationale for the Selected Procedure

A strategy employing the case study approach was the most feasible research design to meet the objectives of this research. Due to the lack of published material on the activities of US textile exporters to the EC market and the many issues pertaining to IFT manufacturers' current and future export marketing strategies for the European market, a multiple case study design was used. A further reason leading to the decision to use personal interviews and qualitative methodology was the international marketing content of the topic studied. International marketing as a discipline is context dependent and specific to the situation. Thus, very few international aspects can be widely generalized to all nations or to all participants in global marketing.

This study has an ex post facto design, since the investigator controlled no variables and could only report on the present situation. As for the research environment, much of the data was collected in a field setting, i.e., at the Heimtextil show held January 13-16, 1993 in

Frankfurt, Germany, and in part at the US Heimtextil participants' headquarters in the US, in March 1993. The sample selection procedure was purposive sampling. The eight firms under investigation were chosen from the veteran participants of the Heimtextil show.

The variables to be examined were:

- * the export involvement of the IFT manufacturers in the EC market,
- * export marketing characteristics/strategies,
- * managerial perceptions towards future export marketing strategies for the EC 1992 Single Market, and
- * perceptions of future market potential.

It should be emphasized that most of the measures tapped the perceived value of an indicator. There is an important distinction between the export executives' perceptions and their anticipated plans as opposed to actual implementation of these plans, as the expectations/perceptions may not always lead to a reactive strategy. Furthermore, it is believed that the export management perceptions of certain indicators are more credible because export executives are often guided more by their individual subjective perceptions than by a perfect knowledge about the world.

The variables chosen are strongly based on the general export marketing literature, studies pertaining to the impact of the EC 1992 program on US manufacturing and service organizations, on the conceptual framework, and on empirical export marketing studies.

The Case Study Method

In distinguishing case study methods from other research strategies, Yin (1989) defined a case study as "... an empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context; when
- the boundaries between phenomenon and context are not clearly evident; and when
- multiple sources of evidence are used " (p. 23).

A case study approach is especially relevant when "how" and "why" questions are being proposed, and when the researchers have no control over the events in the sense of being able to manipulate them (Emory, 1985; Yin, 1989). The case study design emphasizes the in-depth analysis of a number of limited events, and is concerned with their interactive processes. As opposed to alternative research strategies which use statistical generalization to the population/universe, case studies are generalizable to theoretical propositions. Analytic generalization is used while comparing empirical results of the case study to the previously established theoretical framework, which in turn becomes a vehicle for generalizing to new cases. A multiple case design was used in order to enable a cross-case comparison, and to determine whether the study's findings are generalizable beyond the investigated cases. The use of the so-called "replication logic" will enhance the external validity of the study.

Yin (1989) suggested that multiple cases should be considered as multiple surveys and not as multiple respondents of the survey, since the cases are not sampling units. Thus, if different cases follow the same broad theory, replication can be claimed. Each case can either predict similar results (a literal replication), or produce different results for predictable reasons (theoretical replication). Following "sampling logic", i.e., equating separate cases as

multiple subjects, which is commonly used in surveys and experiments, is incorrect, as enumerating frequencies is not a goal of the multiple case study research (Yin, 1989).

Case Study Data Collection

Case studies typically rely on multiple sources of evidence. Yin (1989) pointed out six common sources of case study evidence: documentation, archival records, interviews, direct observations, participant-observations, and observation of physical artifacts. Yin also suggested three basic principles of data collection, all of which are relevant to the above mentioned sources. The three principles are: (a) the use of multiple sources of evidence (data triangulation in Patton, 1990), (b) the formation of a case study data base, and (c) the establishment of chain evidence. As these three principles are associated with construct validity and reliability, and thus with the quality of case studies, it is recommended that they be followed whenever possible.

The major advantage of using the case study research method is that the evidence can be compiled from various sources, the findings of which may be converging. Establishing a study data base is important, as it contains raw data not necessarily included in the final case study report, and allows a reviewer to examine the base and replicate the same case study. The study data base pertains to organizing and documenting original data from multiple sample units, so that other investigators researching related subjects are not limited to the researcher's written report but can review the original evidence directly. A formal, retrievable data base is different from the case study report as it consists of the following:

- a) the case study notes, i.e., audio tapes, the researcher's original notes of

observations during interviews, observations at the study sites or artifact observations, and

- b) case study documents not part of the final research report such as company brochures, annual reports and price lists with swatch kits.

Developing a case study data base and using a case study protocol during the data collection process can markedly increase the reliability of the entire study. However, "the existence of an adequate data base does not preclude the need to present sufficient evidence within the case study report itself" (Yin, 1989, p.99).

Maintaining a chain of evidence, the final principle of data collection, makes the process of data collection as explicit as possible. A clear link must exist between all the procedures of collecting data, the case study protocol, the questions and the final case study conclusion, thereby reflecting a concern for the construct validity.

This study used multiple sources of evidence for each of the eight companies under investigation. The data gathered consisted of published material, personal interviews, participant observation (the data were collected at the textile show and at the respondents' manufacturing plants or headquarters), and observation of physical artifacts, i.e., the company's products aimed at the EC market. Furthermore, the data were checked with follow-up telephone conversations, and the respondents were asked to review the researcher's written compilations. All three aforementioned principles of data collection suggested by Yin (1989) were followed throughout the planning, data collection and analysis stages of the study.

Case Study Data Analysis

There is no easy prescribed procedure to analyze qualitative data, nor have any such techniques been well defined (Miles & Huberman, 1984; Yin, 1989). As it is an accepted fact that the analysis is the most difficult stage of case studies, qualitative researchers claim that the quality of such research depends on the investigator's integrity, experience and rigorous thinking, along with sufficient presentation of evidence and consideration of alternative interpretations.

However, Miles and Huberman (1984) provided quite explicit guidelines and analytical techniques, which enable an investigator to produce compelling analytic conclusions and enhance the internal validity of the study despite the inability of the investigator to use familiar, well-defined, quantitative methods. The analysis is an interactive, cyclical process which involves three types of activities: data reduction, data display, and conclusion drawing and verification.

As Miles and Huberman's suggestions were followed in the process of analyzing the case studies, the three aforementioned principles of analysis were thoroughly followed. The data reduction process began with compiling the literature review, introducing the conceptual framework, and setting up the procedures for data collection such as developing research objectives, hypotheses and interview guidelines. Furthermore, comprehensive summaries, transformation of the data obtained from the interviews, and the case study data base all aided in organizing the data into case study reports in such a way that conclusions could be drawn. The case study reports were reviewed several times by the investigator, and by informants. The data display part of the analysis in chapter 6 was performed by utilizing matrices and

tables, so that the information could be presented in an organized fashion. The displays also aided in drawing justified conclusions. The matrices and tables were then supplemented with narrative descriptions of issues, which were the concern of this study.

Lastly, the conclusion drawing and verification process of data analysis consisted of cross-case comparisons, reference to previously reviewed empirical studies and to the conceptual framework, which were the basis for the development of the research objectives and hypotheses. Noting patterns, themes and regularities supported final conclusions. The verification process consisted of giving the data displays and original study data base a "second thought", i.e., reflectively moving back and forth between data collected and abstract concepts, between description and interpretation. In addition, the use of various data sources, repeated contacts with informants, their reviewing of the researcher's written compilations, and discussions with colleagues on research findings aided in strengthening the internal validity of the study.

Case Study Respondents Selection Process

Since nonprobability purposive, or criterion-based, sampling is a very common technique in choosing units in case study research (Patton, 1990), certain criteria for the selection of respondents were set, and then the criteria were systematically followed while selecting the companies to be included in the study. An additional reason for using this type of sampling method lies in the purpose of this study. In order to achieve the research objectives, only the best possible informants would be capable of delivering accurate

responses as to the perception of the changes/adjustments of the marketing strategy needed due to the changing external environment of the EC market.

No available resource was found containing information on the existing population of IFT exporters to the EC market, and unsuccessful inquiries were made with the US Department of Commerce, MED/OTEXA, the American Apparel Manufacturers Association, the American Textile Manufacturers Institute, and the American Association of Exporters and Importers as to where to obtain listings of textile companies actively involved in doing business in the EC market. Finally, it was decided to draw the sample from exhibitors at the Heimtextil show. It is assumed that veteran US IFT participants at the show are committed to marketing in Europe, and are interested in the changing business and regulatory environment with the EC 1992 Single Market program.

The criteria used for selecting companies from the participants of the Heimtextil 1993 show were as follows:

- * the firm had to be classified as a veteran American exhibitor at European trade shows, defined as participating at the Heimtextil or any other European trade show (e.g., Decosit in Belgium) for at least the third consecutive year;
- * the firm must have exported to at least two country- members of the EC since 1989.

The profile of firms satisfying the above criteria would indicate that they are at the cutting-edge in terms of EC 1992 preparation, i.e., export-executives of these firms are likely to be committed to the EC market, and knowledgeable of the changing business environment in Europe.

The final eight companies were also selected such that together they reflect a combination of the following characteristics:

- a) products (upholstery fabrics, decorative fabrics and finished products/accessories for windows, bedroom, bathroom, kitchen)
- b) company size (measured by the number of employees: less than 200 employees is a small company, more than 200 employees and less than 1,000 employees is a medium company, and 1,000 or more employees is a large company)
- c) number of years of exporting to the EC market (classified into: less experienced firms which have up to five years of experience of marketing to the EC, and more experienced firms with more than five years of experience in marketing to the EC)
- d) the existence of a separate export division, the export staff and its experience with foreign markets.

A characteristic pertaining to the location of the companies' manufacturing facilities, which was initially considered, was omitted later as none of the companies interviewed had any production sites outside the US.

Heimtextil 1993 Show Participants

The eight case study firms were drawn from the exhibitors at the US Pavilion and North Carolina Pavilion at the Heimtextil 1993 show in Frankfurt, Germany. Heimtextil is the largest international home textiles fair, and in the past three years it has attracted a record number of US IFT manufacturers who exhibited at this four day event at Messe Frankfurt (Cohen, 1992). Although almost 100 US exhibitors normally participate at the show specialized for the IFT industry, approximately half of these exhibitors, primarily fabric and finished home textile product suppliers, are sponsored by the US Department of Commerce,

which sets up several stands forming a US Pavilion. The North Carolina Pavilion, on the other hand, traditionally consists of eight to ten exhibitors/manufacturers who have their plants or headquarters located in the states of North or South Carolina. These companies are sponsored and subsidized¹⁶ by the North Carolina Department of Commerce, International Trade Administration, in Raleigh, NC.

The Heimtextil trade show is primarily a vehicle for augmenting export sales (a considerable amount of off-the-floor-sales is usually conducted at the show), establishing new markets, identifying agents, distributors and retailers, and reaffirming ties with existing partners. Exhibitors often decide to attend the show not only to expand their export programs but also to remain abreast with the rest of the world in terms of fashion trends, design and color.

American IFT companies exhibiting at the Heimtextil trade show range from major domestic mills (e.g., Fieldcrest Cannon, Burlington Industries, Stevens Home Fashions) to smaller independent manufacturers. The manufacturers offer US products to buyers from Europe, the Middle East and the Pacific Basin. Over 60,000 visitors from about 90 countries usually shop at the fair, two thirds of them from Germany and the rest from other parts of the world. Heimtextil 1993 was the 23rd annual show. American IFT manufacturers are strengthening their position as leaders in the international decorative fabric as well as finished home textiles products arena. According to Mr. Larry Brill, senior program analyst for the US Department of Commerce, Market Expansion Division of Office of Textiles and Apparel

¹⁶ The NC Department of Commerce contributes 10 to 15 percent of the total foreign trade show costs to each of the participating companies. The only criterion for the companies to participate in this program are that they have their manufacturing plants located in North or South Carolina.

([MED /OTEXA], personal communication, September 22, 1992), US exhibitors rival even the most exclusive European producers due to their product style, quality, variety and fashion. American IFT companies are gaining a strong foothold in global markets, primarily due to their product design, delivery and the ease of doing business as well as commitment to international markets. The Heimtextil exhibition space held by US companies has been increasing steadily in the past years, as US home textiles exporters have seen their business grow due to their participation in this show. Several US exhibitors believe that it is important to establish a presence at the Heimtextil show in order to ensure a foothold in the EC market, especially in view of the planned 1992 tariff revisions within the EC (Staff, HFD, January 1, 1990).

The Heimtextil Official Catalogue, International Trade Fair for Home and Household Textiles (1992) was used to obtain the addresses of the US companies and names of the representatives planning to attend the Heimtextil 1993 show. The US Department of Commerce, MED/OTEXA usually sponsors 40 to 50 companies which attend the show, whereas the North Carolina Pavilion consists of eight to ten exhibitors. It was expected that at least 30 companies would belong to the group of veteran exhibitors, i.e., exhibitors who participated at one of the major European trade shows (Heimtextil, Decosit, etc.) for at least the third consecutive year.

The final eight companies participating in this study were selected based upon the recommendations of Mr. Brill, senior textile program analyst for the US Department of Commerce, MED/OTEXA, and Ms. Karen Atkins, a foreign trade specialist at the North Carolina Department of Commerce, International Trade Division, as well as on executives' willingness to be interviewed.

The researcher participated in a meeting attended by all the US Heimtextil exhibitors, the consul and his assistants of American Consulate General in Germany, and by representatives of the US Department of Commerce, Office of Textiles and Apparel, one day prior to the show opening on the fairgrounds in Frankfurt. Mr. Brill of the US Department of Commerce introduced the investigator and the study being conducted at the Clothing and Textiles Department at Virginia Tech to all participating US interior furnishing textile manufacturers. He also announced that some of the exhibitors would be contacted during the show and requested to participate in the study.

Personal Interviews

The main data collection technique used in this study consisted of personal interviews, i.e., direct verbal interaction with firms' presidents, vice presidents and directors of international sales. The informants, referred to as export executives throughout the study, were identified as persons who would have superior knowledge of the firm's export activities, its involvement in the EC market, the future marketing strategies, and knowledge of the EC 1992 market as an export destination for their products.

Semi-structured, or focused¹⁷, interviews were conducted using qualitative interview techniques as recommended by Yin (1989) and Patton (1990). The duration of interviews varied from 40 to 90 minutes. The matters discussed included elaboration on the questions

¹⁷ Typically, a focused interview has a duration of a short period of time, e.g., an hour. Although open-ended questions are used in such cases, and conversational manner is assumed, the interview is likely to follow a set of specific questions, which must be carefully worded so as to allow "the respondent to provide a fresh commentary about it" (Yin, 1989, p.89).

set up in the Interview Guidelines (Appendix C) which were structured so as to achieve the research objectives. For the purpose of organizing the data collection process while conducting the interviews, the questions were grouped into three categories. Initial conversations with the US exhibitors at the Heimtextil show and suggestions of Mr. Molnar and Mr. Brill (US Department of Commerce, MED/OTEXA), who had worked with American exhibitors at the foreign trade shows for several years, facilitated the selection of the companies requested to participate and also aided in the final development of guidelines for personal interviews.

Four usable interviews were conducted during the Heimtextil show in Frankfurt, Germany, in January 1993, and four of them were conducted at the US interior furnishing exhibitors' headquarters in the US in March, 1993. A tape recorder was used to record the interviews and the tapes were later transcribed.

Follow-up telephone interviews were necessary to clarify certain issues while compiling the case study reports. The respondents were asked to review the researcher's written compilations in order to verify the data collected, make any necessary changes, and add relevant information. Thus, the accuracy of the case study report was ensured, and the construct validity of the study enhanced. In addition, the informants were asked to provide the investigator with a research verification letter, certifying that they were in agreement with the final case study report (Appendix D).

CHAPTER 5

DATA: CASE STUDIES

This chapter presents the eight case study reports which are based on transcripts from the tapes of personal interviews, telephone conversations with companies' representatives, the investigator's observations of the field setting and companies' products, and on the study data base consisting of company brochures, published material, swatch kits with product information, etc.

Each case study report is organized such that it addresses the objectives of this research, and is divided into the following topics: the company's background information, its export involvement, its perceived market potential in the EC, and its export marketing characteristics and future strategies for the EC 1992. The last section of each report includes information on current and anticipated entry modes, market segmentation strategies and strategies pertaining to marketing mix variables: product, price distribution and promotion.

The names of the companies and informants have been changed for the purpose of maintaining anonymity in the research reporting.

Case Study: Company A¹⁸

Company A's Background Information

Company A is a manufacturer of jacquard upholstery fabrics ranging from damask to tapestry qualities. The product range of heavy woven fabrics includes a variety of different colors and styles such as combination stripes, plaids, solids and miniatures.

The company's manufacturing plant and executive offices are located in North Carolina. Currently a total of 356 employees work for Company A. The number of employees increased nearly 40 percent in the past two years due to the fact that domestic business almost doubled and international business tripled in that period of time. According to "The world mills 50" (1992/93), the company ranks among the 20 largest upholstery fabric producers in the world in terms of sales volume.

Company A recently invested over \$ 20 million in new equipment and manufacturing facilities. Its yarn dyeing, yarn preparation and weaving facilities allowed it to evolve into a vertically integrated firm. High levels of efficiency and new areas of product development have been possible through highly efficient state-of-the-art jacquard looms as well as on-line computer equipment. Most of the raw materials, i.e., yarns, are purchased from its main supplier, a sister company. No foreign sourcing is employed.

¹⁸ The interview was provided by Mr. Andrews, vice president of the company, and his assistant, Ms. Shannon, at the company's manufacturing site in the US in March, 1993. Mr. Andrews is in charge of domestic and foreign sales and initiated Company A's major expansion to international markets four years ago.

Export Involvement

Although Company A has been involved in exporting for the past ten years, international activities have become a significant part of its business only since 1989. High domestic demand and limited production capacities precluded the company from aggressively pursuing its export markets prior to 1989.

After the expansion of its facilities, its export activities started flourishing as a direct result of enhanced export efforts, attendance in overseas shows, and the hiring of new agents in other countries. The company does not have a separate export department. Apart from Mr. Andrews and his assistant, four other employees are responsible for the export business. No single executive is specifically in charge of the EC market. Currently, between four and five percent of the company's total revenues are generated from export sales (inclusive of Canada), but Mr. Andrews plans to double this percentage by the end of the 1994 fiscal year. He believes that there are tremendous opportunities for the company's products in international markets, particularly in the European markets. From 1989 to 1992 the company's export business increased almost ten fold.

The most important destination for Company A's upholstery fabrics is the EC countries, followed by the Far East countries, South and Central America, and Australia. By far the most established market within the EC is the Netherlands, followed by Germany, the UK, the Scandinavian countries and France. Although other countries within the EC have a rather insignificant share, export markets such as Portugal and Spain are currently being explored.

Mr. Andrews believes that the major factor which determines the company's success in international markets is its ability to custom develop products to suit the needs of each individual market or customer. Also, an extremely broad line of products in terms of styling ranging from traditional to modern, as well as a variety of fabric qualities and color combinations make it relatively easy to meet the different requirements and taste levels of its customers in the domestic and international markets. According to Mr. Andrews, American styling is becoming increasingly popular all over the world, unlike the situation five to ten years ago. Especially in the EC, customers seem to be looking for new sources and product niches which emphasize "American-looks". Additional factors which determine the firm's export sales are the quality of distribution, sales efforts and the level of product exposure. Mr. Andrews does not consider the currently favorable exchange rates to affect Company A's export volume as the firm competes with factors other than price, and its customers are accustomed to taking currency fluctuations into account when they source products.

Perceived Market Potential in the EC

Mr. Andrews believes that the EC market will remain the company's strongest export market in the future because of its population base, the buying power of European customers, and the overall favorable economic conditions. He does not anticipate a great influence of the Unification program on his company's products and its ability to expand in this market, although there could be benefits of the EC becoming economically more efficient.

The firm's major competitors in the EC are Italian and Belgian firms offering high quality tapestry fabrics, along with a major American exporter which is the largest producer

of jacquard fabrics in the US. The latter competitor has proved to be beneficial for Company A since it introduced the "American look" to European customers, who now search for new sources offering the same style.

According to Mr. Andrews, competition has been intensifying in the past few years in the upholstery fabric segment and will continue to do so in the future. More and more American mills are attempting to penetrate the market. The company's European competitors in this product category appear to be small producers which so far have not proven to be very aggressive. Mr. Andrews is not sure how these firms will adapt to new market conditions in the EC, but sees Company A's advantage in being larger and more flexible. Regardless of how European competitors choose to react in the future, he believes that American styling and quality will remain in demand.

When comparing the market growth prospects in the EC and in the domestic market, Mr. Andrews perceives his company's major opportunities with the existing products to lie in the export markets, as the products have not yet been adequately exposed. In the domestic market, however, Company A is considered a mature company and would need to introduce new products in order to grow further. Mr. Andrews has very optimistic expectations for the market growth in the EC within the next five years. He is convinced that market growth opportunities in the EC far outweigh the opportunities in the US.

Export Marketing Characteristics and Future Strategies
for the EC 1992 Single Market

Entry Modes

Direct exporting is the only entry mode the company currently uses in its international markets. It employs commission agents in the EC market, none of whom are bound to any specific contractual agreement.

Company A has received a few offers from firms in the EC to form joint-ventures, but has so far not considered this option. Mr. Andrews believes that employing any entry strategy besides direct exporting in the future would depend on the company's growth objectives. Currently it appears that the fabrics it manufactures sell well just by exhibiting samples and establishing relationships with agents, so that no other venture is necessary. The most likely scenario for the future EC market would be to enter into a marketing agreement with an established European company.

Market Segmentation

Company A currently segments the EC market in terms of regions in which it has agent networks. Since it manufactures upper medium to higher end products in its category, it targets a single segment in all regions, i.e., upper-end customers. Mr. Andrews divides the European market into two major categories: a primary market which targets manufacturers and distributors of residential or institutional furniture, and a much smaller secondary market including the luggage trade and decorative pillows.

According to Mr. Andrews, he and his staff are not yet familiar with different market segments within the EC as they rely on their agents' networks and let them select products which appeal to the customers in the regions they serve. However, he does not believe their current segmentation strategy will change in due course as they have not yet fully explored the segment they currently target.

Product Related Issues

Product lines exported to the EC market do not differ much from the products destined for the domestic market. Because of the high product quality of the firm, its fabrics exceed technical requirements of all countries except the UK. Due to "American" styling and colors becoming increasingly popular abroad, Mr. Andrews considers the fact that the products need almost no modification as an asset for his firm. Even if the demand and tastes of its European customers change, Company A can still custom develop the designs and colors which would appeal to a specific customer or customer group. Also, the company does not sell individual patterns but rather packages or groups of fabrics, so that styling modification would not affect the price structure of the product. According to Mr. Andrews, the only necessary product alteration pertains to the direction of its fabric designs. Whereas US furniture manufacturers prefer crosswise or rail-roaded patterns, European jobbers want patterns to be multi-purpose and have preferences for vertical panel effects, called "uphold fabrics" which can also be used as draperies.

