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Global Marketing Management

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III Semester

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Global Marketing Management

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- To be able to decide suitable marketing strategies for the dynamic international market

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Unit – III

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Unit – IV

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Unit – V

Distribution Channels and Logistics - Functional and types of channels; Channel selection decisions; Selection of foreign distributors/ agents and managing relations with them; International logistics decisions.

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UNIT - I

Learning Objectives

- To provide an overview of strategic concept of marketing with the major principles of global market
- To analyze the driving forces and various complexities of international marketing
- To evaluate the various entry strategies to international market
- To identify the essentials of international market in the context of economic development of less developed countries

Unit Structure

Lesson 1.1 - Introduction to International Marketing

Lesson 1.2 - Transition from Domestic to International Marketing

Lesson 1.3 - International Market Entry Strategy

Lesson 1.1 - Introduction to International Marketing

Introduction

This unit is about "GLOBAL MARKETING" which is defined as the process of focusing the resources (i.e. people, money, and physical assets) and objectives of an organization on global market opportunities and threats. Prior to nineties, the term global marketing or even international business in a broader sense, i.e. a major area of management studies, which encompasses the global marketing management as one of the subject of international business stream, probably did not even exist. In the global world of today, global marketing is essentially not only for the realization of the full potential of a business, but even more critically for the survival of a business. In the era of globalization, a company which fails to go global may also find itself in situation of losing domestic business to its competitors with lower costs, greater experience, better quality products and in a nutshell, more value for the customers.

The importance of going global to ensure a company's survival is a more powerful motive for many companies than the attraction of opportunity abroad only. Industries that were entirely national in scope only a few years ago are dominated today by a handful of global companies. These units concentrate on the major dimensions of global marketing. It is, therefore, essential to understand and appreciate the various concepts, the driving forces and principles of international or global marketing that determine a firm's successful transformation from the domestic to international one. The relevant topics to study here, thus, include concepts in International Marketing, Global Marketing Imperative, Global Marketing plans, International Marketing Orientations/Approaches (EPRG), International Market Entry Strategies, etc.

Meaning of Marketing

Marketing is essentially a creative corporate activity involving the planning and execution of the conception, pricing, promotion, and distribution of ideas, products, and services in an exchange that not only satisfies customers' current needs but also anticipates and creates their future needs at a profit. Marketing is not only much broader than selling; it also encompasses the entire company's market orientation toward customers' satisfaction in a competitive environment. In other words, marketing strategy requires close attention to both customers and competitors.

Meaning of Global Marketing

Global marketing refers to marketing activities by companies that emphasize the following:

1. Reduction of cost inefficiencies and duplication of efforts among their national and regional subsidiaries
2. Opportunities for the transfer of products, brands, and other ideas across subsidiaries
3. Emergence of global customers
4. Improved linkages among national marketing infrastructures leading to the development of a global marketing infrastructure.

Although Levitt's view that global marketing does not necessarily mean standardization of products, promotion, pricing, and distribution worldwide, but rather, it is a company's proactive willingness to adopt a global perspective instead of a country-by-country or region-by-region perspective in developing a marketing strategy.

The Strategic Concept of Marketing

During the past three decades the concept of marketing has changed dramatically. The marketing concept has evolved from the original concept, which focused marketing on the product. The objective was profit, and the means to achieving the objective was selling, or persuading the potential customer to exchange his or her money for the company's product. (Table)

Changing Concept of Marketing			
	Old	**New**	**Strategic**
Era	Pre-1960	1960-1990	1990
Focus	Product	Customer	Way of Doing Business

Means	Telling and Selling	Integrated Marketing Mix	Knowledge and Experience
End	Profit	Value	Mutually Beneficial Relationship
Marketing is	Selling	A Function	Everything

The "new" concept of marketing, which appeared about 1960, shifted the focus of marketing from the product to the customer. The objective was still profit, but the means of achieving the objective expanded to include the entire marketing mix or the "four Ps" as they became known: product, price, promotion, and place (channels of distribution).

By 1990 it was clear that the consumer concept of marketing was updated and that the times demanded a strategic concept. The strategic concept of marketing, a major evolution in the history of marketing thought, shifted the focus of marketing from the customer or the product to the customer in the context of the broader external environment. Knowing everything there is to know about the customer is not enough. To succeed, marketers must know the customer in a context including the competition, government policy and regulation, and broader economic, social, and political macro forces that shape the evolution of markets. In global marketing this may mean working closely with home-country government trade negotiators and other officials and industry competitors to gain access to a target country market.

Another revolutionary change in the shift to the strategic concept of marketing is in the marketing objective-from profit to stakeholder benefits. Stakeholders are individuals or groups who have an interest in the activity of a company. They include the employees and management, customers, society, and government, to mention only the most prominent. There is a growing recognition that profits are a reward for performance (defined as satisfying customers in a socially responsible or acceptable way). To compete in today's market, it is necessary to have an employee team committed to continuing innovation and to producing quality products. In other words, marketing must focus on the customer in context and deliver value by creating stakeholders' benefits for both customers and employees.

Profitability is not forgotten in the strategic concept. Indeed, it is a critical means to the end of creating stakeholders' benefits. The means of the strategic marketing concept is strategic management, which integrates marketing with the other management functions. One of the tasks of strategic management is to make a profit, which can be a source of funds for investing in the business and for rewarding shareholders and management. Thus, profit is still a critical objective and measure of marketing success, but it is not an end in itself. The aim of marketing is to create value for stakeholders, and the key stakeholder is the customer.

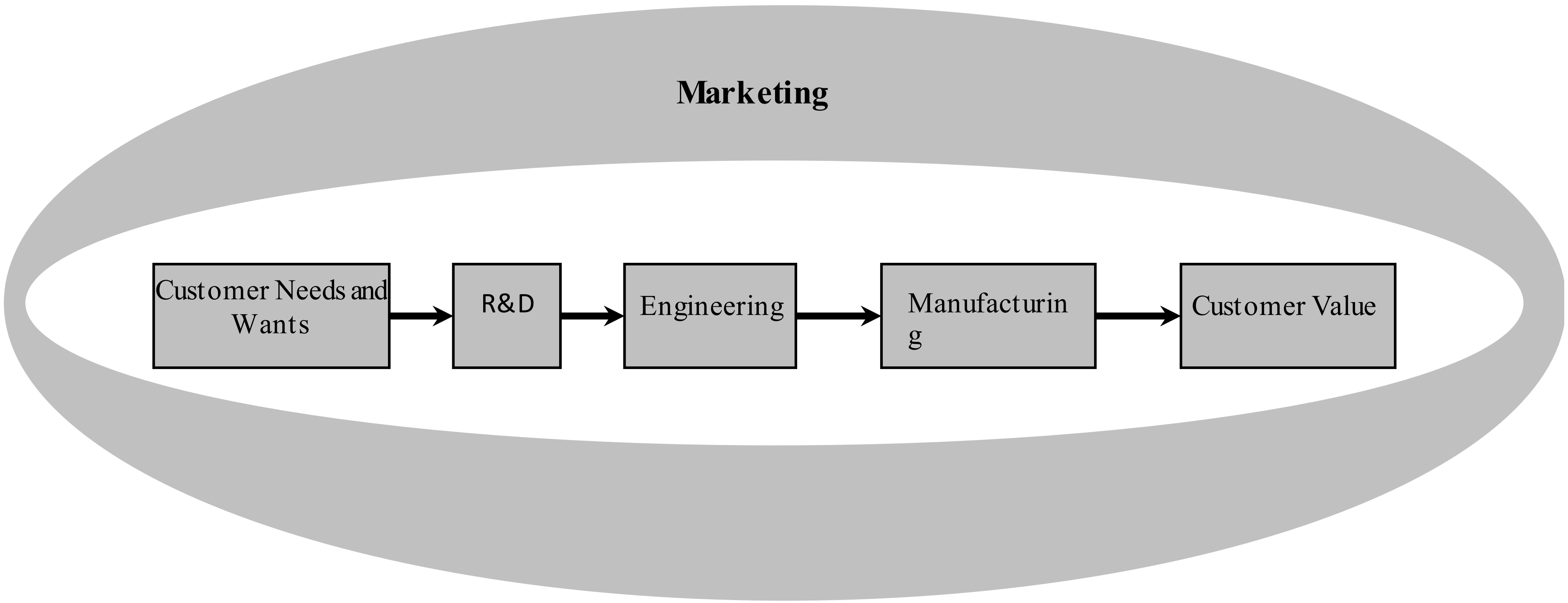
Finally, the strategic concept of marketing has shifted the focus of marketing from a microeconomic maximization paradigm to a focus of managing strategic partnerships and positioning the firm between vendors and customers in the value chain with the aim and purpose of creating value for customers. This expanded concept of marketing was termed boundary less marketing. The notion of boundary less marketing is shown in Figure. (Figure shown in below)

The Three Principles of Marketing

The essence of marketing can be summarized in three great principles. The first is customer value, the second is competitive advantage and the third principle is concentration on customers' need.

1. The Principle of Customer Value

The essence of marketing is creating customer value that is greater than the value created by competitors. Value for the customer can be increased by expanding or improving product and or service benefits, by reducing the price, or by a combination of these elements. Companies that use price as a competitive weapon must have a strategic cost advantage in order to create a sustainable competitive advantage. This might come from cheap labor or access to cheap raw materials, or it might come from manufacturing scale or efficiency or more efficient management. Knowledge of the customer combined with innovation and creativity can lead to product improvements and service that matter to customers. If the benefits are strong enough and valued enough by customers, a company does not need to be the low-price competitor in order to win customers.



Value Chain Boundary less Marketing

2. The Principle of Competitive Advantage

The second great principle of marketing is competitive advantage. A competitive advantage is a total offer, vis-à-vis relevant competition, that is more attractive to customers. The advantage could exist in any element of the company's offer: the product, the price, the advertising and point-of-sale promotion, and the distribution of the products. The total offer must be more attractive than that of the other competition in order to create a competitive advantage. A company might have a product that is equivalent in quality to that of the competition but no better. If it offers this product at a significantly lower price, and if it can get customers to believe that the quality of the company's product is equal to that of the competition, the price advantage will give the company a competitive advantage. The competitive advantage must exist relative to relevant competitors. If the company is in a local industry, these competitors will be local. In national industry, they will be national, and in a global industry, they will be global.

3. The Principle of Concentration on Customers' Need

The third marketing principle is focus, or the concentration of attention. Focus is required to succeed in the task of creating customer value at a competitive advantage. All great enterprises, large and small, are successful because they have understood and applied this great principle. IBM succeeded because it was more clearly focused on customer needs and wants than any other company in the emerging data processing industry. One of the reasons that IBM found itself in crisis in the early 1990s was because its competitors had become much more clearly focused on customer needs and wants. Dell and Compaq were giving customers computing power and low prices, whereas IBM was offering the same computing power with higher prices. In earlier days the IBM name was worth the difference but today in the maturing computer market, the value of the IBM name is simply not worth much, as compared to a name like Compaq or Dell.

A clear focus on customer needs and wants and on the competitive offer is needed to mobilize the effort needed to maintain a differential advantage. This can be accomplished only by focusing or concentrating resources and efforts on customer needs and wants and on how to deliver a product that will meet those needs and wants.

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Lesson 1.2 - Transition from Domestic to Transnational Market

This section outlines the differences between domestic, export, international, multinational, global, and transnational marketing.

1. Domestic Marketing

Marketing that is targeted exclusively on the homes-country market is called domestic marketing. A company engaged in domestic marketing may be doing this consciously as a strategic choice or it may be unconsciously focusing on the domestic market in order to avoid the challenge of learning how to market outside the home country.

2. Export Marketing

Export marketing is the first stage of addressing market opportunities outside the home country. The export marketer targets markets outside the home country and relies upon home-country production to supply product for these markets. The focus in this stage is upon leveraging home-country products and experience. An export marketer will study target markets and adapt products to meet the specific needs of customers in each country.

3. International Marketing

The international marketer goes beyond the export marketer and becomes more involved in the marketing environment in the countries in which it is doing business. For example, the international marketer is prepared to source products or related inputs or materials from outside the home country in order to gain greater competitive advantage. The international marketer is less likely to rely upon intermediaries and is more likely to establish direct representation to coordinate the marketing effort in target markets.

4. Multinational Marketing

The international marketing organization begins by focusing on leveraging a company's experience and products. As it focuses upon this task, it becomes aware of the differences and unique circumstances in the country, and establishes a new role for itself adapting the company's marketing to the unique needs and wants of customers in the country. The multinational marketing organization would develop a unique communication program for its market.

5. Global/Transnational Marketing

Global/transnational marketing focuses upon leveraging a company's assets, experience, and products globally and upon adapting to what is truly unique and different in each country. It recognizes cultural universals and unique market differences. Instead of an international company approach of applying the communications campaign developed for the home country, or a multinational approach of creating a unique campaign in each country, the global/transnational company would distinguish between what was global and universal and what was country specific and unique.

For example, it might conclude, based upon in-depth research, that it should develop a global creative platform for a product where sampling was a key success factor in gaining market penetration. The task of each country marketing team in this case would be to develop a unique national sampling plan. The country marketing team would draw upon global creative and combine that with national sampling.

Global marketing does not mean entering every country in the world. The decision to enter markets outside the home country depends upon a company's resources and the nature of opportunities and threats. Coke and IBM operate in over 100 countries because they began their international expansion over 50 years ago and they have had the resources to establish themselves wherever there is opportunity.

Driving Forces for International Marketing

The following are the forces that are contributing to the growth of international marketing.

1. Market Needs and Effort

There is a common element in human nature and in the human psyche that is the underlying basis for the opportunity to create and serve global markets. Most global markets do not exist in nature. They must be created by marketing effort. For example, soft drinks (one of the biggest and successful global industries) are not needed by anyone, and yet today in some countries, per capita soft-drinks' consumption exceeds the consumption of water. Marketing has driven this change in behavior.

Advanced global companies have thus, discovered that the basic need of the same segment can be met with a global approach in the selected product markets. Successful global strategies are based on performing a global function or serving a global need. Any industry, which addresses these universals, is a candidate for globalization. The advertising campaign for a global product may have a global appeal, which has to be adapted to each nation's culture.

2. Technology

A powerful force, that drives the world towards a converging commonality, is the technology. Technology is a universal, uniform, consistent factor across national and cultural boundaries. There are no cultural boundaries limiting the application of technology, provided one knows how to use it. Once a technology is developed, it immediately becomes available everywhere in the world. If a company knows how to manage a technology in one country, it has the relevant experience for the rest of the world.

3. Cost and Size of Market

The pressure for globalization is intense when new products involve major investments and long periods of development. This is true for pharmaceuticals, where new product typically cost $50 million to $100 million to develop over a period of six to ten years. The enormous cost and risk of new product development must be recovered in the global marketplace, as no single national market is large enough to support investments of this size.

4. Quality

Global volume generates greater revenue and greater operating margins to support design and manufacturing quality. A global and a local company may each spend 5 per cent of sales on research and development, but the global company may have two, three, or even ten times the total revenue of the local. With the same percentage of sales spent on research and development, the global will outspend the local by a factor of two, three, or ten times, as the case may be.

5. Communications and Transportation

The information revolution contributes toward the emergence of global markets. Everybody wants the best, latest, and most modern expression of products. In regional markets such as Europe, the increasing overlap of advertising across national boundaries and the mobility of consumers have created a pressure on marketers to align product positioning and strategy in adjacent markets. You may, for example, see that the companies like the Nestle has a tradition of decentralized country marketing efforts and operates in different markets where local tastes have developed over centuries. Even this combination of local preferences and decentralized marketing is subject to the pressure of overlapping communications and travel.

6. Leverage

One of the unique advantages of a global company is an opportunity to develop leverages and advantages that it has because it operates simultaneously in more than one national market. A global company can develop five types of leverages:

i) ***Experience Transfers*:** A global company can leverage its experience in any market in the world. It can draw upon strategies, products, advertising appeals, sales management practices, promotional ideas, and so on that have been tested in actual markets and apply them in other comparable markets.

ii) ***Systems Transfers***: A global company can refine its planning, analysis, research control, and other systems and apply the refinements worldwide. The leveraging of systems' improvements also makes it possible for the company staff to communicate with each other.

iii) ***Scale Economies***: In manufacturing, the global company can take advantage of its greater volume to obtain the traditional single-plant scale advantages and it can also combine into finished product components manufactured in scale efficient plants in different countries.

iv) ***Resource Utilization***: A major strength of the global company is its ability to scan the entire world to identify people, money, materials, and any type of required resources, which enables it to compete most effectively in world markets.

v) ***Global Strategy***: The global company's greatest single advantage is its global strategy. A global strategy is based on scanning the world business environment to identify opportunities, threats, trends, and resources. The global company searches the world for markets that will provide an opportunity to apply its skills and resources to create value for customers that is greater than the value created by its competitors. The global strategy is a design to create a winning offering on a global scale. This takes great discipline, great creativity, and constant effort, but the reward is not just success - it is survival and growth.

Complexities in International Marketing

This section outlines the various complexities in international marketing.

1. Market Differences

In every product category, differences are still great enough across national and cultural boundaries to require adoption of at least some elements of the marketing mix (product, price, advertising and promotion, and channels of distribution). Global marketing does not work without a strong local team who can adapt the product to local conditions.

2. Brand History

Even in cases where the product itself may be a good candidate for globalization, a brand's history may require a distinct and different marketing strategy and positioning in each country. This is true even for high-potential products such as the image-driven brands. If a brand has an established identity in national markets, it may not be possible to achieve a single global position and strategy.

