

## COMPARISON OF THE MARKET POTENTIAL OF BULGARIA, MACEDONIA, ROMANIA AND CROATIA

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National markets differ in terms of market attractiveness, due to variations in the economic and commercial environment, growth rates, political stability, consumption capacity, receptiveness to foreign products, and other factors. This research proposes and illustrates the use of complementary approach to assessment of Bulgaria, Macedonia, Romania and Croatia market potential. We have studied the market potential of four countries for two years – 2002 and 2008. The main purpose is to establish that the market potential is not consistent during time and its dynamics. These seven variables represent the six fundamental dimensions and have to consider when determining the overall attractiveness of a market. Next, an index was created from the statistical values of the seven variables and their position into a scale of zero to one by a formula. We try to solve the problem so as to compare the market potential of selected countries and to find ways to improve it.

**Key words:** market potential; market assessment; Bulgaria; Macedonia; Croatia; Romania

## СПОРЕДБА НА ПАЗАРНИОТ ПОТЕНЦИЈАЛ ВО БУГАРИЈА, МАКЕДОНИЈА, РОМАНИЈА И ХРВАТСКА

Националните пазари се разликуваат во поглед на атрактивноста како резултат на варијациите во економско-комерцијалното опкружување, стапките на пораст, политичката стабилност, капацитетот на искористување, приетчивоста на странските продукти и други фактори. Ова истражување ја предлага и илустрира употребата на комплементарниот пристап кон процена на пазарниот потенцијал на Бугарија, Македонија, Романија и Хрватска. Го проучувавме пазарниот потенцијал на четирите земји за годините 2002 и 2008. Главната цел е да се етаблира тоа дека пазарниот потенцијал не е конзистентен временски и во својата динамика. Овие седум варијабли ги претставуваат шесте фундаментални димензии и имаат за цел детерминација на целокупната атрактивност на пазарот. Следно, индексот  $be$  (е креиран од статистички вредности на седумте варијабли и нивно сместување во скала од нула до еден со помош на формула. Се обидуваме да го решиме проблемот: да се спореди пазарниот потенцијал на селектираните земји и да се изнајдат начини за негово подобрување.

**Клучни зборови:** пазарен потенцијал; пазарна оценка; Бугарија; Македонија; Хрватска; Романија

### INTRODUCTION

Marketing across national boundaries has become imperative for long-term company survival and profitability. However, faced with so many countries to evaluate, a business executive can be overwhelmed with the diversity and complexity of

alternative market opportunities. There are vast differences among countries in terms of size, income, language, infrastructure, market access, culture, and many other important dimensions.

International marketers use two primary approaches in screening for attractive markets abroad. First, clustering yields a group of countries

with similar commercial, economic political and cultural dimensions. These similarities not only help managers compare the countries, but also provide information on possible strategies in different markets. The second is ranking countries according to dimensions that are relevant to the international marketer.

## MATERIAL AND METHODS

We will try to apply the methodology to compare the market potential of our country with those of neighboring countries such as Romania, Macedonia, Croatia. This will be our main objective.

To achieve this, the following tasks will be discussed:

1) Developing a methodology for determining market potential of Bulgaria and its comparison with the market potential of neighboring countries such as Romania, Macedonia, Croatia;

2) To find ways to improve the market potential to provide competitive advantage.

There are different definitions of market potential.

Market potential can be defined as “the amount of the product that the market could absorb over some indefinite time period under optimum conditions of market development” (Albaum, G. S. et al., 2005.)

Given the market potential of given product we can say that it is the maximum magnitude of demand (volume or in value) i.e. the maximum quantity of the product, which can be sold in this market by all companies producing it.

It can be defined as follows:

$$P = B \cdot K \cdot W$$

where:

$P$  – total market potential;

$B$  – number of buyers of the product in this market;

$K$  – the average amount purchased by each buyer;

$W$  – average cost per unit.

Therefore, the forecast of demand is the volume of demand, which is expected to appear in a future period as a result of specific efforts of the companies carried out in specific terms.

When it comes to the market potential of a country the things are different.

Methods of assessing the market potential of a country.

Cavusgil in 1997 provides a process consisting of three steps in the evaluation of foreign markets with the best potential (Cavusgil, S. T., 1997).

The author recommends:

- a scan to determine the possibilities that require further investigation;
- assessing the market potential to analyze the overall demand;
- analysis of sales by product unique perspective of the company.

## RESULT AND DISCUSSION

Similar to the method used by Cavusgil we will also use in determining the market potential of Bulgaria and its neighboring countries. For comparison, we get the parties – Macedonia, Romania and Croatia. The first two are close to Bulgaria at the level of economic development and purchasing power, and Croatia is the most economically advanced country.