As far as technical requirements are concerned, the company encounters problems regarding extremely rigorous flammability and abrasion testing requirements in the UK. Mr. Andrews does not consider his company's products to have any performance drawbacks; the

company is merely trying to meet the requirements in the UK. In order to overcome these difficulties, the company purchased specialized equipment for abrasion testing and has commission finishers treating its fabrics with FR inhibitors. Mr. Andrews considers the cost factors for these special treatments to be part of the company's business start-up costs, even though most of the costs are eventually borne by the consumer.

At this time, the EC has not yet standardized its interior textiles testing requirements, but Mr. Andrews does not believe the UK standards will be adopted, as it would be too difficult for small European companies to meet even more stringent requirements.

As for the company's future product strategy, Mr. Andrews acknowledges the importance of expanding their knowledge about each of the company's targeted markets. Although he believes there is a huge market potential for its existing products in the EC, identifying specific needs and demands of its overseas customers will become increasingly important, especially if competition further intensifies with EC unification. Furthermore, Mr. Andrews is aware that the current ease of exporting to the EC is due to the popularity of American styling, but this may not always be the case.

Price Related Issues

The price structure of Company A's fabrics destined for the EC market is about the same as it is in the US market. There is a slight mark-up on exported fabric due to administrative costs and to cover costs for off-quality problems. The prices range from \$5.00 to \$20.00 per yard. As the company primarily targets the upper-end price segment in the domestic as well as in international markets, it relies heavily on non-price competitive factors such as quality, styling and uniqueness of the product.

The prices are quoted in US dollars per yard, although Mr. Andrews recognizes the importance of quoting prices per meter. Since the company's European agents as well as its customers are used to converting prices into other currencies, there has been no need to consider different currencies. Company A's pricing strategy incorporating FOB terms in the EC market is straight forward for all the segments it services.

The financial instruments used in the EC are similar to those in the domestic market. Once a relationship is established between the customer and the company, open account terms net 60 days are used. In cases when the partner has not yet proven credit-worthy, letter of credit (L/C) terms are utilized. If the company has a history of working with a customer, the credit line is more lenient regarding credit terms but does not offer any discounts.

Mr. Andrews believes that the introduction of the European Currency Unit (ECU) will not affect the firm's pricing strategy or the sellability of its products, but that it will allow greater control over exchange rate fluctuations. Even if EC unification results in lower business costs within the next ten years, the prices might drop for commodity goods, but not for specialty goods. Given the fashion nature of the company's products and the fact that price is a secondary factor when competing in the EC market, Mr. Andrews does not expect any significant changes in prices in this product category.

To summarize, pricing in the EC has not been a concern for Company A. According to Mr. Andrews, "the values we are able to offer in our export markets are directly related to our success, but we do not expect higher returns in these markets. We plan to develop the market in the EC, establish close relationships with key customers and service them properly. We decided to pursue our export markets to grow/expand and we are there to stay."

Distribution Related Issues

Company A uses an extensive network of agents throughout the world. In Europe, it currently employs four independent agent networks. The strongest and the most established is the relationship with its Dutch agent who covers the Netherlands and Germany and has a sophisticated import-export operation. An agency network was set up in the UK two years ago. An agent is employed in Portugal, and is currently trying to penetrate the markets of Spain and southern France. Further, an agent residing in Norway covers the whole of Scandinavia.

Mr. Andrews considers the quality of agents/distributors to be the most important factor in determining the company's export sales. Once relationships with agents, future customers or distributors are established, markets can be adequately serviced. The company uses a US freight forwarder who takes care of export documentation and related matters. Mr. Andrews is not familiar with any EC problems due to border controls, in spite of the market being segmented into several countries.

As for obtaining adequate representation, personal relationships with agents and constant communication with them are necessary. There are various ways to obtain adequate representation for different market segments. Attending trade shows and establishing contacts with people familiar with the market are important sources of information. Mr. Andrews' approach in obtaining an agent network in the UK was extremely successful. He determined the largest users of his company's products in the UK and then contacted them to procure information regarding reliable agents, after which he contacted the ones most frequently mentioned.

Mr. Andrews noted that there is an important difference as to how upholstery products are purchased/distributed in the US and in the EC. Whereas the fabric is sold directly to furniture manufacturers in the domestic market, European furniture manufacturers purchase upholstery fabric from distributors as they are currently too small to purchase large quantities.

Mr. Andrews surmises that stronger sales networks will be necessary in the EC as the company continues to expand, and that a more direct approach with the market/customers will be necessary. Using agents currently suits the company's short-term needs, but in the long term the company will only remain competitive if it develops relationships with final users of the product. Also, with intensified competition in the EC in the future, the customers may not be willing to pay premium prices, part of which are due to agents' fees and commissions. A more direct approach would enable the company to better understand the specific needs of the market.

Promotion

The company does virtually no direct advertising in the domestic market as it is a well established, well-known supplier. Advertising in international trade publications aimed at overseas customers is utilized. Presently, a bilingual brochure serving as an informational rather than a sales tool for the company's customers is being produced. Swatch kits with price lists produced for agents in the EC market and customized sample books for individual customers are also part of the company's promotional activities. As the company presently relies heavily on agent networks, frequent communication with them enables the company to

obtain information regarding the market changes and its needs. The company's sales personnel and designers attend European trade shows at least once a year.

According to Mr. Andrews, the changing business environment in the EC and the unification program will not affect the company's products or pricing strategy, and neither will they have an impact on its promotional efforts. On the other hand, it will be an asset for the company in terms of the ease of conducting business in the EC market. The EC and Scandinavian countries are the strongest export markets for Company A's upper-end upholstery fabrics and will remain so in the future due to their population base and economies. The changes Company A plans to adopt in the future will be a result of its expansion tendencies rather than the EC 1992 Single Market.

Case Study: Company B¹⁹

Company B's Background Information

Company B is a privately-owned, well-established fabric producer which has served the US market for over 47 years. As a manufacturer of upholstery and drapery fabrics, the company operates three manufacturing plants, two of them located in North Carolina and in Georgia.

¹⁹ The information for this case study was provided by Mr. Burns, the Vice President of Administration. Mr. Burns has been in charge of international and domestic marketing for the past five years. The interview was conducted at the manufacturer's plant in the US in March, 1993.

The product line includes flat-woven jacquards and dobbies, woven printed velvets, woven cotton prints and nylon printed flock fabrics. Approximately 80 percent of Company B's total business is accounted for by textured fabrics, all of which are completed at its own plants. Printed fabrics, which constitute 20 percent of sales and are exported only, are woven in house or sourced abroad but are subcontracted to independent printers. Some of the yarns used in textures and greige goods for prints are sourced in Mexico.

The company employs nearly 500 workers and was classified as one of the top 20 upholstery fabric manufacturers world-wide in terms of sales volume in 1992 ("The world mills 50", 1992/93).

Export Involvement

International activities assumed importance for Company B five years ago when Mr. Burns decided to pursue foreign markets seriously. Since the company is cautious as regards administrative costs, it does not have a separate export division. Mr. Burns and another executive share sales/marketing responsibilities for the entire company. However, Mr. Burns and two assistants are engaged primarily in international operations. As the company continues to expand its export activities, it recognizes the need for a new employee who could devote more time and efforts solely to foreign market developments.

Foreign sales represented approximately 15 percent of Company B's total sales in 1992. The most significant export destinations for B's products were Europe, the Middle East, Central America, South Africa and the Far Eastern countries, respectively. Over half of the company's export sales is shipped to the EC market, of which the UK, Belgium/Netherlands,

and Germany have the largest share. Mr. Burns noted that the company was not successful in penetrating "style-oriented" countries such as France, Italy and Spain.

Exports to the EC increased substantially between 1989 and 1992 as a direct result of increased exposure in European trade shows. Prior to 1989, an insignificant share of Company B's business was exported using export trading companies in the U.S.

Mr. Burns revealed that his company's products are extremely price competitive in its low-to-medium style category in the EC. According to him, European manufacturers find it difficult to compete with Company B's prices. Furthermore, the styling and design of Company B's products contribute to their success in the EC market. Given the fact that the company targets a specific, i.e., lower priced, market niche which has been very poorly served in the EC, it has been able to keep expanding. The company anticipates further expansion of its export operations and hopes to generate at least 25 percent of its total revenues in international markets within the next three years. The Eastern European countries, the EC and Saudi Arabia will remain potentially attractive export markets in the future.

In the EC market, further growth can be achieved by broadening the company's product line, and by targeting an additional segment of the market, i.e., the high-end market segment. The company plans to develop a new fabric line to achieve this objective within the next five years, and expects that economic conditions as well as consumer preferences for American styling will work in favor of the company. Furthermore, coloring its fabric line specifically for diverse EC markets will be necessary for further growth.

Perceived Market Potential in the EC

As an increasing number of US textile manufacturers have begun to target the EC market in recent years, there has been a substantial increase in competition in the medium-end price category of upholstery fabrics in the past three to four years. Mr. Burns does not consider European IFT producers as his competitors because they target a different market segment, i.e., the upper quality level. Burns believes that the EC unification will make it easier for the company to find new customers and to further increase its export volume. He sees the major benefit of the EC 1992 as leading to a stabilized political and financial situation in Eastern Europe, which has an excellent market potential for Company B's price competitive fabrics.

International markets represent potentially higher growth for the company than the US market, despite "the bread and butter of the business being the US". The company anticipates further expansion in the EC even if the true unification of the market does not occur. If it does, however, the new environment will surely assist to capitalize on the opportunities in the market.

Export Marketing Characteristics and Future Strategies for the EC 1992 Single Market

Entry Modes

Company B presently utilizes a direct exporting strategy in the EC market. Two of its distributors in Europe have exclusive marketing rights for the company's products. Some of

Company B's domestic accounts include export trading and export management companies but the sales volumes of these are accounted for as domestic sales.

Burns surmises that the EC unification might make his company's future plans to open a distribution/warehousing center and a European office extremely attractive. The geographical location of such a venture has not yet been discussed as it would depend on the maturity of the market and the ease of handling goods. The fact that the company's distribution centers throughout the US resulted in substantially increased domestic sales leads Burns to believe that such a venture would enhance European sales volumes as well. Another feasible form of Company B's direct presence in the European market in the long-term would be to set up a finishing/manufacturing facility in an Eastern European country. Such a venture has not been seriously considered yet due to the company's relatively low export volumes, but it would represent a good opportunity to gain "an upper hand" over the competitors in this market as they continue to expand.

Market Segmentation

The European market is broadly divided into two distinct areas: Western European countries and Eastern European countries. Company B further separates Western Europe into four relatively homogeneous regions: the UK market, the market of Germany-Benelux-Austria-Switzerland, the Scandinavian market, and the Southern European market. These regions are distinguished by price levels, styling, quality and taste levels (the color scheme of fabrics, in particular). The company currently targets a single segment across these regions, i.e., low-to-medium quality/price/taste level. The currently targeted market segment will expand as the company's export volume to Europe increases. Company B identifies four

market segments in this product category: the high-end/specialty price level, the medium-end price level, the price-driven price level and the mass market quality level (each of these of successively lower price structure).

Burns notes an important distinction between the purchases of typical upholstery fabrics and/or furniture in the US and the EC market. As opposed to the US consumer, Europeans view such purchases as long-term investments and look for higher quality products which are durable for an extended time period. In addition, textiles are sold separately from furniture in European retail stores. The consumers select furniture frames in the retail establishment, and order upholstery fabrics from a selection of several hundred styles of fabric swatches available in the store. Consumers actually inspect the quality of fabrics prior to having it placed on furniture. Since Company B utilizes backing on its fabrics in order to reduce fabric count and produce a cost-efficient product, the quality of the product in a swatch form does not appear as attractive as the higher count fabrics of high-end fabric manufacturers. The performance characteristics of both types of fabrics are comparable once the fabric becomes part of the furniture.

A typical consumer of Company B's fabric does not emphasize quality but rather affordability of the product and expects to replace it much faster than does the average European consumer. This market niche in the EC has been largely overlooked in the past. According to Burns' knowledge of the EC market, the medium-to-low end market segment has potential to grow in the future as the Euro-consumer begins to move more from country to country in the new environment.

The majority of Company B's EC accounts are wholesalers/ distributors and to a minor extent European furniture manufacturers. The latter are currently too small to benefit from purchasing large quantities of fabrics.

Product Related Issues

Although the company targets the same quality/styling/price segment in the US as in its export markets, there are some differences in product lines sold domestically and to foreign markets. These differences pertain to technical requirements and to styling of the fabrics.

Due to the UK's stringent flammability requirements for upholstery fabrics, two separate product lines need to be developed for the EC market. Special flame-resistant finishes must be applied to fabrics for the UK market prior to attaching backing. These processes increase price and delay lead time "without providing any real benefits to British consumers". Continental EC countries do not have such severe technical standards and the US quality exceeds the performance requirements of these.

Secondly, the company's fabrics are in part designed and colored specifically for export markets. The textures and velvets are styled by an in-house head stylist and his team who frequently attend European shows to obtain "the flavor of the market". Flock print fabrics which are only sold abroad are styled by a designer specialized in nylon flock prints. None of the stylists, however, are responsible solely for the European market.

As for the future development of the company's upholstery fabrics for the EC market, closer contacts with the market and its preferences will be necessary in order to remain

competitive. Furthermore, an additional, high-end product line will be developed to service new product segments in the EC.

Mr. Burns does not believe the EC will adopt the UK technical standards for upholstery fabrics. Harmonization of technical standards for this product category in the EC would enable Company B to focus on the quality of fabrics which would be the same for the US and the EC and thoroughly accommodate the designs/colors of its products to individual market preferences.

Price Related Issues

The price of Company B's products ranges from \$2.50 to \$9.00 per yard of fabrics. The price structure of the fabrics sold domestically and abroad is virtually the same since the company exports container load quantities²⁰ only. The shipping and administrative costs would be much higher if the company serviced every customer/distributor individually. Thus, the only disparity in domestic and international price structure pertains to the levels of sales commission, which are three and five percent, respectively. Although non-price competition factors such as quality, styling and reliability of servicing contribute significantly to the company's export success, its main advantage lies in the price competitiveness of its fabrics in the targeted market segments.

Company B's fabrics are sold on a US dollar per yard or per meter, CIF basis for container load quantities and FOB for less than container load quantities. The financial instruments used range from sight drafts to open accounts in the EC, and secured L/Cs for

²⁰ Container load quantities range in volume from \$50,000 to \$125,000 whereas the freight forwarder charges \$200.00 to \$300.00 per shipment.

Eastern European countries. Regardless of the region, the company uses government associations providing federally funded export insurance.

Given the fact that Company B's competitors in the EC are other US suppliers, and that its European customers are extremely sophisticated in calculating prices, different VAT taxes, currencies and other duties do not affect the company's pricing decisions. Since the company presently treats the EC market as an extension of domestic operations and as an additional market it aggressively pursues, a European-wide pricing strategy is used. Mr. Burns does not anticipate any major changes in the EC pricing structure until the company broadens its product line to upper-end segments of the market. He is pleased with the value the company obtains for its products in the EC, even though, as opposed to some of its US competitors, the company does not view this market as a profit opportunity.

The fluctuation of the US dollar does affect the company's export volumes but not as much as in the past due to its clear positioning within the targeted segment, in addition to "American-looks" being very popular in the EC. According to Mr. Burns, they would benefit from the use of a common monetary system, which would result in faster and more accurate financial and credit information of their customers/competitors, consistency of payments, stability, as well as ease of doing business in general.

Burns surmises that price competitiveness will gradually become very similar to the aggressive price competitiveness in the US market. In spite of the anticipation of increased competition in the post unification European environment, prices are not expected to decrease in the upholstery fabrics category in the future, as the current profit margins are already extremely thin. Unless there is some major technological advancement in the medium-term

period which would increase production efficiencies, Mr. Burns doubts that prices in the EC will rationalize further.

Distribution

In addition to agent networks in the UK, Scandinavia and Austria, Company B uses two distributors who are bound to the company with exclusive contractual agreements. Company B's Eastern European distributor is located in Berlin, Germany, whereas its exclusive EC distributor works from the Netherlands.

According to Burns, obtaining an adequate representation in the EC market is an ongoing process which does not differ from the process of obtaining good sales representatives in the US. Close contacts and constant surveillance of the company's agents' performance is necessary, regardless of the market served. Furthermore, replacing agents who are consistently below performance expectations is compulsory to obtain desirable returns. Burns presented an example of a European agent at the beginning of the company's "European venture", who picked up their product line just to protect the line he was selling for another manufacturer.

As freight forwarders take care of export documentation, border controls and the "mechanics" of exporting, Burns is presently unaware of any difficulties regarding various national markets in the EC. Although he believes the EC unification will necessitate even stronger agent networks and closer relationships in the future as competition increases, the segment his company targets is well served. New agent networks will be necessary when the company introduces a new, high-end line of products as the agents/distributors in the EC appear to be specialized in a certain price/quality level.

Company B sees tremendous opportunities with its present product line in the Eastern European markets in the future. As the EC unifies and begins to prosper economically, the political and financial situation in Eastern Europe is expected to improve. Burns plans to research this high-potential market in the next few years to familiarize himself with the market and to establish a quality agent network.

Promotion

Presently the company does not utilize any form of direct advertising in the US or in its international markets. The agents use fabric swatches and price lists, but no brochures or catalogs are produced.

The most important sources of information regarding specific needs of the market are attending trade shows, frequent visits and personal contacts with agents, distributors and furniture manufacturers as well as keeping up-to-date with international trade publications.

Burns considers advertising the company via personalized brochures a very "European custom", but sees the need for more promotional activities and closer contacts with the EC market in the future. The US textile suppliers have unfortunately established a bad reputation in the European market in the past 20 years, as they entered and left the market depending on foreign exchange rate situations and on demand situations in the domestic market. This time, Mr. Burns believes that US manufacturers are there to stay, as factors other than price make their products sellable. Thus, more national promotion will be needed to re-establish the US textile exporters' reputation as reliable suppliers.

Case Study: Company C²¹

Company C's Background Information

The company is a manufacturer and marketer of curtain and drapery linings. The product line includes a broad range of functional and decorative linings and blackout fabrics of cotton and cotton blends for home or contract use, including flame retardant and insulated drapery linings. According to Mr. Clarks, the company is possibly the largest manufacturer in this product category in the world. It manufactures primarily according to US specifications and its products are purchased by most major drapery/curtain suppliers in the domestic market.

The company has two manufacturing plants located in South Carolina and Maryland, whereas its two sales offices are located in New York and Baltimore. No foreign sourcing strategies are presently used by Company C, nor do they manufacture any of their products outside the US. The company employs approximately 600 workers.

²¹ The information for this case study was provided by Mr. Clarks, the President of the company, who is also in charge of his company's international operations. Mr. Clarks has over 20 years of experience in domestic and international marketing. The interview was conducted at the Heimtextil trade show in January, 1993.

Export Involvement

The company has been heavily involved in exporting for over 20 years and received The President's "E" Award²² for its excellence in exporting. Approximately 20 percent of the company's total revenues were generated in international markets in 1992. Its drapery linings are exported to 55 countries around the world, the major regions being the EC (accounting for over half of its export revenues), the Middle East, Central and Latin America, and Canada. The EC countries' export volume has increased by 35 to 40 percent in the period 1989-1992, largely due to greater efficiencies on the part of its distributors.

Ranking the EC national markets according to importance, Belgium, Netherlands and Germany rank the highest, followed by France, Austria and Italy. Spain and Portugal are growing markets for Company C's products although they are currently negligible in terms of export volumes. Due to the narrowness of the company's product line, no export department has been established. In addition to Clarks' three assistants, various people in the accounting and credit departments handle international transactions.

Mr. Clarks sees his company's competitive advantage in the fact that they deal with a singular product which can be universally used. The styling of products is extremely limited, therefore functional rather than fashionable factors determine its sales. Furthermore, the uniqueness of the product is achieved with various finishes applied to it to suit the needs of individual consumers. As a mass producer of drapery linings, economies of scale can be achieved, and thus the products are very price competitive. In addition, an effective

²² The President's "E" Award was created by the Executive Order of President of the US in 1961 "to afford suitable recognitions to persons, firms or organizations that contribute significantly in the effort to increase U.S. exports". ("The top honor", 1992, p.18)

distribution system is of utmost importance to succeed in exporting drapery linings, which could be viewed as a commodity product compared to other textile product areas. The company plans to continue to expand in the EC as well as in Eastern Europe. According to Mr. Clarks, one needs to be careful as regards the extent of the future growth so as not to cross the point of diminishing returns.

Perceived Market Potential in the EC

Company C is a manufacturer which not only mass produces, but also markets its drapery linings in the US. Its competitors in the domestic market are not manufacturers but are converters who must source all steps of production. The only competitors in the EC market are manufacturers in the UK, Ireland and France. According to Mr. Clarks, these producers are for the most part not geared toward mass production. Since no economies of scale and scope can be used, the prices of products and R & D expenditures increase, yet the European companies seem to lack the flexibility to produce various kinds of products. On the other hand, European manufacturers are capable of producing very small quantities of the same product which can in turn be very exclusive. In specific situations, the European and US producers may even complement each other. Mr. Clarks does not believe that his European competitors can presently compete with large scale US producers in product categories such as drapery linings.

Although Clarks sees many advantages in the EC market unification, he doubts it will have a major effect on the sales volumes in his product category. Even though Company C's products are part of the fashion industry which may overall benefit from the new business

climate in the EC, drapery linings are so low-competitive and non-threatening that they will not be affected at least in the medium-term period (five to ten years from now). Furthermore, Company C sells exactly the same product throughout the EC, so that different national markets do not affect their business activities.

As for the future market potential for Company C's products, Clarks believes it will depend on several factors such as the increase in tourist activity and hotel construction, general economic growth in Europe, the value of the currency, and the stabilization and development of Eastern Europe. He anticipates that further growth potential in percentage terms is greater in the EC than in the domestic market. However, dollar sales volumes in the US are still much larger than those in the European market.

Export Marketing Characteristics and Future Strategies for the EC 1992 Single Market

Entry Modes

While utilizing a sophisticated network of wholesalers and distributors, the company exports on a direct basis. Contractual agreements are used with distributors in Europe. At the present time, Company C has no facilities in the EC countries, nor does it anticipate any direct investments in this market within the next five to ten years.

Market Segmentation

Due to the commodity nature of Company C's narrow line of products targeted at several national markets within the EC, the company perceives this market as one, European-wide market. No separate segments within this market are identified.

The company's customers are wholesalers and distributors, whereas its final users are institutional buyers such as hospitals, hotel chains, home-furnishing textile producers, and governments.

Product Related Issues

Company C's drapery linings are sold under a domestically and internationally known brand name "Col-tan". The linings come in two different widths, in a few fabric counts and constructions, and in a limited number of shades. The most distinguishing feature of the products is fabric finishes varying from water repellent, wrinkle resistant and flame retardant to finishes providing insulation and light control. Some of the finishes are patented by the company.

