MARKETING FACTORS IN SMALL COUNTRY 
MANUFACTURED EXPORTS: ARE MARKET SHARE AND 
MARKET GROWTH RATE REALLY IMPORTANT?

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Abstract. In the decision-making process, strategic market and product policy planning systems usually concentrate on market size, market growth rate, market share, and relative product quality. These factors emerge from studies involving relatively large firms that operate in the national market place. This study attempts to extend the findings to industries composed of much smaller firms that operate in international markets. Analysis of empirical data shows that market share, market size, and quality (in that order) retain their significance, while market growth rate becomes less important. These findings are highly important for small- and moderate-sized firms that are planning international market strategies.

INTRODUCTION

The economic literature in recent years has included a considerable amount of debate regarding the determinants of interfirm profitability differences. Specifically, the question of the relative importance of “Market Power” (as evidenced by firm size, market share, recent growth, and industry concentration) versus “chance” elements, has received substantial attention. [For example, see: Albin and Alcaly 1979; Caves, Gali, and Porter 1977; Mancke 1974 and 1977; Shepherd 1972; Gale 1972; Hall and Weiss 1976.] Practitioners and academicians involved with the design of marketing planning systems have generally tended to accept the casual rather than chance hypothesis, influenced mainly by two major sources: The Boston Consulting Group (BCG) experience-curve based product portfolio approach [Conley 1970; Day 1977], and the Profit Impact of Market Strategy (PIMS) project findings. [Gale 1974; Buzzell, Gale, and Sultan 1975; Schoeffler, Buzzell, and Heany 1974] The BCG product portfolio approach stresses the importance of market share relative to competitors and market growth rate. The PIMS findings support this analysis and add several contributing factors, notably relative product quality, which appears as an especially important determinant of profitability for low-market-share businesses.

In a recent article, Hamermesh, Anderson, and Harris [1978] argued that the conclusions of this stream of thought are not relevant for the small-market-share company. Analyzing the experience of some successful “low-share” (less than half the industry leader’s) businesses, they concluded that segmentation, efficient use of R&D, “small thinking,” and strong chief executive officers are the keys to success.

It should be recognized that both BCG and PIMS are based on the experience of large firms. (The median market share for PIMS businesses was 22 percent. A “low-share” PIMS business is one that has less than 25 percent of the combined shares of its 3 largest competitors.) Even the “low-share” cutoff point used by Hamermesh, Anderson, and Harris is not really low: in many industries the second largest firm would be considered “low-share” under this criterion, and in

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most industries the third largest firm would certainly be included. An important question, then, is whether relationships similar to those described in these studies exist at the real low end of market share scale—that is, businesses with possibly one-tenth or less of the industry leader's share. Further, both PIMS and BCG were based mainly on national United States marketing data, while more and more firms are moving into international marketing. A second important question, therefore, is whether the conclusions are applicable to export market situations.

At the industry level, the economic literature is rich in analyses of interindustry performance in international trade. These include post-Ricardian, factor-endowment explanations of trade direction and composition [See Haberler 1961 for a survey of early literature; Kilpatrick and Miller 1978; and the comprehensive study by Pugel 1978 for recent examples]; demand-similarity based explanations [Linder 1961]; technology transfer effects [Vernon 1970]; and international product life cycle explanations [Vernon 1966 and 1979]. A more recent focus of attention has been on multinational firms and their direct investment decisions, both in developed and less developed countries [for example, see: Caves 1971 and 1974; Horst 1972; Lall 1979 and 1980; White 1978]. Least attention, however, has been directed to the effects of marketing factors—and particularly market share and market growth rate—that are so pervasive in the interfirm-oriented marketing literature.

The current study was designed to address these questions. The study was based on Israeli exports of manufactured products (excluding diamonds) in 1971–1975. On the one hand, total Israeli exports, in the 71 industrial branches examined, amounted, in 1975, to just under 1 billion dollars—a sales volume that would make “Corporation Israel” the equivalent of a large American corporation. Approximately 15 percent of these exports were made to the United States. On the other hand, the totality of industry in a country (even the export directed portion of output) is necessarily much more diversified than the most diversified corporate entities of “comparable size”; consequently, the share of total imports to the United States attained in each category by Israeli industry amounted typically to fractions of 1 percent. Total United States imports in most of these industries were substantially lower than the sales volumes of the largest United States manufacturers, so obviously the shares of the total United States market attained by Israeli industries were minuscule. In this sense the situation is analogous to a very highly diversified (both market- and product-wise), fair-sized conglomerate, or a series of diversified, small-to-moderate-sized ones.

**RESEARCH HYPOTHESES**

Marketing planners analyzing market and product-line expansion opportunities usually start with the criterion of market size (or potential). A natural hypothesis for the study, therefore, was that success in export marketing is an increasing function of target market size. In addition, imports and domestic wares in many product categories compete in fairly separable market segments. Therefore the specific form of the hypothesis was:

1. **Success in export marketing is an increasing function of total imports to the target markets in the product category.**

The second and third hypotheses for the study were developed on the basis of BCG and PIMS conceptual framework, adapted to the present data base. Specifically, the hypotheses were:

2. **Success in export marketing is an increasing function of share of imports to the target markets, in the product category**—that is, Israeli industries holding larger (import) market share would be more successful exporters.

3. **Success in export marketing is an increasing function of the rate of growth of imports to the target market in the product category**—that is, Israeli industries faced with rapid growth in (the imports of) their overseas markets would show better export performance.