USING THE GENERAL ELECTRIC / MCKINSEY MATRIX IN THE PROCESS OF SELECTING THE CENTRAL AND EAST EUROPEAN MARKETS

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Abstract: *Due to limited resources a company cannot serve all potential markets in the world in a manner that all the clients to be satisfied and the business goals achieved, which is why the company should select the most appropriate markets. It can focus on a single product market serving many geographic areas, but may also decide to serve different product markets in a group of selected geographic areas. Due to the large number and diversity of markets that can choose, the analysis of the market attractiveness and the selection the most interesting is a complex process. General Electric Matrix/McKinsey has two dimensions, market attractiveness and competitive strength of the firm, and it aims at analyzing the strengths and weaknesses of the company in a variety of areas, allowing the company to identify the most attractive markets and to guide managers in allocating resources to these markets, improve the weaker competitive position of the company in emerging markets, or to draw the firm from the unattractive markets. We can say that it is a very efficient tool for the company being used by international market specialists, on one hand to select foreign markets for the company, and on the other hand, to determine the strategy that the firm will be using to internationalize on those markets. At the end of this paper we present a part of a larger study in which we showed how General Electric Matrix/McKinsey is used specifically in selecting foreign markets.*

Keywords: *external market selection, internationalize, competitiveness, international marketing*

JEL Classification: M16, M31, M39.

1. Introduction

In order to internationalize, firms need to know exactly which markets they want to enter, especially what entry strategy should be applied. Virtually all companies that are present or intend to enter international markets support their marketing strategies on identifying and choosing the best markets or market segments and, on this basis, they are structuring their offer according to the specific conditions of these markets.

Due to limited resources a company cannot serve all potential markets in the world in a manner that all the clients to be satisfied and the business goals achieved, which is why the company should select the most appropriate markets. It can focus on a single product market serving many geographical areas, but may also decide to serve different product markets in a group of selected geographical areas. Due to the large number and diversity of markets that can choose, the analysis of the market attractiveness and the selection the most interesting one is a complex process.

General Electric Matrix/McKinsey Matrix is essentially an extension of the Boston Consulting Group matrix. It was developed by McKinsey and Co. for General Electric (http://www.business-tools-templates.com/General_Electric_GE_mckinsey_matrix.htm) being recognized that Boston Consulting Group matrix was not flexible enough to consider more complex problems.

2. Presenting the research context and other approaches from the literature

The matrix has two dimensions, market attractiveness and competitive strength of the firm, and aims at analyzing the strengths and weaknesses of the company in a variety of areas.

The determinants of market attractiveness. Managers judge the attractiveness of potential or existing markets based on four broad sets of variables (Boyd and Walker, 1995):

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- the market factors that reflect the characteristics of customers that form the market in question (the benefits they seek, their satisfaction with their current product offering, their power in relation with the suppliers) and the factors that may shape the potential market volume such as overall size, growth rate and life cycle stage;
- the economic and technological factors examine the capital and the technology the company needs to compete on the market, plus structural variables such as: entry and exit barriers - helping to shape the long-term competitiveness and the potential profit;
- the competitive factors measure the number and the strengths of the existing competitors in the market and they take into account the possibility for competitive changes to occur in the future by the emergence of the replacement products;
- finally, macro factors reflecting social and political constraints on the ability of the company to compete profitably in a market such as government regulations or interest groups.

Regarding the company's competitive position, market position factors are most appropriate for evaluating the markets in which the company is already present because they reflect the power of the current position of the company and product offerings, compared with the existing competitors. The economic and technological factors may indicate the actual or potential competitive advantage of the firm, deficiencies in obtaining low cost of production (capacity used and the technological process) or a sustainable product differentiation (high product technology or patent protection). Business skills may reflect the strengths and weaknesses compared with competitors – such as a wider distribution channel or limited financial resources in order to support the future growth. The firms must also take into account the interactions, positive or negative, over target markets. Such interactions resulting from sharing the activities or resources across markets (for example, sharing sales force to cover more markets). (Danciu, 2005, Kotler and Armstrong, 2003; Hollensen 2004, Boyd and Walker, 1995)