Although virtually the same product is targeted to domestic and foreign consumers, there are a few differences in consumer perceptions of drapery linings. Whereas in the US such a product is viewed purely as a functional lining, the technical features need to be emphasized in the EC market. In addition, some of the linings undergo printing processes in the Netherlands, France and Germany, where the product becomes a decorative item as well. In such cases, the basic purpose of a lining is combined with various functional finishes and designs, providing efficiencies in price, installation, and manufacturing.

Presently there has been no need to adapt products specifically for international markets. The most problematic aspect of exporting drapery linings to the EC market has been different national standards and regulations as regards flame retardant finishes. Virtually every single national market within the EC has different standards, of which those in Germany and France are the strictest. Mr. Clarks revealed that there have always been problems with his products passing the EC's highly diverse standards.

Prior to exporting, the drapery linings have to pass tests which are conducted in a foreign country's laboratories. According to Mr. Clarks, the harmonization of the EC consumer safety requirements would tremendously ease the business in this market. He does not anticipate that this problem will be solved in the near future as it will be difficult for so many countries to unanimously agree upon required standards. Also, this issue does not appear to be one of the EC's priorities. Clarks perceives the diverse and strict flammability standards in the EC as "playing with numbers" and as protectionistic measures on the part of importing countries. Company C's agents or customers usually manage to take care of testing procedures. There have been occurrences in the past when C's products did not pass the German DIN standards under the "Made in the US" product identification label. However, the very same sample passed testing when the customer took care of it without such specification. As the US is as interested in consumer safety as any of the EC countries, Clarks feels that not only EC-wide but global world-wide standards should be adopted.

Even though Clarks does not anticipate any big changes in the EC business environment in a short period of time, he hopes that there will be a greater recognition of a common sensibility in terms of technical regulations, and that the individual markets will be able to reach reasonable conclusions. The company would adapt its products to new EC-wide

technical requirements, given that it would realize returns which would pay off such investments.

Price Related Issues

Since the company produces "commodity-like" products, which are differentiated only by the type of finishes (technical feature), non-price competition factors are not as important as they are for other manufacturers in the fashion industry. As a large scale US producer, the value Company C obtains for its product in the EC market is very satisfactory.

The prices are quoted per yard or meter in whatever currency the customer requests. An experienced export team in its US offices is capable of quickly calculating prices in various currencies on FOB or CIF bases and sending these to customers around the world by fax. The company is well versed in dealing with different currencies and fluctuating exchange rates. To date, no problems have been identified regarding different VAT taxes or duties in various European national markets. The only difference between established and new customers pertains to different financial instruments, which vary from open accounts and sight drafts to L/C for new customers. Although the company is very flexible in quoting prices, it is not a risk taker and prefers sight drafts to open accounts if there are doubts about the credit-worthiness of the customer. However, Clarks emphasized that a lot of his European customers are "ultra sophisticated" in exportation matters and they take care of containers and the other mechanics of exporting.

As for future prices, Clarks certainly anticipates major changes in the market but is not sure of the direction of these. If his current European competitors begin to consolidate and become more competitive, the profit margins may become thinner. He also expects his

European customers to become "giant" and purchase correspondingly larger quantities.

Although the cost of doing business is anticipated to decrease, price decreases are likely to take place in commodity and not in fashionable products. He does not believe that the EC will succeed in introducing a common currency system any time soon nor that his business would be affected in any way even if that were to happen.

Distribution

Company C has established a very effective system of distribution/representation in the EC market over the years. The fact that it works with only two major agents simplifies its export operations. Ms. Heather, the C's continental European agent, owns a company with creative fashions/furnishings and travels throughout the EC to obtain customers. She has a number of personnel who take care of technicalities of international distribution and finance. Another major agent works out of the UK and covers Ireland, Wales, England and Scotland. These agents never take title to the goods, but are knowledgeable regarding the technical properties of the product, regulations and specific dealing requirements in each national market. Clarks has never been informed about any kind of problems pertaining to administering export documentation or anything else apart from his products having to pass different consumer safety regulations in various national markets.

The company's current European agents are very valuable to the company and thus Clarks does not anticipate any major changes as regards the distribution in the medium term. However, the company is eager to do more business and is open to reaching new customers. He noted, again, that one needs to be careful as to the extent of the future growth.

Promotion

"Col-tan" brand name drapery linings are heavily advertised in all major home-furnishings trade and consumer publications in the US as well as internationally. In addition, the company publishes literature with information about the product, swatch kits with descriptions, collaborate materials and brochures in several languages. Since the same product is marketed all over the world and functional properties are emphasized, Company C's promotional activities are truly global.

C's export personnel are in daily contact with its overseas customers and agents, who also provide the most relevant information about market needs. The company is either directly or indirectly represented in most major trade shows around the world. "Direct" attendance in trade shows means that the company sets up its own booth and displays its products, whereas they are indirectly represented through their customers, i.e., other IFT manufacturers who offer C's products as supplements to their own products.

Mr. Clarks does not anticipate any major changes in the company's promotional activities, nor does he believe that the changes in the EC business environment will provide any benefits as regards easier contact with customers, due to different languages, cultures and consumer behavior.

Case Study: Company D²³

Company D's Background Information

Publicly-owned Company D is a division of one of the major manufacturers and marketers of home-furnishings, finished fabrics and industrial textiles in the US. The parent company employs over 20,000 workers, of which about 70 percent are employed in its largest business segment, i.e., manufacturing and marketing home-furnishing textiles. The products include a broad selection of bed and bath products such as sheets, bedspreads, comforters, ruffles, shams, window treatments and pillows. The company has several manufacturing facilities and sales offices throughout the US.

Export Involvement

The home-furnishing textile division has an export department employing several executives, who have offices set up in various parts of the US, Canada and Mexico. An export executive located in New York handles the licensing arrangements and exports to the EC market. As licensing represents a major portion of the EC business, i.e., 70 percent versus 30 percent of direct exporting, no additional staff is needed specifically for the European market.

²³ The information for this case study was rendered by Mr. Dane, Director of International Sales, who has been responsible for his division's marketing throughout the world and has been in this position for several years. The interview was tape-recorded at the Heimtextil show in Germany in January, 1993.

Mexico and South America are the company's fastest growing export markets, whereas the EC is the most significant market as regards its licensing arrangements and as a source of obtaining new designs. Canada, the Far Eastern countries and Australia are also exporting regions the company actively pursues. Over ten percent of the revenues were generated in international markets in 1992, of which the EC countries accounted for only a fraction. The company plans to increase its overall export volumes to amount to 15 to 20 percent of its total revenues in 1993. Ranking the EC markets according to the significance of sales volumes, France and the UK are major markets for licensing arrangements, whereas Spain and Greece are the company's prime markets for direct exporting. Dane revealed that Germany would be a future potential market, but so far the company has not offered an appropriate product line which would appeal to German consumer tastes and quality expectations.

The company began to penetrate the European market 18 years ago, but a major expansion was undertaken only ten years ago. Unfortunately, Company D's European expansion failed in 1983 due to various factors described in a later part of this report. Only in the past few years, the company once more considered exploring the EC market. The sales volumes to this market increased by approximately 15 percent between 1989 and 1992.

Mr. Dane sees Company D's competitive advantage in the quality and styling of its products and the marketing capabilities of its managers. Although he believes Company D's current export levels to the EC could improve, he is uncertain as to the magnitude of such improvements in the future.

Perceived Market Potential

Company D is a large scale manufacturer of bed and bath products utilizing economies of scale and scope. Mr. Dane perceives the formidability of its European competitors in the fact that these are relatively small and exclusive and that they are niche marketers, though they cannot be as price competitive as D.

Dane revealed that there is a potential for future sales growth of D's products in the EC market, as its products are extremely price competitive and are very sophisticated in terms of styling, coloration and design. However, the company's major problems lie in the bed sizes in Europe which are, with the exception of Spain and Greece, different from those in the US. Thus, its final products would have to be cut and sewn in the EC, which for now does not appear feasible. Furthermore, demands as regards the quality of bed products, i.e., fabric count and fiber content, are different in various regions of the EC.

Due to the relatively insignificant amount of direct exporting to the EC, Mr. Dane does not view this market from the standpoint of the number and origin of his company's competitors. In addition, a majority of the company's European customers attend major home-furnishing textile trade markets in the US to source and purchase D's products. He contends that the number of textile firms exploring the EC Single Market may increase in the future. His company will conduct a market analysis to learn more about competitors when the decision is made to aggressively pursue the EC in terms of direct exporting or establishing a manufacturing and distribution facility.

Comparing the future sales growth potential in the US, the EC and the company's other international markets, South and Central America are considered to have the largest

future growth potential. Dane is optimistic about the future growth potential for D's products in the EC, but the export markets need to be pursued selectively, according to the opportunities available.

Export Marketing Characteristics and Future Strategies
for the EC 1992 Single Market

Entry Modes

Company D's international activities in the EC are limited to licensing designs, i.e., approximately 70 percent of the business volume, and to direct exporting of the final products, i.e., 30 percent of the business volume. The company's export executive located in New York handles all the licensing arrangements in the EC, whereas an agent is utilized in Greece and another one in Spain to represent the company's products in these two national markets.

Ten years ago, as the company began its major expansion in the EC market, it opened a manufacturing facility in France and a marketing operation in the UK. These ventures turned out to be a disaster in 1983. Major problems arose due to a lack of experience on the part of export managers as well as a lack of market knowledge and marketing skills. In addition, exchange rates did not work in the company's favor. Dane is convinced the ventures that failed in the past would work in the new EC environment, in part due to external factors and in part due to the improved skills of its export personnel. The company currently forms a manufacturing association with a textile firm in France, which purchases its fabrics, cuts and sews the final products and markets these in the French market.

Mr. Dane does anticipate a need for a more direct presence in the EC to achieve the company's growth objectives when this market unifies in the future. He stipulates that within a period of five to ten years, they will have to find a country with low labor costs and manufacturing expertise and set up a joint or sole venture to undertake the cutting and sewing of its products. A possible location for such a venture would be Eastern or Southern Europe, depending on future labor market conditions in various regions. Foreign sourcing of materials, i.e., bedding fabrics, would be required if the company seriously pursues this venture, in order to comply with various fabric quality demands in different regions within the EC. In addition, setting up a distribution facility would be feasible to properly service the market. Dane added that his company's parent corporation has the capacity and is willing to assist them to take over an existing company or to form a joint-venture in the EC in the future.

Market Segmentation

Company D segments the EC market based on individual national markets in terms of its clientele, taste levels and quality requirements of various countries. Within each of the national markets, no distinct market niches are presently identified, since the company's direct export business is relatively insignificant.

Mr. Dane hopes the EC unification will enable the company to undertake a regional rather than a country-by-country approach, or even Europe-wide market segmentation in the future, as it would be easier to conduct the business on this basis rather than on an individual country basis. However, he expressed doubts that the EC 1992 Single Market program will

actually result in a homogeneous market in due course and believes the European unification will be a slow process.

As the company primarily licenses its designs in the EC, its clientele includes about ten textile manufacturers in France and the UK. Agents and distributors are its customers in Greece, whereas in Spain its major customer is a Spanish retail group, which recently purchased a department store in the West Coast of the US.

Product Related Issues

The scope of D's products destined to the EC market is limited to approximately 20 patterns, whereas the company offers over 60 patterns in the US market. The differing sizes of sheets, linens and pillows in different national markets represent a major obstacle to the company to increase sales in its final products. Greece and Spain have the same bed sizing as in the US, and thus the company has been more successful in exploring these markets on a direct export basis.

Different styling and colors appeal to European and to US customers. Within the EC market, there appear to be different quality level requirements, e.g., lower quality expectations in Britain than in the US, whereas the German market is much more quality conscious and desires a higher fabric count and a 100 percent cotton fiber content of bedding products.

Company D has a team of over ten designers and a head stylist, who for the most part source the designs in the European market, purchase these and reproduce them in the US. The same product development strategy is used for domestic and other export markets and appears to be very successful, since a number of the company's designs are later licensed to the EC.

Mr. Dane believes that the future EC represents good potential for D's products. However, at the present time, only a limited number of styles are offered in this market due to the limitations the company experiences as regards the sizing of bed products in the EC. If the company decides to seriously explore this market, there will be a need to expand the product line offered to better suit the needs of the customers. In order to achieve that, the company will have to undertake some foreign sourcing of the various qualities of fabrics that appeal to different regions, and open manufacturing and distribution facilities in the market.

Price Related Issues

Non-price competition factors, in particular quality and styling, are of utmost importance in the EC market. Consumers find D's designs appealing and are willing to pay higher prices if the product suits their needs and taste preferences. According to Mr. Dane, the company's products are price competitive in this market, primarily as a result of being able to use economies of scale. Although the price structure of the products sold domestically and in the EC is roughly the same, the profit margins are slightly higher in Europe, as no seconds and promotional volumes are sold there. The prices for licensing designs, on the other hand, typically vary from 5 to 15 percent of the sales price of the product.

The company quotes prices per dozens or "eaches" of products in US dollars on the FOB bases and typically uses L/Cs as a financial instrument. Selling on open accounts is not commonly utilized even for established customers in the EC.

Mr. Dane expects the price competition in his product category to intensify substantially in the future. He believes that it will take a much longer time for EC manufacturers to consolidate and become stronger than for EC retailers. Retail chains will

expand across national borders and will be able to source products globally, as well as aggressively pursue better deals and lower prices. Overall, Dane anticipates rationalization of prices in this market in the future, and possibly thinner profit margins due to intensified competition and lower administrative costs of conducting business. The introduction of a common monetary system in Europe would be helpful for Company D's future ventures in the EC, but Dane does not believe that this will happen very soon.

No specific changes as regards the company's future pricing strategy in the EC have been identified.

Distribution

Company D for the most part licenses its products in the EC and its export managers handle licensing arrangements. So far, no difficulties have been identified regarding the distribution and representation due to national borders and different administrative requirements. The direct exporting entry mode is utilized in Greece and Spain only, and agents representing the two countries attend the two major home-furnishing textile markets in the US to source D's products.

In terms of the future distribution strategy in the EC market, Dane surmises it will be necessary to set up their own distribution center in one of the regions once they decide to more actively pursue the market and establish a manufacturing facility. In addition, he believes the unification in the EC will lead to mergers of established retailers across borders, which will offer benefits to large scale manufacturers capable of reliably supplying the markets. Considering the fact that European manufacturers in this product category are small-scale niche marketers and that it will take much longer for producers to merge than for

retailers, Company D will be able to take advantage of the new business environment once the manufacturing facility in the EC is set up.

Promotion

Due to the nature of the company's principal entry strategy, i.e., licensing, no direct advertising is utilized. Heimtextil is the only trade show the company attends in the EC. Although visits to its primary licensing markets, i.e., France and the UK, are necessary to contact customers, the majority of business is conducted in the US. European customers participate in the US home-furnishing textile markets and the company's New York office handles the administrative operation.

Contacts with the company's clientele provide the main sources of information regarding the needs and trends in the market. After the company decides to more actively pursue the EC market and to establish manufacturing and distribution facilities, major market analyses will have to be conducted before any decision is finalized.

Dane is optimistic about the future Single Market as a destination for the company's products. He does not anticipate the EC to become a "fortress" as he believes the company's product styling and design are appealing to European customers, who will be able to obtain these if the price as well as the quality matches their needs. The cultural differences and the various styling preferences and languages will remain, so that careful consideration as to the type of product offerings in different markets (regions) will still be necessary to adjust to demands in the market. Dane does not anticipate these variations to represent an obstacle, as taste level and other differences exist even in the domestic market.

Case Study: Company E²⁴

Company E's Background Information

Company E is the home furnishings division of one of the oldest and largest textile mills in North America. It was a formerly privately owned decorative fabrics converter, and now engages in finishing a wide range of decorative woven fabrics suitable for draperies, bedspreads, pillows, upholstery and wallcoverings. The fiber content of the fabrics ranges from 100 percent cotton to blends with synthetic fibers as well as purely man-made fibers, and the fabric construction varies from sateen, chintz, and damask to flat-wovens.

Approximately 80 employees work in the company's sales office and warehouse in New York. Company E's printing facilities are located in South Carolina. Greige goods for its operations are primarily obtained from its parent textile mill as well as from other producers in the US and abroad.

Export Involvement

The company has been involved in exporting for almost 30 years, and it was among the first American converters to exhibit at Heimtextil. According to Company E's president, "we were probably one of the pioneers in our industry to pursue global business". E's export staff has been pursuing the European market for the past 20 years.

²⁴ Mr. Edmond, Vice President and Export Manager, rendered information for this case study at the Heimtextil show in January, 1993. Mr. Edmond has been with the company for many years and has been in charge of the company's export operation for almost 20 years.

Mr. Edmond is in charge of the company's export department, where a staff of five people are engaged in export marketing. In addition, the company enjoys the benefit of being able to utilize its corporation's facilities when needed. E's products are successfully sold in Europe, South America, the Middle and Far East, as well as in the South Pacific. Although the European market ranks only third in terms of export volume, Edmond notes that it is becoming increasingly important. The company is represented in virtually all European countries, of which Benelux, Germany, Italy, the UK, France and Scandinavia are the most established, respectively. The southern EC countries, e.g., Spain, which are currently being explored, are considered to be the company's potentially attractive future markets.

Approximately 20 percent of Company E's total revenues were generated in its export markets in 1992. The company's export sales volume increased substantially from 1989 to 1992 as the share of exports increased by approximately 14 percent. The share of exports destined to the EC countries has been 25 to 30 percent of E's total export business.

According to Mr. Edmond, Company E's competitive advantage lies in its being a converter, which gives it tremendous flexibility in being able to quickly adjust to market changes. Although American styling is very popular in Europe, the company's ability to adjust to definite color needs in different areas is an asset. Furthermore, the company is very well established as a reliable, high-quality supplier for wholesalers in Europe, so that its "name" also contributes to its success in this market.

Due to the current recession in Europe, Mr. Edmond does not anticipate a high increase in the level of export volumes within the next year or two. He believes, however, that offering the right designs and quality of products as well as reliably servicing the market

could lead to an expansion of five to ten percent a year.

Perceived Market Potential

The company's competitors in the EC are various European and US producers of decorative fabrics, as well as an increasing number of manufacturers from the Middle Eastern countries, who offer a cheaper variety of fabrics. Mr. Edmond has witnessed a rise in the number of fabric manufacturers entering the European market in the past three years, but believes only the firms offering the right product and service will survive in this increasingly competitive environment. However, he does anticipate a substantial increase in the number of competitors in the next five to ten years.

In terms of future sales growth, Edmond still perceives the Middle and Far East to be more lucrative markets than the EC. Edmond anticipates, however, that the latter will become an increasingly important export destination for their decorative fabrics. According to him, Europe is currently in a recession like the US was two years ago, but he estimates that this is just a part of normal business cycles, and the prospects for future growth are extremely good. Company E's vice president does not believe the EC unification is going to have a major impact on his export potential in this market in the short term, as the overall economic situation is not going to improve so fast. In addition, he thinks that the EC 1992 Single Market will take much longer than expected to become a reality. Being unable to predict the real effects of European unification, he feels that timely responses to the opportunities in the market will be necessary.

Export Marketing Characteristics and Future Strategies
for the EC 1992 Single Market

Export Modes

The company initiated its European international activities utilizing export trading companies in the US about 20 years ago. As they grew familiar with selling and marketing in foreign markets, exporting on a direct basis became their only entry strategy. In the EC, the company uses five agents who cover various regions within this market, and have represented the company's products for over 17 years.

Presently, Mr. Edmond does not plan to make any changes in the company's entry mode, although he feels some kind of distribution center, i.e., warehousing facility, would assist his company to service the market better and thus increase sales volumes. According to Edmond, the company's parent corporation would assist them in pursuing this strategy. However, no concrete plans for such investments have been finalized.

Market Segmentation

The company divides the EC market according to the regions which are serviced by different agents and are distinctive in terms of consumer preferences, expectations and tastes. Within each of these segments, Company E focuses on a single market niche, i.e., the medium to higher price/quality end of the market. The largest group of the company's targeted customers are wholesalers and distributors, followed by furniture manufacturers and to a lesser extent institutional buyers.

As for the entry mode, Mr. Edmond does not anticipate any modification of the company's currently used market segmentation, as he believes their current strategy enables them to service the targeted regions well. Also, he believes that "keeping their ears and eyes open to changing fashion trends" and remaining in constant touch with the consumers and agents is of utmost importance at the moment.

Product Related Issues

The company's product line offered in the European market does not differ from product offerings in the US. In addition to different qualities and fabric constructions, the company offers various styles, of which traditional styling represents the most established part of the collection. Recently, contemporary styling and juvenile designs also have been very well received. Edmond believes a broad line of fabrics in terms of styling and coloration helps Company E to compete in today's global markets.

The company does, however, recognize the need for adjusting to various color preferences and tastes in the European market. According to Company E's president, "reds and wines are much more popular in the EC than in the US, whereas there are certain brights that make an impact in Europe before they come to the US". The company makes many special colors and converts for wholesales in Europe.

So far, the company has not identified any problems with different technical requirements for their products in various national markets, as most of the US standards (e.g., washing, fading) comply with the EC national requirements. Stringent flammability restrictions on upholstery fabrics in the UK do represent a barrier in timely and effective servicing of this market. Mr. Edmond revealed that their sales volume to the UK dropped

drastically after stringent flammability standards were adopted. He added, however, that their UK customers do purchase the fabric if the pattern and colors are right and take care of the application of necessary flammability finishes themselves.

Edmond is optimistic regarding future harmonized technical standards in the EC. With the exception of the UK, they have not encountered any other barriers until now. He does not believe the EC will in any way become "a fortress" in the interior furnishing textile product category, nor will it increase non-tariff trade barriers for American textiles.

Product development is an important part of E's operations. A team of designers and a head stylist use various sources to create new patterns and incorporate colors demanded in the markets serviced. Although the patterns are not specifically developed for the EC market, the stylists are very conscious about incorporating "European colors" into the company's existing patterns. In addition to the head stylist's frequent visits to European trade shows, Edmond schedules regular meetings with the product development team to give them directions as regards the requirements of overseas customers.

The company's future direction of product development for the EC market will not be any different from that for the US or its other export markets. For example, they plan to use a wider range of textures such as jacquards as a print base, because they offer the stylists the ability to obtain more color effects as compared to flat-wovens. The company constantly looks for new areas of inspiration, and tries to adjust to new trends and preferences of the markets.

Edmond emphasized that no specific formulas can be used in predicting future product developments for the EC or any other export market. Following consumer trends and constantly adjusting to changes in fashion are necessary, especially in a high-quality, design oriented and competitive consumer marketplace such as the EC.

Price Related Issues

Mr. Edmond revealed that the price structure for the fabrics sold in both the EC and domestic market are the same, ranging from \$4.00 to \$7.00 dollars per meter. The price mark-up and the profit margins in the export markets are slightly higher than in the US, although the determination of prices is based on the competition. Despite non-price competition factors being of significant importance for the company's export success, the fact that Company E is a volume converter, and that its products for export markets are not made specifically for these, works in its favor.