We will explore the market potential of the four countries for two separate time periods, 2002 and 2008. Our goal is to see that the market potential is not constant, which is always increasing, but it is subject to many influences that can drive out in one direction or another.

We believe that six years are enough time to accommodate the dynamics of his movement.

To assess the market potential and dynamics we will need some auxiliary tables. The first of them will stop to change certain characteristics, such as population, GDP, imports, and average annual growth of the economy (shown in Table 1).

Let me say a few words about some of the dimensions of the index of market potential (in particular the two last indexes) [6]:

### *Index of Economic Freedom*

The Heritage Foundation has compiled an Index of Economic Freedom since 1995 which currently covers 162 countries, including 78 of the countries in which USAID currently works. It gives countries ratings from one to five on ten broad measures of economic freedom such as trade

policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and fi-

nance, wages and prices, property rights, regulation and informal (or black) market activity.

Table 1

*Dimensions of the market potential*

Dimension		Bulgaria (j = 1)	Romania (j = 2)	Croatia (j = 3)	Macedonia (j = 4)	Average of four countries ( $K_{average}$ )
1. Market size (Population in thousand)	2002	7869	21803	4443	2022	9034,25
	2008	7640	21529	4436	2045	8912,50
	% Change for 6 years ( $K_1$ )	-2,91	-1.26	-0.16	1.14	-80
2A) Market Intensity – Gross domestic product at market prices (millions of euro) <sup>a)</sup>	2002	16623	48615	28089	4000.9	24331,98
	2008	34118	137035	47365	6507	56256,25
	% Change for 6 years ( $K_{2a}$ )	105,25	181.88	68.62	62.64	104.6
2B) Market Intensity – GDP per capita in Purchasing Power Standards (EU-27 = 100)	2002	31	29.4	52.3	25.2	34,48
	2008	40.1	45.8	63	32.5	45,35
	% Change for 6 years ( $K_{2b}$ )	29,35	55.78	20.46	28.97	33.64
3. Imports of goods and services in million U.S. dollars <sup>b)</sup>	2002	7987	17862	10722	1995	9641,50
	2008	37369	82450	30728	6844	39347,75
	% Change for 6 years ( $K_3$ )	367,87	361.59	186.59	243.06	289.78
4. Market Growth Rate Average growth of the economy for 6 years ( $K_4$ )		2,94	3.18	2.26	1.93	2.58
5. Index of economic freedom <sup>c)</sup>	2002	57.1	48.7	51.1	58	53,73
	2008	63.7	61.7	54.1	61.1	60,15
	% Change for 6 years ( $K_5$ )	11,56	26.69	5.87	5.34	12.37
6. Index of infrastructure reform <sup>d)</sup>	2002	2.7	3	2.7	2	2,60
	2008	3	3.3	3	2.3	2,90
	% Change for 6 years ( $K_6$ )	11,11	10.00	11.11	15.00	11.81

<sup>a)</sup> <http://epp.eurostat.ec.europa.eu/>

<sup>b)</sup> International Merchandise Trade Statistic Year book (2008), <http://comtrade.un.org/pb/>

<sup>c)</sup> <http://www.heritage.org/index/Explore.aspx?view=by-region-country-year>

<sup>d)</sup> <http://www.ebrd.com/>

*Index of infrastructure reform.*

The EBRD is an international financial institution that supports projects in 30 countries from central Europe to central Asia. This organization uses this index in its project. The ratings are calculated as the average of five infrastructure reform indicators covering electric power, railways, roads, telecommunications, water and waste water. The

classification system used for these five indicators is detailed below. The transition indicators range from one to four+, with one representing little or no change from a rigid centrally planned economy and four+ representing the standards of an industrialised market economy.

In respect of five from six indicators and the four countries show a positive trend except for the indicator – “market size”.

The relative importance of each dimension was determined by interviewing a small number of business professionals and educators (a Delphi process). The result was the relative weights shown in the second column of Table 2.

To be able to move from absolute to relative indicators four countries: Bulgaria, Macedonia,

Romania and Croatia as a community will need to be accepted. In other words, we will analyze these four markets position in the country designed to assess the change in their market potentials for a certain period of time.