Building General Electric / McKinsey Matrix implies five stages (Boyd and Walker, 1995):

1. Choosing the measurement criteria of market attractiveness and competitive position.

2. Weighting market attractiveness and competitive position factors to reflect their relative importance.

3. Evaluation of the current position of each potential target markets for each factor.

4. Designing the future position of each market based on expected trends of the environment, customers and competition.

5. The assessment of the implications of any changes in business strategies and resource requirements.

General Electric / McKinsey Matrix consists of nine fields (3 x 3). The fields in the upper left corner (three in number) are the best markets that the company should enter. The three fields from the diagonal form the average attractive markets and, in the future, they can climb in the category of best markets. Therefore, the firm must maintain the level of investment in these markets. The last three fields, located in the lower right corner represent the weakest markets in terms of attractiveness. The firms must consider not to invest in these markets.

The result of this evaluation is the classification of countries / markets in different categories (Hollensen 2004, Fleisher and Bensonssan, 2003):

- **A class countries.** These countries are primary markets that offer the best opportunities for long-term strategic development. On these markets the company can establish a permanent presence, and should, therefore, undertake a detailed research program. The strategy that the firm must pursue on these markets is to invest and grow.

- **B class countries.** Countries in this class are secondary markets, where opportunities are identified, but the political or economic risk is perceived to be too high to achieve long-term irrevocable commitments. These markets will be managed in a more pragmatic manner due to potential risks identified. In these markets the company pursues a strategy of selective improvement or defensive strategy.

- **C class countries.** These markets are tertiary or "take-as-you-can" type. They are perceived as high risk markets and therefore resource allocation is minimal. In such countries the objectives are opportunistic and short-term established, therefore the companies do not assume a real commitment. The strategy used here is to collect the profits as soon as possible or to withdraw.

The managers must take into account a country as a possible target if it falls with a very good score on at least one of the two dimensions and at least a moderate score in the other dimension. However, firms may decide to enter the market in the second echelon, for various reasons (Boyd and Walker, 1995):

- firms believe that markets attractiveness or their competitive force are likely to improve in the coming years;

- they see these markets as steps that have to go through on their way to major markets;

- the lessons learned will be useful in other markets etc.

3. Research methodology

In the example below, we conducted an analysis, using General Electric / McKinsey Matrix, of the external markets potential from Central and Eastern Europe in terms of consumption of commodities and particularly those containing polyether polyols. The purpose of this analysis is to highlight those markets that are the best in terms of firm's export orientation. The analysis was carried out for 2011. Each of the two dimensions that is market attractiveness and competitive strength of the company has ten indicators that will be analyzed. To each indicator taken it into account a weighting coefficient is assigned, as desired, depending on the significance of the activity for the company with a fairly subjective character (Florescu et al, 2003). The sum of all indicators of each dimension will be equal to 1. Further, the current position is assessed of each potential target market, on each indicator, giving a number of points between 1 and 5, then the number of points awarded to the indicator will be multiplied to its weight. The products obtained are added together and a total is made on each column (market).

The analysis took into account Bulgaria, the Czech Republic, Russia, Slovakia, Slovenia and Serbia, the data for these countries being presented in the table below. These markets are not totally unknown for the company, and they neither had a significant share in company's exports. Ukraine is already an important market for a company's exports.

The analyzed indicators are:

▪ on ***market attractiveness***:

1. GDP/capita because of its dimension affects the ability of people to buy consumer goods, cars and homes. Slovenia has the highest GDP/capita of the CEE countries analyzed, followed by the Czech Republic, Slovakia, Russia, Bulgaria and Serbia.

2. *Population*. Its size affects the market size. The degree to which the population evolves is also important, respectively if the demographic growth has an increasing or decreasing trend. Russia has by far the largest population group from the CEE countries analyzed (even though the demographic growth tends to decrease), followed at a great distance by the Czech Republic, Bulgaria, Serbia, Slovakia and Slovenia.

