

International Marketing Case Study – Climb and Jump

Author

Institution

Current Situation/ Problem Definition

Climb and Jump is a small partnership company that designs, manufactures and sells playgrounds for children. The company is established in the United Kingdom and is quite successful in the UK market. However, the company has tried to penetrate the new European markets of France, Spain and Italy, though the entrepreneurship does not possess necessary information about the potential and the yields of this strategy.

The major potential problems that Climb and Jump may face in the development strategy are related to the differences in external environments of the host country and international markets, as well as the possible inability of the company's internal resources to meet the customers' demand. The following analysis is aimed at defining the crucial factors for Climb and Jump international expansion and critical evaluation of risk factors.

Situation Analysis – External Factors

Kotler (2008) states that many of the factors that largely influence the business operations are out of the management control. These include both macroeconomic and microeconomic effects. The analysis of the external factors is necessary for the proper evaluation of business opportunities and threats. The assessment of Political, Economic, Social and Technological environments presents the well-known framework, commonly referred to as PEST analysis (Kotler et al, 2008).

Political Environment

Political situation in the country that is related to any business operation has a significant effect on possible success or failure. The political environment analysis requires a thorough evaluation of political system, institutions, and governmental involvement in the business operations (Worthington and Britton, 2009). The potential expansion experience of Climb and Jump presents the benefits for further development, as far as the company can grow after penetrating a few European markets. The regulations in Europe regarding

import/export possibilities are not stiff, so the company can enjoy the relative simplicity of exports (Official Website of the European Union, 2009). At the same time the challenge is related to the legal department of Climb and Jump. First of all, the company needs to establish the legal department to solve the export-import related issues. Secondly, the department has to be competent in international political and legal environment. Despite the requisite of having a legal department, globalization as a trend presents some advantages for international firms in terms of import – export, ease of boarder control and tariff procedures. The expansion into the European Union countries is a potential for the small company due to the absence of regulations.

Economic Environment

At this point in time, Climb and Jump company does not have a mass production, despite the fact that it has grown and developed over the past few years. The business does not use the scale economy of mass production. In case of international expansion and increased mass production, the company can divide the fixed expenses for the increased number of items produced and sold. Thus, Climb and Jump can enjoy the growing return to scale and facilitate the usage of economies of scale (Baumol and Blinder, 2011). On the contrary, economic recession in the European Union, particularly in Greece and Spain, negatively affects the target market. The suggestion may be made that Climb and Jump avoids expansion into the EU countries that go through economic downturns.

Another economic point in the analysis is the broader market for raw material and assembly processes. The expansion in the new markets for final goods also means that the company can search for the new suppliers of the playground parts and outsource the assembly line work for lower price. Consequently, Climb and Jump can have a chance to decrease the cost of production and earn higher returns.

Social Environment

The demand for any product is highly influenced by the demographic structure of the segments and social environments (Worthington and Britton, 2009). The acceptance of exported products is what the company is looking for. Also globalization has the effect on acceptance and celebration of different cultures, which in turn presents the opportunity for the company in terms of differentiating the playgrounds by cultural attribution of a particular region and having unique features of that region. Moreover, the narrow specialization of the Climb and Jump represents the opportunity of crafting the playground uniquely for the city or town, which has made an order. In this case, the producer can enjoy the positive social response from the users.

Technological environment does not present the high importance for the company development but the competitive forces need to be addressed. Porter's Five Competitive Forces are the major framework in the business world to assess the opportunities and threats of the competition (Porter, 2008).

- Rivalry among existing playground manufacturers does exist, and the market share of the Climb and Jump in the European Market is small. However, the United Kingdom is one of the biggest European markets and the company is effectively taking the advantage of this market. The business has quite secure positions in the outsourcing abilities, though there is a gap in investments.
- Threat of new entrants is present but is not likely to happen because of the limited access to the supply of resources and large initial investments to open such type of business. Taking into consideration the UK success story of Climb and Jump, the new entrants are not a threat, as far as there is a lot of financial capital required to reach the strong international position.
- Threat of substitutes is not likely to represent the serious disadvantage for the company, as far as there is limited availability of playground substitutes.