3. Management Myopia

In many cases, products and categories are candidates for globalization, but management does not seize the opportunity. A good example of management myopia is any company that does not maintain leadership in creating customer value in an expanding geographical territory. A company that looks backward will not expand geographically.

4. Organizational Culture

The successful global companies are marketers who have learned how to integrate global vision and perspective with local market initiative and input.

5. National Controls/Barriers to Entry

Every country protects local enterprise and interests by maintaining control over market access and entry. Today, tariff barriers have been largely removed in the high-income countries. However, the other significant barriers, so-called the non-tariff barriers (NTBs), make it difficult for foreign companies to gain access to a domestic market. The worldwide movement toward deregulation and privatization, particularly during the nineties that started with the disintegration of USSR in 1991 resulting in the emergence of CIS countries, has softened or broken the link between government and enterprises indeed is an initiative that has led to a significant opening up of formerly closed markets.

Significance of International Marketing & Economic Development

The role of foreign trade in economic development is considerable. The classical and neo-classical economists attached so much importance to international trade in a country's development that they regarded it as an engine of growth. We shall discuss how international trade helps economic development towards the progress of less developed countries (LDCs).

This section focuses on direct and indirect benefits on foreign trade to LDCs. International trade possesses great importance for LDCs. It provides the urge to develop the knowledge and experience that make development possible, and the means to accomplish it.

When a country specializes in the production of a few goods due to international trade and division of labour, it exports those commodities which it produces cheaper in exchange for what others can produce at a lower cost. It gains from trade and there is increase in national income which, in turn, raises the level of output and the growth rate of economy. Thus, the higher level of output through trade tends to break the vicious circle of poverty and promotes economic development.

An LDC is hampered by the small size of its domestic market which fails to absorb sufficient volume of output. This leads to low inducement to investment. The size of the market is also small because of low per capita income and of purchasing power. International trade widens the market across the borders and increases the inducement to invest income and saving through more efficient resource allocation. Myint[1] has applied Smith's[2] "vent for surplus" theory to the LDCs for measuring the effects of gains from international trade. The introducing of foreign trade opens the possibility of a "vent for surplus" (or potential surplus) in the primary producing LDCs. Since, land and labour are underutilized in the traditional subsistence sector in such a country, its opening up to foreign trade provides larger opportunities to produce more primary products in exchange for imports of manufactured products which it cannot itself produce. Thus, it benefit from international trade.

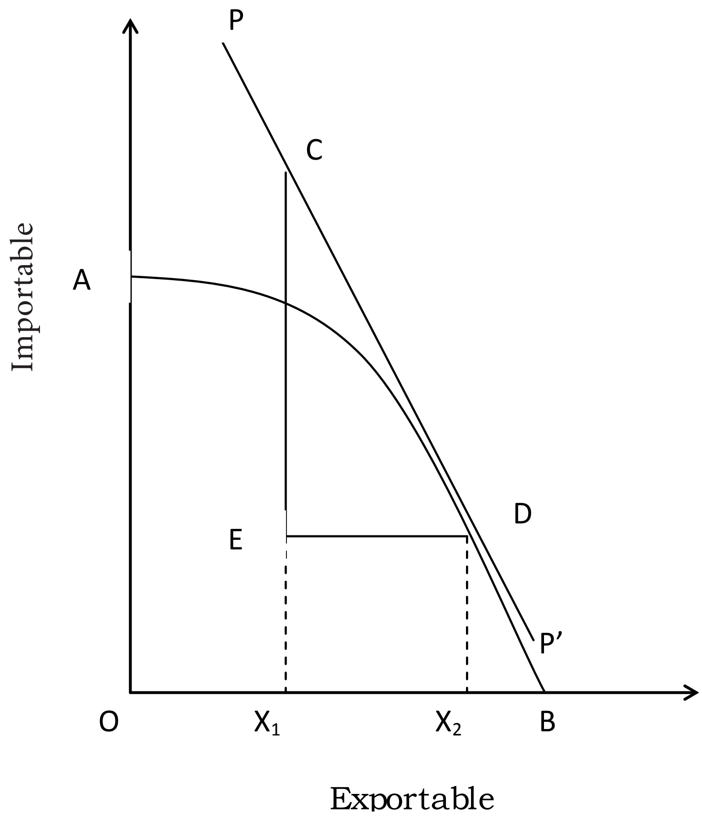
The vent for surplus theory, as applied to an LDC, is explained in Fig Before trade with under utilized resources, the country is producing and consuming OX_1 of primary products and X_1E of manufactured products at point E inside the production possibility curve AB. With the opening up of foreign trade, the production point shifts from E to D on the production possibility curve AB. Now the utilization of formerly under utilized land and labour enables the country to increase its production of primary exportable product from OX_1 to OX_2 without any sacrifice in the production of other goods and services. Given the international terms of trade line PP', the country exchanges ED ($=X_1X_2$) more of primary exportable product against EC larger manufactured importable products.

Moreover, many underdeveloped countries specialize in the production of one or two staple commodities. If efforts are made to export them, they tend to widen the market. The existing resources are employed more productively and the resources allocation becomes more efficient with given production functions.

As a result, unemployment and underemployment are reduced; domestic saving and investment increase; there is a larger inflow of factor inputs into the expanding export sector; and greater backward and forward linkages with other sectors of the economy. This is known as the "staple theory of economic growth", associated with Watkins[3]. Foreign trade also helps to transform the subsistence sector into the monetized sector by providing markets for farm produce and raises the income and the standards of living of the peasantry. The expansion of the market leads to a number of internal and external economies, and hence to reduction in cost of production. These are the direct or static gains from international trade.

Let us now study the following indirect benefits of foreign trade to under developed countries in detail.

First, foreign trade helps to exchange domestic goods having low growth potential for foreign goods with high growth potential. The staple commodities of underdeveloped countries are exchanged for machinery, capital goods, raw materials, and semi-finished products required for economic development. Being deficient in capital goods and materials, they are able to quicken the pace of development by importing them from developed countries, and establishing social and economic overheads and directly productive activities. Thus, larger exports enlarge the volume of imports of equipment that can be financed without endangering the balance of payments and the greater degree of freedom makes it easier to plan domestic investment for development.



Second, foreign trade possesses an "educative effect". Underdeveloped countries lack in critical skills, which are a greater hindrance to development than is the scarcity of capital goods. Foreign trade tends to overcome this weakness.

Third, foreign trade provides the basis for the importation of foreign capital in LDCs. If there was no foreign trade, foreign capital would not flow from the rich to the poor countries. The volume of foreign capital depends, among other factors, on the volume of trade. The larger the volume of trade, the greater will be the ease with which a country can pay back interest and principal. It is, however, much easier to get foreign capital for export-increasing industries than for import substitution and public utility industries. But from the point of view of the importing country, the use of foreign capital for import substitution, public utilities and manufacturing industries is more beneficial for accelerating development than merely for export promotion. Foreign capital not only helps in increasing employment, output and income but also soothes the adverse balance of payments and inflationary pressures. Further; it provides machines, equipments, know-how, skills, ideas, and trains native labour.

Lastly, foreign trade benefits an LDC indirectly by fostering healthy competition and checking inefficient monopolies. Healthy competition is essential for the development of the export sector of such economies and for checking inefficient exploitative monopolies that are usually established on the grounds of infant industry protection.

The Global Marketing Environment

1. Demographic Environment

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. The demographic environment is of major interest to marketers because it involves people, and people make up markets.

The world population is growing at an explosive rate. It now totals more than 5.9 billion and will exceed 7.9 billion by the year 2025. The explosive world population growth has major implications for business. A growing population means growing human needs to satisfy. Depending on purchasing power, it may also mean growing market opportunities.

The world's large and highly diverse population poses both opportunities and challenges. Thus, marketers keep close track of demographic trends and developments in their markets, both at home and abroad. They track changing age and family structures, geographic population shifts, educational characteristics, and population diversity.

2. Economic Environment

The economic environment consists of factors that affect consumer purchasing power and spending patterns. Nations vary greatly in their levels and distribution of income. Some countries have subsistence economies and consume most of their own agricultural and industrial output. These countries offer few market opportunities. At the other extreme are industrial economies, which constitute rich markets for many different kinds of goods. Marketers must pay close attention to major trends and consumer spending patterns both across and within their world markets.

Marketers should pay attention to income distribution as well as average income. Distribution of Income in the world is still very poor and there are wide disparities. At the top are upper-class consumers, whose spending patterns are not affected by current economic events and who are a major market for luxury goods. There is also a comfortable middle class, which is some what careful about its spending but can still afford some good life, even at the time when their incomes are declining. The working class must stick close to the basics of food, clothing, and shelter and must try hard to save. Finally, the poor class must count their pennies when making even the most basic purchases. Over the past three decades, the rich have grown richer, the middle class has shrunk, and the poor have remained poor.

3. Natural Environment

The natural environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities.

Marketers should be aware of several trends in the natural environment. The first involves growing shortages of raw materials. Air and water may seem to be infinite resources, but some group see long-run dangers. Air pollution chokes many of the world's large cities and water shortages are already a big problem in some parts of the world. Renewable resources, such as forests and food, also have to be used wisely. Non-renewable resources, such as oil, coal, and various minerals, pose a serious problem. Firms making use of resources, such as oil, coal, and various minerals, pose serious environmental problems. Similarly, firms making products that require these scarce resources may also face cost of production to go up, even if the materials do remain available but in short supply.

Another concerned here is of increased environmental pollution. Many industries are almost always prone to damage the quality of the natural environment. Consider the disposal of chemical and nuclear wastes; the dangerous mercury levels in the ocean; the quantity of chemical pollutants in the soil and food supply; and the littering of the environment with non-biodegradable bottles, plastics, and other packaging materials.

The increased government intervention the world over for natural resource management is yet another concern for trade and industry that adds to cost of production. The governments of different countries vary in their concern and efforts to promote a clean environment and have laid down various rules and regulation to be complied with to entry into their countries. And there are strict control and fines for those who do not fall in the line of following these regulations

The new EU restrictions on use of hazardous substances (RoHS) in electrical and electronic appliances, for example is one of the case, that may be cited here. Accordingly, from July 1, 2006 electrical and electronic appliances/equipment for EU markets should not contain any toxic material such as lead, chromium and mercury beyond a certain percentage by weight (Exhibit). This has posed a challenge particularly for small and medium size industrial units to meet the required criterion if desire to remain in the EU markets.

EU Restrictions on Hazardous Substances in Electrical and Electronic Appliances

India's engineering sector, which largely consists of small and medium players from the electrical and electronics sectors, may see exports to the European Union (EU) plunge by a third if exporters fail to meet the new standards on hazardous materials.

The new restrictions on hazardous substance in electrical and electronic appliances, introduced by EU on July 1, could cost India around ₹ 1,500 crore worth of exports, said the Indian Electrical and Electronics Manufacturers Association (IEEA). The electrical and electronics (E&E) segment is a major contributor to India's engineering exports. According to rough estimates, exports from the E&E segment comprise as high as one-third the total engineering exports from the country.

Of the total, EU accounts for about ₹ 2,000 crore of the sector's exports, making it the second largest market after the United States.

Earlier, majority of the Indian companies in this sector were immune to the restriction of the use of certain hazardous substances directive (RoHS) in electrical and electronic equipment, said Sunil More, secretary general, IEEMA.

Large manufacturers like Larsen and Toubro (L&T) and Crompton Greaves had prepared themselves for the regulation issued in '05. But many small and medium-sized companies have failed to comply with the new norms as yet, said industry observers.

Experts said manufacturers should upgrade not just their own production equipment but also ensure that suppliers of parts too met the standards. However, many companies in the Indian engineering sector are unable to do so as it would hit their bottom lines. The regulation requires a maximum concentration of 0.1% by weight of many environmentally hazardous substances such as lead, chromium and mercury that are inevitable in the production of electrical products.

As per the RoHS directive, all the member states of EU union shall ensure that from July 1, '06, new E&E equipment put on the European market do not contain restricted substances, which are toxic. The implementation of the directive is necessary to protect the environment as also through recycling of electrical and electronic waste.

The authorized enforcement agencies will purchase the material or equipment from the market to test for RoHS compliance. In case, it is found to be non-confirming with the standards, the product will be banned throughout Europe. A heavy fine will be imposed on the producer that may differ from country to country in Europe.

For instance, a leading multinational lost € 90m because the cadmium content was on the higher side in one of their products. The supply was halted by the Dutch who have implemented a ban on cadmium. To remain a 'supplier of choice' in the green markets, manufacturers must comply with regulations restricting the use of hazardous substances.

Source: Adapted from the Economic Times, August 15, 2006

4. Technological Environment

The technological environment is perhaps the most dramatic force now shaping our destiny. Technology has released such wonders as antibiotics, organ transplants, computers, and the Internet. It also has released such horrors as nuclear missiles, chemical weapons, and assault rifles. It has released such mixed blessing as the automobile, television, and credit cards.

New technologies create new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube industry, xerography hurt the carbon-paper business, the auto hurt the railroads, and compact disks hurt phonograph records. When old industries fought or ignored new technologies, their businesses declined. Thus, marketers should watch the technological environment closely. Companies that do not keep up with technological change soon will find their products outdated. And they will miss new product and market opportunities.

5. Political Environment

Marketing decisions are strongly affected by developments in the political environment. The political environment consists of laws, government agencies, and pressure groups that influence and limit various organizations and individuals in a given society.

Even the most liberal advocates of free-market economies agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus, governments develop public policy to guide commerce and sets out laws and regulations that limit business for the good of society as a whole. Almost every marketing activity is subject to a wide range of laws and regulations.

Legislation affecting business around the world has increased steadily over the years. The States has many laws covering issues such as competition, fair trade practices, environmental protection, product safety, truth in advertising, packaging and labeling, pricing, and other important areas. The European Commission has been active in establishing a new framework of laws covering competitive behavior, product standards, product liability, and commercial transactions for the nations of the European Union. Several countries have gone farther than the United States in passing strong consumerism legislation. For example, Norway bans several forms of sales promotion trading stamps, contests, and premiums as being inappropriate or unfair ways of promoting products. Thailand requires food processors selling national brands to market low-price brands also, so that low-income consumers can find economy brands on the shelves. In India, food companies must obtain special approval to launch brands that duplicate those already existing on the market.

6. Cultural Environment

The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a world view that defines their relationships with others.

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most Indians believe in working, getting married, giving to charity, and being honest. These beliefs shape more-specific attitudes and behaviors found in everyday life. Core beliefs and values are passed on from parents to children and are reinforced by schools, churches, business, and government. The notion of various environmental forces to global company is shown in figure.

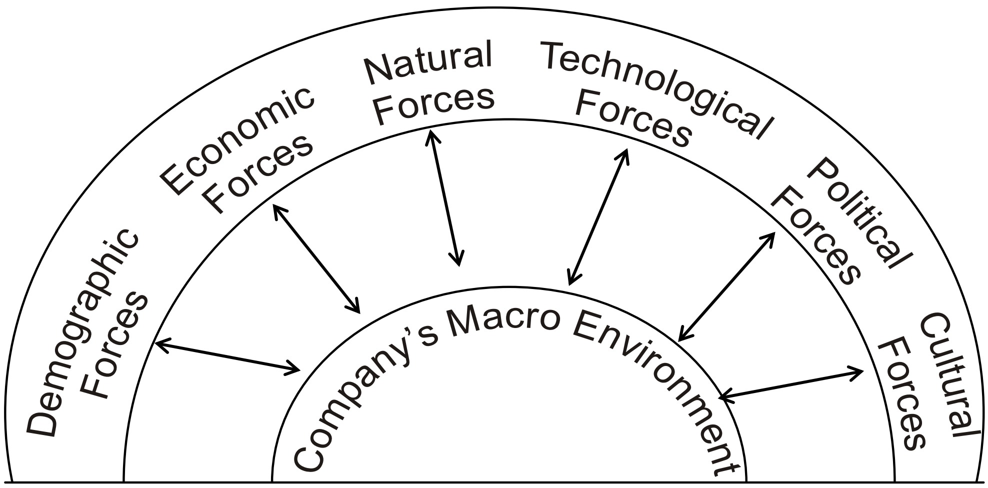


Fig. 1.3 Environmental Forces to Global Company

International Trade is Fundamentally Different from Interregional Trade

Interregional trade refers to trade between regions within a country. It is what Ohlin calls inter-local trade. Thus interregional trade is domestic or internal trade. International trade, on the other hand, is trade between two nations or countries. A controversy has been going on among economists whether there is any difference between interregional or domestic trade and international trade. The classical economists held that there were certain fundamental differences between inter-regional trade and international trade. Accordingly, they propounded a separate theory of international trade which is known as the theory of comparative costs. But modern economists like Bertil Ohlin[4] and Haberler[5] contest this view and opined that the differences between interregional and international trade are of degree rather than of kind.

There are several reasons to believe the classical view that international trade is fundamentally differ from interregional trade as following manner.

1. Factor – Immobility

The classical economists advocated a separate theory of international trade on the ground that factors of production are freely mobile within each region as between places and occupations and immobile between countries entering into international trade. Labour and capital are regarded as immobile between countries while they are perfectly mobile within a country. There is complete adjustment to wage differences and factor-price disparities within a country with quick and easy movement of labour and other factors from low return to high return sectors. But, no such movements are possible internationally. The reasons for international immobility of labour are differences in languages, customs, occupational skills, unwillingness to leave familiar surroundings, family ties, the high traveling expenses to the foreign country, and restrictions imposed by the foreign country on labour immigration. The international mobility of capital is restricted not by transport costs but by the difficulties of legal redresses, political uncertainty, ignorance of the prospects of investment in a foreign country, imperfections of the banking system, instability of foreign currencies, mistrust of the foreigner, etc. Thus widespread legal and other restrictions exist in the movement of labour and capital between countries. But such problems do not arise in the case of interregional trade.