Table 2

*Variables and sources of data used in analyses*

Dimensions	Weight	Measures
1. Market size	20	Total population
2. Market intensity	15	*GDP at market prices (50% weight) * GDP per capita in Purchasing Power Standards (50% weight)
3. Market receptivity	20	Imports of goods and services
4. Market growth rate	15	Average growth of the economy for 6 years
5. Index of Economic Freedom	15	* The Economic Freedom Index, which measures trade policy, taxation policy, government consumption of economic output, monetary and banking policy, capital flows and foreign investment, wage and price controls, property rights, regulatory climate, and black market activity
6. Index of infrastructure reform	15	The ratings are calculated as the average of five infrastructure reform indicators covering electric power, railways, roads, telecommunications, water and waste water.

The coefficient for a given country will be equal to the change in the period related to the mean change for all countries. It is necessary to calculate the coefficients as follows:

$K_{ij}$  = change for given country – Average of four countries where "i" moving from one to six (the number of indicators), and "j" moving from one to four (the number of countries).

Therefore, the index of market potential of each country will be equal to the amount of pieces

of relevant factors with their relative weights. In this particular case, we calculate the mean of each of the indicators such as changes in population, changes in gross domestic product, changes in imports, etc. The ratio of the specific value of the index to the average of the four countries will give us information what changes have occurred in the period (Table 3).

Table 3

*Relative changes in the dimensions of market potential for the period 2002–2008*

Country/Dimension	Bulgaria	Romania	Croatia	Macedonia
1. Market size	-2.11	-0.46	0.64	1.94
2. Market Intensity	-1.82	49.71	-24.58	-23.31
3. Imports of goods and services	78.09	71.81	-103.19	-46.72
4. Market Growth Rate	0.36	0.60	-0.32	-0.65
5. Index of Economic Freedom	-0.80	14.33	-6.50	-7.03
6. Index of infrastructure	-0.70	-1.81	-0.70	3.20
Index of Market Potential (MPI)	14.75	23.70	-25.32	-13.12

The index of market potential here shows the strength and direction of change in the country for the survey period. If it is greater than zero, this shows a positive improvement of the country, if less than zero a negative trend. For example, an index of 23,70 implies that the demand in Romania increased by 23.7 % compared to the base period for the account of any other part of the community.

Except to assess its dynamics, it is possible to seek ways to increase the market potential. Naturally, it should be given to the problem areas – leading to its decline. Let me give an example of data analyzed above:

– For example, Bulgaria lost the most consistent trend of decreasing population. It remains a possibility to carry out policies in two directions either to raise the level of gross domestic product or to improve the infrastructure.

– If no changes were in different dimensions of the index of the market potential it would be zero. During the research period (2002–2008), however, many changes have occurred. If the change in the country was in a positive direction to the arithmetical mean of the four countries in this column it would have a number greater than zero. But if the index is less than the zero it follows that we have less change from the average of the community. Particular attention should be paid to the indexes below – 10.

Let us analyze the leading and the losing party in respect of the index:

– The analysis of data for these countries shows that Romania is with the better end of the market potential index (IMP = 23.7). This is mainly due to two factors:

a) This is the only country to improve the index of economic freedom to increase its average in the community.

b) There is the greatest increase in growth of gross domestic product in volume and per capita.

There are many positive changes in Bulgaria and it remains the second position (IMP = 14.75). Problem areas do not contrast brightly with the relevant other three countries and indexes move within a few percents, by excluding the fact that this is the state with the highest negative growth of population (compared to the other). The largest positive contribution to the final value has a sharp increase in imports into Bulgaria. It must be said that this is a “double-edged sword”. On the one hand, it allows to increase the consumption of goods that are inefficient in production, but on the

other it may act as a killer on their own production.

The third place is Macedonia. Unlike Bulgaria in Macedonia there is greater contraction in imports, which combined with the low increase in the growth of GDP leads to a negative index. Weaknesses of Macedonia are a small change in the value of its index of economic freedom –7.03. Low levels of infrastructure quality thus contribute to the low level of economic development in most countries in the region. This shows a need for significant public sector investments in Macedonia in future years.

The country with the lowest value of the index of the market potential is Croatia. It must be specified that this only shows that it has the lowest rates of change compared with the other three countries.

## CONCLUSION

In two of the surveyed countries – Bulgaria and Romania raising of the index of the market potential has been noticed and the other two – Macedonia and Croatia observed decreasing of it. Looked at the four countries as a whole raising the index of the first two is equal to the amount of decrease in the last two.

We believe that the purpose of this article reached for two reasons:

1) It shows the use of a methodology for assessing the market potential for any one or more countries.

2) This methodology helps to detect areas with good development of those which are stagnant or declining. This gives us the opportunity to give some recommendations to act in these problem areas, and therefore a way to increase market potential.

Although each step in foreign market expansion is critical, the initial assessment of opportunities is especially important. Evaluating market potential and quantifying opportunity in a foreign market can be vital to a firm's success.

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