As the company's customers are primarily large-scale wholesalers who have for the most part very sophisticated export/import operations, different currencies or VAT taxes do not represent an obstacle in dealing with the EC national markets. The prices are always quoted in US dollars per meter on the FOB basis. In the EC, the company uses open-terms financing except in the case of extremely large orders, when it requests sight drafts or L/Cs. The company does not provide any discounts or any other payment terms for its established trading partners.

According to Edmond, the pressure on prices in the decorative fabrics category has increased substantially in the past few years in Europe, primarily due to an influx of Korean, Indonesian and Pakistani goods in the market. Although the quality of these does not meet Company E's or European fabric specifications, the designs are very sophisticated and very often direct knock-offs of American originals. Edmond cited an instance which occurred last season, when one of their European customers showed him a swatch of fabric acquired from a Pakistani manufacturer which was an exact replica of Company E's design. Unfortunately,

there was nothing the company could do, as international laws regarding intellectual property rights are not clearly set in this area.

As for the future direction of prices in the decorative fabrics category in the EC, Mr. Edmond is convinced that the competition will tend to push down prices. However, he repeatedly stressed the importance of appropriate designs, quality as well as proper servicing of the market while competing in the marketplace.

Distribution

Mr. Edmond believes the company is presently well represented in the EC market, and has never encountered any specific difficulties as regards delivering, servicing or administering export documentation due to various national markets. Over the years, Company E managed to obtain high quality agents familiar with the market, its needs, and the technical and export requirements in different countries. The agents have well-established contacts in the markets and know their established as well as potential customers.

Five European agents cover different regions: one covers Benelux countries, another represents Switzerland and Germany, the third covers Southern Europe, and the other two agents represent the UK and the Scandinavian countries. No specific agreements have been drafted between Company E and its European representatives. The only restriction the company has regarding its agents is that they cannot carry a competing line of fabrics, although they can represent other manufacturers who are not in direct competition with Company E.

Edmond is presently pleased with the performance of his European representatives, who are also a major source of information about market needs. He does not anticipate any

changes in his distribution channels in the EC even within the medium-term period. If the sales volume increases to the extent that the currently used strategy becomes outdated, Edmond will find new agents, or will have his current agent hire another person to cover the market. Company E's Vice President does believe cross-border agent networks will begin to function well in the EC in the future.

In conclusion, the company has surmounted the obstacle of catering to different national markets by obtaining appropriate representation over the years, and by developing a good distribution system. As for the future distribution in the unified market, no modifications were identified.

Promotion

Company E relies heavily on foreign trade shows, where the majority of its export business is generated. Also, after-trade show follow-ups usually result in numerous orders. The company is represented in every major fabric trade show in the European market, in addition to US home-furnishing textiles markets and other trade shows.

Furthermore, the company extensively utilizes a direct advertising strategy in all major international trade and home-furnishing publications. These strategies are aimed to all its export as well as domestic markets, and not specifically at the European market. The input from agents, visits to the market and attendance in trade shows as well as international trade magazines are considered the best sources of information about the trends and consumer needs in the EC.

Mr. Edmond comes to the EC for major trade shows two or three times a year, whereas most of the follow-up business is conducted by the company's agents. Due to

frequent communication with his agents and well-established personal contacts with these, Edmond does not anticipate a need to visit the market more often.

At the present time, Company E has identified no changes in its future promotion strategy nor does it intend to develop any advertising or public relations strategy specifically for the EC market.

Case Study: Company F²⁵

Company F's Background Information

Company F is a well established producer which has been manufacturing textiles since 1946. It is a privately owned manufacturer of upholstery fabrics and novelty yarns, the latter accounting for approximately eight percent of the total sales volume. The fabrics category include jacquards, damasks, tapestries and chenilles. The fiber content varies from cotton to olefin, polyester, acrylic and blends thereof.

The company operates manufacturing plants and executive offices in four locations in the Northeast of the US. Over 1400 workers are engaged in its manufacturing and marketing activities. This vertically integrated company ranks among the top ten upholstery

²⁵ The information for this case was rendered by Mr. Frazer, the company's Director of International Sales, and his assistant, Mr. Schwartz, International Sales Manager. Mr. Frazer has been in charge of the company's international operations for the past two years, although he worked for the company for several years before that. The investigator met with the company representatives at the Heimtextil show in Germany in January, 1993.

manufacturers in the world ("The world mills 50", 1992/93) in terms of its sales volume. No foreign sourcing strategies are presently being utilized to purchase raw materials.

Export Involvement

Although the company has been engaged in exporting since the 1970s, Company F's exporting activities increased substantially in the past four years. Its export revenues increased 12 percent between 1989 and 1992. Overall, approximately ten percent of the company's total revenues were generated in international markets in 1992.

The regions representing F's export destinations include the Middle and Far East, Europe, Central and South America, South Africa, the Pacific Basin and Australia. Although Canada is a relatively large market, Canadian sales are counted as domestic accounts. The European market currently ranks as the second most significant export market, after the combined Mexico and the Middle East markets, but it is expected to become the company's top export destination in the future. Approximately seven percent of the company's export revenues were derived from exporting to the EC in 1992, and there was a substantial increase in the export volume to this market in the period 1989-1992.

Ranking the significance of export volume in various EC countries, the UK and Portugal account for the largest share, followed by Sweden, Denmark and Germany, respectively. Germany and Italy are the company's relatively "new" export markets. Scandinavia and Germany represent the highest future potential for Company F's products.

Mr. Frazer sees the company's competitive advantage in the "fresh approach to styling and coloration of our upholstery fabrics". In addition, an extremely broad assortment

of well styled and reasonably priced fabrics are factors leading to the company's export success.

Mr. Frazer is in charge of the company's export department, which employs four sales managers and a secretary. The export department does not include customer service. Two of the sales managers are multilingual and handle European sales.

The company plans to increase its overall export sales volume by 20 to 25 percent annually. Frazer was uncertain as regards the company's medium-term magnitude of sales improvement in the EC market, but believes that the EC represents a good potential market for the company's products.

Perceived Market Potential

About ten major firms in the EC compete with the company, which are primarily textile mills in Italy, Belgium and Germany. In addition, a major US textile corporation is its direct competitor in the European market.

Frazer noted that an increased number of international textile firms entered the EC market in the past three years, especially from the US. He anticipates highly increased competition in the EC market within five to ten years, but is not sure as regards the possibility of the EC becoming more prohibitive toward foreign firms targeting their textile market. He believes there is a "good chance of the EC not becoming a 'fortress'" although one can not tell without knowing how the European textile industry will reorganize in the future.

Since the company is well established in the domestic market, Mr. Frazer perceives F's future sales growth potential to lie in export markets. As a relatively "young" international company, they have not captured all potential markets and segments as yet. According to him, the EC market could easily reach the same export level as the Middle Eastern market, but would probably not exceed export sales levels in Mexico, which is the company's largest and best staffed export market.

Export Marketing Characteristics and Future Strategies for the EC 1992 Single Market

Entry Modes

Using an extensive agent network in local markets, the company exports to the EC on a direct basis. So far, the company has no plans for a production unit outside the US nor is it interested in international licensing.

Frazer noted, however, that establishing some kind of distribution facility in the EC market is considered a feasible future entry strategy if they continue to expand as planned. The project of setting up a warehouse facility within the next two to five years is presently under discussion.

Market Segmentation

In view of the fact that European agents service individual countries within the EC, the company divides the European market on a country-by country basis. In terms of quality requirements, taste levels and market needs, the market is segmented into two broader

segments, i.e., Northern and Southern Europe. The same products are offered in both segments, although the company lays emphasis on more expensive, heavier fabrics such as chenilles in the North and on cheaper, lighter fabric counts in the South.

Company F's core customers in the EC market are large-scale furniture manufacturers and distributors, who further sell the upholstery fabrics to smaller furniture manufacturers and retailers. Frazer admits that his division loses control of actual final users due to using middlemen.

Frazer does not foresee any modifications as regards the currently used market segmentation in the European unified market.

Product Related Issues

The company segments its domestic market according to various styling directions such as contemporary, traditional, transitional, country-looks and south-western looks. The total annual output includes an extremely broad collection of over 500 different designs. Fabrics are not created exclusively for the EC or any other export market, so that identical products are offered for sale in the US and in foreign markets. However, the range of products offered in the EC market is somewhat narrower than in the US, as a single market niche is targeted.

F's products with lower fabric count sometimes utilize backing in order to reduce price and not affect fabric performance. Mr. Frazer considers the European markets as higher-priced, where products utilizing backing are not considered very appealing, with the exception of the UK. Also, some of the company's coarse, inexpensive textures which sell well in Mexico are excluded from its European collection/offering.

Furthermore, color preferences in various geographic areas of the European market are quite different from the domestic or other export markets. Frazer recognizes the importance of understanding diverse taste levels and preferences in each of the segments the company serves, and of adjusting to these (designs remain the same). A team of 12 stylists and technical assistants is presently in charge of creating various fabric designs, although no one is specifically in charge of the European market. The company is presently in the process of hiring an additional stylist, whose responsibilities will be strictly towards international markets.

With the exception of the UK, the diverse technical requirements for upholstery fabrics in different national markets do not represent a problem when exporting to the EC. Frazer called the UK flammability requirements "unreasonable", as they are the strictest in the EC and more protectionistic than beneficial for British consumers. So far the company has been able to keep up with these, and its products have successfully passed the necessary tests. Company F works closely with a finishing manufacturer in Britain which applies the backing and flame retardant finishes for most of the fabrics destined to the EC market. Mr. Frazer noted that his company would benefit if the EC unification leads to uniform standards for all the markets.

As Mr. Frazer is not sure as to the future direction of the EC unified market and its becoming a "fortress" in the textile category, he cannot predict the product modifications necessary to accommodate the technical or other requirements of the Single Market. From the marketing standpoint, however, he surmises that continuing to produce a wide assortment of products and keeping close contacts with consumers will be of utmost importance as the competition for market shares intensifies.

Price Related Issues

Although there are no differences in the price and profit structure of products destined to various markets within the EC, higher profit margins are achieved in this market as compared to the domestic market, primarily due to smaller volumes sold to individual customers.

Non-price competition factors are of utmost importance when it comes to exporting Company F's upholstery fabrics to the EC market. The ability to cater to the quality conscious EC consumers, and to their distinct color and styling preferences as well as timely and effective servicing of the market are responsible for Company F's success in the market.

The price range of the entire fabric collection varies from \$3.10 to \$10.00 per yard of fabric. The prices of products typically sold to the EC range from \$5.00 to \$10.00, with the majority of these being priced at \$6.50 to \$7.50 per yard on the FOB basis. The company does offer the EC customer price quotations in US dollars per meter, but the final terms are always quoted in yards. The financial instrument most typically utilized for European customers is open account, in cases where enough banking information about the customer is available. The company does not use any kind of export insurance, though.

The company positions itself equally in terms of pricing strategy for all the EC national markets. Due to the fact that it is an experienced exporter, the differences in VAT taxes or national currencies do not affect the volume of its sales in the EC, nor do fluctuating exchange rates, credit terms or financing of its exports.

Rather than a decrease in the EC prices in the period within five to ten years, Frazer expects those to remain about the same as there is presently a rise in the prices of man-made

fibers. The intensified competition in the market will tend to push down prices, according to Company F's Director of International Sales.

Distribution

For each of the national markets the company serves, it utilizes different agents/distributors, who, in turn, hire additional subagents to cover certain areas when needed. The agents are not tied to the company with any exclusive agreements, but they may not carry another line of fabrics which competes directly with F's products.

Mr. Frazer is presently unaware of any difficulties as regards finding appropriate representation in the market, delivering, servicing or administering documentation in various national markets. Company F utilizes the same distribution strategy in all its export markets as it does in different countries within the EC.

Frazer emphasized the importance of establishing close relationships with each of the agents. According to him, one needs to ensure that the agents are not interested solely in short-term cooperation while maximizing short-term profits, but are devoted to the long-term marketing of F's product line and are interested in maintaining a good supplier-customer relationship. When searching for new agents and representatives in the EC, the company relies on the recommendation of manufacturers of non-competitive products, or upon the recommendations of its current customers.

As for the future expansion plans in the EC markets, Frazer does not anticipate any modifications in the organization of its current distribution network. He does not believe the EC Single Market will enable them to use a more regional approach in terms of representation in the EC, as he surmises that an agent can only be effective in a single national market in

order to service it thoroughly. For instance, the German market is geographically such a large territory that presently two independent agents are servicing the Western and the Eastern regions separately. In the long term, Frazer sees the possibility of hiring one distribution network agency which will cover the entire market, but at the present time he cannot imagine the EC becoming unified to the extent that this would be realistic.

Promotion

The main form of Company F's export promotion in the EC is participation in foreign trade shows such as major home-furnishing textiles shows in Germany, Belgium and Spain.

The company publishes advertising booklets describing F's development and its activities as well as presenting a broad range of products offered to the customers. These public relations materials, which are published in six different languages, are created by an outside advertising group. According to Mr. Frazer, European customers are accustomed to obtaining such information about their suppliers. In addition, Company F's agents utilize fabric swatches with technical information.

A direct advertising strategy is utilized in numerous industrial and trade magazines aimed at furniture manufacturers and distributors. None of the magazine ads is specifically targeted to EC customers. Frequent visits to the market and communication with agents provide the company with necessary information about the specific needs of a particular market. Mr. Frazer and his two export managers handling the EC market personally travel to the EC about three times a year and acknowledge the possibility of having to travel more often in the future, as the new business environment becomes more competitive.

Mr. Frazer and Mr. Schwartz emphasized the importance of obtaining effective information about the ever changing color preferences, market trends, and external environment. The company's prime sources of information are the agents in local markets, interaction with consumers, contacts with non-direct competitors as well as industry periodicals and trade publications.

As for the future EC market, expanded promotional activities have not been planned as yet. Mr. Frazer presently does not anticipate any modifications in the company's EC promotional strategy.

Case Study: Company G²⁶

Company G's Background Information

Established only 12 years ago, Company G is a privately owned manufacturer and converter of screen-printed area rugs and mats of various qualities, sizes and designs. In addition to textile products, the company also screen-prints metal mailboxes and house signs. Its home textile products include a variety of printed cotton scatter/bath rugs with latex backs, cotton braided rugs for bed and bath as well as olefin mats and rugs in the so-called Berber look.

²⁶ Mr. Gillian, President of the company, provided the information for the case study that follows. He initiated export activities of his company and is extremely supportive of further export growth, in particular to the EC. The interview was initiated at the Heimtextil in Germany in January, 1993 but mainly was conducted at the company's manufacturing site in the US in March, 1993.

Due to the nature of the company's diverse products, Mr. Gillian considers his business to be associated with the gift trade as well as the textile trade. The company's business is seasonal, i.e., 65 percent of the business is conducted in the latter half of the year, and the number of employees averages between 200 and 250 workers.

The company's production facilities are located in three different areas on the East Coast. No foreign sourcing strategies are currently utilized.

Export Involvement

The company began exporting to Europe without any specific marketing plan in 1989 when a UK agent approached them at a trade show in Atlanta and acquired exclusive rights to market the company's products in the UK. From that time, Mr. Gillian notes, he and his staff realized that exporting was not as complicated as expected, nor did it require more clerical work when compared with domestic operations.

At the present time the company does not have an export department although Mr. Gillian recognizes the need for an export executive who would exclusively focus on international activities. Currently he is the sole executive in charge of exports, whereas two other people handle export documentation and finances in addition to domestic market responsibilities.

A total of eight percent of the company's revenues were generated in international markets in 1992, of which the EC market accounted for almost 75 percent. Gillian appraises Europe as by far the most important export market at this time as well as in terms of its future potential. Other regions Company G exports to are Canada, Central and South

America, and the Middle and Far Eastern countries. The most significant EC market is the UK, followed by Germany, Benelux, France, the Scandinavian countries and Italy. The sales volumes in Spain and Portugal are currently small but are steadily increasing, and they have very good future market potential. Furthermore, there are extremely large markets for door mats in Benelux and Germany which are worth pursuing further.

Factors such as uniqueness of the product, design, quality as well as the perceived value of the product determine the company's export sales in the EC market. The fact that G's door mats and area rugs are functional as well as decorative, with a typical "American" design, add to their sellability. The company's typical textile home products are viewed as medium priced gift items, which last for a year or two, after which they can be replaced.

According to Mr. Gillian, the anticipated growth in the market can be achieved by expanding the product line currently offered and by finding a more effective distribution system once the market truly becomes unified.

Perceived Market Potential in the EC

The company's major competitors in this product category are two other American manufacturers as well as some South Asian firms, both of which offer similar but less expensive products. Mr. Gillian surmises that the competition in this product category is intensifying, although not as much as in textile products of a higher fashion content.

The company's President is highly optimistic about future prospects in the EC and believes that there is great potential for G's products. Although the company has captured only a small segment of the EC market so far, the products are very well accepted and

Company G's plans for further growth in this market appear to be realistic. Mr. Gillian also perceives the EC as an attractive market due to its population base, the ease of conducting business and favorable economics.

When comparing the sales growth potential in the domestic and the EC market, Gillian perceives his export markets to have higher potential in terms of further expansion. Whereas the company services various market segments at home, only a single niche has been exploited in the EC so far.

Export Marketing Characteristics and Future Strategies for the EC 1992 Single Market

Entry Modes

The only entry strategy the company presently utilizes is direct exporting. Several agents represent the company and market its products based on exclusive, country based agreements.

Although establishing a franchising operation in the future would be a feasible strategy, Gillian is seriously considering establishing a small manufacturing facility in Germany. This facility would enable the company to undertake a personalization business program such as printing for German consumers, and possibly, later on, for the whole European market. The matter has been discussed with the company's German agent, who has expressed great interest in such a venture. Customers' personal logos or names are screen-printed on mats and carpets in G's personalization business program, which has proven to be

a very successful operation in the US market. The program was initiated through J.C. Penney's Christmas catalog in the US, and the orders are processed electronically.

Gillian did not express plans for any other entry strategy into the future Single Market, but emphasized that distribution issues will be of utmost importance for further expansion and success in this market.

Market Segmentation

Company G clearly markets its products on a country-by-country basis in the EC, as individual agents/distributors are in charge of national markets.

Currently, the company targets the upper-end niche in each of the EC national markets, but does plan to expand its product offerings and start competing in additional, more price sensitive segments in the future. The company anticipates using the same marketing strategy in the EC that proved to be successful domestically. The domestic strategy was to position products at the high-end of the market using the company's name on the products, while gradually expanding into other, cheaper product categories using another brand name.

Gillian segments the domestic market into the following categories: the gift-trade market, which is comprised of high-priced items emphasizing design and quality or custom-styled items sold in department and specialty stores; the garden center trade market comprised of lighter weight products which are more volume oriented and lower priced; and the warehouse and discount market comprised of items emphasizing affordability rather than quality.

As similar high-end products are offered in all the EC countries, Gillian hopes the Unification program will enable him to market products with a fewer number of agents throughout the EC, and the market will truly convert into one global, pan-European market. Smaller distributors, importers and retailers are the company's major customers in the EC.

Product Related Issues

Presently, Company G's product strategy in the EC is in a primary stage, comparable to what it was eight years ago in the domestic market. Essentially, the same products are targeted at the EC consumer as in the domestic market, but the product category is limited to the upper-end gift-trade market. In terms of designs, Europeans are attracted to a very "American" look, which was popular in the US some five years ago. Whereas the styling trends in the US are moving away from the country look and pastel colors towards more contemporary designs of deep colors, the former style seems to be presently preferred by Europeans. Due to the perceived uniqueness and value of G's items in the EC, higher product positioning has been achieved in this as compared to the domestic market, although the sizes and quality remain exactly the same.

Gillian emphasizes that the company does not need to be on the cutting edge of design or styling, since its products form only a marginal part of the interior design business. G's team of five designers has to carefully monitor the trends of other major interior textile manufacturers, and make sure the designs they develop match the overall trend. As screen printers, the company has the benefit of being able to quickly react to new trends and coordinate designs and colors with those of other interior textile producers. The same advantage can be applied to the EC and other export markets. However, it is imperative that

trends be monitored and that printing designs be adjusted to overall styling trends in this industry, in order to make products more appealing for consumers. Presently, none of the company's design staff is responsible for developing designs specifically for Europe.

Mr. Gillian noted the importance of clearly differentiating the products exported to the EC from similar items produced by South Asian competitors. Customers tend to associate G's products with Indian rugs, although G's quality is higher and the products are almost twice as expensive.

Mr. Gillian has a lot of plans regarding the product strategy for the EC market in the future. Company G plans to focus on expanding the product line and developing new products using fresh and appealing designs adapted to customer tastes in the market. An example of such an item is a bathroom assemble which is presently being developed and consists of bath rugs, toilet cover, shower curtain and printed towels in matching designs. Part of the manufacturing of these items will be contracted out, but the product development, cutting, sewing and printing will be conducted by the company. Mr. Gillian is very optimistic regarding consumer reactions to these products, as they represent a unique approach to decorating the bathroom in Europe. Due to the nature of G's products, the company does not need to comply with any specific technical standards or labeling requirements in the EC. As a result, it will remain unaffected by the changing standards.

Gillian sees the EC market as a market of "tremendous potential for our products" and believes the Single Market will provide even more opportunities for G's product expansion plans than prior to the Unification. However, he recognizes that different cultures, languages, design appeals and purchasing habits will remain even beyond the initial period of five to ten years.

Price Related Issues

Because of the nature of G's products, the perceived value and non-price competition factors such as perceived product uniqueness play an important role in the company's pricing strategy. The products targeted to the EC market have a higher mark-up structure than the same type of products marketed domestically. The company's higher positioning in the EC, its non-dependance on volume orientation and higher retail prices in Europe contribute to higher profit margins in the EC. When comparing prices at the wholesale level, G's typical product ranges in price from \$6.00 to \$10.00 in the US, whereas the same product is priced over \$10.00 in the EC. So far the company has not been pressed to offer any special discounts for established customers or large orders.

The pricing strategy in different national markets within the EC has been relatively consistent, as the tariffs and duties were very similar even before the Unification. The differences in VAT taxes or currencies have not affected them, as they deal with importers or distributors and do not target the final user of the product directly.

Prices are typically quoted in US dollars per piece on a FOB factory or FOB port basis when requested. The most commonly used financial instruments are L/Cs or wire transfers. Gillian noted that it is the company's policy to utilize these payment terms, even though some European customers generally expect to buy on open account. As the company does not utilize any export credit insurance, Gillian is very reluctant to make any adjustments in the pricing terms. Also, the company's export business is relatively young, and when considering risk versus return factors, Gillian admits he is not a risk taker.

Gillian is not a believer in the ability of the EC to introduce a common monetary system in due course, but recognizes that dealing with ECUs instead of fluctuating national

currencies would make the pricing and information about the credit-worthiness of his customers more consistent and easier. He does anticipate some rationalization of prices in the long term, but does not believe this would affect his currently used pricing strategy.

As for the future pricing strategy in the EC market, Gillian acknowledges that it will depend on the extent to which his company will be able to take advantage of the cheaper cost of doing business as well as on a more effective distribution system in the EC.