2. Differences in Natural Resources

Different countries are endowed with different types of natural resources. Hence, they tend to specialize in the production of those commodities in which they are richly endowed and trade them with others where such resources are scarce. In Australia, land is in abundance but labour and capital are relatively scarce. On the contrary, capital is relatively abundant and cheap in England while land is scarce and dear there. Thus, commodities requiring more capital such as, manufactures can be produced in England; while such commodities as wool, mutton, wheat, etc. requiring more land can be produced in Australia. Thus, both countries can trades each other commodities on the basis of comparative cost differences in the production of different commodities.

3. Geographical and Climate Differences

Every country cannot produce all commodities due to geographical and climatic conditions, except at possibly prohibitive costs. For instance, Brazil has favourable climate and geographical conditions for the production of coffee, Bangladesh for jute, Cuba for beet sugar, etc. So countries having climatic and geographical advantages specialize in the production of particular commodities and trade them with others.

4. Different Market

International markets are separated by differences in language, usage, habit, taste, etc. Even the systems of weights and measures and pattern and styles in machinery and equipment differ from country to country. For instance, British railway engines and freight cars are basically different from those in France or in the United States. Thus, goods which may be traded within regions may not be sold in other countries. That is why, in most of the cases products to be sold in foreign countries are especially designed to confirm to the national characteristics of that country.

5. Different Currencies

The principle difference between interregional and international trade lies in the use of different currencies in foreign trade but the same currency in domestic trade. Rupee is accepted throughout India. But, if we cross over to Nepal or Pakistan, we must convert our rupee into their rupee to buy good and services there.

It is not the differences in currencies alone that are important in international trade, but changes in their relative values. Every time a change occurs in the value of one currency in terms of another, a number of economic problems arise. Calculation and execution of monetary exchange transactions incident to international trading constitute costs and risks of a kind that are not ordinarily involved in domestic trade. Further, currencies of some countries like the American dollar, the British pound, the European Union's Euro and the Japanese yen, are more widely used in international transactions, while others are almost inconvertible. Such tendencies tend to create more economic problems at the international market.

6. Problem of Balance of Payments

Another important point which distinguishes international trade from interregional trade is the problem of balance of payments. The problem of balance of payments is perpetual in international trade while regions within a country have no such problem. This is because there is greater mobility of capital within regions than between countries. Further, the policies which a country chooses to correct its disequilibrium in the balance of payments may give rise to a number of other problems. If it adopts deflation or devaluation or restrictions on imports or the movement of currency, they create further problems. But such problems do not arise in the case of interregional trade.

7. Transport Cost

Trade between countries involves high transport costs as against interregional movement of goods within a country because of shorter geographical distances.

8. Different Political Groups

A significant distinction between interregional and international trade is that all regions within a country belong to one political unit while different countries have different political units. Interregional trade is among people belonging to the same country even though they may differ on the basis of castes, creeds, religions, tastes or customs. They have a sense of belonging to one nation and their loyalty to the region is secondary. The government is also interested more in the welfare of its nationals belonging to different regions. But in international trade there is no cohesion among nations and every country trades with other countries in its own interests.

9. Different National Policies

Another difference between interregional and international trade arises from the fact that policies relating to commerce, trade, taxation, etc. are the same within a country. But in international trade there are artificial barriers in the form of quotas, import duties, tariffs, exchange controls, etc. on the movement of goods and services from one country to another. Such restrictions are generally not found in interregional trade to impede the flow of goods between regions.

Therefore, the classical economists asserted on the basis of the above arguments that international trade was fundamentally different from domestic or interregional trade. Hence, they evolved a separate theory for international trade based on the principle of comparative cost differences.

Why Global Marketing is Imperative

In this section, we focus on reasons for going to global markets - as an imperative concept.

First, and fundamentally, domestic-market saturation in the industrialized parts of the world forced many companies to look for marketing opportunities beyond their national boundaries. The economic and population growths in developing countries also gave those companies an additional incentive to venture abroad. Now, companies from emerging economies such as, Korea's Samsung and Hyundai and Mexico's Cemex and Grupo Modelo, have made inroads into the developed markets around the world.

Second, there is a strong competition around the world. About twenty years ago, the world's greatest automobile manufacturers were General Motors, Ford, and Chrysler. Today, companies like Toyota, Honda, BMW, and Daimler Chrysler (a recent merger of Daimler-Benz and Chrysler), among others, stand out as competitive "name-plates" in the automobile market. Similarly, personal computer was almost synonymous with IBM, which dominated the PC business worldwide. Today, the computer market is crowded with Dell and Compaq from the United States, Toshiba and NEC from Japan, Acer from Taiwan, and so on. Color TVs were invented in the United States, but today it is almost impossible to find a color TV made by U S companies. Instead, foreign brands such as Sony, Panasonic, and Magnavox are found in most homes in the United States. Even RCA and Zenith televisions are made overseas. Nike is a U.S. company with a truly all-American shoe brand, but its shoes are all made in foreign countries and exported to the United States. Burger King and Pillsbury (known for its Haagen-Dazs ice cream brand) are two American institutions owned and managed across the Atlantic Ocean by Diageo, a newly created company as a result of the merger of Britain's Grand Metropolitan PLC and Guinness PLC.

Third, another profound change during the last decade is the proliferation of the Internet and electronic commerce, or e-commerce. The Internet opened the gates for companies to sell direct-to-consumers easily across national boundaries. Many argue that e-commerce is less intimate than face-to-face retail, but it could actually provide more targeted demographic and psychographic information. Manufacturers that traditionally sell through the retail channel may benefit most from e-commerce. Furthermore, customers' information is no longer held hostage by the retail channels. Most important, the data allow for the development of relevant marketing messages aimed at important customers and loyal relationships on a global basis.

An examination of the top one hundred largest companies in the world also vividly illustrates the profound changes in competitive milieu that we have seen in the past thirty years (see, Table). Of the top hundred largest industrial companies in the world, sixty-four were from the United States in 1970. This number declined to forty-five companies in 1980. The figure came down to twenty four in 1997 (not shown in table) and went back up to thirty-five in 1999.

The number of Japanese companies in the top hundred has increased from eight in 1970 to twenty-four in 1999, almost a threefold increase. A similar increase has also been observed with French companies, from three in 1970 to ten in 1997. The relative decline in the number of U S companies in the top is reflected in the banking, insurance, and other services sectors, as well as in the manufacturing sectors. The current world economy has changed drastically from what it was merely a decade ago.

The changes observed in the past thirty years simply reflect that companies from other parts of the world have grown in size relative to those of the United States. In other words, today's environment is characterized by much more competition from around the world than in the past. As a result, many executives from developed countries such as U S, Europe, and Japan as also from the developing countries and emerging countries are under pressure to be much more competitive in product development, materials procurement, manufacturing, and marketing around the world.

The competition is not the only force shaping global business today. Particularly in the past several years, many political and economic events have affected the nature of global business. The demise of the Soviet Union and emergence of CIS countries, the establishment and enlargement of the European Union (EU) and the North American Free Trade Agreement (NAFTA), deregulation, and privatization of state-owned industries have also changed the market environments around the world. Furthermore, the emerging markets of Eastern Europe and the rapidly re-emerging markets of South-east Asia have been contributing to an international competitive climate.

Change in the World's 100 Largest Companies and their Nationalities

Country	1970	1980	1990	1999*
United States	64	45	33	35
Japan	8	8	16	24
Germany	8	13	12	13
France	3	12	10	10
Switzerland	2	3	3	5
Netherlands	4	5	3	5
Britain	9	7	8	5
Italy	3	4	4	3
Belgium	0	1	1	1
Venezuela	0	1	1	0
China	0	0	0	1
South Korea	0	0	2	0
Spain	0	0	2	0
Sweden	0	0	2	0
Brazil	0	1	1	0
Mexico	0	1	1	0
Austria	0	0	1	0
Finland	0	0	1	0
South Africa	0	0	1	0
Canada	0	2	0	0
Australia	1	0	0	0
Total	102	103	102	102**

Source: Fortune, various issues up to 2000.

*Fortune 500 criteria changed to include services firm (including retailing and trading)

**Includes joint nationality of firms (joint nationality, has been counted for both the countries), so the total may exceed 100.

The fluid nature of global markets and competition makes the study of global marketing not only interesting but also challenging and rewarding. The term global epitomizes both the competitive pressure and the expanding market opportunities all over the world.

Requirements for a Successful Global Marketing Plan

The successful global plan is an integrated set of effective national marketing plans. Each national marketing plan should be based upon three foundations:

1. Knowledge of the market and the marketing environment - especially of customers, competitors, and the government.
2. Knowledge of the product - the formal product, its technology, and its core benefit.
3. Knowledge of the marketing function and discipline.

A global/transnational company must decide how it will obtain these three key types of knowledge on a global basis. It must also decide how it will assign responsibility for formulating a marketing plan. If plan formulation is assigned to national subsidiaries, the global headquarters must ensure that the subsidiary planners are fully informed on the technical and engineering characteristics of the product as well as up to date in their functional skills. One of the ways of doing this is to involve headquarters marketing staff specialists in the planning process so that they can ensure that the highest standard of product and functional knowledge is associated with the local marketing staffs' market knowledge.

Thus, the global/transnational plan is neither the product of the subsidiary nor the product of headquarters. It is neither "top down" nor "bottom up" but rather an interactive product that combines inputs from both the global and the local perspective. This balance is essential if the plan is to approximate the objective of global optimization as opposed to national sub-optimization.

The global/transnational plan should be initiated by a global overview that assesses the broad nature of opportunity and threat on a global basis and breaks down this assessment on a country-by-country basis with an indication of sales and earnings targets for each country. These targets are proposed by headquarters as guidance to each national organization for the formulation of country plans. Guidance at this stage of the process should be guidance, and not a directive. The national organization should come up with its own target, and compare that to the target suggested by world headquarters. If there is a difference between the country target and the national organization target, this should openly challenge headquarters, and the challenge should produce a dialogue that searches for the realistic target. After receiving guidance from headquarters, country units need to develop programs that will achieve the targets specified by the guidance. After preparing their plans, headquarters and subsidiaries should come together to negotiate an agreement. Headquarters is seeking to performance from each company unit and the integration of its global plan. If a country unit is a supplier for home-country and third-country markets, production schedules and transfer prices must be agreed upon. If a country unit is to market a product produced elsewhere in the company, the sales and delivery plans must be coordinated.

The following section explains three types of global marketing plans:

1. Standardized Global Marketing Plan

A standardized global marketing plan offers a number of advantages. First, there are significant cost savings if standardization is practiced. A company that limits the number of models and variants of its product can achieve longer production runs and greater economies of scale. This is elementary and has been demonstrated in actual practice thousands of times over. Henry Ford was probably the first industrialist to demonstrate the potential of mass production for achieving scale economies and creating a national market. Similarly, the Italian appliance industry during the 1960s achieved remarkable cost reduction through standardization and long production runs and in the process took a leadership position in Europe. Of course, cost savings can be achieved not only in production but also in packaging, in distribution, and in the creation of advertising materials.

There are other benefits of standardization. In an increasingly mobile world a standardized product is the same in every national market and is, therefore, uniform for increasing numbers of customers who travel across national boundaries. There are pressures today to standardize products so that the customer can develop standardized programs in its operations. Another benefit of standardization is that it extends successful products and good ideas into all markets. There are, however, a number of obstacles to standardization. Market characteristics may be so different in so many major ways that it is impossible to offer a standardized product. There was, for example, simply no significant market in Europe (or Japan and many other countries) for the 3,500-4,000-1b, 120" wheel-base U.S. automobile. It was too big to fit in the streets, it consumed too much gasoline, it cost too much to license, and it did not appeal to the taste of automobile buyers outside the United States. American automobile manufactures who wish to compete in more than a very minor segment of the world market must adapt their product or develop products to suit market preferences in the rest of the world.

2. Decentralized Global Marketing Plan

Many companies have followed a decentralized planning approach either because of poor results using the standardized approach or after noticing many differences from country to country in different market environments. This approach has received perhaps more support in marketing than any other functional area. An executive of a major international company expressed this view as follows. "Marketing is conspicuous by its absence from the functions which can be planned at the corporate headquarters level. It is in this phase of overseas business activity that the variations in social patterns and the subtlety of local conditions have the most pronounced effect on basic business strategy and tactics. For this reason, the responsibility for marketing planning must be carried out by those overseas executives who are most familiar with the local environment."

A common feature of both the standardized and the decentralized approaches is the absence of responsibility for analysis and planning at the headquarters level for multi-country marketing programs. In the standardized case such activities are assumed to be unnecessary. Once the marketing problem is solved for the home country, it is solved for the world. In the decentralized company the need for analysis and planning to respond to local conditions is recognized, but it is assumed that knowledgeable efforts can only be attempted at the country level and that there is no opportunity for effective supranational participation in these activities.

3. Interactive Global Marketing Plan

A third approach to formulating a global marketing plan is the interactive, or integrated, approach. This is superior to either the standardized or the local plan because it draws on the strengths of each of these approaches in planning to formulate a synthesis. Under the interactive marketing planning approach, subsidiaries are responsible for identifying the unique characteristics of their market and ensuring that the marketing plan responds to local characteristics.

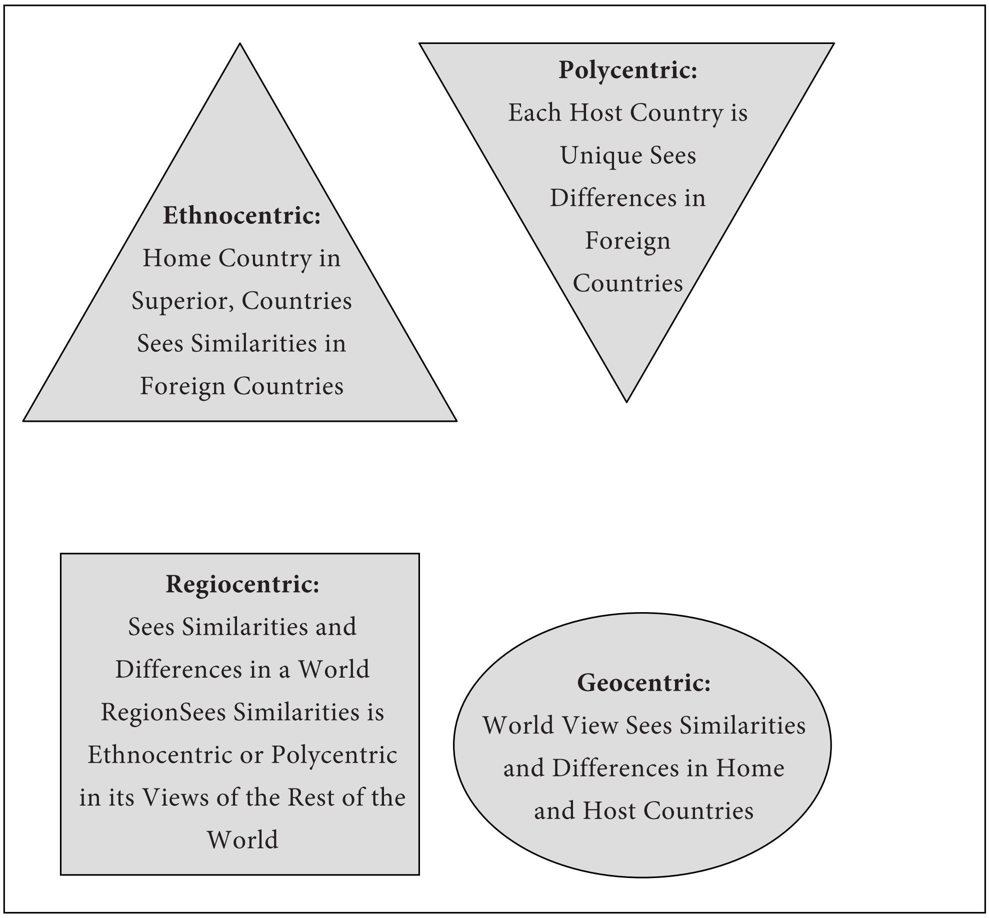
Headquarters, both global and regional, is responsible for establishing a broad strategic framework for planning in such matters as deciding on major goals and objectives and on where to allocate resources. In addition, headquarters must coordinate and rationalize the product design, advertising, pricing, and distribution activities of each subsidiary operation. Headquarters must constantly be alert to the trade-off of concentrating staff activities at headquarters location in an attempt to achieve a high level of performance versus the advantages of decentralizing staff activities and assigning people directly to subsidiaries.

Each decision must stand on its own merit, but there are significant opportunities for the improvement of performance and cost saving by concentrating certain activities at one location. For example, many companies have successfully centralized the preparation of advertising appeals at world or regional headquarters. Another activity that can be done in one location is product design. Information and design criteria need to come from the world, but the design itself can be done by one design team in a single location.

International Market Orientation – EPRG Framework

Dr. Howard Perlmutter of the University of Pennsylvania first observed that there were three basic orientations guiding the work of international executives: ethnocentric, polycentric, and geocentric. This was later expanded to include a regional orientation and became an EPRG schema (ethnocentrism, polycentrism, regioncentrism, geocentrism). This typology, summarized in Figure, is the basis for the stages of corporate development framework.

The ethnocentric orientation is an assumption that the home country is superior. It believes that the products and practices that succeed in the home country are superior and, therefore, should be used everywhere. In the ethnocentric company, overseas operations are viewed as being secondary to domestic and primarily as a means of disposing of surplus domestic production. Plans for overseas markets are developed in the home office utilizing policies and procedures identical to those employed at home. There is no systematic marketing research conducted overseas, there are no major modifications to products, and there is no real attention to consumer needs in foreign markets.