- Bargaining power of suppliers will decrease when the company goes international, as there are more supplies to choose from.
- Bargaining power of customers is not high, as far as there are limited playground alternatives.

The Marketing Mix

Product

The company is specialized in the design and manufacturing of the playground facilities. Climb and Jump can also refurbish and fix the existing playgrounds. The product will not change in the light of international expansion, as far as the company is highly specialized and does not need to reevaluate the product mix.

Price

The company will definitely need to reevaluate the pricing strategy, as far as there is a financial gap present at this point, and international expansion requires more investment. To keep the product prices competitive, Climb and Jump needs to either decrease the price for raw material or outsource the production to the onsite, so there are no transportation costs incurred.

Place

The European markets considered for expansion should be the stable European economies of Italy, Germany, France, Belgium and others. The company may need to establish the office or daughter company in the above countries with additional financing. This will create opportunities for the decrease in operational costs and better control over international operations.

Promotion

The current promotion is limited, as far as the company is not advertising the product and service, but is oriented towards the personal selling approach. The expansion into the

international markets should not change the promotion tactic, because the product originally is very specific and has to be offered to the appropriate customers. Thus, accurate research of potential customers and personal selling to them is the best promotion. Additionally, Climb and Jump can add watermarks to the newly-made playgrounds, so that their contacts are visible to users for future reference.

Process

It will be beneficial for the company to establish the process of manufacturing in the corresponding country of final sale, so there are no logistics costs incurred. Thus, the raw materials and the process of assembling should be in the international market. However, the design may be done in the UK, as far as the owners put effort into developing a special outlook of every playground.

Physical Evidence

The final product, which is a complete playground, will be transported to the corresponding place of set up. The local manufacturing is likely to ease the process of assembly of physical product and decrease the financial burden.

People

The four designers, who are the owners of the company, are the major planners and executors of the expansion plan, as well as they perform the duty of designing the physical good. The parts' manufacturers are outsourced, and the assemblers are to be located in the appropriate market. The legal department has to be established within the company, so the owners do not take the risk of violating any laws of exports. This department may be also outsourced to other country, though location in the UK seems to be the better option.

The Evaluation of Advantages and Disadvantages

The international business expansion presents a number of opportunities and threats to the normal business operation. Zahra, Ireland and Hitt (2000) state that new venture

companies, which operate in the local market for less than six years, are quickly expanding to take the international markets. Moreover, international expansion presents a long list of business opportunities, like organizational learning, development of current strategies and potential growth in profits (Zahra et al, 2000). On the other hand, there is a number of threats to the stable business cycle of the Climb and Jump.

Opportunities

Among the major opportunities is the chance to increase the operational revenue and finally reach the stable income without additional investment from the owners. As it was aforementioned, the company may enjoy the economies of scale for the reason of manufacturing more playgrounds and dividing the overhead for more units. Additionally, there is a potential for increasing the customer's base and brand recognition. Climb and Jump has been growing rapidly in the UK market and has received a positive response from the public, so the expansion to the international arena will continue the upward development trend.

Regarding the growth of the business in terms of personnel, the international markets are saturated with different professionals with business education and with manual abilities. The company will have the benefit of choosing the local employees, taking into account the wage differentiations from country to country. Thus, there is a possibility to decrease the wage costs and hire experienced workers to fulfill the job duties. In addition, the environment of business adaptation presents challenging atmosphere for the current personnel to learn the new strategies and improve the business.

Threats

The start of operations in the new market is a challenging objective, which requires research, planning and careful executing of the business plan. The competition in the international arena is much fiercer compared to the UK market. The local producers may

have established positions among the consumers, just like Climb and Jump has in the United Kingdom. The rivalry among existing producers is present, and Climb and Jump has to be prepared to the competition. Moreover, national business environment present a threat to the company if not prepared for carefully. Climb and Jump has to initiate the marketing research to collect information about the expectations and preferences of the potential customers and end users of the playgrounds. Also, the owners need to analyze the current state of the playgrounds in the target city or town.

Political situation in the European Union is both opportunity and a threat. The dissatisfaction with economic reforms and social dissent is growing in some Western European countries, and the spirit may be spread further. The time of political and turmoil is not the best period for introducing additional social fun, and asking for budget money. However, Climb and Jump may start targeting businesses with daycare and individuals instead of municipalities.