Distribution

Company G presently uses a number of agents, each of whom is responsible for individual national markets. The only exception is one agent who covers the entire Scandinavian region. As for obtaining adequate and reliable representation in individual countries, Gillian has been using the US Department of Commerce service called "Distributor/ Agents Search" in the EC. He added, however, that there is absolutely no replacement for travelling and personal contacts with new or established agents in foreign markets. Very close and frequent communication with the company's representatives, as well as establishing close personal relationships with them are needed in order to achieve desired results. Since the company does not as yet have an established brand name, it needs to find relatively small, new distributors who will devote time and effort to "pioneer" the company's line in national markets. Recently, Mr. Gillian conducted in-house research to obtain more information on their currently used and potential agents in the EC, about the facilities and resources they have available, and their estimated future sales volumes in each of the markets in the future.

According to Gillian, utilizing a smaller number of agents who cover regions rather than individual countries, would enable him to better control the markets his company services, reduce the costs of doing business, and develop closer ties with the agents. These factors will be of extreme importance when his European business expands to the extent that they will be able to establish their own brand name in the market. Presently, he believes the costs of brand name development would far outweigh the returns. After the company establishes itself as a reliable supplier, developing a brand name would be a feasible approach.

Gillian expects tremendous changes in the distribution system in the EC within a period of ten years. He is convinced that some of the aggressive distributors will soon expand across borders and form partnerships with other distributors. Setting up strong networks will take some time, but will eventually result in the ability of exporters to contact only one company and distribute all over the EC. He also anticipates that European retailers will soon expand across borders and set up retail chains similar to those in the US.

Company G's President is undecided about the nature of their future EC strategic marketing plan as regards distribution. The company's original plan was to market within individual boundaries, which are slowly diminishing. Gillian strongly believes it is necessary to start adjusting his distribution network now, or it will be outdated in the next few years. The transition period, however, appears to be the most problematic. For instance, Company G's German distributor is setting up partnerships in France, Austria and Netherlands and wishes to sell G's products throughout these regions. However, Gillian currently cannot allow that due to ties he has with the agents in individual countries. Gillian perceives this as a very tough problem which needs to be solved soon, or the company will not be able to avail of the

opportunities offered by the new business environment. The only solution Gillian can see at this point is to develop a diversified marketing plan and expand the product line. This will allow national agents to be in charge of the present product line, whereas regional agents would take over new, different products without a conflict of interest with the former. Gradually, a majority of the company's offerings would be handled region-wise rather than on a country-by-country basis.

Gillian envisions the future EC distribution system as very similar to effective rep networks established in the US market. One should keep in mind, however, that the European customers will still speak different languages and have various preferences as regards designs and colors.

Promotion

No direct advertising is utilized by Company G. The main method of the EC promotion includes participation in textile or gift trade shows by setting up booths, or indirect promotion through agents in individual countries. Gillian and his agents continually explore new trade show opportunities, as they believe trade shows are the most effective way to obtain adequate exposure in the market.

Although no specific public relations booklet has been developed for G's overseas customers, a portfolio with pictures of the company's products serves as a marketing and promotional tool. In addition, Gillian and his agents utilize product samples and price lists established for overseas markets. Packaging and product labeling remain the same as in the US. Technical information about the products printed on the back is in English, and sizes are given in inches, as they "project an even more American image of the product".

The company's President travels to the EC at least four times a year and tries to keep in touch with his agents almost on a weekly basis. He encourages his European agents to attend shows in the US and visit his facilities. Mr. Gillian emphasized once again the importance of well established personal relationships with overseas representatives and insists that they meet at least twice a year on a person to person basis.

For now, the company does not anticipate that the EC Unification will necessitate any modifications in its promotional activities. Due to the changes occurring in the business environment, close monitoring of market changes as well as frequent personal visits and contacts with customers will assume growing importance for future success.

Case Study: Company H²⁷

Company H's Background Information

Company H is a manufacturer and converter of upholstery fabrics such as flat woven textures in dobby and jacquard constructions for application in the home furnishings, automotive, and handbag industries, recreational vehicles, etc. Half of the company's business is in manufacturing, i.e., weaving processes, and the other half lies in converting, whereby the company provides designs and raw materials and contracts out weaving, printing and finishing operations.

²⁷ The information for this case was provided by Mr. Hanks, Vice President of Finance and Administration, who works closely with agents and representatives in the export market. Mr. Hanks has been with the company for several years. The interview was conducted at the company's headquarters in North Carolina in March, 1993.

The company has two manufacturing facilities located in South Carolina and Georgia, and its headquarters are situated in North Carolina. It employs 44 workers. No foreign sourcing strategies are utilized.

Export involvement

The company has been involved in export activities since 1989 when Ms. Reynolds, its Southwestern US representative, initiated overseas expansion. So far there has not been a need to establish a separate export department, especially since Ms. Reynolds works almost exclusively for Company H. Along with Mr. Hanks, she is in charge of the company's international business. Only one additional person assists them with export administration.

Attending European trade shows each year since 1989 resulted in an export volume of two percent of Company H's total sales revenues in 1992. Canadian accounts, however, are counted in Company H's domestic accounts as the market is serviced with domestic representatives. Canadian customers also visit the company and select from fabrics available for the domestic market. The most significant regions H exports to are the Middle East, South East Asia, Australia and Europe. Presently, the EC market accounts for only ten percent of the firm's overall export volume, but Mr. Hanks is optimistic about the future market potential, especially since the company recognized the fact that heavier jacquards, different colors and designs, and higher quality fabrics utilizing less backing appeal to European customers.

The UK and Germany are the company's most important export markets in the EC, followed by France, Spain, the Scandinavian countries and Italy. Within the EC, Germany

appears to have the most potential in terms of expanding the sales volume especially once the company obtains a better understanding of the specific requirements of this particular market. Overall, Company H plans to annually double its current sales volume to the EC for the following three years.

Mr. Hanks considers the company's most significant advantage in the European market to lie in the price competitiveness of their products. Production efficiencies and relatively low overhead costs enable them to compete primarily on a price basis. Furthermore, currently favorable exchange rates contribute to the sellability of their fabrics. Hanks added that appropriate designs and colors are the key to success in the EC as well as in other export markets.

Perceived Market Potential in the EC

The company's major competitors in the EC are US manufacturers in their product category, especially firms which aggressively started exploring this market before H. In the past few years, Mr. Hanks observed a substantial increase in the number of companies from the Middle East as well as from the former Soviet Block countries. He expressed expectations of highly augmented competition in the future EC market.

Comparing potential sales growth in the US and the company's various export markets, Mr. Hanks considers the Pacific Rim countries and Central and South America to have the highest potential due to the pace of their economic growth, and due to these markets being relatively under-explored by the US textile firms. In terms of absolute sales volume, however, the EC represents potentially the most attractive future market. Hanks is very

optimistic about the future growth of his company's lower to medium priced products in the EC, but emphasizes the importance of finding appropriate channels of distribution and effective agents committed to marketing the company's line. He believes there is tremendous market potential, but recognizes the need to adapt fabric designs specifically for Europe. The company has so far been more successful in marketing to the Middle Eastern countries, where their product line has greater appeal than it does in the EC market.

Hanks observed relatively static market conditions in the US in the past few years and does not expect these to improve in due course. He added, however, that US furniture exporters have heavily increased their international marketing activities in recent years, which may in turn spur future growth in the domestic sales of H's products.

Export Characteristics and Future Strategies

for the EC 1992 Single Market

Entry Modes

All of Company H's export business is conducted on a direct exporting basis, using agents in various European countries. Due to the company's early stage of export involvement, no other entry form has been utilized.

There have been some discussions about a joint import/export marketing arrangement with an Italian firm famous for its tapestry and jacquard fabrics. Under such an agreement, Company H would manufacture upholstery fabrics for the Italian firm and market Italian tapestries in the US, and the Italians would manufacture tapestries and market H's products

throughout Europe. These plans have not been finalized as yet, but may receive serious consideration in the future.

Mr. Hanks feels that Company H's overall export level to the EC has to increase before higher overhead expenditures in the form of direct investments can be undertaken. Obtaining high quality agents committed to marketing H's fabrics in the EC is presently one of the company's top priorities. Closer contacts and more frequent communications with the agents and customers will be necessary in order to ensure that the company's line offered in the market meets the tastes and needs of the European consumer.

In the long-term, i.e., in a period of ten years, the company anticipates establishing some form of marketing facility or European clearing house to enable it to better service the market.

Market Segmentation

A country-by-country marketing strategy is presently used in the EC market. Within each of the national markets served, the company targets a single, low-to-medium price segment.

As distributors, institutional buyers, and furniture manufacturers are the company's targeted customers in the EC, Hanks hopes the Common Market program will enable them to use a regional rather than a national market segmentation approach, with a fewer number of agents. However, Hanks does not believe the EC 1992 Single Market program will lead to "true" unification of the market immediately. According to him, the EC 1992 Single Market will eventually lead to a more stable market with easier access to customers, but it will take longer than anticipated for outsider firms to benefit from the changing business environment.

Product Related Issues

Company H does not produce any product line specifically for the EC market, although it does recognize the different requirements of the market. Mr. Hanks revealed that, since they began to actively pursue export ventures in the EC, they learned a lot about the market, the regional differences in consumer tastes and preferences, and the style and quality preferred by customers.

In the first two years, H simply offered the same fabric line as they did to the domestic market. Once they learned the EC was generally a very quality conscious market with Europeans willing to invest more in their furniture purchases, they began offering heavier count fabrics utilizing less backing, and in prints with color schemes which would be more acceptable to the EC market. Presently, the company relies on its agents' knowledge of the market, and has its European agents select the fabrics from its domestic collections. The agents make suggestions as regards the color preferences, and these are taken into consideration in future offerings.

Mr. Hanks mentioned the problem of having to comply with stringent British flammability standards for upholstery fabrics. As the company primarily offers lower priced fabrics which utilize backing, flammability finishes such as FR inhibitors cannot be applied by the UK customer. These specific requirements add to the costs of the final product. No other problems with various technical requirements have been identified in different national markets within the EC.

The company employs a team of three designers, none of whom specifically develops products for the EC market. The information regarding the trends and colors required in various regions is obtained from the company's agents and from Ms. Reynolds who works

with designers and decides on the modifications of the product line to comply with the market needs.

As regards the future product strategy, Hanks acknowledges that the entire domestic collection of his company will not be appealing to the European market. A part of the company's line will need to be adapted to European tastes in terms of quality, styling and coloration. No specific plans have been identified specifically due to the changes in the EC unified market.

Price Related Issues

As price is the company's major differential advantage, a competitive pricing strategy is used. Company H's fabrics range in price from \$3.75 to \$6.00 per meter on FOB factory basis. The company is very flexible as regards price quotation and tries to accommodate customers' requests. The price structure of fabrics destined to the EC market is somewhat higher due to a commission of ten percent as opposed to five percent in the domestic market. Company H most commonly uses L/C terms for its European customers, but would accommodate open account terms if the customers so desired and enough banking information about them were available. In the future, the company also plans to use factoring to finance European accounts receivable in order to minimize the risks. Sight drafts are discounted by the factors, who take all responsibility as well as the risk in collecting payment.

The prices of H's fabrics are consistent throughout the EC and are unaffected by different currencies, VAT taxes or other duties, particularly due to the company's customers being furniture manufacturers and distributors. Special pricing is used for large orders, i.e., a

discount of ten percent is given for large volume purchases, and established customers do not receive more favorable terms than new ones.

Mr. Hanks believes that European unification will result in overall higher pressure on prices due to more competitors entering the market. However, he does not anticipate H's products being affected, as the fabrics offered in the EC are already very price competitive and it is unlikely that the profit margins would become even thinner. Mr. Hanks did not identify any specific pricing strategies in view of the changing business environment in the EC 1992 Single market, but emphasized that the EC's principal advantage will be in the ease of conducting business once national borders are eliminated, resulting in efficiencies in the distribution system.

Distribution

Presently, the company utilizes five agents to cover national markets in Germany, Spain, Italy, the UK and Scandinavia. The British agent also services the French market.

As the company is relatively new to exporting, it is constantly searching for new, more efficient agents and replacing current ones.

According to Hanks, finding reliable agents and establishing personal relationships with these are of utmost importance for success in foreign markets. The company has as yet not been able to obtain a satisfactory agent network in the EC. Although no specific problems regarding servicing several national markets or administering export documentation were mentioned, Mr. Hanks noted that the area of distribution would be critical for successfully competing in the European market in the future. He is not sure how soon the

company can benefit from more efficient and larger distribution networks in the EC, but added that it should be easier to obtain better representation within the unified market.

As for the company's future distribution strategy, no major changes are planned.

Hanks noted that he or Ms. Reynolds will have to visit the market more often in order to find appropriate agents.

Promotion

The company presently does not utilize any form of advertising or public relations strategy. As for the EC market, attending trade shows such as Heimtextil and Decosit offers highly effective exposure for the company's fabrics, and enables the company to obtain first hand information regarding the needs of the market. In view of the fact that the company targets industrial markets rather than the final consumer, no other promotional activities are considered necessary.

Fabric samples with technical information printed on the back are the most important sales materials the company utilizes. They account for the largest percentage of its promotional expenditures.

In the relatively short period of time the company has been involved in international activities, it realized that meeting customers in person is extremely important, especially in Europe. The company's EC agents may be more or less effective in obtaining potential buyers, but they are not representatives of the company. The company found that European customers expect to meet with the top representative of the supplying company before they consider it to be a reliable supplier. Hence, personal relationships with customers play a more important role than in the domestic market.

As for the future promotional strategy, Mr. Hanks plans to expand the size of the booths utilized at the European shows to obtain better exposure. Furthermore, he plans to attend trade shows in person as opposed to his current strategy of having Ms. Reynolds, the company's Southwestern US representative "shop" the market. He admits that he will have to devote more time to the EC market in the future in order to be able to take advantage of the opportunities in Europe.

CHAPTER 6

CROSS-CASE ANALYSIS, DISCUSSION AND RESEARCH FINDINGS

This chapter is organized according to the research findings that address each of the two objectives and related hypotheses.

In the first section, the comparisons and contrasts regarding participating firms' characteristics, their export activities and presently utilized marketing strategies for the EC export market are outlined and summarized in the form of tables. For the purpose of cross-case comparison, the surveyed companies were categorized according to the company size, experience in foreign markets and the level of involvement in exporting to the EC market. In the second section, the informants' perceptions regarding the future market potential in the EC 1992 and anticipated adjustments of their current marketing strategies are presented. Several similarities and differences have been found while analyzing the eight IFT companies participating in this study.

The information presented here is intended to be a thorough analysis of the firms' current and future export activities in the EC market. Due to the research design and the number of cases, however, the research findings presented here are not generalizable to all IFT exporters, nor is it intended to judge the participating companies' export effectiveness. As emphasized by several qualitative researchers (McClintock et al., 1979; Miles & Huberman, 1984; Yin, 1989), breadth is sacrificed for depth and richness of detail in qualitative studies, the purpose of which is not to enumerate frequencies nor to generalize to the population.

Case Study Firms' Characteristics, Export Involvement and Presently Utilized Marketing Strategies

Objective 1: to describe the export involvement of the eight IFT manufacturers in terms of each firm's overall export intensity and export intensity for the EC market, geographic coverage, the number of product markets and number of years of actively pursuing foreign markets. This objective also included an assessment of the firms' export marketing characteristics in terms of firms' customers, employment of foreign sourcing strategies, factors which determine export sales, entry modes, market segmentation strategies, product related issues as well as pricing, promotional and distributional characteristics of each firm's marketing mix. Furthermore, base information of the surveyed companies was gathered, including the nature of products, the size of the company, the number of years of exporting to the EC market, and the existence of a separate export department, and the export staff.

Firms' Characteristics and Demographic Information

Background information on the eight interior furnishing textile firms participating in this study is summarized in Table 6.1. With the exception of company E, which is solely a converter and marketer, all other participating companies defined their primary activity as manufacturing. Interestingly, five out of the eight companies are interior fabrics manufacturers and converters ranging from heavy weight, high priced jacquard upholstery fabrics (Company A), medium to high priced upholstery and decorative fabrics (Companies E and F) to light weight, low to medium priced fabrics (Companies B and H). Companies C, D and G are the only producers of interior textile finished products. Company C is a mass producer of a commodity type product, i.e., functional drapery linings. Company D produces bed and bath products and Company G produces decorative printed bath rugs and mats.

Sizes of the participating firms as measured by the total number of employees ranged from 44 employees (Company H) to 14,000 employees (Company D). As indicated in

Table 6.1

Case Study Firms' Characteristics and Demographic Information

	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H
Description of the Business	Manufacturer	Manufacturer	Manufacturer & Marketer	Manufacturer & Marketer	Converter & Marketer	Manufacturer	Manufacturer & Converter	Manufacturer & Converter
Primary Product	Jacquard Upholstery Fabrics	Upholstery and Drapery Fabrics	Functional and Decorative Drapery Linings	Bed and Bath Products: Sheets, Bedspreads, Shams, Ruffles, Pillows, etc.	Decorative Fabrics for Draperies, Upholstery, Wallcoverings	Upholstery Fabrics	Printed Scatter & Bath Rugs and Mats	Upholstery Fabrics
Company Size: Total Number of Employees	356	500	600	14000	80	1400	200-250	44
Number of Years of Exporting/ Number of Years Exporting to EC	10/3	5/5	20/20	18/10	30/20	13/4	3/3	3/3
Export Dept./ Number of Employees	None/ 2	None/ 3	None/ 4	Yes/ 3	Yes/ 5	Yes/ 2	None/ 1	None/ 2
Informant	Vice President	Vice President	President	Director of International Sales	Vice President	Director of International Sales	President	Vice President of Fin. & Adm.
Number of Years in Current Position	4	5	20	several years	20	2	12	several years

Table 6.2, two Companies (E and H) were classified as small (have less than 200 employees), four Companies (A, B, C, G) as medium size (employ more than 200 and less than 1,000 people), and the remaining two Companies (D and F) as large size interior furnishing textile producers (employ 1,000 or more workers). As noted in the literature on export marketing, firm's size as an organizational variable was not found as a dependable determinant of export success. Thus, it was used in this study just for the purpose of classification, and not to draw any conclusions as regards the companies' export intensity or their export strategies and characteristics.

The participating firms' export experience in foreign markets ranged from four to 30 years; five Companies (A, C, D, E, F) were grouped into the "more experienced" category (have more than five years of experience in exporting, whereas three Companies (B, G, H) were grouped as "less experienced" (have up to five years of experience in exporting; see Table 6.2). The cut-off point of five years was selected because the export literature suggests that exporting is a long-term commitment which does not bring immediate results. Generally, it has been recommended that an exporter allow three to five years to establish enough contacts with market participants, to gain an understanding of foreign market mechanisms, and to expect exporting operations to become profitable (Keagan, 1989; Vigdor, 1991; Yip, 1991). The number of years of experience in foreign markets was found to be an important explanatory variable of export success in Madsen's (1989) and Fenwick and Amine's (1979) studies. Although it was not intended to judge the IFT companies from the standpoint of their export success, knowledge of export markets and the length of their experience in overseas markets should contribute to a better understanding of the companies' current and future marketing strategies in the EC market.

Table 6.2

Classification of the Case Study Firms According to Their Size, Experience in Foreign Markets and Their Export Involvement in the EC market

	Company A	Company B	Company C	Company D
COMPANY SIZE	Medium	Medium	Medium	Large
EXPERIENCE IN FOREIGN MARKETS	More Experienced	Less Experienced	More Experienced	More Experienced
EXPORT INVOLVEMENT IN THE EC MARKET	High* Involvement	High Involvement	High Involvement	Low Involvement

	Company E	Company F	Company G	Company H
COMPANY SIZE	Small	Large	Medium	Small
EXPERIENCE IN FOREIGN MARKETS	More Experienced	More Experienced	Less Experienced	Less Experienced
EXPORT INVOLVEMENT IN THE EC MARKET	Low Involvement	Low Involvement	High Involvement	Low Involvement

* Although data were not available as regards Company A's EC export intensity, the company was classified as High Involvement as the EC market represents the most important destination for the company's products.

The number of years of exporting was the only indicator used to classify the companies into "more" or "less" experienced in this study. It should be acknowledged, however, that a firm's overall export intensity and the number of geographical regions a firm exports to could serve as additional indicators of a firm's familiarity with export marketing. Four of the five "more experienced" firms in this study had an overall export intensity equal to or greater than ten percent (Table 6.3.). Relating a "scope dimension" of marketing to various indicators of export performance, Louter (1991) and Piercy (1982) found that the number of regions was dependent on the goals of the company, the industry and target market conditions rather than on export performance. In this study, all companies exported to at least four regions in the world, of which the most frequently mentioned were the EC, the Middle and Far East, Central and South America, Australia and Canada. Some of the companies in this study do not consider their Canadian accounts as foreign accounts. Thus, Canadian sales are included in domestic accounting.

Only the two large manufacturers (D and F) and a small converter (Company E) had separate export departments. In other companies, export responsibilities were spread over various departments, or were part of the domestic marketing and sales departments. The number of employees directly in charge of firms' international activities ranged from one to five individuals. Previous research indicated that the existence of a separate export department does not necessarily lead to a better export performance (Aaby & Slater, 1989; Madsen, 1989), whereas experience in foreign markets and a knowledgeable export staff or person in charge of international sales was significantly related to a firm's export success (Fenwick & Amine, 1979; Louter, 1991).

It was assumed that the informants of the study, by virtue of their positions, possessed

Table 6.3

Export Involvement of the Case Study Firms

	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H
Overall Export Intensity: Export Sales/ Total Sales in FY 1992	4.5 %	15 %	20 %	10 %	20 %	10 %	8 %	2 %
Number of Years Exporting	10	5	20	18	30	13	3	3
Geographic Coverage: Major Export Regions (listed in order of importance)	the EC, Far East, C & S. America, Australia	the EC, Middle East, C. America, S. Africa, Far East	the EC, Middle East, C. & S. America, Canada	C. & S. America, Canada, the EC, Far East, Australia	Middle and Far East, the EC, S. America, Australia	C. America, Middle East, the EC, Far East, S. America, S. Africa, Pacific Basin, Australia	the EC, Canada, C. & S. America, Middle and Far East	Middle and Far East, South Pacific, the EC
The EC Export Intensity: Export Sales to the EC/ Export Sales in FY 1992	not disclosed	over 50 %	over 50 %	a fraction of total exports	25-30 %	7 %	75 %	10 %
Change in Export Volume to the EC between FY 1989 and 1992	almost 100 %	substantial increase	35-40%	15 %	14 %	substantial increase	almost 100 %	almost 100 %
Number of Years Actively Pursuing the EC	3	5	20	10	20	4	3	3
National Markets in the EC (listed in order of importance)	Netherlands, Germany, the UK, Scandinavia, France	the UK, Benelux, Germany	Benelux, Germany, France, Austria, Italy	Licencing: France, the UK; Exporting: Spain, Greece	Benelux, Germany, Italy, the UK, France, Scandinavia	the UK, Portugal, Scandinavia, Germany, Italy	the UK, Germany, Benelux, France, Scandinavia, Italy	the UK, Germany, France, Spain, Scandinavia, Italy
Number of EC National Markets*	5	3	5	4	6	5	6	6
Future Potential Markets	Portugal, Spain, S. France	N/A	Spain, Portugal	Germany	Spain	Scandinavia, Germany	Spain, Portugal	Germany

* Scandinavia and Benelux were accounted for as single EC national markets

superior knowledge of the firm, its export activities and involvement in the EC market, as well as of the firm's future marketing strategies and the EC market as an export destination for their products. The interviewees held positions of presidents or vice presidents of their companies at the time of the interviews, except for the informants of Companies D and F (both large companies), who were both directors of international sales. The informants were in their current positions four to 20 years, except for Mr. Frazer of Company F, who had been a director of international sales for only two years, but had previously worked for the company for a number of years.