EPRG Framework

The polycentric orientation is the opposite. This is the unconscious belief that each host country is unique and different and that the way to succeed in each country is to adapt to each country's unique differences. In the polycentric stage, subsidiaries are established in overseas markets. Each subsidiary operates independently of the others and establishes its own marketing objectives and plans. Marketing is organized on a country-by-country basis, with each country having its own unique marketing policy.

In the regiocentric and geocentric phases, the company views the region or entire world as a market and seeks to develop integrated regional or world market strategies. The geocentric orientation is a synthesis of the ethnocentric and the polycentric orientation. The regiocentric or regional orientation is a geocentric orientation that is limited to a region; that is, management will have a world view toward its region, but will regard the rest of the world with either an ethonocentric or a polycentric orientation, or a combination of the two. The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated.

The ethnocentric orientation is based on a belief in home-country's superiority. This leads to an extension of home country products, polices, and programs. The assumption of the polycentric approach is that there are so many differences in cultural, economic, and market conditions in each of the countries of the world that it is impossible to attempt to introduce any product, policy, or program from outside or to integrate any country's program in a regional or world context.

To implement the geocentric orientations, experienced international management and a great deal of commitment are required. For companies with limited experience, it may be wiser to adopt a centralized or a decentralized strategy and wait until experience accumulates before attempting to design and implement integrated marketing programs.

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Lesson 1.3 - International Market Entry Strategies

Introduction

Entry decision of global market will heavily influence the firm's other marketing-mix decisions. Several decisions need to be made. The firm has to decide on (1) the target product/market, (2) the goals of target markets, (3) the mode of entry, (4) the time of entry, (5) a marketing-mix plan, and (6) a control system to monitor the performance in the entered market. This section will cover the major decisions that constitute market entry strategies.

A crucial step in developing a global expansion strategy is the selection of potential target markets. Companies adopt many different approaches to pick target markets. A flowchart for one of the approaches is given in figure. A four step procedure as given below may explain the initial screening process.

Step 1: Select Indicators and Collect Data.

First, you need to pick a set of socio, economic and political indicators you believe are critical. The indicators that a company selects are, to a large degree, driven by the strategic objectives spelled out in the company's global mission. Colgate-Palmolive, for instance, views per capita purchasing power as a major driver behind market opportunities. Coca-Cola looks at per capita income and the number of minutes that it would take somebody to work to be able to afford a Coca-Cola product. McDonald's starts with countries that are similar to the United States in lifestyle, with a large proportion of women working, and shorter hours for lunch. Information on these country indicators can easily be gathered from publicly available data sources. Typically, countries that do well on one indictor (say, market size) rate poorly on other indicators (say, market growth). Somehow, we need to combine our information to come up with an overall measure of market attractiveness for these candidate markets.

Step 2: Determine Importance of Country Indicators

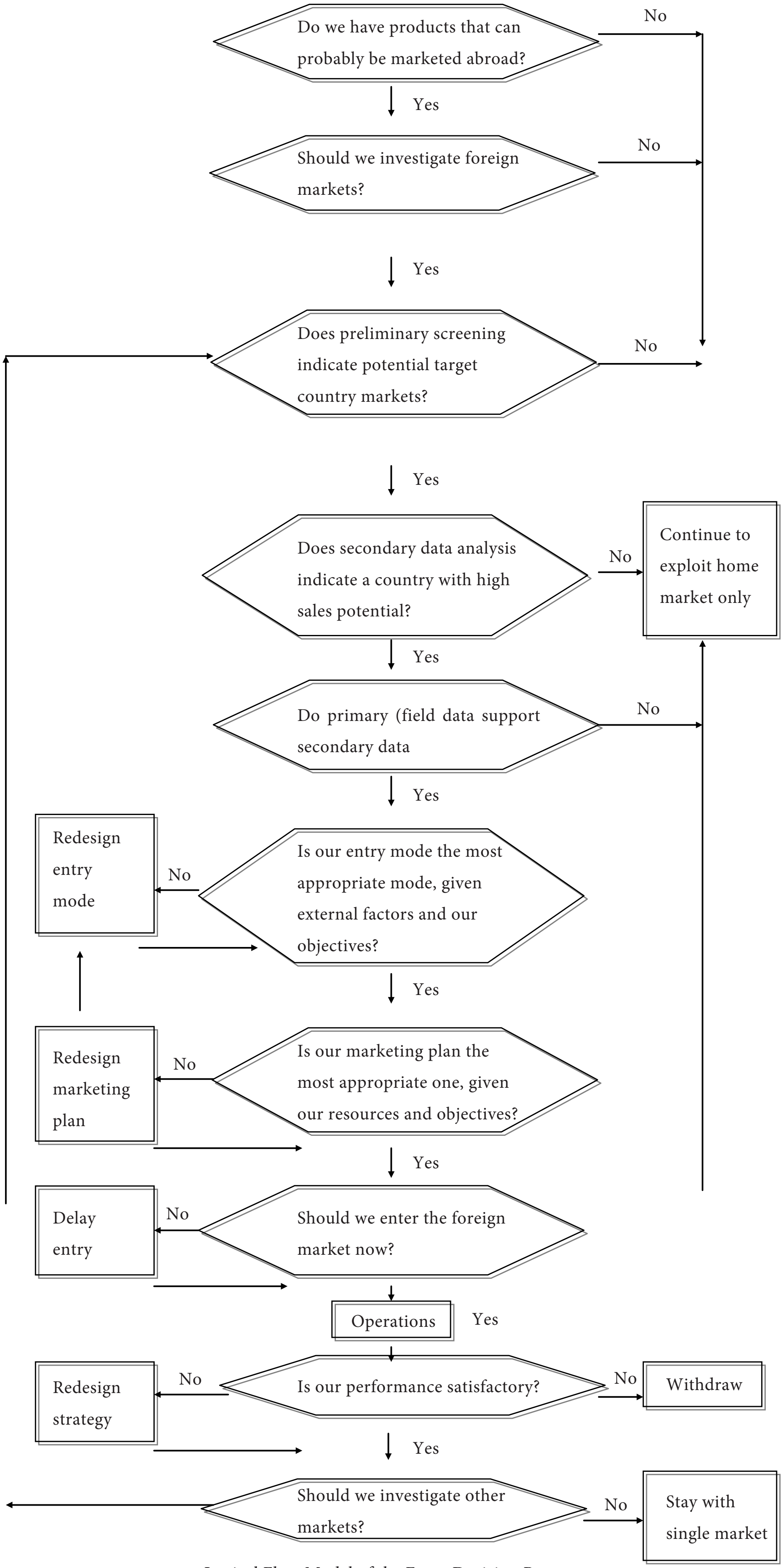
The second step is to determine the importance weights of each of the different country indicators identified in the previous step. One common method is the “constant-sum” allocation technique. Here, you simply allocate one hundred points across the set of indicators according to their importance in achieving the company’s goals (e.g., market share). So, the more critical the indicator, the higher the number of points it gets allocated. The total number of points should add up to 100.

Step 3: Rate the Countries in the Pool on each Indicator

Next, you give each country a score on each of the indicators. For instance, you could use 7-point scale (1 meaning very unfavorable; 7 meaning very favourable/most favourable). The better the country does on a particular indicator, the higher the score. In table these scores are in the range of 1.0 to 7.0).

Step 4: Compute Overall Score for each Country

The final step is to derive an overall score for each prospect country. To that end, you simply sum up the weighted scores that the country obtained on each indicator. The weights are the importance weights that were assigned to the indicators in the second step. Countries with the highest overall scores are the ones that are most attractive. An example of this four-step procedure is given in Table, where country D scores the highest score of 375.0.



Logical Flow Model of the Entry Decision Process

Method for Pre-Screening Market Opportunities: Example

Country	Per Capita Income	Population	Competition	Political Risk	Score
A	5.0	2.0	3.0	4.0	320.0*
B	2.0	5.0	4.0	1.0	360.0
C	6.0	3.0	1.0	7.0	365.0
D	2.0	2.0	7.0	7.0	375.0
Weights	25	40	25	10	

*(5.0 x 25) + (2.5x 40) + (3.0 x 25) + (4.0 x 10) = 320.0.

Sometimes, the company might desire to weed out countries that do not meet cut-off criteria that are of paramount importance to the company. For instance Wrigley, the U.S. chewing gum maker, was not interested in Latin America until recently because many of the local governments imposed ownership restrictions. In that case, the four-step procedure would be done only for the countries that stay in the pool.

Choosing the Mode of Entry

Several decision criteria will influence the choice of entry mode. In general, two classes of decision criteria can be distinguished. 1. Internal (firm-specific) criteria and 2. External(environment-specific) criteria. Let us first consider the major external criteria.

1. ***Market Size and Growth:*** The key determinant of entry choice decision is the size of the market. Large markets justify major resource commitments in the form of joint ventures or wholly owned subsidiaries. Market potential can relate to the current size of the market. However, future market potential as measured via the growth rate is often even more critical, especially when the target markets include emerging markets.

2. ***Risk:*** Another major concern when choosing entry modes is the risk factor. Risk relates to the instability in the political and economic environment that may impact the company's business prospects. Generally speaking, the greater the risk factor, the less eager companies are to make major resource commitments to the

country (or region) concerned. Evidently, the level of country risk changes over time. For instance, the peace processes in the Middle East and the abolishment of the apartheid regime in South Africa have lured many MNCs to enter in these regions. Many companies opt to start their presence with a liaison office in markets that are high-risk but, at the same time, look very appealing because of their size or growth potential. For instance, MetLife, the insurance company, opened a liaison office in Shanghai and Beijing while it is waiting for permission from the Chinese government to start operations. A liaison office functions then as a low-cost listening post to gather market intelligence and establish contacts with potential distributors.

3. ***Government Regulation:*** Government requirements are also a major consideration in entry mode choices. In scores of countries, government regulations heavily constrain the set of available options. Trade barriers of all different kinds restrict the entry choice decision. In the car industry, local content requirements in countries such as France and Italy played a major role behind the decision of Japanese car makers like Toyota and Nissan to build up a local manufacturing presence in Europe.

4. ***Competitive Environment:*** The nature of the competitive situation in the local market is another driver. The dominance of Kellogg Co. as a global player in the ready-to-eat cereal market was a key motivation for the creation in the early 1990s of Cereal Partners Worldwide, a joint venture between Nestle and General Mills. The partnership gained some market share (compared to the combined share of Nestle and General Mills prior to the linkup) in some of the markets, though mostly at the expense of lesser players like Quaker Oats and Ralston Purina.

5. ***Local Infrastructure:*** The physical infrastructure of a market refers to the country's distribution system, transportation network, and communication system. In general, the poorer the local infrastructure, the more reluctant the company is to commit major resources (monetary or human).

All these factors combined determine the overall market attractiveness of the countries being considered. Markets can be classified in five types of countries based on their respective market attractiveness.

- Platform countries can be used to gather intelligence and establish a network. Example includes Singapore and Hong Kong.
- Emerging countries include Vietnam and the Philippines. Here the major goal is to build up an initial presence for instance via a liaison office.
- Growth countries such as China and India can offer early mover advantages. These often encourage companies to build up a significant presence in order to capitalize on future market opportunities.
- Maturing and established countries include South Korea, Taiwan, and Japan. These countries have far fewer growth prospects than the other types of markets.

We now give an overview of the key internal criteria:

1. **Company Objectives**

   Corporate objectives are a key influence in choosing entry modes. Firms that have limited aspirations will typically prefer entry options that entail a minimum amount of commitment (e.g., licensing). Proactive companies with ambitious strategic objectives, on the other hand, will usually pick entry modes that give them the flexibility and control they need to achieve their goals. Bridgestone, the Japanese tire maker, needed a strong foothold in the U.S. market to become a leading firm in the tire industry. To that end, Bridgestone entered into a bidding war with Pirelli to acquire Firestone. More recently, the company is setting up factories in Central Europe and China and a joint venture in India with Tata, a major truck company, to achieve its goal of a 20 per cent market share of the global tire market.

2. **Need for Control**

   Most MNCs would like to possess a certain amount of control over their foreign operations. Control may be desirable for any element of the marketing-mix plan: positioning, pricing, advertising, product design, branding, and so forth. Caterpillar, for instance, prefers to stay in complete control of its overseas operations to protect its proprietary know-how. For that reason, Caterpillar avoids joint ventures. To a large degree, the level of control is strongly correlated with the amount of resource commitment: the smaller the commitment, the lower the control. So, most firms face a trade-off between the degree of control over their foreign operations and the level of resource commitment they are willing to take.

3. Internal Resources, Assets, and Capabilities

Companies with tight resources (human and/or financial) or limited assets are constrained to low commitment entry modes such as exporting and licensing that are not too demanding on their resources. Even large companies should carefully consider how to allocate their resources between their different markets, including the home market. In some cases, major resource commitments to a given target market might be premature given the amount of risk. On the other hand, if a firm is overly reluctant with committing resources, the firm might miss the boat by sacrificing major market opportunities. Internal competencies also influence the choice-of-entry strategy. When the firm lacks certain skills that are critical for the success of its global expansion strategy, the company can try to fill the gap by forming a strategic alliance.

4. Flexibility

An entry mode that looks very appealing today is not necessarily attractive five or ten years down the road. The local environment changes constantly. New market segments emerge. Local customers become more demanding or more price conscious. Local competitors become more sophisticated. To cope with these environmental changes, global players need a certain amount of flexibility. The flexibility offered by the different entry-mode alternatives varies a great deal. Given their very nature, contractual arrangements like joint ventures or licensing tend to provide very little flexibility. When major exit barriers exist, wholly owned subsidiaries are hard to divest, and therefore, offer very little flexibility compared to other entry alternatives.

A Transaction Cost Explanation for Mode-of-Entry Choice

The different modes of entry can be classified according to the degree of control they offer to the entrant from low-control (e.g., indirect exporting) to high control modes (e.g., wholly owned subsidiary, majority stake partnerships). To some extent, the appropriate entry-mode decision boils down to the issue of how much control is desirable. Ideally, the entrant would like to have as much control as possible. However, entry modes that offer a large degree of control also entail substantial resource commitments and huge amounts of risk. Therefore, the entrant faces a trade-off between the benefits of increased control and the costs of resource commitment and risk.

One useful framework to resolve this dilemma is the so-called transaction-cost analysis (TCA) perspective. A given task can be looked at as a "make-or-buy" decision: either the firm contracts the task out to outside agents or partners (low-control modes) or the job can be done internally (high control modes). TCA argues that the desirable governance structure (high-control versus low-control mode) will depend on the comparative transaction costs that is, the cost of running the operation.

The TCA approach begins with the premise that markets are competitive. Therefore, market pressure minimizes the need for control. Under this utopian scenario, low-control modes are preferable since the competitive pressure force the outside partner to comply with his contractual duties. When the market mechanism fails, high-control entry modes become more desirable. From the TCA angle, market failure typically happens when transaction-specific assets become valuable. These are assets that are only valuable for a very narrow range of applications. Examples include brand equity, proprietary technology, and know-how. When these types of assets become very important, the firm might be better off to adopt a high-control entry mode in order to protect the value of these assets against opportunitistic behaviors and uncertainty.

An empirical study of entry decisions made by the 180 largest MNCs over a fifteen-year period found that MNCs are most likely to enter with wholly owned subsidiaries when one of the following conditions holds:

- The entry involves an R & D-intensive line of business
- The entry involves an advertising-intensive line of business (high brand-equity)
- The MNC has accumulated a substantial amount of experience with foreign entries.

On the other hand, MNCs are most likely to prefer a partnership when one of these holds:

- The entry is in a highly risky country
- The entry is in a socio-culturally distant country
- There are legal restrictions on foreign ownership of assets.

Merits and Demerits of Different Modes of Entry

1. Exporting

Most companies start their international expansion with exporting. For many small businesses, exporting is very often the sole alternative for selling their goods in foreign markets. A fair number of Fortune 500 companies, such as Boeing and Caterpillar, also generate a major part of their global revenues via export sales. In 1998 Caterpillar's exports from the United States were about $6 billion – this translates into $400,000 per Caterpillar job in the United States.

Companies that plan to engage in exporting have choice between three broad options: indirect, co-operative, and direct exporting. Indirect exporting means that the firm uses a middleman based in its home market to do the exporting. With cooperative exporting, the firm enters into an agreement with another company (local or foreign) where the partner will use its distribution network to sell the exporter's goods. Direct exporting means that the company sets up its own export organization within the company and relies on a middleman based in a foreign market (e.g., a foreign distributor).

Indirect exporting happens when the firm sells its products in the foreign market via an intermediary located in the firm's home country. The middleman could be an export management company (EMC), a trading house, merchant exporter or simply a broker. Indirect exporting offers several advantages to the exporting company compared to other entry modes. The firm gets instant foreign market expertise. Very little risk is involved. Generally speaking, no major resource commitments are required.

There are some downsides with indirect exporting. The company has little or no control over the way its product is marketed in the foreign country. Lack of adequate sales support, wrong pricing decisions, or poor distribution channels will inevitably lead to poor sales.

Companies that are not willing to commit the resources to set up their own distribution organization but still want to have some control over their foreign operations should consider cooperative exporting. One of the most popular forms of cooperative exporting is piggyback exporting. With piggybacking, the company uses the overseas distribution network of another company (local or foreign) for selling its goods in the foreign market.

Under direct exporting, the firm sets up its own exporting department and sells its products via a middleman located in the foreign market. Once the international sales potential becomes substantial, direct exporting often looks far more appealing than indirect exporting. To some degree, the choice between indirect and direct exporting is a "make-or-buy" decision.

