REGIONAL SEGMENTATION BASE FOR ENTERPRISES ENTERING FOREIGN MARKETS

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Abstract

An objective of the hereby study focuses on the suggestion to adopt means-end chains concept for the needs of regional segmentation. Possible scopes of international market segmentation were presented, considering regional segmentation and conditions for its application. There were also characterised these attributes of regions which define their competitiveness and are at present of major importance for enterprises carrying out foreign expansion.

Key words

foreign markets segmentation, regional segmentation, means-end chains concept, regions' competitiveness, cognitive structure of the region

1. Introduction

The undergoing presently processes of globalisation, internationalisation and economic integration result in a gradually growing interest of enterprises in foreign expansion. One of basic conditions for an effective performance of an enterprise at an international market becomes its correct segmentation understood as "market division according to defined criteria into uniform groups of consumers called segments, which appoint the area of activity for an enterprise and constitute a reference point in developing the program of such activity"[1].

Significant diversification of the global market spatial conditions, as well as the specific nature of foreign markets result in the fact that the characteristic features of consumers, their preferences, attitudes, key competitors and their strategies or infrastructure are different at particular markets and therefore require major modifications in activities performed by an enterprise. In such situation it turns out necessary to apply the strategy of segmentation.

Segmentation is one of basic marketing strategies of an enterprise at an international market. Its objective is to use the standardization advantage and at the same time enhance competitiveness of an enterprise. A wide spectrum of benefits for an enterprise, related to foreign markets segmentation, may be identified. The most general ones among them are as follows[2]:

1.higher effectiveness of performance,
2.more efficient allocation of resources,
3.more effective competition.

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[1] I. Rutkowski, W. Wrzosek: *Marketing strategy*. PWE: Warsaw 1985.
[2] E. Duliniec, *International marketing*. PWE, Warsaw 2004, p. 176.

Complex international market segmentation includes three scopes of analyses:

- macroeconomic – country level,
- mesoeconomic – regional,
- microeconomic – referring to consumers.

Regional segmentation issues make up the core subject of the hereby study.

Significant interregional diversifications are characteristic nowadays for many countries, therefore macroeconomic segmentation, covering a selection of countries which markets a given enterprise is targeting, is no longer sufficient. Further analysis and assessment of the degree of interregional diversification in these countries becomes necessary. If differences are of major importance, from the point of view of an enterprise aiming at commencing its economic activity in a given country, it is necessary to perform regional segmentation, as well as the selection of attractive regions from this point of view. The following stage of research turns out to be microeconomic segmentation consisting in the division of consumers into uniform groups.

If however, regional diversifications within the framework of the selected, by an enterprise, segment (groups of countries) do not present any major diversification, the stage of regional segmentation may be neglected.

2. Assumptions of the means-end chains concept and opportunities for its adaptation regarding regional segmentation needs

The consumption oriented means-end chains concept (MEC) was developed by A. Newell and H.A, Simon[3] in 1972. An assumption that product attributes are the means which facilitate obtaining the desired objectives for a consumer, namely the value and direct advantages provided by these attributes, become the key idea of such theory[4]. "Means-end chains represent the model which tries to explain in what way the selection of a product helps the consumer in accomplishing the desired objective.

Attributes, advantages and values represent product recognition levels. These three approaches make up the content of the consumer's knowledge about a product, while hierarchic relations between them form the cognitive structure of a consumption product. Conceptual connections between the elements of means-end chains are recognised as relations between different levels of knowledge about a product and defined as "means-end chains" combining attributes with advantages and values[5]. Therefore, a consumer may be aware of the product's attributes, personal consequences resulting from using the product and personal values which work to his satisfaction.

The MEC theory delivers the conceptual base for combining a product with a consumer. Configurations of relations between attributes and advantages as well as

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[3] A. Newell, H.A. Simon: *Human Problem Solving.* Englewood Cliffs: Prentice Hall 1972.

[4] C. Claeys, A. Swinnen, P.V. Abeele: Consumer's Means-End Chains for "Think" and "Feel" Products. "International Journal of Research in Marketing", Vol. 12/1995, p. 193-208; J. Gutman: A Means-End Chain Model Based on Consumer Categorization Process. "Journal of Marketing", Vol. 46 (Spring)/1982, p. 60-72.

[5] T.J. Reynolds, Ch.E. Fengler, D.J. Howard: *A Means-End Analysis of Brand Persuasion Through Advertising.* "International Journal of Research in Marketing", Vol.12/1995, p. 257-266

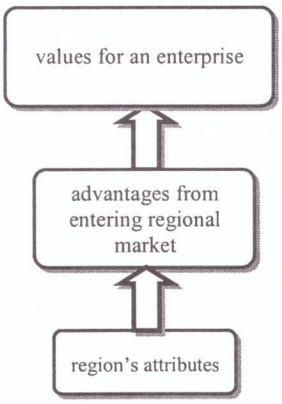
values may diversify consumers. "Means-end chains" become therefore the basis for market segments identification in an international cross-section, since they facilitate capturing differences in behaviours of consumers residing in different countries.