Export Intensity and Export Involvement

The case study firms' export involvement was assessed in terms of the firms' overall export intensity in the fiscal year (FY) 1992, geographic coverage or firms' major export regions, the number of years of exporting, export intensity in the EC market, national product markets in the EC, and the number of years the firm had actively pursued the EC market. The data are summarized in Table 6.3.

The participating firms' overall export intensity ranged from two to 20 percent, whereas the number of years of exporting ranged from three to 30 years. The EC market was denoted as the most important export destination by four of the surveyed firms, which exported over 50 percent of their export sales to the EC market in FY 1992. The only exception was Company A, for which data on its EC export intensity were not disclosed. Four firms ranked the EC market as the second or third most significant export destination for

their products. The EC export intensity of these four firms ranged from a "fraction of total exports" (Company D) to 25-30 percent (Company E).

Germany, the Benelux countries and the UK were most frequently mentioned as the most important EC national markets, followed by France, the Scandinavian countries and Spain. Although not all the Scandinavian countries nor Austria and Switzerland are members of the EC, respondents included them in the ranking of the EC national markets, as they do not consider these markets to be separate entities in terms of tariff or technical barriers. The number of the EC national product markets the firms exported to ranged from three to six markets, considering that the Benelux and the Scandinavian countries accounted for single national markets in spite of the former being comprised of Belgium, the Netherlands and Luxembourg and the latter of Denmark, Norway and Sweden.

Furthermore, Table 6.3 provides information regarding the change in firms' export volume to the EC market between FY 1989 and FY 1992, and specifies the national markets within the EC presenting the most attractive future destination for their products. This information was gathered to provide an understanding of the growth or decline in the importance of the EC as firms' export market, and to note the existence of any similarities among firms' perceived future potential markets. Interestingly, all respondents indicated an increase in their export volumes to the EC market between FY 1989 and FY 1992.

The companies actively pursuing the EC market for five years or less (A, B, F, G, H) indicated a substantial increase, or an increase of almost 100 percent in their export volumes to the EC market. This may be due to starting from a smaller base than those companies with a longer record of EC activity, i.e., ten or more years, which indicated an increase of 14 to 40 percent.

Portugal and Spain were most frequently mentioned as future potential markets in Europe, regardless of the nature of the company's products, its experience in foreign markets, its EC export involvement, or the price-range segment the company catered to. The reason for that may be the fact that these countries' real growth rates in GNP between 1980 and 1991 were among the highest in the EC (Appendix A), most probably due to their lower labor rates which cause the investments to shift from the more industrial northern region.

The case study firms were classified into high or low EC involvement firms (Table 6.2) solely according to their EC export intensity. The firms with ratios of EC export sales to total export sales equal to or greater than 50 percent were classified as high EC export involvement firms (A, B, C, and G). Although no data were available for Company A, it was considered a high EC involvement firm, as Mr. Andrews of Company A revealed that the EC was his company's most important export market. The companies with ratios of EC export sales to total export sales less than 50 percent were categorized as low EC export involvement firms (D, F, E, H). The cut-off point of 50 percent was selected because a high involvement firm has to be highly dependent upon exporting to the EC market, whereby such a company is expected to have well defined plans with respect to the future strategy for the EC market (relates to objective 2 of the study). Export intensity as a measure of a firm's export involvement was similarly used in the study by Diamantopoulos and Inglis (1988) where the differences between high and low involvement exporters were identified.

Export Characteristics/Strategies for the EC Market

The present export characteristics/strategies for the EC market were assessed from the standpoint of the surveyed firms' entry modes, market segmentation strategies, firms' customers, factors determining their export sales, and issues related to marketing mix variables.

As indicated in Table 6.4, except for Company D, the only presently utilized entry mode of the surveyed firms was direct exporting. None of the firms had any form of direct investments in the EC market, nor did they have production sites located anywhere outside the US. Currently used EC market segmentation strategies varied greatly among the companies participating in this study. Firms D, F, G, and H (two of them fabric, and two finished product manufacturers) divided the EC market in terms of national markets as serviced by individual agents (country by country market segmentation). Of these, Company F also separated the EC market according to consumer preferences and tastes into two segments: Northern and Southern Europe. Three fabric manufacturing Companies (A, B, E) defined the EC market according to regions serviced by agent networks. For instance, Company B divided Western Europe rather than the EC market into four relatively distinct regions in terms of price levels, styling, quality and consumer preferences: the UK, the region comprised of Germany-Benelux-Austria-Switzerland, Northern Europe, and Southern Europe. Company C, the producer of drapery linings, which are commodity-type products, was the only company which viewed the EC as one, pan-European market. This may be due to standardized products having a low fashion content and being differentiated

Table 6.4

Case Study Firms' Present Export Characteristics

	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H
Entry Modes	direct exporting	direct exporting	direct exporting	licencing (70%) direct exporting (30%)	direct exporting	direct exporting	direct exporting	direct exporting
Market Segmentation	regions	regions	EC-wide market	country by country	regions	country by country	country by country	country by country
Number of Market Niches Targeted	single: upper-end	single: low-medium end	not disclosed	not disclosed	single: medium-high end	single: medium-high end	single: high end	single: low-medium end
Firm's Major Customers	distributors, furniture manufacturers	wholesalers, distributors, furniture manufacturers	wholesalers, distributors, institutional buyers	distributors, textile manufacturers, retailers	wholesalers, distributors, furniture manuf., institutional buyers	distributors, furniture manufacturers	distributors, importers, retailers	distributors, furniture manufacturers, institutional buyers
Factors Determining Export Sales	*American styling *marketing skills *ability to custom develop products *broad product line	*styling & design *price competitiveness *poorly served low-end niche in EC served	*price competitiveness *uniqueness of finishes *effective distribution *commodity nature of products	*styling & colors *price competitiveness *quality *marketing skills	*flexibility as a converter *broad product line *experience *reliability as a supplier *quality	*styling & coloration *price competitiveness *broad product assortment	*American image & design *quality *perceived value of the product *uniqueness of products	*price competitiveness *design & coloration

with their performance and uniqueness of finishes rather than design. Export markets are not segmented by Company C, indicating that the company uses a global marketing strategy.

As regards the degree of market segmentation, each of the surveyed firms targeted a single price-quality-taste-level market niche. Companies C and D did not differentiate among various market niches in the EC. Company C's standardized product may be the reason for not differentiating market niches within the EC, whereas Company D's extremely low EC export involvement may be associated with its indifference towards various EC market niches.

It appears that six Companies (A, B, E, F, G, H) utilize a so-called focus strategy in the EC market. Targeting a specific market niche, according to Louter (1991), contributes to export success. However, if the export markets are not segmented (as in the case of Company C), a standardized marketing mix increases the chances of success, as such a company benefits from using economies of scale and lower marketing costs (Christiansen et al., 1987; Louter, 1991).

All case study firms' EC customers were wholesalers and distributors; some of them sold to furniture manufacturers (decorative fabrics producers: Companies A, B, E, F, H), and some to retailers (the two producers of finished products: D and G).

Among the factors which determine a firm's export sales, or its competitive advantage, styling/design/ coloration were emphasized by all companies except Company C, which manufactures a product of low fashion content. For the two companies utilizing economies of scale, i.e., C and D, and the two low to medium end decorative fabric producers, i.e., B and H, price competitiveness was considered to be a significant competitive advantage. Louter (1991) and Madsen (1989) found that unique, strong and differentiated products have a significant impact on export performance. Price competitiveness as a factor

determining a firm's export levels, however, was not found as a significant indicator of export success by Cooper and Kleinschmidt (1985) and Madsen (1989). Price as an export sales determinant may depend largely on the market structure a firm competes in (monopolistic versus perfect competition) and on the price segment a firm targets to. Price is a more significant determinant when a firm can exploit economies of scale and in a lower price product category. Furthermore, marketing skills (an effective distribution system, in particular; Companies A, C, D), a broad assortment of products (Companies A, F), the ability to custom develop products (Company A), the flexibility as a converter (Company F), and the commodity nature of the products (Company C) were also mentioned as firms' competitive advantages. Unfortunately, no conclusions can be drawn as to the importance of each of the aforementioned firms' competitive advantages as related to firms' export experience and EC export involvement, nor as related to a specific IFT product category. Such conclusions are precluded by the small number of respondents in this study and the fact that no scales of measurement have been utilized to enable the investigator to rank various determinants of export sales. These relationships could be more clearly investigated in future research using quantitative methods, as they may be of high importance to many export oriented IFT and textile companies.

As shown in Table 6.5, most of the surveyed companies modified designs and colors at least to some extent specifically for the EC market, and some offered a narrower product assortment as compared to the domestic market; they offered only product lines/patterns which were expected to appeal to the EC customers. Export literature (Fenwick & Amine, 1979; Neidell, 1971) suggests that modifying products specifically for the targeted markets exerts a substantial influence on export success. On the other hand, Company C, a mass

Table 6.5

Case Study Firms' Marketing Decision Mix Characteristics

	Company A	Company B	Company C	Company D
PRODUCT STRATEGY Product Adaptation	designs & colors	designs & colors	none	narrower assortment offered, colors & styling
Product Related Difficulties	flammability and abrasion testing requirements in the UK	flammability requirements in the UK; need to produce separate line for UK	flammability requirements in Germany and France	different sizes of bedding products, various quality preferences across national markets
PRICE STRATEGY Price Basis	competition, non-price competition factors	internal costs & sales commission	internal costs and non-price competition factors	internal costs and non-price competition factors
Profit Structure, domestic vs. the EC	the same	the same	not available	higher profit margins in the EC
Price Quotation	\$ per yard, FOB	\$ per yard or meter, CIF & FOB	national currency per yard or meter, FOB & CIF	\$ per dozens or "eaches"
Financial Instruments	L/Cs, open account	L/Cs, open accounts, sight drafts	L/Cs, open accounts, sight drafts	L/Cs
DISTRIBUTION Representation	use regional agents	use regional agents and distributors	use two major agent networks	agents covering national markets
PROMOTION Advertising and Public Relations	trade shows, magazine ads, firm's booklet, customized sample books, fabric swatches	trade shows, fabric swatches	heavily advertise its brand name in publications, collaborate fabric swatches, brochures with technical information in several languages, trade shows	single trade show, product samples
Sources of Market Information	trade shows, contacts with agents & customers	trade shows, contacts with distributors, agents, end users, publications	trade shows, personal visits to the market, contacts with customers & agents	firm's customers visit trade shows in the US

Table 6.5 cont.

Case Study Firms' Marketing Decision Mix Characteristics

	Company E	Company F	Company G	Company H
PRODUCT STRATEGY Product Adaptation	colors	narrower product assortment offered, colors	narrower product assortment offered, colors & designs	narrower product assortment offered
Product Related Difficulties	stringent flammability testing requirements in the UK, South Asian fabric knock-offs	stringent flammability testing requirements in the UK	a need to clearly differentiate firm's products from inexpensive offerings of South Asian mills	stringent flammability testing requirements in the UK
PRICE STRATEGY Price Basis	competition, non-price competition factors	non-price competition factors	non-price competition factors	internal costs
Profit Structure, domestic vs. the EC	higher profit margins in the EC	higher profit margins in the EC	higher profit margins in the EC	slightly higher profit margins in the EC
Price Quotation	\$ per meter, FOB	\$ per yard or meter, FOB	\$ per piece, FOB factory or port	\$ per meter, FOB
Financial Instruments	L/Cs, open accounts, sight drafts	open accounts	L/Cs, wire transfers	L/Cs, open accounts
DISTRIBUTION Representation	use regional agents	use agents covering national markets	use agents and distributors in national markets	use agents covering national markets
PROMOTION Advertising and Public Relations	attend every major trade show, magazine ads	attend several trade shows, firm's booklets, fabric swatches in diff. languages, magazine ads	textile and gift trade shows, product portfolio, product samples	two major trade shows, fabric swatches
Sources of Market Information	trade shows, frequent communication with agents & customers, visits to the market, publications	trade shows, visits to the market, contacts with agents, consumers and non-direct competitors, publications	trade shows, close contacts with agents, personal visits to the market	contacts with agents, customers

producer of drapery linings, exported standardized products to all its markets without extensive modifications. Company H, which has the lowest overall export intensity and was categorized as a small, less experienced and low EC involvement firm, did not in any way adapt its designs/quality for the EC or any other export market. Mr. Hanks of Company H recognizes the need for more product modifications specifically for the EC market in order to be able to increase the company's export volumes.

None of the companies employed a person solely in charge of developing products for the EC market, although Company F expressed the need for a stylist specifically responsible for products destined for the EC. Mr. Frazer was the only informant claiming that no globalization of EC marketing strategies will be possible, even when the market formally unifies, due to national differences in tastes and preferences.

Fabric manufacturers' most commonly expressed concern regarding product difficulties in the EC market was different technical requirements for interior textiles in the EC²⁸. Stringent flammability testing requirements in the UK were a problem for upholstery fabric producers, whereas abrasion testing requirements in the same market appeared to be problematic for Company A, a producer of heavy weight, jacquard quality fabric. Furthermore, different and rigorous drapery linings flammability testing requirements in Germany and France presented a barrier to exporting. Various sizes of bedding products such as sheets and pillows in different national markets within the EC was the primary reason preventing Company D from exporting more than a fraction of its export volume to the EC (the company for the most part licenses its designs rather than exporting final products).

²⁸ Technical and safety requirements for interior textiles to date have not been harmonized for the entire EC market (Hutchinson, 1989).

Adjusting its product sizes for each individual EC national market would lead to a loss of the firm's price competitiveness.

As regards the case study firms' price strategy, non-price competition factors such as design, uniqueness of the product, quality and service appeared to be the most frequently used price basis. Relying on a price policy relative to competition was a consideration for Company A which targets high, and for Company E which targets medium to high ends of the markets. Companies catering to low to medium ends of the EC market relied mostly on internal costs as a price basis. Again, these differences among the investigated firms may lie in the fact that they use focus strategies targeting various price/taste level market niches. Five of the surveyed companies revealed that they obtained higher profit margins in the EC than in the domestic market. Information regarding the EC export profit structure was not available from Company C, whereas Companies A and B claimed their EC export profit structure to be equal to that in the domestic market.

As for price quotation and shipping terms, the companies mostly utilized quotations in US dollars per yard or per piece on FOB basis. With the exception of Company C, which is a more experienced and high EC involvement firm, none of the firms had a "flexible pricing policy" allowing price quotation in various currencies, although some of them utilized metric units in their price quotation. In a study by Fenwick and Amine (1979), flexible pricing was not found to be a significant factor determining export success. However, CIF price quotation was identified as necessary in Neidell's (1971) study. Except for Companies B and C, none of the surveyed IFT producers offered CIF shipping terms. Most commonly utilized credit terms among the companies were L/Cs, open accounts and sight drafts. Export executives of Companies D and G disclosed that they never used more lenient financial instruments than

L/Cs, even for established customers, as it was the company's policy to avoid risks. All participating companies used an EC-wide pricing strategy, and two of the firms (A and H) indicated that they offered discounts or gave more favorable credit terms for large orders. Price related difficulties for products exported to the EC market were not identified by any of the companies.

Rather than marketing directly to final users in the EC market, the surveyed companies used agents, distributors or agent networks to perform export marketing functions for them. This finding was surprising considering the fact that five of the companies were classified as more experienced in foreign markets and that four of them belonged to a group of high EC involvement firms. On the other hand, more than single indicators should be used for such classification in order to enable the researcher to draw justified conclusions.

None of the companies utilized exclusive agreements with their EC agents, although two of the companies (B and E) revealed that they required their agents not to carry another product line directly competing with their product line. As mentioned earlier, the companies used agents covering national markets or regions comprised of several countries, except for Company C, which used an EC-wide strategy and employed two major agent networks for the entire EC market. Finding appropriate representation, i.e., agents/distributors in the EC, appears to be of utmost importance to the surveyed firms' export success. Establishing close relationships and frequent communication as well as surveillance of agents' performance were cited as important for their EC export activities. This is consistent with the results of several empirical export studies (Aaby & Slater, 1989; Fenwick & Amine, 1979; Louter, 1991; Madsen, 1989), confirming that close relationships with channel members are crucial factors for successful exporting.

With the exception of Mr. Hanks of Company H, none of the informants mentioned any current difficulties in finding appropriate representation, delivering, servicing or administering export documentation (most of the companies utilize freight forwarders) despite the fragmented national markets within the EC. All companies except Company H, which is a less experienced and low EC involvement firm, managed to find satisfactory representation in the EC over the years, and claimed that reliable agents are also the best source of information about market needs and market requirements. As Mr. Burns of Company B noted, obtaining adequate representation in export markets was an ongoing process which was not very different from obtaining effective representatives in the domestic market.

Except for Companies D and H (both low EC involvement firms), attending several trade shows in Europe was one of the most important promotional activities, along with the use of fabric swatches and product samples. Advertising in international publications was used by Companies A, C, E and F, whereas Companies A and F also utilized brochures with information on the company and its products as a promotional tool. Different languages in promotional activities were utilized by two Companies (C and F). Close contacts with the EC agents, customers and personal visits to the market were indicated as the most useful sources of information about the market. Communication intensity such as personal contacts in target markets was found significantly related to a firm's export success (Madsen, 1989). It appears that participating IFT manufacturers are aware of the importance of having close relationships with channel members in order to obtain timely market information regardless of their level of export experience and EC export involvement. Findings regarding surveyed companies' promotion strategies indicate that exporting does require considerable investment in this aspect of marketing. This is consistent with Keagan (1989) who disputes the perception of exporting

as a low-investment alternative of firms' global activities and claims that even low level entry modes require substantial investment on the part of the exporter.

Market Potential and Future Marketing Strategies
for the EC 1992 Market

Objective 2: to determine perceptions of the IFT export executives regarding the changes in the regulatory and business environment which will be introduced with the EC 1992 program; whether these changes will affect the market potential in the EC and will necessitate adaptation of their currently practiced export marketing strategies including the entry modes, market segmentation as well as product, price, promotional and distributional factors of the marketing mix.

Two research hypotheses were developed in relation to the above objective. The first hypothesis addressed the study informants' perceptions as regards the market potentials in the EC 1992 market. The second hypothesis involved anticipated adjustments of the marketing strategy of the IFT companies. The latter hypothesis is divided into eight parts addressing various variables constituting a firm's global marketing strategy.

Hypothesis 1: IFT export executives surveyed will perceive that the creation of the EC 1992 Single Market will enhance market potential over several years, i.e., firms currently involved in exporting to the EC market believe that they can increase the level of their export involvement in the EC within a period of five to ten years.

The future EC market potential was assessed from the standpoint of informants' perceptions regarding the magnitude of improvement of their export volumes, the intensity of current and future competition in this market, the export regions representing high growth potential, and the informants' attitudes towards the future EC export market. Table 6.6 summarizes the informants' responses on these issues.

Except for Companies C and D, for which information was not disclosed, and Company E, which expects to be able to increase its export volumes to the EC only after 1995 due to the current recession in Europe, other informants anticipated an improvement in their export volumes in the medium-term period, i.e., five to ten years. Company C, which

Table 6.6

Perceived Market Potential in the EC

	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H
Magnitude of Improvement of Export Volumes	double the volume in a year	generate 25 % of total revenues in exports	not disclosed	not disclosed	expect an increase after 1995	20-25 % increase annually	expect an increase	double the volume in 3 years
Major Competitors in the EC	Italian & Belgian mills, a US mill	US mills	small mills in the UK, Ireland, France	small-scale EC producers	US, EC & Middle Eastern mills	10 EC mills, a US mill	2 US firms, South Asian mills	mills from EC, US, Middle East, Eastern Europe
Perception of Change in Level of Competition 1989-1992	increased	increased	no change	not disclosed	increased	increased	increased	increased substantially
Perception of Future Competition	increase	not disclosed	not disclosed	may increase	high increase	high increase	increase	high increase
Region(s) with High Future Growth Potential	the EC	the EC, Eastern Europe, Saudi Arabia	the EC, Eastern Europe	C. & S. America, the EC	Far & Middle East, the EC	Mexico, the EC, Middle East	the EC	Pacific Rim, C. & S. America, the EC
Attitude toward the future EC market	optimistic, expansion	optimistic, expansion	optimistic, non-threatening nature of the products	optimistic in long-term, the EC not a priority market	optimistic beyond the initial first years	optimistic, the EC will become firm's top export market	optimistic due to population, economics an ease of doing business	optimistic as regards the external environment

is a commodity type product producer, did not notice any change in the level of competition in the period between 1989 and 1992; Mr. Clark believes his company was the only large-scale manufacturer and marketer in this product category in the EC. Company D, which is a low EC export involvement company and a manufacturer of finished IFT products, does not view the EC from the standpoint of its competitors. Six other companies' informants noticed the level of competition to have increased, or increased substantially, particularly from the US textile mills, which most respondents viewed as their direct, most formidable competitors in the EC market. Company A, a producer of high-end upholstery fabrics, however, considered its major competitors to be small, upscale Italian and Belgian upholstery manufacturers.

As regards future competition, no opinions were available from Companies B and C, whereas other respondents expected an increase or a high increase within five to ten years, especially from other US companies currently pursuing the EC market as well as from new entrants, who seem to be eager to expand their sales to the EC market. These opinions correspond with the findings of Magee (1989) and Ryans and Rau (1990) who claimed that competition would increase not only from the EC-based but also from US companies. Germeroth (1989) predicted that the EC market would become overall more accessible for textile manufacturers throughout the world. Although each of the respondents of the eight surveyed companies mentioned the EC market among the regions with high growth potential, only half of the informants ranked the EC market as the region with the highest growth potential.

The investigator concluded from the interaction with respondents, i.e., personal interviews and telephone conversations, that all the respondents were optimistic about the future EC market as an export destination for their products. None of them expressed

concern regarding the possibility that the EC could become a "fortress" in the IFT category, nor did they expect an increase in tariffs for US textile products. This finding is in agreement with the research by Krum (1991) and by Ryans and Rau (1990), who concluded that "europrotectionism" was not predicted in the EC 1992 market. Five of the respondents (from Companies B, E, F, G and H) noted that if products offered are consistent with market needs in terms of styling, design, coloration and quality, they could augment their export sales regardless of tariff barriers, particularly since price differentiation does not appear to be a priority in the EC market.