2. Licensing

Companies can also penetrate foreign markets via a licensing strategy. Licensing is a contractual transaction where the firm-the licensor-offers some proprietary assets to a foreign company-the licensee-in exchange for royalty fees. Examples of assets that can be part of a licensing agreement include trademarks, technology know-how, production processes, and patents. Royalty rates range between one-eight of 1 percent and 15 percent of sales revenue. For instance, Tokyo Disneyland is owned and operated by Oriental Land Company under license from Disney. In return for being able to use the Disney name, Oriental Land Company pays royalties to Disney. In some industries, companies' cross-licensing agreements are fairly common.

For many companies, licensing has proven to be a very profitable means for penetrating foreign markets. In most cases, licensing is not very demanding on the company's resources. Therefore, it is especially appealing to small companies that lack the resources and the wherewithal to invest in foreign facilities. One licensing expert notes that overseas licensing account for up to one third of the profits of some small companies. Compared to exporting, another low-commitment entry mode, licensing allows the licensor to navigate around import barriers or get access to markets that are completely closed to imports. For instance, several foreign tobacco companies in China use licensing agreements to avoid the 240 per cent import tax levied on imported cigarettes. Local governments may also favor licensing over other entry modes.

Companies that use licensing as part of their global expansion strategy lower their exposure to political or economic instabilities in their foreign markets. The only volatility that the licensor faces is the ups and downs in the royalty income stream. Other risks are absorbed by the licensee.

In high-tech industries, technology licensing has two further appeals. In highly competitive environments, rapid penetration of global markets allows the licensor of define the leading technology standard and to rapidly amortize R & D expenditures. A case in point is Motorola's licensing of proprietary microprocessor technology to Toshiba.

3. Franchising

Scores of service industry companies use franchising as a means for capturing opportunities in the global marketplace. For instance, of the 8,000 Tricon restaurants around the world, about 4,400 are franchised. Franchising is to some degree a "cousin" of licensing: it is an arrangement whereby the franchisor gives the franchisee the right to use the franchisor's trade names, trademarks, business models, and/or know-how in given territory for a specific time period, normally ten years. In exchange, the franchisor gets royalty payment and other fees. The package might include the marketing plan, operating manuals, standards, training and quality monitoring.

To snap up opportunities in foreign markets, the method of choice is often master franchising. With this system, the franchisor gives a master franchise to a local entrepreneur, who will, in turn, sell local franchises within his territory. The territory could be a certain region within a country or a group of countries (e.g., Greater China). Usually, the master franchise holder agrees to establish a certain number of outlets over a given time horizon.

The benefits of franchising are clear. First and foremost, companies can capitalize on a winning business formula by expanding overseas with a minimum of investment. Just as with licensing, political risks for the rights-owner are very limited. Further, since the franchisees' profits are directly tied to their efforts, franchisees are usually highly motivated. Finally, the franchisor can also capitalize on the local franchisees' knowledge of the local market place. They usually have a much better understanding of local customs and laws than the foreign firm.

4. Contract Manufacturing

With contract manufacturing, the company arranges with a local manufacturer to manufacture parts of the product or even the entire product. Marketing the products is still the responsibility of the international firm. Numerous companies have become very successful by specializing in contract manufacturing. NatSteel Electronics (NEL) is one of the leading global electronics contract manufacturers. The company, based in Singapore, has facilities in countries such as Indonesia, Malaysia, China, and Mexico. Its customers include Fortune 500 companies such as Compaq, IBM, Apple, and Hewlett-Packard.

Cost savings are the prime motivation behind contract manufacturing. Significant cost savings can be achieved for labor-intensive production processes by sourcing the product in a low-wage country. Typically, the countries of choice are places that have a substantial comparative labor cost advantage. Labor cost savings are not the only factor. Savings can also be achieved via taxation benefits, lower energy costs, raw materials costs, or overheads.

Contract manufacturing is not without drawbacks. The "nurture-a-future-competitor" concern raised for licensing and franchising also applies here. Because of this risk, many companies prefer to make high-value items or products that involve proprietary design features in-house. A fixation with low labor costs can often have painful consequences. Low-labor-cost countries typically have very low labor productivity. Some of these countries, such as India and South Korea, also have a long tradition of bad labor relation. Too much reliance on low-cost labor could also create a backlash in the company's home-market among its employees and customers. Monitoring of quality and production levels is a must especially during the start-up phase when "teething problems" are not uncommon.

5. Joint Ventures

For many MNCs who want to expand their global operations, joint ventures prove to be the most viable way to enter foreign markets, especially in emerging markets. With a joint venture, the foreign company agrees to share equity and other resources with other partners to establish a new entity in the target country. The partners typically are local companies, but they can also be local government authorities, other foreign companies, or a mixture of local and foreign players. Depending on the equity stake, three forms of partnerships can be distinguished: majority (more than 50 percent ownership), fifty-fifty, and minority (less ownership) ventures. Huge infrastructure or high-tech projects that demand a large amount of expertise and money often involve multiple foreign and local partners. Another distinction is between cooperative and equity joint ventures. A cooperative joint venture is an agreement to collaborate between the partners that do not involve any equity investments. For instance, one partner might contribute manufacturing technology whereas the other partner provides access to distribution channels. Cooperative joint ventures are quite common for partnerships between well-heeled MNCs and local players in emerging markets. A good example of the collaborative approach is Cisco's sales strategy in Asia. Instead of investing in its own sales force, Cisco builds up partnerships with hardware vendors (e.g., IBM), consulting agencies (e.g., KPMG), or systems integrators (e.g., Singapore based Datacraft). These partners in essence act as front people for Cisco. They are the ones that sell and install Cisco's routers and switches.

An equity joint venture goes one step further. It is an arrangement where the partners agree to raise capital in proportion to the equity stakes agreed upon. A typical example is the entry strategy of Cable & Wireless (C&W), a British telecommunications firm, in Japan. To gain credibility with the Japanese government, C&W set up a partnership with big Japanese corporations. The three major stakeholders – C& A, Toyota and C. Itoh - each hold roughly 17 percent. The other partners share the balance. The alliance has gained a 16 percent market share of Japan's international telecommunication market.

A major advantage of joint ventures, compared to lesser forms of resource commitment such as licensing, is the return potential. With licensing, for instance, the company solely gets royalty payment instead of a share of the profits. Joint ventures also entail much more control over the operations that most of the previous entry modes we have discussed so far. MNCs that like to maximize their degree of control prefer full ownership. However, in many instances, local governments (e.g., China) discourage or even forbid wholly owned ventures in certain industries. Under such circumstances, partnerships are a second-best or temporary solution.

Apart from the benefits listed above, the synergy argument is another compelling reason for setting up a joint venture. Partnerships not only mean a sharing of capital and risk. Possible contributions brought in by the local partner include: land, raw materials, expertise on the local environment (culture, legal, political), access to a distribution network, personal contacts with suppliers, government officials, and so on. Combined with the skills and resources owned by the foreign partner, these inputs offer the key to successful market entry. A recent fifty-fifty joint venture between Canada's Sun Life Assurance and China Everbright Group, a large financial conglomerate, is one example. Sun Life, which got approval to sell life insurance in China in April 1999, chose China Everbright because it can provide the ventures access to a large distribution network and local contacts.

6. Wholly Owned Subsidiaries

Multinational companies often prefer to enter new markets with 100 percent ownership. Ownership strategies in foreign markets can essentially take two routes: acquisitions, where the MNC buys up existing companies, or Greenfield operations that are started from scratch. As with the other entry modes, full ownership entry entails certain benefits to the MNC but also carries risks.

Wholly owned subsidiaries give MNCs full control of their operations. It is often the ideal solution for companies that do not want to be saddled with all the risks and anxieties associated with partnerships like joint venturing. Full ownership means that all the profits go to the company. Fully owned enterprises allow the investor to manage and control its own processes and tasks in term of marketing, production, and sourcing decisions. Setting up fully owned subsidiaries also sends a strong commitment signal to the local market. In some markets, China for example, wholly owned subsidiaries can be erected much faster than joint ventures with local companies, which may consume years of negotiations before their final take-off. The latter point is especially important when there are substantial advantages to being an early entrant in the target market.

Despite the advantages of 100 per cent ownership, many MNCs are quite reluctant to choose this particular mode of entry. The risks of full ownership cannot be easily discounted. Complete ownership means that the parent company will have to carry the full burden of possible losses. Developing a foreign presence without the support of a third party is also very demanding on the firm's resources. Obviously, apart from the market-related risks, substantial political risks (e.g. nationalization) must be factored in.

Companies that enter via a wholly owned enterprise are sometimes also perceived as a threat to the cultural and/or economic sovereignty of the host country. Shortly after Daewoo's initially successful bid for the multimedia arm of the French group Thomson-CSF in the fall of 1996, the deal sparked controversy among French trade unions and the media. In the end, the French government vetoed the sale of the Thomson group following the negative opinion of the French privatization commission.

7. Acquisitions and Mergers

Companies such as Sara Lee have built up strong global competitive positions via cleverly planned and finely executed acquisition strategies. MNCs choose acquisition entry to expand globally for a number of reasons. First and foremost, when contrasted with Greenfield operations, acquisitions provide a rapid means to get access to the local market. For relative latecomers in an industry, acquisitions are also a viable option to obtain well-established brand names, instant access to distribution outlets, or technology. In recent years, some of the South Korean 'Chaebols' have used acquisition entries in foreign markets to gain a foothold in high-tech industries. Highly visible examples include Samsung's acquisition of the American computer maker AST and LG Electronics' takeover of Zenith. LG would have needed to invest more than $1 billion to build up a strong global TV brand from scratch.

Sara Lee, a U.S. conglomerate, has been extremely successful in building up growth via well-chosen acquisitions. Instead of milking the acquired local brands and replacing them with a global brand, Sara Lee heavily invest in its local brand assets in the hope that one day they can be converted into prestigious regional or even global brand names. Success stories of local brands that became leading European brands include Douwe Egberts in coffee, Pickwick in tea, and Dim in hosiery. Sara Lee is also following the acquisition path in emerging markets, with an equal amount of success.

Expansion via acquisitions or mergers also carries substantial risks. Differences in the corporate culture of the two companies between managers are often extremely hard to bridge. A well-publicized example of a company that has been plagued with corporate culture disease is Pharmacia & Upjohn, a Pharmaceutical company that was formed in 1995 via the merger of Sweden-based Pharmacia AB and the American drug firm Upjohn. Swedish managers were stunned by the hard driving, mission-oriented approach of Upjohn executives. Their U.S. counterparts were shocked about European vacation habits.

8. Greenfield Operations

Greenfield operations offer the company more flexibility than acquisitions in areas such as human resources, suppliers, logistics, plant layout, or manufacturing technology. Greenfield investments also avoid the costs of integrating the acquisition into the parent company. Another motivation is the package of goodies (e.g. tax holidays) that host government sometimes offers to whet the appetite of foreign investors. The down side of 'Greenfield Operations' is that they require enormous investments of time and capital.

Market Segmentation

Segmentation involves subdividing markets, channels or customers into groups with different needs, to deliver tailored propositions which meet these needs as precisely as possible.

The division of a heterogeneous market into different homogeneous groups of consumers is known as **market segmentation**.

Rather than offering the same marketing mix to vastly different customers, market segmentation makes it possible for firms to tailor the marketing mix for specific target markets, thus better satisfying customer needs. Not all elements of the marketing mix are necessarily changed from one segment to the next. For example, in some cases only the promotional campaigns would differ.

A market segment should be:

- measurable
- accessible by communication and distribution channels
- different in its response to a marketing mix
- durable (not changing too quickly)
- substantial enough to be profitable

A market can be segmented by various bases, and industrial markets are segmented somewhat differently from consumer markets, as described below.

Consumer Market Segmentation

A basis for segmentation is a factor that varies among groups within a market, but that is consistent within groups. One can identify four primary bases on which to segment a consumer market:

- **Geographic segmentation** is based on regional variables such as region, climate, population density, and population growth rate.
- **Demographic segmentation** is based on variables such as age, gender, ethnicity, education, occupation, income, and family status.
- **Psychographic segmentation** is based on variables such as values, attitudes, and lifestyle.
- **Behavioral segmentation** is based on variables such as usage rate and patterns, price sensitivity, brand loyalty, and benefits sought.

The optimal bases on which to segment the market depend on the particular situation and are determined by marketing research, market trends, and managerial judgment.

Business Market Segmentation

While many of the consumer market segmentation bases can be applied to businesses and organizations, the different nature of business markets often leads to segmentation on the following bases:

- **Geographic segmentation** - based on regional variables such as customer concentration, regional industrial growth rate, and international macroeconomic factors.
- **Customer type** - based on factors such as the size of the organization, its industry, position in the value chain, etc.
- **Buyer behavior** - based on factors such as loyalty to suppliers, usage patterns, and order size.

Profiling the Segments

The identified market segments are summarized by profiles, often given a descriptive name. From these profiles, the attractiveness of each segment can be evaluated and a target market segment selected.

A **market segment** is a classification of potential private or corporate customers by one or more characteristics, in order to identify groups of customers, which have similar needs and demand similar products and/or services concerning the recognized qualities of these products, e.g. functionality, price, design, etc.

An ideal **market segment** meets all of the following criteria:

- It is internally homogeneous (potential customers in the same segment prefer the same product qualities).
- It is externally heterogeneous (potential customers from different segments have basically different quality preferences).
- It responds similarly to a market stimulus.
- It can be cost-efficiently reached by market intervention.

The term segmentation is also used when customers with identical product and/or service needs are divided up into groups so they can be charged different amounts for the services.

A customer is allocated to one market segment by the customer's individual characteristics. Often cluster analysis and other statistical methods are used to figure out those characteristics, which lead to internally homogeneous and externally heterogeneous market segments.

Examples of characteristics used for segmentation:

- Gender
- Price
- Interests
- Location
- Religion
- Income
- Size of Household

While there may be theoretically 'ideal' market segments, in reality every organization engaged in a market will develop different ways of imagining market segments, and create Product differentiation strategies to exploit these segments. The market segmentation and corresponding product differentiation strategy can give a firm a temporary commercial advantage.

Global Market Entry Strategies

A mode of entry into Global market is the channel which your organization employs to gain entry to a new international market. This lesson considers a number of key alternatives, but recognizes that alternatives are many and diverse. Here you will be considering modes of entry into international markets such as the Internet, Exporting, Licensing, International Agents, International Distributors, Strategic Alliances, Joint Ventures, Overseas Manufacture and International Sales Subsidiaries.

It is worth noting that not all authorities on international marketing agree as to which mode of entry sits where. For example, some see franchising as a stand alone mode, whilst others see franchising as part of licensing. In reality, the most important point is that you consider all useful modes of entry into international markets - over and above which pigeon-hole it fits into.

The Internet

The Internet is a new channel for some organizations and the sole channel for a large number of innovative new organizations. The e-Marketing space consists of new Internet companies that have emerged as the Internet has developed, as well as those pre-existing companies that now employ e-Marketing approaches as part of their overall marketing plan. For some companies the Internet is an additional channel that enhances or replaces their traditional channel(s). For others the Internet has provided the opportunity for a new online company.

Exporting

There are **direct** and **indirect** approaches to exporting to other nations. Direct exporting is straightforward. Essentially the organization makes a commitment to market overseas on its own behalf. This gives it greater control over its brand and operations overseas, over an above indirect exporting. On the other hand, if you were to employ a home country agency (i.e. an exporting company from your country - which handles exporting on your behalf) to get your product into an overseas market then you would be exporting indirectly. Examples of indirect exporting include:

- Piggybacking: whereby your new product uses the existing distribution and logistics of another business.
- Export Management Houses (EMHs): that act as a bolt on export department for your company. They offer a whole range of bespoke or a la carte services to exporting organizations.
- Consortia are groups of small or medium-sized organizations that group together to market related or sometimes unrelated products in international markets.
- Trading companies were started when some nations decided that they wished to have overseas colonies. They date back to an imperialist past that some nations might prefer to forget e.g. the British, French, Spanish and Portuguese colonies. Today they exist as mainstream businesses that use traditional business relationships as part of their competitive advantage.

Licensing

Licensing includes **franchising, Turnkey contracts and contract manufacturing.**

- Licensing is where your own organization charges a fee and/or royalty for the use of its technology, brand and/or expertise.
- Franchising involves the organization (franchiser) providing branding, concepts, expertise, and in fact most facets that are needed to operate in an overseas market, to the franchisee. Management tends to be controlled by the franchiser. Examples include Dominos Pizza, Coffee Republic and McDonald's Restaurants.
- Turnkey contracts are major strategies to build large plants. They often include a the training and development of key employees where skills are sparse - for example, Toyota's car plant in Adapazari, Turkey. You would not own the plant once it is handed over.

International Agents and International Distributors

Agents are often an early step into international marketing. Put simply, agents are individuals or organizations that are contracted to your business, and market on your behalf in a particular country. They rarely take ownership of products, and more commonly take a commission on goods sold. Agents usually represent more than one organization. Agents are a low-cost, but low-control option. If you intend to globalize, make sure that your contract allows you to regain direct control of product. Of course you need to set targets since you never know the level of commitment of your agent. Agents might also represent your competitors - so beware conflicts of interest. They tend to be expensive to recruit, retain and train. Distributors are similar to agents, with the main difference that distributors take ownership of the goods. Therefore they have an incentive to market products and to make a profit from them. Otherwise pros and cons are similar to those of international agents.

Strategic Alliances (SA)

A strategic alliance is a term that describes a whole series of different relationships between companies that market internationally.