Table no 1. Economic and demographic indicators

	Bulgaria	Czech Republic	Russia	Slovakia	Slovenia	Serbia
Population – inhabitants	7.037.935	10.177.300	142.517.670	5.483.088	1.996.617	7.276.604
GDP purchasing power parity (millions $)	102.700	289.600	2.422.000	129.000	59.250	80.040
GDP - per capita - $	14.000	27.500	17.000	23.700	29.300	10.600
GDP - real growth rate (%)	1,7	1,7	4,3	3,3	0,6	1,6
Inflation rate (%)	4,2	1,9	8,4	3,9	1,8	11,2
Consumer spending (millions $)	36.150,4	64.870,4	767.774	28.896	14.575,5	-
Imports (millions $)	30.860	133.200	322.300	75.100	31.050	19.450

3. *Consumer spending*. Depending on the size of these spending, we can assess the consumption level of consumer goods. However, a closer look may reveal the structure of the consumption and especially the weight of the polyols based products in total consumer goods. The highest level of consumer spending is recorded in Russia. It is followed in ranking by the Czech Republic, Slovakia, Bulgaria, Serbia and Slovenia.

4. *Intensity of competition* takes into account the number of competitors who are already present in the analyzed CEE countries, as well as the volumes of polyether polyols which these competitors are producing or exporting to these markets. By their geographical location, the Czech Republic and Slovakia are closer to the polyether polyols producers from Central and Western Europe. Companies such as Bayer, BASF, PCC Rokita, Dow export to these markets. Therefore, competition is greater than on the markets of Russia, Bulgaria and Serbia.

5. *Inflation rate* determines the purchasing power of the population and the increase of prices, having impact on the consumption of consumer goods. For this indicator, the best is the Czech Republic, followed by Slovenia, Slovakia, Bulgaria, Russia and Serbia.

6. *Market entry barriers*. They take into account any existing barriers to market entry and exit on the CEE countries analyzed. From the analysis there were not any barriers identified to the export of polyether polyols.

7. *Political stability* has influence on the economic environment. Stable political climate influences positively the firm's decision to export, especially the export mode. At the time of this research, in the CEE countries analyzed there were no signs of political instability.

8. *Market sensitivity to economic changes*. The more sensitive a market is to the economic changes, the more difficult it adapts to various economic events, such as crises, with negative repercussions on the economic climate. Thus, countries with a higher degree of economic development, the Czech Republic, Slovenia and Slovakia have a lower sensitivity to economic change, while Russia, Bulgaria and Serbia have a greater sensitivity.

9. *The volume of imports* shows the level of opening of the country to goods and services coming abroad. Russia has the highest volume of imports of the CEE countries analyzed, followed by the Czech Republic, Slovakia, Slovenia, Bulgaria and Serbia.

10. *Environmental requirements* consider environmental standards to be met by each company and product in a particular market. For polyether polyols, environmental requirements are standard and are considering production, transport and storage. The company has an Integrated Quality and Environment Certificate according to ISO 9001:2001 and ISO 14001:2004.

- on **competitive strength of the company:**

1. The *market share* takes into account the part that company owns on each of the CEE countries analyzed. The company holds small shares on each of the markets analyzed and varies significantly from year to year, being a sign that the company has not shown, until now, a clear interest for these markets. Basically, the company's products have reached these markets through indirect export.

2. The *product quality* shows how companies can respond to quality requirements imposed by the CEE countries analyzed, and by the competition. As mentioned above related to the environmental requirements, the company has an Integrated Quality and Environment Certificate.

Table no 2. General Electric / McKinsey Matrix to select the most attractive markets for the export of polyether polyols, having as main criteria the purchase of consumer goods

	Indicators	The weight of factors	Bulgaria		Czech Republic		Russia		Slovakia	
			Grade	*Weighting value*	**Grade**	*Weighting value*	**Grade**	*Weighting value*	**Grade**	*Weighting value*
Market attractiveness	1. GDP - per capita	0,15	2	0,30	5	0,75	3	0,45	4	0,60
	2. Population	0,15	3	0,45	4	0,60	5	0,75	2	0,30
	3. Consumer spending	0,15	2	0,30	4	0,60	5	0,75	3	0,45
	4. Intensity of competition	0,10	4	0,40	3	0,30	4	0,40	3	0,30
	5. Inflation rate	0,10	3	0,30	5	0,50	2	0,20	4	0,40
	6. Market entry barriers	0,10	4	0,40	4	0,40	4	0,40	4	0,40
	7. Political stability	0,05	4	0,20	4	0,20	4	0,20	4	0,20
	8. Market sensitivity to economic changes	0,10	3	0,30	4	0,40	3	0,30	4	0,40
	9. The volume of imports	0,05	2	0,10	4	0,20	5	0,25	3	0,15
	10. Environmental requirements	0,05	4	0,20	4	0,20	4	0,20	4	0,20
	Score	**1,00**	**-**	**2,95**	**-**	**4,15**	**-**	**3,90**	**-**	**3,40**