Overall, it can be concluded that the participants of this study believed that the EC 1992 market potential will increase in the medium-term period, and that they were eager to take advantage of the market opportunities. However, as Mr. Clarks of Company C noted, it is difficult to determine whether the increased sales volumes in recent years and the anticipated enhanced export levels are direct results of the EC 1992 program, or merely of improved marketing efforts on the part of US producers. To conclude, it is the investigator's contention that hypothesis 1 is supported by the findings of this study.

Hypothesis 2: In order to integrate the changes in the EC 1992 Single Market and capitalize on them, surveyed IFT export executives plan to gradually alter at least some if not all of their currently practiced export marketing strategies. Several areas of marketing strategies were taken into consideration.

a) IFT export executives believe that there will be a need for expanded entry modes, i.e., firms practicing a certain level of entry mode plan to also employ a higher level of entry mode strategy. For example, firms which are currently engaged in indirect exporting (the lowest level of export entry mode) will start using direct agents/distributors or branches/subsidiaries; firms which are presently engaged in the latter, i.e., a higher level of export entry mode, plan to employ contractual or even investment entry modes.

Support for hypothesis 2a is shown in Table 6.7, which summarizes the informants' opinions as regards the anticipated adjustments of their currently utilized market strategy in

Table 6.7

Case Study Firms' Anticipated Adjustments of Marketing Strategy and Expectations Regarding the EC 1992 Market

	Company A	Company B	Company C	Company D
ENTRY MODES	marketing agreement with European company	distribution/warehouse center & European office, manufacturing facility	no changes	manufacturing and distribution facility
MARKET SEGMENTATION Market Niches	no changes/ will continue to explore current market niche	no changes/ plan to cater to additional market niche	no changes	regional or EC-wide approach
PRODUCT STRATEGY	a need to better understand specific needs of the market	develop new , high-priced product line, color fabrics specifically for the EC markets	no changes	expand number of styles offered, source fabrics abroad, accommodate styles an color to specific needs
Opportunities/Difficulties	will benefit from future harmonization of technical standards	will benefit from future harmonization of technical standards	will benefit from harmonization of consumer safety requirements	could achieve product strategy only by utilizing direct investments in the EC
PRICING -- Expectations as Regards Overall Prices	a need to eliminate agents' commission, higher pressures on prices due to competition, lower costs of doing business	aggressive price competitiveness, benefit from common monetary system, no rationalization of prices in this product category	lower profit margins, rationalization of prices due to consolidation of EC competitors and commodity nature of products	lower profit margins, lower cost of doing business, rationalization of prices due to stronger EC retailers & manufacturers
DISTRIBUTION -- Expectations as Regards the Sales Networks and Future Representation	stronger sales networks, need for closer contacts with final users and more direct approach, possibly eliminate agents	stronger agent networks, closer relationships with agents, new agent network for new product line	strong agent networks, the firm already uses global distribution approach	rather than relying on the EC agents, direct approach, i.e., firm's distribution center necessary
PROMOTION STRATEGY	no changes	increase promotional efforts, a need for more US textile exporting promotion	no changes	increase budget for market analysis

Table 6.7 cont.

Case Study Firms' Anticipated Adjustments of Marketing Strategy and Expectations Regarding the EC 1992 Market

	Company E	Company F	Company G	Company H
ENTRY MODES	possibly distribution/warehouse facility	distribution/warehouse facility within 2-5 years	manufacturing facility in Germany, possibly distribution center	joint import/export arrangement with an Italian firm, distribution facility
MARKET SEGMENTATION Market Niches	no changes	no changes	regional or EC-wide approach/ cater to several market niches	regional approach, fewer agents
PRODUCT STRATEGY	continue to monitor market preferences and adjust products	continue to offer wide assortment, adjust to tastes & preferences of the market	adjust to quality & color/design preferences of specific markets	expand number of styles offered, source fabrics abroad, accommodate styles and color to specific needs
Opportunities/Difficulties	will benefit from future harmonization of technical standards	will benefit from future harmonization of technical standards	expect easier access to various market niches	will benefit from future harmonization of technical standards
PRICING -- Expectations as Regards Overall Prices	higher pressures on prices, rationalization of prices, non-price competition factors more important	higher pressure on prices, no rationalization expected due to higher costs of raw materials	rationalization of prices due to more effective distribution	plan to use factoring to finance exports, higher pressure on prices, no rationalization due to already thin profit margins
DISTRIBUTION -- Expectations as Regards the Sales Networks and Future Representation	cross-border agents will function well in the future	do not believe in cross-border agents due to national differences and size of the territory	use of regional agent networks, closer contacts with these, less fragmented market	need to find better agents, more efficient and larger distribution networks, easier to obtain reps
PROMOTION STRATEGY	no changes	no changes	no changes	expand the size of its booths in trade shows

the EC market. With the exception of Company C's president, all informants expressed the need for a more direct presence in the EC, or for moving to a higher level of entry mode. However, none of the companies has as yet started implementing any of the mentioned adjustments in their entry modes. Employing investment entry modes in the form of a distribution/ warehouse facility was most commonly mentioned by the surveyed companies, followed by establishing their own manufacturing facilities in such locations as Southern or Eastern Europe. Company C appears to be a special case of not following the general pattern regarding the future entry modes, as the competition in the functional drapery linings product category does not seem formidable in the EC. The company is the only large-scale producer in this market, and thus extremely price competitive.

Establishing a manufacturing facility was especially essential for Company D, which could achieve its growth objectives in the EC only by setting up a joint or sole venture to undertake cutting and sewing of its products. Currently, the differing sizes of beds prevent the company from exporting to countries other than Spain and Greece which both have the same bed sizes as in the US. As Company D is part of a major US textile corporation, the parent company would assist the subsidiary and a joint or sole venture appears feasible within five to ten years, according to Mr. Danes.

The informants' most commonly mentioned reasons for seeking higher level entry modes in the new Europe were increased competition and the effectiveness and timeliness of distribution. This is consistent with Ryans and Rau's (1990) study, concluding that firms should have a strong physical presence in the EC market to be able to compete in the new business environment.

b) IFT export executives believe that their firms will be prone to use the regional and global pan-European market segmentation rather than national segmentation.

Hypothesis 2b holds true for the majority of the surveyed informants. As indicated in Table 6.7, five of the eight companies did not plan to make any changes in their market segmentation strategy, as three Companies (A, B, E) already utilize a regional rather than a country by country approach, and Company C uses an EC-wide approach. Companies D, G and H, which currently use national market segmentation, expect that the EC unification will, in the medium-term period, enable them to utilize a regional approach to segmenting the EC market. Mr. Frazer of Company F, which was categorized as a more experienced but a low EC export involvement company, was the only informant who believed that national differences in preferences/tastes will remain after unification, and that the country by country approach would be essential to accommodate the needs of individual markets.

c) The surveyed firms will target more market segments/niches within the entire EC 1992 Single Market than they currently do.

The above stated part of hypothesis 2 was not supported by the export executives of the surveyed companies (Table 6.7). Only Mr. Gillian of Company G and Mr. Burns of Company B (both high EC export involvement firms) plan to expand their product line for the EC market and cater to additional market niches. The other participants did not indicate any such changes, or, in the case of Company A, claimed that they have not yet fully explored the market niche they currently target. This finding does not seem surprising as the companies under investigation only generated between two and 20 percent of their total sales in export markets. Although four companies were classified as high EC involvement exporters, three of these exported to the EC only three to five years (Table 6.3). Thus, they may not have been able to establish themselves in the market niche they currently target. The companies with a longer record of EC export activity of 10 to 20 years (Companies C, D, and E) do not plan to

expand into additional market niches within the EC because of the nature of the product (Company C, standardized product), an almost negligible amount of direct exporting (Company D), and the current use of a focus strategy (Company E). According to Mr. Edmond of Company E, targeting a single market niche and keeping abreast with that market's needs were more important to the company than targeting several market niches.

d) IFT export executives plan to gradually develop pan-European (European-wide) products/brands which will not necessarily be very different from products sold in the US market.

The data gathered on IFT companies' future product strategy for the EC market does not provide support for hypothesis 2d. Apart from Company C, none of the investigated firms has an established brand name for their product line. The primary reason may be that six out of eight companies target organizational consumers, distributors or manufacturers rather than retailers or households. As noted in the research findings addressing objective 1, the surveyed companies merely export their US product lines to the EC market with some minor modifications regarding product colors, designs or technical requirements.

As regards the companies' future product strategies for the EC market, the most commonly mentioned were the need to further adjust the designs, colors or quality of the products to specific needs of various product markets, and to expand the number of styles/patterns presently offered in the EC market. Company C, again, was the only company without any plans as regards its future product strategy, most likely due to the commodity nature of its product with a low fashion content. In addition, the company offers a wide variety of unique functional finishes (multiple product lines), and the performance of the product is more valued than design/color.

e) A certain degree of product adaptation will be necessary in spite of the harmonization of regulation in the EC 1992, but the products will be standardized for the whole market.

It can be ascertained from the companies under investigation that the above stated part of hypothesis 2 holds true. The export executives of the IFT fabric manufacturers viewed harmonization of technical standards for interior textiles as a major opportunity in the new Europe. This finding is consistent with the study by Krum (1991), who found the harmonization of standards, product testing and certification procedures to be of utmost importance, as they will remove technical barriers to trade in the EC 1992. Unlike in Hutchinson's paper (1989), none of the respondents expressed concern about the possibility that the stringent safety and testing regulation of the UK would be applied Community-wide. Interestingly, Mr. Gillian of Company G (finished IFT products manufacturer/converter) viewed the major opportunity in the EC as easier access to various market niches.

f) IFT export executives believe that there will be upward pressure on prices in the EC 1992 due to intensified competition.

Hypothesis 2f was supported by all companies which expressed an opinion regarding the price competition in the future EC market (Table 6.7). The informants of all the companies, except Company G, expected aggressive price competition in the EC 1992 and lower profit margins, mainly due to easier accessibility of the market for EC or non-EC based companies, thus increased competition. Mr. Gillian of Company G did not anticipate more forceful price competition in his product category, i.e., decorative mats and rugs, due to the perceived value of these products in the EC. Also, Company G's products apparently have a very attractive "American image" and are relatively unknown in this market. These factors enable Mr. Gillian to clearly differentiate his products on a basis other than price.

g) Some degree of price rationalization in the EC 1992 will be possible.

The opinions regarding the above issues varied greatly among the surveyed export executives. Half of them (C, D, E, G) anticipated rationalization of prices in their product category, mainly due to lower costs of doing business in the EC 1992, and due to consolidation of the EC competitors and overall intensified competition. Companies B, F and H (all of them IFT fabric producers) did not expect prices to decrease because of the already thin margins (Company H) and expectations of the higher cost of raw materials (Company F), as well as because the informants believed it would take longer than generally expected to benefit from lower costs of doing business in Europe.

Other expectations regarding the future pricing in the EC included: a need to eliminate agents' commissions to remain competitive in the future (Company A); increasingly important non-price competition while marketing to the EC 1992 (Company A); and the use of factoring to finance exports to the EC (Company H). Differing VAT taxes in the 12-nation marketplace was not a concern for any of the companies, nor did the executives believe the introduction of the common monetary system (ECUs) would affect their export volumes. Mr. Burns of Company B was the only one to claim that his company could benefit from the introduction of a single currency system in the EC 1992 market as it would result in faster and more accurate financial and credit information on their customers and competitors.

The findings related to hypotheses 2f and 2g and firms' pricing expectations in the future EC market are consistent with findings of previous research (Germeroth, 1989; Krum, 1991; Vandermerwe, 1989) which ascertained that differing VAT taxes and currencies in national markets did not represent an obstacle to exporting to the EC market, and that there will be pressure to reduce prices especially in product categories targeting industrial and

organizational consumers. However, Ryans and Rau (1990) found that price rationalization is likely to occur due to lower distribution/warehousing costs and the use of lower cost producers in Southern Europe. Unlike the respondents in Vandermerwe's (1989) study, who most commonly mentioned Europe-wide price equalization and ECU accounting as anticipated changes in pricing strategy, the respondents in this study revealed that their companies already use Europe-wide pricing and that they do not consider the ECU accounting to have a major impact on their businesses (except for Company B).

h) The export executives believe that there will be a need for adjustments in their firms' distribution and sales networks strategies.

The executives' responses on the distribution issues for the EC 1992 market (Table 6.7) provided support for hypothesis 2h. All informants claimed that stronger networks and closer contacts with agents and final users would be necessary to compete successfully in the new business environment. Furthermore, two of the respondents (Companies G and H) believed it would be easier to find appropriate representation in the EC market, whereas Mr. Dane (Company D) and Mr. Andrews (Company A) emphasized the importance of undertaking a more direct approach by establishing firms' European offices and distribution centers, and possibly eliminating agents' commissions. Mr. Frazer of Company F, however, does not believe in the efficiency of cross-border agent networks due to their lack of familiarity with local markets, differences in national markets, and the large geographical areas of distinctive price/quality expectations. As Mr. Gillian noted, distribution in the future EC would become more similar to reps networks in the US and would enable firms to undertake a regional or even an EC-wide approach to market segmentation. Executives

responding to Vandermerwe's (1989) study also repeatedly mentioned strengthening sales networks and distribution channels as priorities in their future distribution strategy.

i) The IFT export executives believe that firms' promotional efforts in the European market will not undergo major changes within the next five to ten years.

Hypothesis 2i was supported by the views of five respondents, who do not anticipate any changes in their promotional activities for the EC 1992 market, whereas others plan minor changes. Mr. Burns of Company B expressed the need to increase his company's promotional efforts for products targeted to international markets, as well as the need for more US national promotion to re-establish US exporters' reputation as reliable suppliers. Mr. Dane of Company D mentioned the need to expand the research budget for EC market analysis once the decision to more aggressively pursue this market has been taken, rather than undertake direct advertising of the products. Mr. Hanks of Company H plans to expand the size of his company's booths in European trade shows, and to increase his personal involvement in the EC market in the future. Mr. Hanks' plans regarding future promotion may not be caused entirely by the new business environment in the EC, but also by the fact that this company had the lowest overall export intensity of all participants, and it was categorized as a less experienced and low EC involvement firm.

Mr. Clarks of Company C was quite explicit as regards the overall promotional strategy in the EC market, and claimed that there would not be any benefits from the EC unification in terms of ease in reaching customers due to language barriers, different cultures and differences in consumer behavior.

As opposed to the above findings, Ryans and Rau (1990) and Vandermerwe (1989) concluded that there will be a need to create a significant presence in the EC by means of

advertising and promoting image and products, and by improved public relations programs. The reason that the informants in the present study did not mention any major changes in their promotional activities may lie in the fact that all of them primarily target wholesalers, distributors and manufacturers (organizational buyers) and that trade shows were identified as being their major promotional tool. Furthermore, brand names have not been established by any of the companies except Company C, which places major importance on direct advertising in international publications, and has elaborate promotional materials published in several languages. The findings might have been quite different if the informants belonged to a more brand-name, image oriented industry such as apparel and, in particular, sportswear.

CHAPTER 7
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS
FOR FUTURE RESEARCH

A summary of the study is presented in this chapter. Conclusions and new research questions related to objectives as well as further suggestions for future research are included.

Summary of the Study

The EC and the US have a historically well established trade partnership, and it is believed that it will strengthen when actions are taken to reduce or remove physical, technical and fiscal barriers to trade among the 12 nations of the EC 1992. Europe is currently in the process of unifying its markets and is taking necessary steps to remove barriers which have restricted the free movement of goods, labor and capital. The EC 1992 Single Market program has been initiated to produce a European trading block that would be competitive with the trading blocks of America and Asia.

Previous studies of American exporters and MNCs which were actively pursuing the European market have suggested that the EC 1992 Single Market program, once fully implemented, will have considerable implications for EC-based as well as US-based companies, and that US firms can and should take advantage of the new business environment.

In spite of the fact that textile and apparel items do not belong among the top US exports to the EC, as this industry has traditionally been import-impacted rather than export-

oriented, several textile and apparel manufacturers have recognized the need to build strong, export oriented marketing strategies. There was a significant growth of US textile and apparel exports to Europe from 1987 to 1991 (U.S. Industrial Outlook, 1992; Vanderverter, 1991). It has been ascertained that exporting provides firms with an avenue for future growth. Growth is forecasted to take place not so much in the domestic market as in the major consumer nations where trade barriers do not represent an obstacle for expansion.

As suggested by numerous export studies on determinants of success factors in export marketing and the conceptual framework of this study, close monitoring of market changes and adjustments of marketing strategies should be pursued by the firms exporting to the EC market at this point in time. The EC market currently represents the second largest export market for US textiles and apparel (after Canada). As it is anticipated that the EC 1992 Single Market will, once unified, become a market 30 percent larger than the US in terms of population as well as a lucrative market with a combined GNP of \$ 6 trillion, it is likely that US textile and apparel manufacturers would seek opportunities to expand in the EC marketplace.

Relatively little information has been available about the export marketing strategies and characteristics of the US textile and apparel producers pursuing global markets, nor were any previous studies found investigating the impact of the changing business environment on the US textile and apparel manufacturers and exporters.

The purpose of this research was to examine the export involvement and marketing characteristics of eight US interior furnishing textile manufacturers who market to the EC, and to determine their perceptions of how the creation of the EC 1992 Single Market would affect their future marketing strategies and market potential. Using the case study method,

i.e., personal interviews, this research investigated the expectations of interior furnishing textile (IFT) exporters regarding the EC 1992 market potential, and investigated whether they plan to adapt their export marketing strategies to the changing regulatory and business environment in the EC 1992 Single Market.

This study has been delimited to a single branch of the US textile industry, i.e., the interior furnishing textile industry, which was defined as encompassing producers of decorative and upholstery fabrics and finished products/accessories for windows, kitchen, bedroom and bathroom. This particular industry was selected as the focus due to the fact that production is well suited to automation and mills can exploit economies of scale and scope (Cohen, 1989). Also, the data indicate that exports of this industry grew substantially in recent years, mainly because of these products' quality, styling and design.

The research design utilized in this study was the qualitative case study method. Since generalization in statistical terms and enumeration of frequencies are not the aim of qualitative/ case study research, a criterion based sampling method was used. The participants of this study were selected from US companies exhibiting at the world's largest home-textiles trade show, Heimtextil 1993 in Frankfurt, Germany. Four of the participating companies were sponsored by the US Department of Commerce, and four of them by the North Carolina Department of Commerce. The firms selected belonged to a group of veteran American exhibitors at the European trade shows (defined as a firm participating in a European trade show for at least the third consecutive year), and they exported to at least two country members of the EC since 1989.

The main data collection technique used in this study involved semi-structured personal interviews with companies' presidents, vice presidents or directors of international

sales. Half of the 40 to 90 minute interviews were conducted at the Heimtextil show in Frankfurt, Germany, and half of them at the US exhibitors' headquarters in the US. The interviews focused on the matters outlined in the pre-established Interview Guidelines (Appendix C) which incorporated variables strongly based on general export marketing literature, the conceptual framework of this study and research studies pertaining to the impact of the EC 1992 Single Market program on US manufacturing and service organizations. Prior to compilation of the final case study reports, multiple sources of evidence for each of the eight companies under investigation were used in order to enhance the conclusions. Other data sources included participant observation of the marketing activities at the trade show and the respondents' manufacturing plants/headquarters, product sample examination, and a case study data base consisting of published materials on companies such as brochures, annual reports and other published materials.

The final analysis consisted of cross-case comparison, which compared and contrasted surveyed companies' present and future marketing strategies for the EC market, their export involvement and the informants' perceptions regarding the future market potential in the EC 1992 Single Market. Furthermore, the participating companies were categorized according to their size, experience in foreign markets and their level of involvement in exporting to the EC market.

Summary, Conclusions and Research Questions

Related to Objective 1

The eight case studies presented in this study revealed interesting information regarding IFT manufacturers global marketing activities in the EC market. The reader is reminded that very little is known about international marketing activities of US textile and apparel manufacturers. Thus, the first objective was exploratory in nature.

Five of the respondents were manufacturers/converters of woven decorative fabrics of various price/quality ranges, and the remaining three of finished IFT products. Half the companies were classified as medium size according to the number of employees, two of them as small and two as large size companies. As for the respondents' length of experience in marketing abroad, five companies were grouped into a more experienced category, and the remaining three into a less experienced category. Separate export departments existed in the two large companies and in a small company which was solely a converter, whereas the number of employees directly in charge of exporting ranged from one to five individuals. The informants in this study were all top ranking executives with several years of experience. Their education was not assessed in this study. Export staff's knowledge, education and experience were positively related to export performance factors in previous studies (Aaby & Slater, 1989; Louter, 1991). A research question pertaining to the knowledge, experience and educational level of export staff as related to export success could be the topic for a future study assessing export activities and characteristics of US textile and apparel producers. All participating firms targeted wholesalers, distributors, manufacturers or institutional buyers rather than the final consumer in the EC market.

Half of the case study firms had an overall export intensity of 10 to 20 percent, and the other four companies between two and 15 percent in FY 1992, indicating that the domestic market represented participants' primary market. All firms were actively pursuing four or more regions in the world; the EC ranked among the top three export regions by all the respondents, half of whom considered the EC market as the most important export market. Thus, four of the companies were grouped into high EC involvement firms and four of them into low EC involvement firms (as measured by their EC export intensity). Germany, Benelux countries and the UK were the primary EC national markets for the companies under investigation, whereas Portugal and Spain were most frequently mentioned as markets with the highest future market potential. An increase in export volumes to the EC market between FY 1989-1992 was identified by all the informants.

Despite the fact that five firms were classified as more experienced in foreign markets and four of them as high EC involvement firms, the only utilized entry mode was direct exporting. Agents were used to perform export marketing functions for the surveyed companies. Thus, finding appropriate representation in the EC and close relationships with agents were identified as the most important sources of market information as well as being crucial for their export success. A distribution-related question for future research arising from the discussion with the IFT exporters pertains to the use of intermediaries in foreign markets and its relationship to a firm's export performance and the nature of products. Most firms segmented the European market on a country by country basis (four firms), according to regions as serviced by individual agents (three firms), though the only manufacturer of a commodity type, standardized product viewed the EC as one, pan-European market. Six companies used a so-called focus strategy and catered to a single market niche in the EC

market. The remaining two companies did not separate the market into various market niches due to their limited export involvement in this market and due to the use of a standardized marketing mix. Styling/design/coloration was the firms' most commonly identified competitive advantage in the EC market, followed by price competitiveness of products. The latter seemed to be more significant for firms targeting the low end of the market and for producers of standardized products. A future research question related to determinants of firms' export success arising from the discussion with the respondents pertains to the importance of individual export success factors and how these are related to the nature of the firm's product, targeted market niche and export involvement. Research utilizing a large sample of firms and quantitative methods could reveal information of interest to current and future textile global marketers.