The hereby study takes up an attempt to adapt means-end chains concept for the needs of regional segmentation. A region takes over the role of a product in the sense of means-end chains concept and, in a new perspective, the role of an object which becomes the research subject for an enterprise. This item should be defined precisely beforehand. Next, the potential attributes characteristic for a given region, which define its level of competitiveness in the most comprehensive and universal way, should be clearly described.

The subsequent step of qualitative analysis is to capture functional advantages, which are directly related with particular regional features, as well as higher values which an enterprise may achieve. Both advantages and values should be of major importance from the point of view of an enterprise, which has to take up a strategic decision regarding the entrance on international regional markets and to be as universal as possible, due to a diversified hierarchy of strategic objectives represented by enterprises related to strategies of involvement at foreign markets. It results, therefore, not only from an analysis of external conditions, but also form internal resources of an enterprise.

Hierarchical cognitive structure of a region is represented by fig. 1. The configuration of connections referring to regional attributes, advantages and values become the features which diversify the regions, therefore they may become the background for their segmentation. Information obtained form means-end chains analysis play the role of a supporting tool in taking up a decision by an enterprise, which relates to the selection of a group of target regions. The latter are the regions which generate relations of major importance form the point of view of strategic objectives represented by an enterprise.

Fig. 1. Hierarchical, cognitive structure of a region



Source: author's compilation

The analysis of regions' cognitive structure makes it easier for an enterprise to identify territorial areas offering the biggest advantages and leading towards obtaining values of significant importance for it. It, therefore, combines an enterprise with regions most attractive for it.

3. Methods for universal identification of regions' cognitive structure

Opinions of experts, obtained on the basis of individual interviews or surveys, may become the source of information indispensable for means-end chains identification. The experts are both research workers dealing with such issues and managers implementing internationalisation strategies of an enterprise in practice .

Revealing region's cognitive structure is feasible only as a result of carrying out the following stages of analysis[6]:

1) identification of the most important features of the region influencing its level of competitiveness,
2) revealing advantages and values through surveying by asking a question: "why is this particular attribute of a region important for an enterprise?",
3) analysis of results covering:
   - evaluation of notions' contents resulting form previous stages,
   - construction of implications matrix,
   - presentation of a hierarchical value map.

The analysis of items contents consists in reducing the majority of primary results by means of aggregating notions of similar significance. In consequence a research worker receives a set of codes summarising the answers.

Next the codes for individual means-end chains are presented in the form of a detailed implication matrix and later they become aggregated and presented in the form of a summary implication matrix. Rows of the detailed implication matrix represent means-end chains (ladders) for an individual expert or manager. The number of columns in this matrix relates to the number of elements in the longest chain.

Rows and columns of the summary implication matrix represent notions obtained in the previous research phase. Each element of this matrix represents the frequency, with which an attribute, consequence or value, as an element of the row, lead to another consequence attribute or value – an element of the column. Such elements of the summary implication matrix may also represent numbers informing how many times an item, as part of an individual means-end chain, resulted in a different one. This matrix identifies both direct and indirect relations between items. Direct implications refer to interconnections between neighbouring items in the means-end chain.

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[6] F. Hofstede, A. Audenaert, J.-B.E.M. Steenkamp, M. Wedel: *An investigation into the Association Pattern Technique as a Quantitative Approach to Measuring Means-End Chains.* "International Journal of Research Marketing", Vol.115/1998. p.37-50; P. Yalette-Florence, B. Rapacchi: *Improvements in means-end chain analysis. Using graph theory and correspondence analysis. "Journal of Advertising research", No 1, 1991.*

The next step of results analysis becomes the presentation of a hierarchical value map (HVM) developed on the basis of an implication matrix. Such map constitutes a graphical representation of the means-end chain set for regions, which may be considered as an aggregated map of cognitive structure. HVM is made up of knots and connections joining them. Knots represent items classified as attributes, advantages and values obtained as a result of previous research stages. Lines joining these items represent relations between them and are marked when the number of direct relations is bigger from a given critical value.

A hierarchical map of values may also be constructed by a researcher, disregarding previous stages of analysis, based on economic expertise referring to regions' competitiveness and an enterprise management.

4. Region's competitiveness factors, advantages and values important for an enterprise undertaking foreign expansion

Lately competitiveness has been a more and more frequently and generally used concept. It may be analysed from the perspective of diversified aspects and cross-sections. It contains a valuation judgement and represents a definitely positive nature, since it describes the desired state. In most cases it refers to a macroeconomic level of economy and a microeconomic one of an enterprise. Lately the mesoeconomic scope of competitiveness, referring to regions, has also been observed.