	Indicators	The weight of factors	Bulgaria		Czech Republic		Russia		Slovakia	
			Grade	*Weighting value*	**Grade**	*Weighting value*	**Grade**	*Weighting value*	**Grade**	*Weighting value*
Competitive strength of the company	1. The market share	0,10	2	0,20	1	0,10	2	0,20	1	0,10
	2. The product quality	0,15	4	0,60	4	0,60	4	0,60	4	0,60
	3. Price competitiveness	0,15	4	0,60	4	0,60	4	0,60	3	0,45
	4. Promoting products	0,10	3	0,30	4	0,40	4	0,40	4	0,40
	5. Distribution network	0,15	2	0,30	4	0,60	4	0,60	3	0,45
	6. The degree of market investigation	0,10	3	0,30	4	0,40	4	0,40	4	0,40
	7. The managerial and marketing staff	0,05	4	0,20	4	0,20	4	0,20	4	0,20

	8. Flexibility and organization	0,05	3	0,15	4	0,20	4	0,20	4	0,20
	9. Customer loyalty	0,10	3	0,30	4	0,40	4	0,40	4	0,40
	10. Technological level	0,05	4	0,20	4	0,20	4	0,20	4	0,20
	Score	**1,00**	**-**	**3,15**	**-**	**3,70**	**-**	**3,80**	**-**	**3,40**

3. *Price competitiveness* shows the company's ability to compete on the market, through price. In principle, the firm faces price competition in the most analyzed CEE countries.

4. *Promoting products* can be done by participating in specialized fairs and exhibitions or by distribution network to the companies with which the company already has a contractual relationship for other chemical products. This network is more extended in Russia and the Czech Republic.

5. *Distribution network*. As mentioned in the previous paragraph, this network has the largest expansion in Russia and the Czech Republic, followed by Slovakia, Slovenia, Serbia and Bulgaria.

6. *The degree of market investigation*. For investigating the Central and East European countries' markets analyzed, the company is based on the information obtained from the distribution network, on that from the partners and on the specialized studies.

7. The *managerial and marketing staff* is well-trained and experienced for export activity.

8. *Flexibility and organization*.

9. *Customer loyalty*. Basically, the company has no problems with its customer loyalty.

10. *Technological level* of the firm is on a high level, especially polyether polyols production facilities were modernized in recent years.

Finally, from the initial set of markets, Slovenia has been removed because it has the smallest population and Serbia has the lowest expected GDP / capita, and in addition, there is no data on consumer spending.