Participating IFT companies treated the EC market as an extension of the domestic market as product designs were modified only to a minor extent, or the companies simply offered a part of their domestic line to the EC customers. Differing and rigorous technical requirements in various EC national markets presented a barrier to exporting for fabric producers, and unstandardized sizes of bedding products were identified as a product related difficulty for an IFT finished product manufacturer. Export price policy relative to competition and involving non-price competition factors appeared to be used by producers targeting the high and medium high end of the market, whereas relying on internal costs seemed the price basis for producers of low end and standardized product. Five of the surveyed companies obtained higher profit margins in the EC export market than in the US. Price quotation, shipping and credit terms varied greatly among the firms. A flexible pricing policy was used by a single firm, categorized as a more experienced and a high EC

involvement firm. Future research could investigate a firm's export price policy as related to market segmentation strategy, a firm's export performance and its experience in foreign markets. In spite of relatively low overall export involvement of participating companies, the informants seemed to be aware of the importance of investments in promotional aspects when exporting to the EC market. Attending trade shows, magazine ads, brochures and product samples were commonly utilized by the IFT manufacturers. No data about firms' promotional budget for foreign markets were gathered in this study nor was the relationship between the type of the promotional activity, the nature of products and export performance assessed. This research project provided groundwork for future research efforts with respect to the aforementioned relationships.

Summary and Conclusions Related to Objective 2

The intent of objective 2 was to assess the executives' perceptions as regards the future market potential in the EC 1992 Single Market, and to examine the extent to which the changes in the EC external environment necessitate modifications of firms' currently used marketing strategies.

The findings indicated that the IFT manufacturers expected the EC 1992 Single Market to enhance market potential for their products within the next five to ten years. The majority of executives offering an opinion on the level of competition between 1989-1992 had noticed an increase in the number of competitors and expected more aggressive competition in the future unified market, particularly from US textile companies. Those informants who expressed opinions about the possibility of improving their export volumes to this export

market, planned to generate a higher percentage of their export revenues in the EC 1992 market. Four of the executives perceived the EC 1992 market as the region with the highest future growth potential. The informants were generally optimistic about the future EC export market and none of them anticipated that the Unification would result in protectionistic measures or more regulations for the US textile companies.

The discussions with IFT manufacturers revealed that the most significant marketing strategy adjustment for the new Europe pertained to firms' entry modes, product and distribution aspects of firms' marketing mix. With the exception of Company C, a high EC involvement firm which was concerned about the extent of future growth in foreign markets in order to avoid crossing the point of diminishing returns, all other companies claimed the need for expanding into a higher level of entry modes. The creation of a direct EC presence through investing in their own offices, distribution centers or manufacturing facilities was perceived to be of utmost importance to enable them to compete in the new, highly competitive Europe. Adaptation of product designs, colors and qualities specifically for the EC market was deemed necessary, and firms planned to expand the product assortment currently offered. The executives seemed to believe that viewing the EC as an extension of the domestic market would no longer be possible in order to remain competitive and achieve further growth in export volumes.

Finding appropriate representation , i.e., strong agent networks and closer relationships with these and the final users, were perceived as necessary modifications of their distribution strategy. Two executives believed that the competition will be so stiff that the firms should take over their EC export marketing functions themselves instead of leaving it to the effectiveness of European agents.

The most commonly mentioned opportunities resulting from the EC 1992 Single Market were related to market segmentation and harmonization of technical standards for interior textiles for the entire market. According to the informants' responses, the changes in the external environment in the EC will enable them to use a regional or a pan-European approach and use a fewer number of representatives. The only exception was the low EC involvement and more experienced Company F, which claimed that national differences in consumer preferences and tastes will persist even after Unification, and national marketing segmentation will still be necessary.

Although no specific pricing strategy modifications were identified by the informants in this study, all of them anticipated more aggressive price competition in the new Europe and possibly lower profit margins due to intensified competition. However, the informants' perception with respect to possible price rationalization in the EC varied greatly. Half of them believed intensified competition and lower distribution cost would result in overall lower prices, whereas the other half believed that rationalization of prices was not an alternative due to higher raw material costs, the length of time required to reduce the cost of doing business once the market unifies, and the already low profit margins in the low end upholstery fabric category. Five of the respondents did not plan to alter any aspect of their promotion strategy in the future EC 1992 market. Other companies felt the need to increase promotional efforts and budgets for market analysis. None of the informants specifically mentioned any benefits of the new unified market in terms of ease of reaching customers.

While examining the similarities and differences among the firms under investigation, the researcher found that three companies particularly stood out from the general pattern regarding various issues of firms' current or future marketing strategies for the EC 1992

market. Company C, which was categorized as a medium size company with more experience in foreign markets and high EC involvement, was the only producer of a commodity type, standardized product. Company D, which is large in size and more experienced in foreign markets, had extremely low direct exporting involvement in the EC market due to differing product sizing difficulties in national markets. Company H, categorized as a small, less experienced and low EC involvement firm, was at a very early stage of international marketing activities.

Further Suggestions For Future Research

In the previous section, several new research questions were identified while drawing conclusions as to the IFT companies' currently utilized marketing strategies. However, some additional questions and issues arise as a result of this research. These are offered below and could be bases for future research.

1. The variables investigated in this study tapped the perceived values of indicators. Executives' perceptions as regards the future market potentials and anticipated plans may not lead to actual implementation, i.e., to a reactive strategy. Using a theoretical framework of strategy planning and implementation, a longitudinal study would be needed to determine to what extent anticipated marketing strategies for the EC 1992 Single Market were actually implemented in a period of five to ten years. The use of a longitudinal research design might facilitate generalized conclusions regarding the necessary modifications of firms' global marketing strategies in view of the changing external environment in a specific market. In addition, the hypotheses in this study were based on expectations and predictions of

respondents in similar studies and on the export literature. The study would need to be replicated in five to ten years, using the same or very similar companies to provide more evidence on the hypotheses proposed here and to determine the actual impact of the EC 1992 Single Market program on international marketing activities of the US IFT manufacturers.

2. The conceptual framework in this study considered only marketing characteristics and strategies as variables with a time dimension, whereas organizational characteristics were stable variables. A longitudinal study would allow insight into a firm's changing characteristics due to its adjustments to global marketing strategies.

3. This study is not based on a random sample from which statistical inferences can be drawn. The findings of this study could be validated through a quantitative study with a larger representative sample, possibly drawn from the US exhibitors at the European trade shows in the same industry (e.g. Heimtextil, Germany; Domotex, Germany; Decosit, Belgium) and include carpet manufacturers as well. Such research could aim to determine the differences and similarities in marketing characteristics/strategies of "more" and "less" experienced firms, and compare anticipated adjustments of these firms' marketing strategies for the EC 1992 market between "high" and "low" export involvement in the EC market.

4. Research could be conducted using quantitative and/or qualitative methods to compare current and future marketing strategies for the EC market among the three segments of the textile and apparel industry: home-furnishings, apparel and industrial textiles. The same field setting, i.e., European trade shows, could be used to draw the sample of US textile and apparel exporters to the EC market. The US Department of Commerce sets up US Pavilions in several other European trade shows such as Techtexil in Germany (industrial textiles); Decosit, Belgium (home-furnishings); and SEHM in Paris, France (apparel). Such a

comparative analysis would be of wide interest for textile and apparel companies new to exporting and for those at the beginning level of their global marketing activities.

5. Qualitative research, such as case studies, offer an in-depth methodology for approaching complex issues such as adjustments of a firm's marketing strategies in view of the changing external environment of an export market. Future study might investigate the opportunities/threats, advantages and disadvantages of the changing marketplace from the standpoint of the US textile companies and from the standpoint of the EC textile companies in a single branch or multiple branches in this industry. Differences in their anticipated and/or actual adjustments of their international marketing strategies would provide insight into global activities of the "insider" and "outsider" textile companies. The same trade show setting could be used to draw the sample of respondents.

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APPENDIX A

APPENDIX A

DESCRIPTIVE DATA ON INDIVIDUAL EC MEMBER COUNTRIES

Country	Population (000) 1991	Population Growth Rate (%) 1980-1991	GNP (1991) Millions of US \$	GNP (%) Real Growth Rate 1980-1991	GNP per capita US \$ 1991	GNP per capita (%) Real Growth Rate 1980-1991
BELGIUM	9968	0.1	192370	2.2	19300	2.1
DENMARK	5143	0	121695	2.2	23660	2.1
FRANCE	56681	0.5	1167749	2.3	20600	1.8
GERMANY	79632	0.1	1516785	2.3	23650	2.2
GREECE	10083	0.4	65504	1.6	6230	1.2
IRELAND	3502	0.2	37738	2.4	10780	2.2
ITALY	57719	0.2	1072198	2.4	18580	2.1
LUXEMBOURG	378	0.4	11761	4.2	31080	3.8
NETHERLANDS	15023	0.5	278839	2.1	18560	1.5
PORTUGAL	10393	0.6	58451	3.2	5620	2.7
SPAIN	39045	0.4	486614	3.2	12460	2.9
UNITED KINGDOM	57536	0.2	963696	2.8	16750	2.6

Source: Compiled from The World Bank Atlas, 1992

APPENDIX B

APPENDIX B

GENERAL INTERIOR AND HOME-FURNISHING TEXTILE INDUSTRY STATISTICS

1987 DATA	Home Textiles, n.e.c.; SIC 2392 ¹	Curtains & Draperies; SIC 2391 ²
Number of companies	851	1,200
Number of establishments	931	1,235
* Number with 20 or more employees	396	235
Employees, total (thous.)	49.2	26.6
* Production workers (thous.)	41.3	21.0
Payroll (mil.\$)	696.3	336.8
Value added by manufacture (mil.\$)	1,732.2	719.9
Value of industry shipments (mil.\$)	4,480.6	1,524.0
Capital expenditures (mil.\$)	43.5	13.3

Source: U.S. Bureau of the Census: 1987 Census of Manufactures, 1986 Annual Survey of Manufactures

¹ n.e.c. - not elsewhere classified

SIC 2392 includes companies/establishments with paid employees primarily engaged in manufacturing textiles from purchased materials, such as towels, sheets, blankets, comforters, bedspreads. Floor covering mills and weaving mills producing finished home products are not included.

² SIC 2391 covers establishments primarily engaged in manufacturing curtains and draperies from purchased materials (shower curtains and lace curtains are classified separately).

APPENDIX C

APPENDIX C

GUIDELINES FOR PERSONAL INTERVIEWS

Name of the company:

Name of the export executive interviewed:

Position/Responsibilities

Number of years in this position

PART I: A COMPANY'S BASE INFORMATION AND ITS EXPORT INVOLVEMENT

1. How would you best describe your business (manufacturer, contractor, subcontractor, jobber, other)
What are the types of products/categories your company sells? (the scope of business)
2. What is the total number of employees of your company? (inclusive of manufacturing workers, marketing, management)
3. Does your company have manufacturing facility (ies) for its final products/ IFT products in the US only (where), or do you employ some form of foreign sourcing strategies for products destined to the EC markets?
4. Does your company have a separate export department? How many people are in total responsible for marketing to the EC market?
5. What regions of the world does your company export to? (Europe, North America, South America, Middle East, Far East, Africa, Australia)
6. In order to understand how important exporting is to your company, and specifically how important the EC market is for your company, could you give me information regarding the following:
 - * Your firm's export sales (in US dollars) as a percentage of its total sales (in US dollars) for the fiscal year (FY) 1992.
 - * What percentage of your firm's export sales goes to countries which are members of the EC? (the firm's sales to the EC market as a percentage of its export sales for the FY 1992) Comparing FY 1989 and FY 1992, has the amount of exports to the EC market changed and if so, by how much? (% terms, or \$?)

* Which national markets within the EC does your firm serve and how would you rank these in importance ?

(Germany, Denmark, France, UK, Italy, Netherlands, Belgium, Liechtenstein, Ireland, Spain, Portugal, Greece)

Which are your company's most established markets in the EC (longest, most stable)? Is your company currently trying to penetrate any new markets within the EC?

7. How long has your company been exporting to the EC market?
8. What factors determine your company's export sales? (How are these factors different from other export markets and from the US market?) What do you see as your company's competitive advantage in the EC market?

PART II: PERCEIVED MARKET POTENTIALS IN THE EC

9. Are you satisfied with your firm's current level of export sales to the EC market? Do you believe it could be improved, and by what means? What would be the magnitude of improvement?
10. What companies are your firm's major competitors in the EC market? In your opinion, has there been an increase in competition in the EC market between 1989 and 1992?
11. What do you think about competition in the EC market in 5 to 10 years from now? (Do you expect the competition to intensify?)
12. What are your expectations for the future market growth for your products in the EC? What do you think about the future market size for your products in the EC market? (5 to 10 years from now)
13. How would you compare your current sales growth in Europe with your sales growth in the US and in your company's other export markets?

**PART III: A COMPANY'S CURRENT EXPORT MARKETING CHARACTERISTICS AND
FUTURE EXPORT MARKETING STRATEGIES FOR THE EC 1992 SINGLE MARKET**

Entry Modes

14. Are the majority of your company's export sales to the EC direct exports?
- * if yes, do you use: sales representatives/ agents, distributors, foreign retailers, your company's own branch /subsidiary in the EC countries, other ?
 - * if a company uses an indirect exporting strategy, what type of intermediary does your company employ: export agent, export management company, export trading company, another US or foreign company, other ?
15. Apart from exporting to the EC, does your company employ any contractual agreements such as licensing, franchising, technical agreements, service or management contracts, etc?
16. Does your company have any form of investments in the EC countries? (sole venture or joint venture, e.g., new establishment or acquisition)
17. Within a period of 5 to 10 years, as the EC becomes truly more "unified", do you anticipate a need for any entry form other than those you currently use (a move from indirect to direct exporting, starting contractual agreements). Do you believe there will be a need for direct investment in the EC market in the future and why?

Market Segmentation

18. How would you define the EC market: does your company segment this market in terms of national and regional markets, or do you currently view the EC market as one, Europe-wide market ?
Within each of these market(s), how many different market segments does your company target?
19. Who are your customers in the EC market (retailers, wholesalers, organizational buyers, other)?
20. Do you believe your company's currently used form of market segmentation will change in due course as a result of the EC unification program ? Do you anticipate a gradual move toward regional or pan-European marketing rather than country-by country marketing? (Do you know what your company's view is?)

Product related issues

21. In what way do your company's products exported to the EC market differ from products targeted to other export markets and from products destined to the US market ? (In terms of design,

workmanship and styling, quality, colors, sizes, packaging, labeling, etc.)

22. Is your company adapting its products for the EC market (altering physical aspects of the product, product packaging, brand name)? Does your company currently encounter any product related difficulties with respect to different technical requirements in different EC countries? (or with respect to anything else?)
Does your company undertake any product development or employ a designer specifically for the EC market?
23. What changes do you anticipate regarding your company's products targeted to the EC market in the future (5 to 10 years from now, as a result of the EC unification)
To what extent will your company's products have to be adapted for the EC market due to new technical requirements, or due to anticipated changes in consumer behavior in the EC?
24. What opportunities/ difficulties do you expect as regards the marketing of your company's products to the EC in the future?

Price related issues

25. When determining prices for your products targeted to the EC market(s), would you say that your company uses competitive pricing (as opposed to relying on internal costs)? What is the importance of non-price competition in your product category in the EC market?
26. What type of price quotation does your company presently use (C.I.F., F.O.B., quotation in US dollars, foreign currencies)?
What type of credit terms is your company currently able to provide to your EC customers (L/C, sight drafts, open accounts; shipping and credit terms)
27. How do prices for your company's products differ in various countries within the EC due to different currencies, exchange rates, different VAT taxes?
Are there any differences in determining prices for your company's established EC markets/customers and for relatively new EC markets/customers? (e.g. discounts)
28. What problems do you currently encounter with pricing, credit terms, financing, fluctuating exchange rates or other? In what way do you think this will change in the future, as the EC market becomes more unified?
29. In terms of your company's pricing strategy, what changes do you anticipate due to the new business environment in the EC (in the period of 5 to 10 years)?
Do you anticipate rationalization of prices in the EC in the future (as a result of lower costs of doing business)

Do you expect prices across countries to be more similar in the EC market in the future? What will this mean for your company?

Distribution related issues

30. What difficulties does your company currently encounter in terms of obtaining adequate representation for its products in the EC market, in terms of delivering and servicing the EC market, administering export documentation, border controls, etc.?
31. Are there any differences in your company's distribution operations in different national markets within the EC?
32. How will the EC unification affect your company's distribution/sales network? Do you believe there will be a need for a strengthened sales network in the EC market within a period of 5 to 10 years?
Do you expect it will become easier to obtain adequate representation in this market in the future? Do you expect any changes in terms of administering export documentation, delivering, servicing?

Promotion

33. Could you tell me how your company promotes/advertises its products in the EC market (apart from attending trade shows such as Heimtextil)? E.g.: catalogs, trade publications, advertisements in newspapers, TV, magazines.
34. To what extent are your company's promotional efforts different in the various EC countries which are served? (languages, packaging)
35. What are your company's major sources of information regarding the needs of the EC market (in-house research, industry contacts, word-of-mouth, market visits)? What sources of information does your company find the most useful?
How many times a year do you or some other representative from your company visit the EC market?
36. Considering the changes occurring in the business and regulatory environment in the EC market now and in the future, does your company plan to alter any aspect of your promotional activities?
37. Do you believe more promotion, and more frequent visits to this market will be needed in the future (due to increased competition) ?
Do you think it will be possible to standardize your company's promotional activities for all its product markets in the EC in the future? (What languages do you use in packaging, promotion?)

APPENDIX D

**SAMPLES OF WRITTEN COMMUNICATION WITH
THE CASE STUDY FIRMS'
INFORMANTS**

December 17, 1992

Dear home-furnishing textile manufacturer:


The Department of Clothing and Textiles at Virginia Tech is conducting an export study entitled: "The Impact of the EC 1992 Single Market on International Marketing Activities of American Home-Furnishing Textile Manufacturers". The purpose of this study is to gain an understanding of manufacturers' current exporting characteristics for the European market, and to determine the attitudes and opinions of you and others as to how the changing business and regulatory environment in the EC 1992 will affect your companies' export strategies.

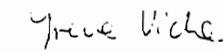
Our graduate student, currently a trainee of the U.S. Department of Commerce Office of Textiles and Apparel at the U.S. Pavilion at the Heimtextil show 1993, wishes to conduct a personal interview regarding your views on the above issues. We assure you that all the information received from you will be used only after your approval of the written material, which will be sent to you after the interview. You are also assured of complete confidentiality and anonymity. Neither you nor your company will be identified by name in the research reporting.

Because you are part of a carefully selected sample of successful textile exporters to the EC market, your participation will be of great importance for the success of this study.

Thank you for your time and cooperation.

Sincerely,


Marjorie Norton
Department Head


Irena Vida
Graduate Assistant

April 2, 1993

Dear Mr. _____

The Department of Clothing and Textiles would like to thank you for your participation in our textile export study: "The Impact of the EC 1992 Single Market on International Activities of American Home-Furnishing Textile Manufacturers".

Your kind assistance and cooperation in providing our graduate assistant, Irena Vida, with a personal interview is greatly appreciated. Your views and opinions regarding the potentials and prospects of the European Community for your exports are extremely valuable for the outcome of our research project.

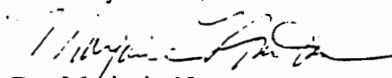
In a short while you will receive a written compilation of the interview conducted with you on _____ in _____. We would like your approval of the authenticity of the information. After the final analysis of all companies involved in the study, you will also receive a summary of our research report. Again, specific information about your company will be used in a final research report only after your approval. You are assured of complete confidentiality and anonymity with regard to company names and names of the interviewees, i.e., vice presidents or export executives.

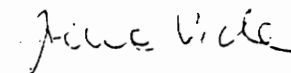
We will contact you by telephone within a week or two to follow up on this letter and to request information we lack for the final analysis.

Once again, thank you for your time and cooperation.

Sincerely Yours,

Sincerely Yours,


Dr. Marjorie Norton
Department Head


Irena Vida
Graduate Assistant

May 19, 1993

Mr. _____, Vice President

High Point, NC 27261

Dear Mr. _____:

We would like to thank you for your participation in our Department's export study by providing us with personal and telephone interviews. Your views as regards your company's export activities and future market potentials for your products in the EC proved to be extremely valuable for our research project.

As indicated in our letter dated April 2, 1993, we are sending you a written compilation of the case study of your company, which is based on the semi-structured personal interview conducted with you, and other information available about the company. Your name and the name of your company have been changed for the purpose of maintaining anonymity in the research reporting.

We would like you to read a copy of the enclosed report and make remarks as regards the authenticity of the information. Please use the enclosed self-addressed envelope to return the compilation with your remarks, if any. Also, we request you to provide us with a research verification letter, an example of which is enclosed, certifying that you are in agreement with the content of this case study. After the completion of the final analysis of all companies involved in the study, we will gladly send you a summary of the research findings.

We will contact you by telephone within the next two weeks to follow up on this letter and ask your opinion regarding this research material.

Thank you very much for your cooperation.

Sincerely,



Dr. Marjorie Norton
Department Head



Irena Vida
Graduate Assistant



Department of Clothing and Textiles

College of Human Resources
Blacksburg, Virginia 24061-0410

Example of the Research Verification Letter:

TO WHOM IT MAY CONCERN

This is to verify that I have received Irena Vida's written compilation and the analysis of the semi-structured personal interview portion of her Master's thesis research.

I have read the Case Study: "Company X" and verify that Irena Vida accurately interpreted the information supplied by me.

Sincerely,

Your Name,

Position

VITA

Irena Vida was born in Ljubljana, Slovenia, on May 19, 1962. She graduated from Gimnasium I. Cankar high school in Ljubljana with emphasis on foreign languages, i.e., English and German, in June, 1981. Her further education and professional experience are as follows:

EDUCATION

- **Masters of Science, Clothing and Textiles**, July 1993 Virginia Polytechnic Institute and State University, Blacksburg, VA
Area of Specialization: Business/Economics with emphasis on Marketing
- **Bachelors of Science, Textile Technology**, November 1987
University of Ljubljana, Slovenia (SLO)

PROFESSIONAL EXPERIENCE

Graduate Assistant, Virginia Polytechnic Institute and State University, Blacksburg, VA
January 1991 to May 1993

Research/Teaching Assistant, University of Ljubljana, SLO
June 1990 to December 1990

Assistant Manager in Export Department, Rasica-knitting outerwear factory, Ljubljana, SLO
May 1989 to June 1990

Technician and Trainee, International Center for Textile Research and Development, Texas Tech University, Lubbock, TX,
August 1988 to May 1989

Assistant Manager, R & D department, Rasica- knitting outerwear company, Ljubljana, SLO
December 1987 to August 1988

INTERNATIONAL TRAINING

- Textile Institute, Zilina, CZECHOSLOVAKIA (6 weeks, 1986)
- Linz Textil AG (Weaving mill), Linz, AUSTRIA (8 months, 1984)
- Misr Beida Dyers Textile Corporation, Alexandria, EGYPT (6 weeks, 1984)

Irena Vida