Regions' competitiveness may be regarded as a solid advantage of some regions over others or as a distance separating one region from others[7]. One may assume that the region's competitiveness means its capacity to create bigger wealth than other regions regarded as competitors[8]. However, for the needs of the hereby study it becomes more adequate to define a competitive region as follows[9]:

- provides conditions for enterprises situated within its area which enable them to win a competitive advantage,
- is capable of winning competition with other regions in attracting investment capital and especially the capital located in projects representing a significantly innovative level.

Following the concept of means-end chains, the region's competitiveness depends on the occurring interconnections between the region's attributes and advantages and values important for a foreign enterprise. Regional segmentation will help an enterprise to select attractive regions, i.e. the regions which represent attributes implying the accomplishment of the broadest spectrum of advantages and values.

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[7] A. Klasik: *The analysis of competitiveness and competitive strategies of towns.* In: Competitiveness of towns and regions in south-western Poland. Scien. ed. R. Broszkiewicz. Wrocław: University of Economics Publishing House, Research Studies 821,1999.

[8] *International competitiveness of Polish economy – conditions and perspectives.* Studies on competitiveness. Warsaw: IRiSS 1995.

[9] G. Gorzelak, A. Olechnicka: *Innovative potential of Polish regions.* In: Knowledge vs. economic growth. Ed. L. Zienkowski. Warsaw: Scholar Scientific Publishing House 2003, p. 122-152.

Table 1 presents the most important attributes of a region from the point of view of an enterprise conducting regional segmentation. The listed categories of attributes may be of diversified importance for an enterprise due to a different hierarchy of objectives (functional advantages and ultimate values). Further comparative analysis requires the introduction of quantitative measures facilitating quantification of the level of attributes in regions.

Among basic functional advantages which may result from an enterprise foreign expansion the following may be listed:

- high qualifications of personnel,
- cheap labour force,
- opportunities for product development,
- product innovativeness,
- high quality of products,
- low costs of running a business,
- low transport costs,
- high communication mobility of personnel,
- low fixed costs of industrial infrastructure,
- quick access to information,
- convenient communication,
- attractive sales market,
- capability of attracting employees representing high qualifications, etc.

Advantages resulting from an enterprise entering a given regional market may lead to such values as: prestige, good fame, good brand, the feeling of victory, being a part of elite, comfort, satisfaction, exclusive character etc.

The construction of a hierarchical value map, presenting possible configurations of region's attributes with advantages and values towards which they lead becomes the background for regional segmentation.

Table 1 Classification of competitive attributes characteristic for a region

No	Category	Region's attribute
1.	Human capital	– supply of qualified labour force – supply of unqualified labour force – level of salaries
2.	Knowledge centres	– location of universities and training centres – location of research and development units
3.	Transport infrastructure	– international air connections – over-regional fast train connections – network of motorways – road infrastructure condition
4.	Urbanisation	– urbanisation centres – location of big cities – concentration of enterprises

5.	Information-communication technologies	– internet access – development of stationary and mobile telephones – computerization level
6.	Services	– bank services offer – location of business servicing units – administration quality
7.	Sales market	– size of demand – purchasing power of population – level of cultural similarity
8.	Living conditions	– housing conditions – location of culture and leisure centres – medical care quality – natural environment state – region's image

Source: author's compilation based on: G. Gorzelak, A. Olechnicka: *Innovative potential of Polish regions.* In: Knowledge vs. economic growth. Ed. L. Zienkowski. Warsaw: Scholar Scientific Publishing House 2003, p. 122-152; G. Gorzelak, B. Jałowiecki: *Competitiveness of regions.* Regional and Local Studies, No 1 2000, p. 7-24; M. Smętowski: *A foreign enterprise in local environment.* Regional an Local Studies No 4, 2000, p. 87-103.

If an enterprise defines the hierarchy as well as the advantages and values which it expects to accomplish, having performed regional segmentation, then pointing to most attractive regions will become possible.

5. Conclusions

Globalisation processes, which are more and more intensified nowadays, result in an increase of regional disproportions, which implies the need to apply segmentation on a mesoeconomic level. The suggested approach towards regional segmentation may turn out to be an effective tool in selecting regions attractive for an enterprise which plans to start up its business activity outside its native country. The hereby study just points to an opportunity of taking advantage of means-end chain concept. Detailed solutions in this field still require many further research efforts.

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[4] Gorzelak G., Olechnicka A.: *Innovative potential of Polish regions*. In: *Knowledge vs. economic growth*. Ed. L. Zienkowski. Warsaw: Scholar Publishing House 2003, p. 122-152.

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