Sometimes the relationships are between competitors. There are many examples including:

- Shared manufacturing e.g. Toyota Ayago is also marketed as a Citroen and a Peugeot.
- Research and Development (R&D) arrangements.
- Distribution alliances e.g. i-Phone was initially marketed by O2 in the United Kingdom.
- Marketing agreements.

Essentially, Strategic Alliances are non-equity based agreements i.e. companies remain independent and separate.

Joint Ventures (JV)

Joint Ventures tend to be equity-based i.e. a new company is set up with parties owning a proportion of the new business. There are many reasons why companies set up Joint Ventures to assist them to enter a new international market:

- Access to technology, core competences or management skills. For example, Honda's relationship with Rover in the 1980's.
- To gain entry to a foreign market. For example, any business wishing to enter China needs to source local Chinese partners.
- Access to distribution channels, manufacturing and R&D are most common forms of Joint Venture.

Overseas Manufacture or International Sales Subsidiary

A business may decide that none of the other options are as viable as actually owning an overseas manufacturing plant i.e. the organization invests in plant, machinery and labor in the overseas market. This is also known as Foreign Direct Investment (FDI). This can be a new-build, or the company might acquire a current business that has suitable plant etc. Of course you could assemble products in the new plant, and simply export components from the home market (or another country). The key benefit is that your business becomes localized - you manufacture for customers in the market in which you are trading. You also will gain local market knowledge and be able to adapt products and services to the needs of local consumers. The downside is that you take on the risk associated with the local domestic market. An International Sales Subsidiary would be similar, reducing the element of risk, and have the same key benefit of course. However, it acts more like a distributor that is owned by your own company.

Internationalization Stages

So having considered the key modes of entry into international markets, it may be concluded by considering the Stages of Internationalization. Some companies will never trade overseas and so do not go through a single stage. Others will start at a later or even final stage. Of course some will go through each stage as summarized now:

- Indirect exporting or licensing
- Direct exporting via a local distributor
- Your own foreign presences
- Home manufacture, and foreign assembly
- Foreign manufacture

Summary

Global marketing is a proactive response to the intertwined nature of business opportunities and competition that know no political boundaries. Global marketing does not necessarily mean that companies should market the same product in the same way around the world as world markets are converging. Global marketing is a company's willingness to adopt a global perspective instead of a country-by-country or region-by-region perspective in developing a marketing strategy for growth and profit. The six forces making up the company's macro-global environment include demographic, economic, natural, technological, political and cultural forces. These forces shape opportunities and pose threats to the company. Global market possesses great importance of less developed countries (LDCs). It provides all urge to develop knowledge and experience that make development possible in LDCs. The remarkable growth of the global economy over the post 50 years has occurred because of many driving forces contributing to the growth of international business, namely - market needs, modern technology, minimum cost application, higher quality, information revolution and leverage advantages. Several restraining forces also occurred in international trade in the form of tariff barriers and non-tariff barriers.

There are four identifiable stages in the evolution of marketing across national boundaries. These are known as Ethnocentrism, Polycentrism, Regiocentrism and Geocentrism. Companies have the plan of entry strategy choices to implement their global expansion efforts. Each alternative has its pros and cons. Global companies often adopt a phased entry strategy. They start off with a minimal risk strategy. Once the perceived risk declines, they switch to higher commitment mode. It is made clear that, a broad range of variables impact the entry mode choice. The three major dimensions include the resource commitment a firm is willing to make, the amount of risk the firm is willing to take and the degree of control that is desirable.

Self-Assessment Questions

1. How is global marketing different from international marketing?
2. Discuss how companies can react to the marketing environment.
3. Why do some MNCs prefer to enter certain markets with a liaison office first?
4. Discuss the reasons why international business is much more complex today than it was twenty years ago.
5. What are the three basic principles of marketing? Select a company that you know and assess how well the company is applying these principles?

CASE STUDY

In this section we have a case of Plastic Bag Industry, which has been analyzed in the following paras so that you may know how a case can be understood and analyzed vis-à-vis a suitable market entry may be chosen by the company executives. An export plan has also been suggested and its critique has also been made.

Plastic Bag Industry[6]

Background

Plastic Bag Industry (PBI) is a family-owned company in Singapore that manufactures plastic bags. Its products include vest bags, food-wrapping bags, industrial packaging and grocery bags. They are supplied to supermarkets and emporiums, retail stores, food stalls, factories (including electronics factories), exporters of packaged food and frozen fish, and the transportation and construction industries.

The Singapore plastic bag industry has reached a stage of maturity. Price undercutting is becoming more frequent because of increased competition. Although PBI's domestic sales have increased over the past five years, profit margins have been rather erratic. While domestic sales previously accounted for about 25% of total sales, they now make up only 10% of the total. In contrast, export sales have been steadily increasing.

PBI's export partners are regular customers, including a few large buyers. PBI believes in spreading risks and insists on having at least two clients in every market. In addition, it does not supply more than 50% of each client's requirements.

Australia, with 80% of PBI's total sales, is its largest importer. The Netherlands and the United States together have a share of 10% and Singapore the remainder. Almost all of PBI's product types are exported.

PBI's products have a reputation for quality and have won an international award. Its export are competitive and its profit margins range from 5 to 10%. Locally, its prices are among the highest.

Management is highly committed to exporting. Mr. Chang, its managing director and co-owner, has guided the company to rapid growth by expanding exports and investment in more efficient machinery.

Mr. Chang is a risk taker. He is willing to sacrifice short-term profile for long-term growth. Investment in the new machinery has enabled company to produce at a lower cost per unit and therefore to be more competitive abroad. He is currently directing the company towards the production of more innovative items.

As the domestic market has matured, Mr. Chang is exploring possibilities for expanding company activities in the United States. Demand in this market for plastic bags has increased. Previously believed to be a pollutant because it takes a long time to disintegrate in the ground, plastic (polyethylene) is now regarded as an source of recoverable energy when burned.

SWOT Analysis

Strengths: PBI's plastic bags have an international reputation for quality. The company's export prices are competitive and management is committed to exporting. The managing director is a risk taker who has recognized the opportunity presented by the United States market.

PBI has efficient machines and has the capacity to increase production to meet demand in the United States. It has gained valuable experience as an exporter over the years. It also enjoys good relationships with its suppliers; problems are minimal.

Weakness: PBI requires financing for its expansion plans. It has only one distributor in the United States who is unlikely to be able to cope with any increased requirements.

PBI need more efficient stock planning. Resin, the major component of plastic bags, is imported from Japan, the United States and

Europe. Shipments take a minimum of 30 days from Japan and about four months from the United States. Although problems have been minimal even during tight supply periods, the company needs to employ more systematic controls to ensure adequate supplies at all times. Furthermore, fluctuations in resin prices caused by delays in shipment or variations in exchange rates affect the final price of the plastic bags.

Not all the company employees share Mr. Chang's enthusiasm for the export trade and for innovation. Some fail to keep up with industrial changes, others have shown resistance to the new machines. It is critical that the employees are properly motivated.

Opportunities: Demand in United States has increased significantly in recent years. The introduction of a double tax reduction on 80% of advertising costs would enable PBI to increase expenditure on product promotion. PBI's rotogravure printing process is said to produce sharper, better-toned prints than flexographic printing. Economies of scale in printing can be achieved by increasing production. PBI should promote the quality and price of its products.

Threats: The Unites States market has established suppliers from Taiwan Province (China) Hong Kong and the Republic of Korea in addition to a large number of domestic producers such as Sunoco and Mobil. With their better distribution networks, these suppliers will compete keenly with PBI.

Recent developments in automated machines that can be operated at lower units costs may encourage Unites States customers to produce their own bags and reduce the need for bags from other sources.

The state of the Singapore market is disquieting and is a good reason for seeking sales outlets abroad.

Strategic Options

Its competitive prices and its reputation for quality should be the basis for PBI's export expansion strategy. Among its options are the following:

- Establish itself as a low-cost supplier to various industrial segments on the West Coast of the United States. To keep costs low, PBI could consider handling distribution itself or entering into an agreement with an exclusive distributor.
- Capitalizing on its reputation for quality products, PBI could target market niches on the West Coast. For instance, a segment that values printing quality might be a target. Distribution strategies will be a key component of the overall strategy.
- PBI could take advantage of its already large volume of exports to Australia to expand its presence on that market as a short-term goal. It could then concentrate on developing the United States market over the long term.

Recommended Strategy

PBI should focus on promoting its products and developing its distribution network in the United States, at least in the short term.

As it has a foothold on this market, it should carry out market research to confirm the existence of additional opportunities and determine the market's sales potential. The research should cove the following aspects; trends in the plastic bag industry; suppliers to the United States markets, their coverage of the market, market shares and how these shares have been changing; distribution networks; how best to motivate distributors; market prices; possible protectionist measures and resistance from domestic producers.

On the basis of research findings, the company should aggressively seek exposure for its products. In order to attract the right distributors, it should actively promote its strategic advantages; quality and price. It should obtain information about distributors through its supplier of resin in the United States. Taking advantage of the tax reduction on advertising, PBI should undertake a forceful promotion programme, including promotion in the press and participation in trade fairs.

Careful selection of distribution channels is crucial for long-term market development. The decision on this matter will entail long-term obligations and influence prices and terms of sale. The choice should be made on the basis of such criteria as volume of business, financial strength, management capabilities, banking references, servicing capacities, product mix and experience with foreign suppliers.

PBI should find out how distributors can be motivated to promote and stock its products. It should build relationships with its chosen distributors on the basis of trust right from the start.

Export Marketing Plan

Preliminary research findings indicate that the United States market is growing significantly and that there is room for additional suppliers. The market for grocery bags appears to have the highest growth potential. The market for T-shirt bags is also growing rapidly. PBI should therefore expand its sales base in the United States as soon as possible. Its objective should be to achieve long-term growth and establish a reputation for quality and innovativeness.

In the short term, PBI should continue dealing with distributors. It should initiate its expansion efforts on the West Coast, where growth prospects are best, and target the market for grocery bags. The distributors should be carefully selected: only those that can reflect PBI's quality image should be considered.

The rationale behind this strategy is PBI's familiarity with distributors. The objective is to reap as much profit as possible. Prices should reflect quality while remaining competitive.

Targeting the market for T-shirt bags to avoid product modification costs is also attractive. The vest bags currently being produced are similar to T-shirt bags and are of good quality. The bags are colourful and their printing is of good quality.

In the intermediate term, PBI should focus on other market segments. It should identify distributors who will reflect its quality image. It could also consider entering other regional markets.

In the medium to long-term, protectionist pressures and increased competition can be expected. Joint ventures or other alliances with manufacturers in the United States could be considered.

PBI should regard a joint venture as a long-term alternative. Its aims would be to increase competitiveness, to innovate and to deflect protectionist pressures. PBI could also benefit from its partner's knowledge of the market, its established network and its geographical proximity to United States suppliers and customers. PBI should identify an innovative company willing to share its development skills.

Innovative products would give PBI a competitive edge internationally and in Singapore, where the market has reached saturation point. A strategy of offering innovative products would be appropriate as the plastic-bag industry is subject to frequent changes in technology both in terms of materials and in terms of equipment.

Critique

The proposed export marketing plans provides a general outline for management consideration but does not give specific information on alternative strategies or the justification for the strategies presented.

The choice of the United States for expansion efforts rather than Australia, which accounts for the bulk of PBI's sales, needs to be justified. What competitive advantages will PBI offer to the United States? Is its experience in Australia directly transferable to the United States? How will PBI finance its expansion efforts?

The recommendation is to target the market for grocery bags on the West Coast with bags priced at levels that reflect quality but that remain competitive. Is this feasible? If this market is more price conscious than quality conscious, is the strategy practicable? A better strategy might be to target speciality customers who seek quality in the bag and superior printing.

The suggestion on entering a joint production or marketing effort with a United States partner requires further justification. Apart from shifting production closer to the source of resin and minimizing transportation costs, what will PBI gain from such a venture? What strengths will it offer its partner? Why should a company in the United States be interested in a joint effort with PBI?

Given its limited size, resources and technical capacities, it would be prudent for PBI to develop a cautious export market expansion strategy. It would probably be better off capitalizing on the Australian market than venturing into less familiar territory. It needs to monitor the export operations of its competitors from the Republic of Korea, Taiwan Province (China) and Hong Kong to be able to maintain profitable export operations. As the technology is rapidly changing and plastic bag production is becoming more automated, PBI should re-access its competitive strengths more frequently.

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UNIT – II

Learning Objectives

By the end of this Unit you should be able to:

- Understand and describe the meaning of international marketing, the task of an international marketer, the types of environment – Internal and External.
- Describe the environmental forces that affect the company's ability to serve its customers.
- Understand the importance of geography in international marketing.
- Explain the importance of demographic changes in international marketing.
- Explain the differences among nations in the levels of economic development
- Analyze the impact of economic environment on international marketing strategy
- Describe the development of international law as it relates to marketing
- Describe the impact of legal and political environment on international marketing decisions

Unit Structure

Lesson 2.1 - International Marketing Environment

Lesson 2.2 - Geographical and Demographic Environment of International Marketing.

Lesson 2.3 - Economic and Socio-Cultural Environment.

Lesson 2.4 - Political and Legal Environment along with the Impact of Environment on International Marketing Decisions.

Lesson 2.1 - International Marketing Environment: Internal Environment – External Environment

International Marketing Environment

Marketing does not operate in a vacuum but it occurs in a complex and changing environment. Other actors in this environment – suppliers, intermediaries, customers, competitors, publics and others – may work with or against the company. Major environmental forces – demographic, economic, political and cultural – shape marketing opportunities, pose threats, and affect the company's ability to serve its customers and develop lasting relationships with them. To understand marketing and to develop effective marketing strategies, we must first understand the context in which marketing operates. Many companies view the marketing environment as an uncontrollable element to which they must adapt. Other companies take an environmental management perspective in which the firm takes aggressive actions to affect the publics and forces in its marketing environment.

International Marketing is the performance of business activities - flow of a company's goods and services to consumers in more than one nation for profit. The only difference between domestic marketing and international marketing is that the marketing activities take place in more than one country. There is no difference in concepts of marketing but there is difference in the environment within which marketing plans are to be implemented. In the case of foreign marketing there are unfamiliar problems and hence different strategies are necessary to cope with the different levels of uncertainty. Hence, although, marketing principles and concepts are universally applicable, the environment within which the marketer must implement marketing plan can change dramatically from country to country. The difficulties created by different environments are the international marketers' primary concern.

Marketing Environment

As we know, marketing functions are to be carried out in a given environment. A company's marketing environment consists of the factors and forces outside marketing that affect marketing management's ability to develop and maintain successful transactions with its target customers. Thus, environment consists of those factors and forces, which affect the company's working and decision-making ability. Even the marketing opportunity has to be scanned and identified carefully by observing the environment. The marketing mix i.e. product, price, physical distribution and promotion is also decided in the context of a given marketing environment. Though marketing managers are not capable of controlling the environmental factors, they must take them into account while taking marketing decisions. While formulating the market strategies, the marketer must keep on strict vigil on the environment in which the enterprise is functioning.

The international environment is very important from the point of view of certain categories of business. It is particularly important for industries directly depending on imports or exports and import competing industries. For example, a recession in foreign markets, or the adoption of protectionist policies by foreign nations, may create difficulties for industries depending on exports. On the other hand, a boom in the export market or a relaxation of the protectionist policies may help the export oriented industries. Liberalization may help some industries, which use imported items, but may adversely affect import competing industries. It has been observed that major international developments have their spread effects on domestic business. The Great Depression in the United States sent its shock waves to a number of other countries. Oil price hikes have seriously affected a number of economies. These hikes have increased the cost of production and the prices of certain products, such as fertilizers, synthetic fibres, etc. The high oil price has led to an increase in the demand for automobile models that economize energy consumption. The oil crisis also promoted some companies to resort to de-marketing —the process of cutting consumer demand for a product back to level that the firm can supply. Hence, developments like oil crisis affect the demand, consumption and investment pattern.

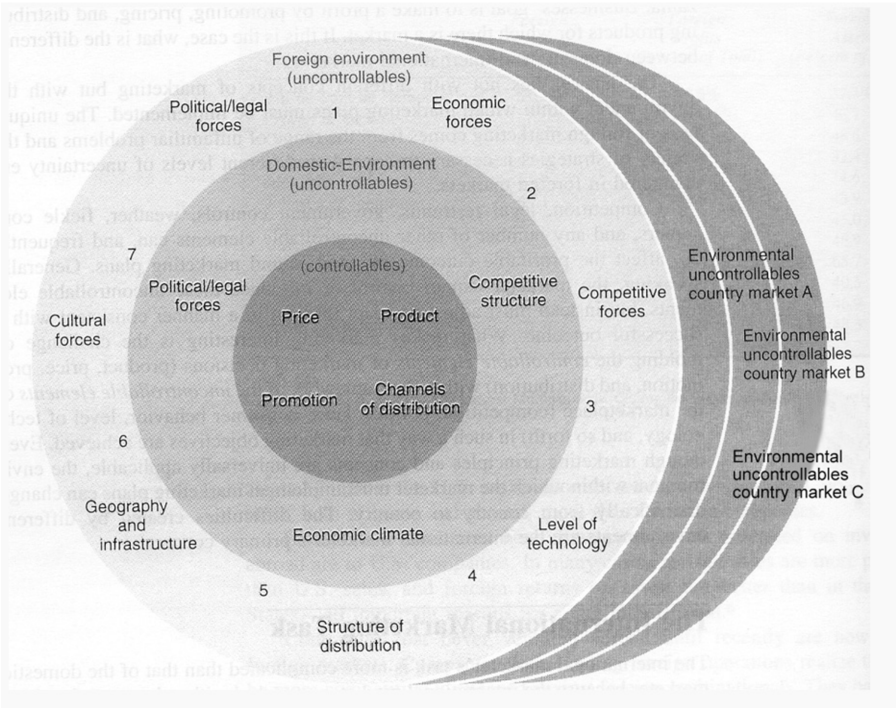
A good export market enables a firm to develop a more profitable product mix and to consolidate its position in the domestic market. Many companies now plan production and investment taking into account also the foreign markets. Export marketing facilitates the attainment of optimum capacity utilization; a company may be able to mitigate the effects of domestic recession by exporting. However, a company, which depends on the export market to a considerable extent, has also to face the impact of adverse developments in foreign markets.