Potential Market Entries

The entry in the international markets is divided into equity-based and non-equity based (Pan and Tse, 2000). The equity-based include wholly-owned operations, where the company owns all resources, and equally-joined ventures, where the company established a partnership-type relationship with local business. The non-equity-based are contractual agreement, where the company outsources all business operations to local producer, and export, where the finished goods are transported to the point of destination (Pan and Tse, 2000). For the purpose of this report, one of each type will be evaluated.

Equity-based wholly type, owned company

In the hypothetical situation of establishing the daughter production in the EU market (consider France and Belgium), Climb and Jump will have the full control over the operations in the market. The head office may still be located in the UK and the owners will make

decisions on distance. This choice presents opportunities in terms of decreasing or eliminating the shipping costs, and hiring local professionals, who know the market. Moreover, Climb and Jump can find the local suppliers in France or Belgium to satisfy the production requirements, as well as ease the search for customers. On the other hand, the risks are higher compared to the opportunities, as far as the company has to incur additional spending of setting up the business in foreign country. The investments required will be a burden for the owners, who constantly put their money in business.

Non-equity-based type, export

In the second scenario, the company will manufacture the playgrounds in the UK and transport them to the needed location in France and Belgium. The risks are lower, compared to the first scenario, but the potential returns decrease as well. Firstly, the production of the playground for the international markets is more expensive. Additional costs include export fees, shipping from the UK to Belgium or France and hiring of local assemblers. Secondly, the company has limited possibilities of searching for clients. When the business is located on the point of final sale, the personal selling approach may be taken to offer the product to municipalities and businesses. In the export case, the distant communication with potential customers France/ or Belgium may impact negatively the impression of the company. Moreover, the absence of local control over assembly can be challenging for the small company.

Conclusion

The international expansion present a wide range of opportunities, but the bright future may be negatively affected by the unknown business environment and financial challenges in the new country. Climb and Jump should consider expanding the operations in the stable European markets of France and Belgium, as far as their political and economic setting is stable and potentially high in return. The company should consider opening the

wholly-owned business entity abroad to have more control over the local operations and decrease the shipping and handling expenses that increase the per unit cost. Taking into consideration the fact that the company does not have enough resources to open a fully-operated subsidiary, the small office with a few assembly workers and a marketing professional to apply personal selling would benefit Climb and Jump. In this scenario, the financial requisites are decreased, and the management can be distant. Additionally, this business has to do extensive research on the potential suppliers of the parts in France and Belgium to further decrease the costs.

As Zahra et al (2000) state, the new-venture businesses are striving to open the international markets to establish the position before the competition becomes fierce. So, Climb and Jump has to consider the opportunity of achieving a stable position in the European markets. Nonetheless, the major suggestion of this report is to carry out the local marketing research in France and Belgium to understand the cultural and social aspects of playgrounds' perception and to analyze the purchasing potential of the municipalities and businesses. Climb and Jump is competitive in the UK market, because it enjoys competitive advantage of unique and high quality playgrounds. The EU markets are of high potential to increase the sales and avoid additional personal investment from the owners.

References

- Baumol, W.J., & Blinder A.S. (2011). *Economics: Principles and Policy* (12th ed.) Boston, MA: South-Western College Publishing
- Kotler, P., Armstrong G., & Wong, V. (2008). *Principles of Marketing* (5th ed.). Upper Saddle River, NJ: Prentice Hall
- Official Website of the European Union (2009). Common Rules for Imports. Retrieved from http://europa.eu/legislation_summaries/external_trade/r11002_en.htm
- Pan, Y. & Tse, D.K. (2000). The Hierarchical Model of Market Entry Modes. *Journal of International Business Studies*, 535-554.
- Porter. M. E. (2008). The Five Competitive Forces that Shape Strategy. *Harvard Business Review*, 25-40
- Worthington, I. & Britton, C. (2009). *Business Environment* (6th ed.). Upper Saddle River, NJ: Prentice Hall
- Zahra, S.A., Ireland, R.D. & Hitt M.A. (2000). International Expansion by New Venture Firms: International Diversity, Mode of Market Entry, Technological Learning, and Performance. *Academy of Management Journal*, 925-950