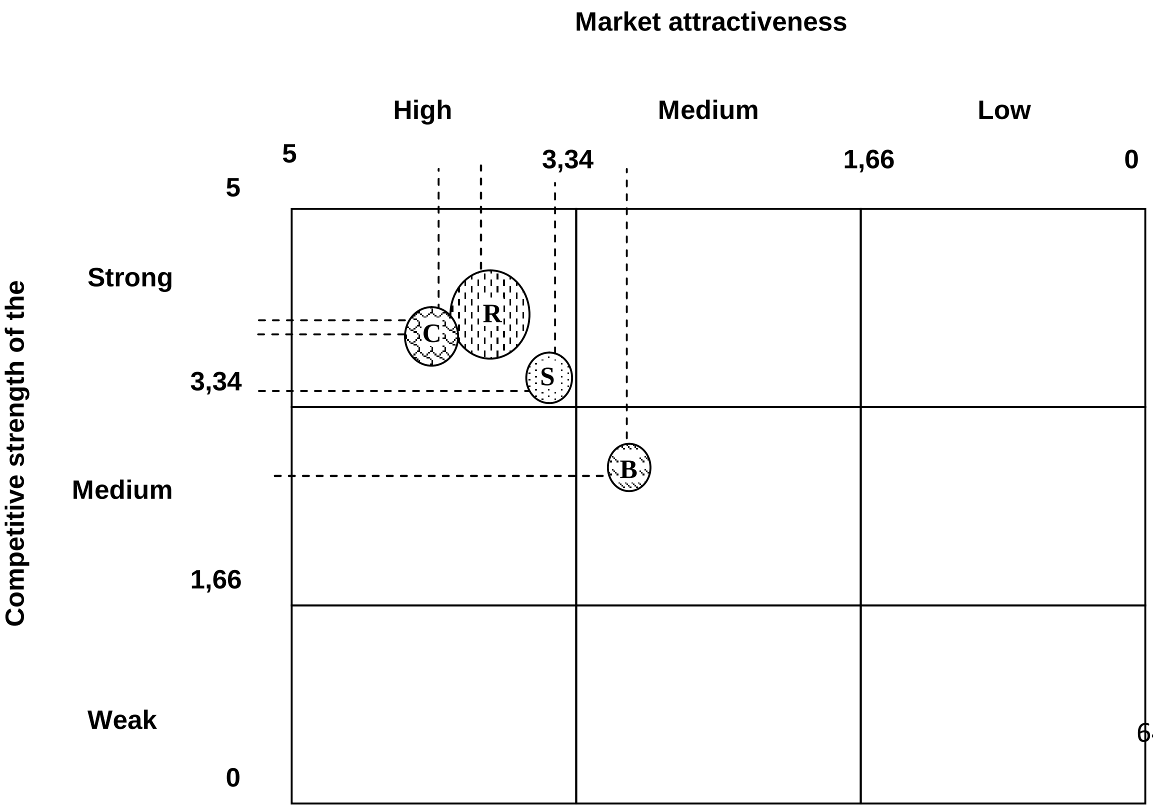

Figure no 1. Graphic representation of General Electric / McKinsey Matrix to select the most attractive markets for the export of polyether polyols, having as main criteria the purchase of consumer goods

4. Results and discussion

Analyzing the data above, we can draw the following conclusions:

- The markets of Russia, the Czech Republic and Slovakia are seen as category A, where the firm can invest with confidence. Following the analysis of polyether polyols exports in recent years, there have been small exports to these countries, most of them indirectly.

At least in the case of Russia, the construction sector recovery and that of car production will result in a huge increase in demand for polyether polyols.

- The Bulgarian market is a category B market with growth potential. A company may develop exports to these markets, but they are not so strong in terms of demand for polyether polyols, like Russia, the Czech Republic and Slovakia.
- Since polyethers polyols became the second most important export product of the company, providing a balanced portfolio of markets have become a necessity.

5. Conclusions

Now is the time for the company to move to direct export, giving up intermediaries. Also it would be appropriate for the firm to open an agency on each market of Russia, Czech Republic and Slovakia. Through these agencies the company can address potential customers directly, without using intermediaries, which are not always well-intentioned.

However, through these agencies, the company may have access to information about these markets and can receive full reports on market developments, not only in general, but also those of polyether polyols in particular. Thus, the company would be able to neutralize, in part, some of its weaknesses, namely finding customers and poor and less relevant market research.

The Russian market has not yet entered the views of big Western European polyether polyols producers. Although on this market local producers of polyether polyols will occur, the market will continue to have a high absorption capacity.

By developing exports on the markets of Russia, Czech Republic and Slovakia, the company can achieve a balanced portfolio of markets. That does not mean that the company should abandon its current markets, but rather to secure exports, given that its current markets drew attention to other competitors in Central and Western Europe.

In this regard, the company would have to reorganize the marketing department and to strengthen it with international marketing specialists that will have to handle either a certain geographical area that the company is exporting on or a certain product.

Entering the Russian market should be done particularly in such a manner in order to enable the company to achieve significant market shares, especially now when competition is not so strong.

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