The world is shrinking rapidly with the advent of faster communication, transportation and financial flows. Products developed in one country are finding acceptance in other countries. We would not be surprised to hear about a German businessman wearing an Italian Suit meeting an English friend at a Japanese restaurant who later returns home to drink Russian Vodka. International trade is booming and global competition is intensifying. Few industries are now free from foreign competition. Hence, the companies have to improve their products at home continuously to compete with others and expand into foreign markets.

All marketing activities occur within in the framework of legal, economic, cultural, political and other environments to which strategies and policies are to be related. Each country has its own legal system, culture, socio economic infrastructure and so on. The problem in international marketing is that the environments confronted are vastly more complex and extensive than for domestic operations.

The International Marketing Task

The international marketer's task is more complicated than that of the domestic marketer's. The international marketer must deal with at least 2 levels of uncontrollable uncertainty compared to one by a domestic marketer. Uncertainty is created by the uncontrollable elements of all business environments, but foreign country in which a company operates adds its own unique set of uncontrollable. Figure illustrates the total environment of an international marketer. The inner circle depicts the controllable elements that constitute a marketer's decision area. The second circle encompasses those environmental elements at home that have some effect on foreign operation decisions. The outer circles represent the elements of the foreign environment for each foreign market within which the marketer operates. As the outer circles show, each foreign market in which the company does business can present separate problems involving some or all of the uncontrollable elements. Thus, the more foreign markets in which a company operates, the greater the possible variety of foreign environmental uncontrollables with which it has to contend. Often a solution to a problem in country market A is not applicable to a problem in country market B.



The International Marketing Task

Marketing Controllables

The successful manager constructs a marketing program designed for optional adjustment to the uncertainty of the business climate. The inner circle in figure represents the area under control of the marketing manager. Assuming the necessary overall corporate resources, the marketing manager blends price, product, promotion, and channels of distribution activities to capitalization anticipated demand. The controllable elements can be altered to adjust to changing market conditions or corporate objectives.

Domestic Uncontrollables

The second circle (Figure) includes home country elements that can have a direct effect on the success of a foreign venture, political forces, legal structure and economic climate. A political decision involving domestic foreign policy can have a direct effect on a firm's international marketing success. For example, the U.S government imposed restrictions on sales of computers and computer software to South Africa to protest apartheid and hence, export to South Africa was restricted by domestic uncontrollables. Conversely, positive effects occur when there are changes in foreign policies and countries are given favoured treatment.

The domestic economic climate is another important home-based uncontrollable variable with far reaching effects on company's competitive position in foreign markets. The capacity to invest in plants and facilities either in domestic or foreign markets is to a large extent a function of domestic economic vitality. Currency value is another influence the home environment economy has on the marketer's task. e.g., the relative strength of the dollar in world markets.

Foreign Uncontrollables

In addition to uncontrollable domestic elements, a significant source of uncertainty is the number of uncontrollable foreign business environments. (Figure outer circles). The process of evaluating the uncontrollable elements in an international marketing program involves substantial doses of cultural, political, and economic shocks. A business operating in a number of foreign countries might find polar extremes in political stability, class structure, and economic climate – critical elements in business decisions. For example, The Soviet Union-a single market that divided into 15 independent republics, 11 of which re-formed as the common wealth of independent states (CIS), self-investors uncertain about the future. This is an example for the uncertainties of the uncontrollable political factors of international business.

Thus, international marketers face many challenges in understanding how the economic environment will affect the decisions and which global markets to enter and how. The more significant elements in the uncontrollable international environment (shown in the outer circles of fig) include: 1. Political/legal forces, 2. Economic forces, 3. Competitive forces, 4. Level of technology, 5. Structure of distribution, 6. Geography and infrastructure, 7. Cultural forces. Thus, these forces constitute the principal elements of uncertainty an international marketer must cope with in designing a marketing program. The uncertainty of different foreign business environments creates the need for a close study of the operating environment within each new country. Different solutions to fundamentally identical marketing tasks are often in order and are generally the result of changes in the environment of the market. Thus, a successful strategy in one country can be rendered ineffective in another by differences in political climate, stages of economic development, level of technology, or other cultural variation.

Environmental Adjustment to Foreign Uncontrollables

To adjust and adapt a marketing program to foreign markets, marketers must be able to interpret effectively the influence and impact of each of the uncontrollable environmental elements on the marketing plan for each foreign market in which they hope to do business. In a broad sense, the uncontrollable elements constitute the culture; the difficulty facing the marketer in adjusting to the culture (i.e., uncontrollable elements of the market place) lies in recognizing their impact. The task of cultural adjustment is the most challenging and important one confronting international marketers. They must adjust their marketing efforts to cultures to which they are not attuned. In dealing with unfamiliar markets, marketers must be aware of the frames of reference they are using in making their decisions of a market. The key to successful international marketing is adaptation to the environmental differences from one market to another. Adaptation is a conscious effort on the part of the international marketer to anticipate the influences of both the foreign and domestic uncontrollable environments on a marketing mix, and then to adjust the marketing mix to minimize the effects.

Adapting to the Environmental Change

Marketing environment is dynamic, technology, taste and preferences of the people, competitive situations changes, demographic factors, including population size changes, attitude and value system changes, economic factors like income, government policies and regulations also change to cope with the changing environment. Hence, marketing policy should be adaptable to the changing environment. Although an exact prediction of the future event is difficult, reliable forecasts are possible in many areas. For example, if relevant data are available, it is possible to forecasts the demand for a product. Similarly, forecasts can be made of such other factors as demographic factors, income levels, technological, etc. Such forecasts of the changing marketing environment facilitate the formulation of appropriate marketing strategies. The marketing environment is fast changing all over the world.

Successful companies take an outside-inside view of their business. They recognize that the marketing environment is constantly presenting new opportunities and threats, and they understand the importance of continuously monitoring and adapting to that environment. Many companies fail to see change as opportunity. They ignore or resist changes until it is too late. Their strategies, structures, systems, and organizational culture grow increasingly obsolete and disfunctional. Corporations as mighty as General Motors, IBM, and Sears have passed through difficult times because they ignored. The major responsibility for identifying significant changes falls to the company's marketers. Marketers have marketing intelligence and marketing research for collecting information about the marketing environment. They also spend more time with customers and in watching competitors.

Procedures are needed for the identification of fresh market opportunities resulting from environmental change. For this the firm should predict the external changes that might occur and then it should analyze how they would affect the organization and how it should respond. The firm should list the major functions of businesses followed by an outline of all environmental factors likely to affect these functions. The most important external variables that might affect a firm's operation are:

Internal Environment

An organization's internal marketing system is largely controllable by the management. An outline of the important internal factors (organizational) is given below:

Value System

The value system of the founders and those at the helms of affairs has an important bearing on the choice of business, the mission and objectives of the organisation, business policies and practices.

Mission and Objectives

The business domain of the company's, priorities, direction of development, business philosophy, business policy, etc. is guided by the mission and objectives of the company.

Management Structure and Nature

The organizational structure, the composition of the Board of Directors, extent of professionalisation of management, etc. are important factors influencing business decisions.

Internal Power Relationship

Factors like the amount of support the top management enjoys from lower levels and workers, shareholders and Board of Directors have important influence on the decisions and their implementation. The relationship between the members of the Board of Directors is also a critical factor.

Human Resources

The characteristics of the human resources like skill, quality, morale, commitment, attitudes, etc. could contribute the strength or weakness of an organization. Some organizations find it difficult to carry out restructuring or modernization because of resistance by employees whereas they are smoothly done in some others.

Company Image

The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering purchase or sale contracts, launching new products, etc.

Other factors

In addition to the factors mentioned above, there are other internal factors, which contribute to business success/failure or influence the decision-making. They are: the production capacity, technology and efficiency, the productive apparatus, etc. These factors influence the competitiveness of a firm. Research and Development, the organization for marketing, quality of the marketing men, distribution network, etc. has direct bearing on the marketing efficiency. The financial policies, financial position and capital structure are also important internal environment affecting business performance, strategies and decisions.

External Environment

The external environment of a company may be broadly divided into two categories: Micro environment and Macro environment.

a. External Micro Environment

The micro-environment consists of the forces close to the company that affects its ability to serve its customers. These forces are external but are a part of a company's marketing system. These forces include suppliers, intermediaries, competitors, customers and public. While they are generally uncontrollable, these external forces can be influenced. We will explain these factors in a little detail.

Suppliers

For production of goods or service, a company requires a variety of inputs. The individuals or firms who supply these inputs are known as suppliers. They provide resources needed by the company. For this purpose, the company should go for developing specifications, searching the potential suppliers, identifying and analyzing the suppliers and thereafter choosing the suppliers who can supply the best mix of quality, quantity, reliability, credit facility, warranties and low price. The suppliers are critical to company's marketing success. Supply shortages or delays can adversely affect sales and Damage Company's goodwill in the long-run. Marketing managers should also monitor the price trends of their inputs and negotiate terms and conditions with the suppliers. The most suitable suppliers have to be clearly identified and listed.

Customers

The customers of a company may be of the following five kinds:

i). Ultimate consumers: - They may be individuals and householders.

ii). Industrial consumers: - Industrial consumers are organizations, which buy goods and services for producing other goods and services for the purpose of either earning profits or fulfilling other objectives.

iii). Resellers: - These are intermediaries who purchase goods with a view to resell them at a profit. These may be wholesalers, retailers, distributors, etc.

iv). Government customers: - They include government offices or agencies that buy goods and services in order to produce public service or transfer the goods and service to others who need them and

v). International customers: - These are individuals and organizations of other countries that buy goods and services either for consumption or for industrial use. Such buyers may be consumers, producers, resellers and governments. It may be noted that each market type has special characteristics, which should be carefully studied by the marketer, and he should be fully acquainted with the art of persuading and selling to these customers. It should be remembered that the satisfaction of customers and consumer is the main motto of every business firm.

Competitors

A firm's competitors include not only the other firms, which market the same or similar products, but also all those who compete for the income of the consumers. For example, the competition for a company's televisions may come not only from other TV manufacturers but also from the manufacturers of two wheelers, refrigerators, DVD players, etc. as also from service institutions that offers savings and investment schemes like banks and other companies that accept deposits, etc. and offer better returns to investors of their savings. As a consequence, marketers must continually monitor competitors' marketing activities their products, channels, prices and promotional efforts and offers. They must also gain strategic advantage by positioning their products and services strongly against those of their competitors, in the minds of the consumers. The competitive environment consists of certain basic things which every marketing manager must take note of. According to Philip Kotler, "the best way for a company to grasp the full range of its competition is to take the viewpoint of a buyer what does a buyer think about that which eventually leads to purchasing something". Kotler has also explained four basic type of competition (Desire, Generic, Form and Brand Competition). He also pointed out four basic dimensions, which a company must have in mind. These may be called the four C's of marketing positioning. The company must consider the nature of customers, channels, competitors and its own characteristics.

Marketing Intermediaries

Marketing intermediaries are independent business organisations or firms that directly help the company to promote, sell and distribute its goods and services to the final buyers. There are 2 types of intermediaries a) Middlemen and b) Facilitating organisations (Physical distribution firms).

Middlemen (wholesalers and retailers and agents)

These are distribution channels that help the company in finding customers or in making sales to them. They are often called 'resellers'.

Various Facilitating Organizations

There are various facilitating organizations that provide necessary marketing facilities such as physical distribution, marketing service, and financial help. The physical distribution firms help the company to stock goods and move them from their point of origin to their destinations. These firms include warehouses and transportations firms. Marketing services agencies or firms include marketing research firms, advertising agencies / media firms and marketing consultancy firms, which help the company in targeting and promoting its products to the right market. The financial intermediaries include banks, credit companies, insurance companies and other firms who aid the company in financial transactions or insure against the trade risks. Marketing intermediaries are vital links between the company and the final consumers. A dislocation or disturbance of this link, or a wrong choice of the links, may cost the company very heavily.

Public

A 'Public' means any group that has an actual or potential (future) interest in or impact on the company's ability to achieve its objectives. Kotler and Armstrong[7] describe seven types of public as follows:

Financial Publics

They influence the company's ability to obtain funds for example banks, investment houses and shareholders are some of the important financial publics.

Media Publics

They are consisted of those mechanism or devices that carry news, features, and editorial opinion of the company and its activities and include newspapers, magazines, Radio and TVs.

Government Publics

Management must take Government developments into account. Marketers must often consult the company's legal experts / lawyers on issues of product safety, truth in advertising and other matters.

Citizen - Action Publics

Consumer organizations, environmental groups, minority groups and others may question a company's marketing decisions. Its public relations department can help it stay in touch with consumer and citizen groups.

Local Publics

Every company has local publics such as neighbourhood residents and community organizations.

General Publics

A company needs be concerned about the general public's attitude towards its product and activities. The public image of the company affects it's buying, therefore, the marketers should create a very positive image of the company by designing the suitable strategies.

Internal Publics

A company's internal publics include its workers, managers, executives, volunteers and the board of directors. The company must have proper communications with its internal publics and disseminate the relevant information to them through various modes of communication and motivate them to get their more and more involvement in company's activities. The Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to external publics.

a. External Macro Environment

The macro forces are more uncontrollable than the micro forces. Macro environment refer to those factors, which are not concerned to the immediate environment. These factors are external to the company and are quite uncontrollable. These factors do not affect the marketing ability of the concern directly but it indirectly influences marketing decisions of the company. A company may be able to influence these forces to some extent. The macro environment consists of the larger societal forces that affect the microenvironment - demographic, economic, natural, technological, political and cultural forces.

Demographic Forces

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation, and other statistics. The demographic environment is of major interest to marketers because it involves people, and people make up markets. A rapidly growing population indicates a rising demand for products. When population characteristics change, the nature of demand also changes. For example, when both husband and wife go for jobs, the demand for fast foods, electronic home appliances and the need for crèches increases. Rapid growth of population also results in increased labour supply. The changing life styles, habits and tastes of the population have potential for marketers.

Economic Forces

The purchasing power of people in a country is a crucial factor in determining the demand for products. Marketers must pay close attention to major trends in income and consumer spending patterns. In short, the economic conditions of a country – the nature of the economy, the stage of development of the economy, economic resources, the level and distribution of income, etc. are all very important factors in marketing. Further economic factors like inflation, productivity, shortages, unemployment, etc. have a tremendous impact on prices and incomes. Hence, marketers must incorporate these factors while preparing marketing programmes.

Natural Forces

The deterioration of the natural environment is a major global problem. In many cities, air and water pollution have reached dangerous levels. The natural environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Marketers should be aware of several trends in the natural environment. There are growing shortages of raw materials. Moreover, although air and water may seem to be infinite resources, air pollution and water shortages have become already a big problem in many countries of the world. Owing to these factors, governments in many courtiers have started controlling the use of natural resources. Concern for the natural environment has resulted in the so-called green movement. Marketers shall have to take all these factors into consideration while formulating their marketing policies.

Technological Forces

One of the most dramatic forces shaping people's lives is technology. Technological developments are uncontrollable environmental factors that are important to the marketers. Technology has tremendous impact on our life styles. Technological progress creates new opportunities to some companies whereas it is a threat to some other companies.

As an opportunity, technology is a source of new and improved product. As a threat, technological development may result in loss of markets. The technological changes result in changes in consumption pattern and marketing systems. A new technology may improve our lives in one area while creating environmental and social problem in another area. The marketers should monitor the following trends in technology: the pace of change, the opportunities for innovation, varying research and development budgets, and increased regulation. He should watch the trends in technology and adopt the latest technology so as to stay alive in the field.

Political Forces

Marketing decisions are strongly affected by developments in the political environment. The political environment consists of laws, government agencies, and pressure groups that influence various organisations and individuals in the group. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus, governments develop public policy to guide commerce-sets of laws and regulations that limit business for the good of the society as a whole. Business legislations are made to protect the companies from each other, to protect consumers from unfair business practices, to protect the interests of society against unrestrained business practices. Almost every marketing activity is subject to a wide range of laws and regulations. Certain changes in government policies such as fiscal policy, tariff policy, industrial policy, etc. may have its impact on marketing. Some policy developments create opportunities as well as threats. The political system spans all of the other systems. Governments undertake many specific functions that involve the other systems, which, as they have expanded, have passed beyond the individuals control in many respects.

Cultural Forces

The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviours. People grew up in a particular society that shapes their basic beliefs and values. People absorb a worldview that defines their relationships to themselves, to others, to organizations, to society, to nature, and to the universe. People differ in the relative emphasis they place on self-satisfaction. Marketers must recognize that there are many different groups with different views of themselves. People also vary in their attitudes towards corporations, government agencies, trade unions, and other organizations. People also vary in their attitude toward society. They also vary in their attitude toward nature. People also vary in their beliefs about the origin of the universe. Marketers should also take into account the cultural characteristics of the people.

Summary

International Marketing is the marketing of goods and services in more than one country. The marketing activities are carried out in a complex and changing environment. Marketing environment consists of the factors and forces outside marketing that affect marketing management's ability to develop and maintain successful transactions with its target customers. Marketing environment can be broadly divided into two categories i.e. internal environment and external environment. The internal factors, which influence the strategy and decisions of a company, are the value system, the mission and objectives, the organization structure, the internal power relationship, and the characteristics of human resources, etc. External environment consists of microenvironment and macro-environment. Microenvironment consists of the forces close to the company that affects its ability to serve its customers like suppliers, intermediaries, competitors, customers and publics. The macro environment consists of the larger societal forces that affect the microenvironment - demographic, economic, natural, technological, political and cultural forces.

Marketing environment can also be classified into controllable and uncontrollable forces. Controllable forces consist of marketing policies and strategies framed by the company. Uncontrollable forces are those forces, which are beyond the control of the company. Uncontrollables may be again classified into domestic uncontrollables and foreign uncontrollables. Domestic uncontrollables include home country elements that can have a direct effect on the success of a firm like political forces, legal structure and economic climate. Foreign uncontrollables are a significant source of uncertainty in foreign business environments. The most important among them are geographical, economic, socio-cultural, political and legal environment. A business operating in a number of foreign countries might find polar extremes in political stability, class structure, and economic climate, which are crucial in business decisions. While they are generally uncontrollable, these external forces can be influenced. Successful companies realize that the marketing environment presents a never-ending series of opportunities and threats. The major responsibility for identifying significant changes in the macro environment falls to a company's marketers. Marketing managers must be the trend trackers and opportunity seekers. Many opportunities are found by identifying trends (major social, economic, political). Within the rapidly growing global picture, marketers must monitor major environmental forces: demographic, economic, political-legal and social cultural. Companies can passively accept the marketing environment as an uncontrollable element to which they must adapt, avoiding threats and taking advantage of opportunities as they arise. Or they can take an environmental management perspective, proactively working to change the environment rather than simply reacting to it. Whenever possible, companies should try to be proactive rather than reactive.

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Lesson 2.2 - Geographical and Demographic Environment of International marketing

Introduction

Geographical environment of foreign marketing should be understood and must be included in foreign marketing plans to a degree commensurate with their influence on marketing effort. Understanding of a country's geography is essential if a marketer is to interpret a society's behaviour and fundamental attitudes. Knowledge about the geographical characteristics by an international marketer is also essential for the understanding a country's culture and to adapt to its culture. An international marketer should be familiar with the world – its climate, and topographic differences. If not, the important marketing characteristics of geography could be completely overlooked when marketing in another country. Without a historical understanding of a culture, the attitudes within the market place may not be understood. Similarly, every marketer is interested in the demographic environment of a country as people make the markets. For marketing decisions, various population characteristics like size of the world's population, its geographical distributions, density, mobility trends, age distribution, birth, death and marriage rates and racial, ethnic and religious structure, etc. are all important to marketers. These factors have a larger impact on marketing decisions of a company. Demographic data helps marketers in preparing their sectoral plans according to the life styles, habits and tastes of the population. This lesson concentrates on the important geographic characteristics that affect markets and the need to consider these while examining the environmental aspects of marketing in another country. The reader is taken to the broad scope of world markets and the effects of geographic diversity on the economic profiles of various nations. It also provides an awareness of the world's complexities and diversities that can mean the difference between success and failure in marketing ventures. The important demographic characteristics that are important to an international marketer are briefly discussed in this lesson.

Geographical Perspectives on International Marketing

The Globalization of business has made geography indispensable for the study of international marketing. Without significant attention to the study of geography, critical ideas and information about the world in which business occurs will be missing. Geography answers questions related to the location of different kinds of economic activity and the transactions that flow across national boundaries. It provides insights into the natural and human factors that influence patterns of production and consumption in different parts of the world. It explains why patterns of trade and exchange evolve over time. In recent decades, however, geography has become more familiar and more relevant to many people because emphasis has been placed on location, place, interaction, movement and region.

Geography studies the earth's surface, climate, continents, countries, peoples, industries, and resources. It is an uncontrollable environment that confronts every marketer although very little attention is paid to this factor. There is a tendency to study climate, topography, and available resources as isolated entities rather than as important causal agents in the marketing environment. The physical character of a nation is the principal determinant of the characteristics of a society and the means by which that society undertakes to supply its needs. Thus the study of geography is important for the student of marketing when evaluating marketing and its environment. Climate and topography are the two important facets of geography. Also the earth's resources and population are important factors in world markets along with the world trade routes presented in geography.

Social Responsibility of Environmental Management

The 1990s have been called the decade of the environment. The nations, companies, and people are attaching utmost priority to environmental protection and accepted that it is essential for doing business. The Governments, the Green activists, media and businesses are focusing on ways to stem the tide of pollution and to clean up their environment. Many view the problem as a global issue rather than a national issue and one that poses common threats to mankind. These are issue that cannot be addressed by nations in isolation. Companies looking to build manufacturing plants in countries with more liberal pollution regulations are finding that regulations are becoming stricter. Governments all over the world are drafting new regulations and are strictly enforcing the existing ones. Toxic substances pollute rivers, lakes, and reservoirs and the disposal of hazardous waste is a critical issue affecting the world environment. The export of hazardous waste by developed countries to less developed countries has ethical implications and environmental consequences. Governments, organizations, and businesses are increasingly concerned with the social responsibility and ethical issues surrounding the problem of generating and disposing of wastes.

Climate, Topography, Location and Place

Climate and topography are important environmental considerations when appraising the market. The effect of these geographical features on marketing ranges from the obvious influences on product adaptation to more profound influences on the development of marketing system. Altitude, humidity and temperature extremes are climatic features that affect the uses and functions of products and equipment. Products that perform well in temperature zones may require special cooling to function in tropical zones. Even within a single national market, climate can be sufficiently diverse to require major adjustments. South America is an excellent example of the importance of geography in marketing considerations. The social and economic systems can be explained in terms of the geographical characteristics of the area. It consists of natural barriers inhibiting national growth, trade, and communication. It is a vast land area with population concentrations on the outer periphery and an isolated and uninhabited interior. National unity and balanced development are hardly possible when inadequate roads and poor communications separate major cities from each other. Many citizens of South America are so isolated that they do not recognize themselves as part of the nation that claims their citizenship. Geography has always separated South America into secluded communities. There are many other regions of the world that have extreme topographic and climatic variations as well. China, the former Soviet Union, India and Canada each have formidable physical or climatic conditions within their trading regions. This statement also highlights the importance of locations for international marketing. Learning the location and characteristics of other places has always been important to those interested in conducting business outside their local areas. The drive to learn about other kinds of places, and especially their resources with a view to develop them as potential markets has stimulated geographic exploration throughout history. An understanding of the location influences business and therefore is critical for the international marketing executive. Without clear knowledge of an enterprise's location relative to its suppliers, to its market, and to its competitors, an executive operates like the captain of fog-bound vessel that has lost all navigational instruments and is heading for danger.

Climate is another natural feature that has profound impact on economic activity within a place. Many activities are directly affected by climate. Agricultural production is also influenced by climate. The average daily and evening temperatures, the amount and timing of precipitation, the timing of frosts and freezing weather and the variability of weather from one year to the next all influence the kinds of crops grown in an area. Variations in soils have a profound impact on agricultural production. In addition to its location, each place has a diverse set of characteristics. The characteristics of places - both natural and human - profoundly influence the ways that business executives in different places participate in international economic transactions.

Geographic hurdles must be recognized as having a direct effect on marketing and the related activities of communications and distribution. The effect of natural barriers on market development is also important. Because of the ease of distribution, coastal cities or cities situated on navigable waterways are more likely to be trading centres than that of land locked cities. Road condition is also an important factor affecting marketing.

Natural Features and Resources

The location, quality, and availability of resources are all vital factors in international marketing, as these will affect the pattern of world development and trade. International marketers in making worldwide international investment decisions must weigh this factor. In addition to the raw materials of industrialization, there must be sufficient supply of economically feasible energy to transform resources into usable products. Because of the disparity in the location of the earth's resources, there is world trade between those who do not have all they need and those who have more than they need and are willing to sell.

Many of the characteristics of a place relate to its natural attributes. Geologic characteristics can be especially important, as the presence of critical minerals or energy resources may make a place a world renowned supplier of valuable products. Gold and diamonds make South Africa's economy the most prosperous on that continent. Because of abundant pools of petroleum beneath desert sands, standards of living in Saudi Arabia and nearby nations have risen rapidly to be among the highest in the world. The geology of places also shapes its terrain. Terrain also plays a critical role in focusing and inhibiting the movement of people and goods. The terrain of a place is related to its hydrology. Rivers, lakes, and other bodies of water influence the kinds of economic activities that occur in a place. In general, abundant supplies of water boost economic development, because water is necessary for the sustenance of people and for both agricultural an industrial production.

Human Features/ World Population Trends

The physical features of a place provide natural resources and influence the types of economic activities in which people engage, but its human characteristics also are critical. The population of a place is important because farm production may require intensive labor to be successful, as is true in rice growing areas of eastern Asia. The skills and qualifications of the population also play a role in determining how a place fits into global economic affairs. The number of people is a significant determinant of potential consumer demand. Current population, rates of growth, age levels, and rural/urban population distribution are closely related to today's demand for various categories of goods. Changes in the composition and distribution of population among the world's countries will strongly affect future demand.

Rural/Urban Shifts

There is a marked shift of the world's population from rural to urban areas. Migration from rural to urban areas is largely a result of a desire for greater access to sources of education, health care and improved job opportunities. Once the trends of increasing population in the developing world with substantial shifts from rural to urban areas, and declining birthrates in the industrialized world, will have profound effects on the state of world business and world economic conditions. In spite of an increase in world population, multinational firms are experiencing a decrease in world markets on a relative basis owing to the factor that moneyed world is loosing numbers and poor nations are gaining numbers. Population size is vital in marketing, but people must have a means to buy to be an effective demand.

Movement/ World Trade Routes

International marketing exists because movement permits the transportation of people and goods and communication of information and ideas among different places. The location and character of transportation and communication systems long have had powerful influences on the economic standing of places. Many ports have become prosperous cities because they channeled the movement of goods on people between ocean and inland waterways. Business also has succeeded at well-situated places along overland routs. Places, where transfers from one mode of transportation to another were required often were chosen as sites for manufacturing activities. Favourable location along transportation lines is beneficial for a place. Conversely an absence of good transportation severely limits the potential for firms to succeed in a specific place. Transportation patterns change over time, and so does their impact on places. The role of advanced technology and its effect on international marketing is even more apparent with respect to advances in communications systems. Sophisticated forms of telecommunication that began more than 150 years ago with the telegraph have advanced through the telephone to facsimile transmissions and electronic mail networks. As a result, distance has practically ceased to be a consideration with respect to the transmission of information. Whereas information once moved only as rapidly as the person carrying the paper on which the information was written, data and ideas now can be sent instantaneously almost anywhere in the world. These communication advances have had a staggering impact on the way that international marketing is conducted. They have fostered the growth of multinational corporations, which operate in diverse sites around the globe while maintaining effective links with headquarters and regional control centers. International financial operations also have been transformed because of communication advances. Major world trade routes have developed among the most industrialized countries of the world – Europe, North America, and Japan. It might be said that trade routes bind the world together, minimizing distance, natural barriers, and the fundamental differences between peoples and economies. Early trade routes were overland, later came sea routes and, finally, air routes to connect countries. Trade routes represent the attempts of countries to overcome economic and social imbalances created in part by the influence of geography.

Interaction and Regions

The international marketing professional seeking to take advantage of opportunities present in different places learns not to view each place separately. The way a place function depends not only on the presence and form of certain characteristics but also on interactions among those characteristics. Growing concerns about environmental quality have led many people in more economically advanced nations to call for changes in economic systems that harm the natural environment. Like so many other geographical relationships, the nature of human-environmental interaction changes over time. With technological advances, people have been able to modify and adapt to natural features in increasingly sophisticated ways. The development of air conditioning has permitted people to function more effectively in hot tropical environments. Advanced irrigation systems now permit crops to be grown in places such as the southwestern United States, Northern Africa, and Israel. A region is a set of places that share certain characteristics. Many regions are defined by characteristics that all of the places in the group have in common. Agricultural region include areas where certain farm products dominate.

Demographic Environment of International Marketing

Demography is the study of the characteristics of human populations. Today's demographic environment shows a changing age structure, shifting family profiles, geographic population shits, a better-educated and more white-collar population, and increasing diversity. Marketers are interested in population data because people make the markets. Demographic data helps marketers in preparing their sectoral plans. In the demographic environment, marketers must be aware of world wide population growth; changing mixes of age, ethnic composition, and educational levels; the rise of non-traditional families; large geographical shifts in population; the size and growth rate of population in cities, regions, and nations; household patterns; and regional characteristics and movements and the move to micro marketing and away from mass marketing. These factors have a larger impact on marketing decisions of a company. The world population is showing explosive growth: it totaled 6.1 billion in 2000 and will exceed 7.9 billion by the year 2025. Explosive population has major implications for business. A growing population does not mean growing markets unless these markets have sufficient purchasing power. However, companies that carefully analyze their markets can find major opportunities. For example, to control rapid growth of population, the Chinese government has passed regulations limiting families to one child. One consequence of these regulations is that, these children are spoiled and fussed over as never before and known in China as "little emperors". Chinese children are being showered with everything from candy to computers as a result of the "six pocket syndrome". As many six adults – parents, grandparent, great grand parents, and aunts and uncles- may be indulging the whims of each child. This trend has encouraged toy companies such as Japan's Bandi Company, and Denmark's Lego Group to enter the Chinese market.

Population Age Mix

National populations vary in their age mix. At one extreme is Mexico, a country with a very young population and rapid population growth. At the other extreme is Japan, a country with one of the world's oldest populations. Milk, school suppliers, and toys would be important products in Mexico. Japan's population would consume many more adult products. A population can be subdivided into six age groups: preschool, school-age children, teens, young adults age 25-40, middle-aged adults age 40-65, and older adults age 65 and up. For marketers, the most populous age groups shape the marketing environment.

Ethnic and other markets

Countries also vary in ethnic and racial makeup. At one extreme is Japan, where almost everyone is Japanese; at the other is the United States, where people come virtually all nations. Each group has certain specific wants and buying habits. Several food, clothing, and furniture companies have directed their products and promotions to one or more of these groups. Within each ethnic group, there are consumers who are quite different from each other. Diversity goes beyond ethnic and racial markets.

Educational Groups

The population in different countries differs in their achieved educational level. For example in Japan, 99 percent of the population is literate, whereas the United States has one of the world's highest percentages of college-educated citizens, around 36 percent. The high number of educated people in the United States spells a high demand for quality books, magazines, and travel, and a high supply of skills.

Household Patterns

The "traditional household" consists of a husband, wife, and children. Yet, in the United States today, one out of eight households is "diverse" or "non-traditional", and includes single live-alones, adult live-together of one or both sexes, single parent families, childless married couples, and others. More people are divorcing, choosing not to marry, marrying later, or marrying without the intention to have children. Each group has a distinctive set of needs and buying habits. For example, in the single, separated, widowed, divorced (SSWD) group need smaller apartments; inexpensive and smaller appliances, furniture, and furnishings; and smaller size food packages. Marketers must increasingly consider the special needs of non-traditional households, because they are now growing more rapidly than traditional households.

Shifts in Population

This is a period of great migratory movements between and within countries. Forward-looking companies and entrepreneurs are taking advantage of the growth in immigrant populations and marketing their goods specifically to these new members of the population. Population movement also occurs as people migrate from rural to urban areas, and then to suburban areas changing the demand for products. There is little excuse for a company for being suddenly surprised by demographic developments.

Summary

Geography is the study of the earth's surface, climate, continents, countries, people, industries, resources, etc. A prospective international marketer should be familiar with the world, its climate, and topographic differences. Otherwise, the important marketing characteristics of geography will be completely overlooked when marketing in another country. Location, place, interaction, movement, and region are all important geographical factors in international marketing. There are complex geographical influences on the development of the general economy and society of a country. The need for studying geography is to provide the marketer with an understanding of why a country has developed. Geography is one of the important environments of foreign marketing that should be understood and that must be included in foreign marketing plans to the extent they influence on marketing effort.

Climate and topography demand product adaptation. Products that are fit in temperature zones may be unfit in cold zones. There are differences even in a single national market, as climate may be so diverse that require major adjustments. The socio-economic characteristics of the people in a country also depend upon geography. Other vital factors in geography affecting international marketing are the location, quality, and availability of resources. Water availability is an important factor affecting the economic activity of a region or place. The qualifications of the population, the number of people, changes in the composition and distribution of population among the world's countries are all important in estimating demand.

Demography deals with population characteristics like size, rate of growth, density, location, age, gender, race, occupation, and other statistics. Today's demographic environment shows a changing age structure, shifting family profiles, geographical shifts in population, and a better-educated population. Changes in the population characteristics will have its impact on the international marketing decisions. Data on demographic characteristics help marketers to produce goods according to the specific requirements of population and household characteristics. The population in different countries differs in their achieved educational level and this will have its implications on the demand. Changes in household patterns also change the demand for products.

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Lesson 2.3 - Economic and Socio-Cultural Environment

Introduction

The economic conditions, economic policies and economic systems are important factors affecting international business. The economic environment of the world is fast changing and economic reforms are carried out in almost all countries of the world. These changes will have vital implications to international marketing. Similarly, the socio-cultural factors are very important in international marketing. This lesson examines the influence of economic and socio-cultural environments on international marketing. This lesson describes the meaning of culture; explore the profound effect of culture on marketing along with the various elements of culture. The need for cultural adaptation overseas is explored. An attempt is also made to analyze the impact of foreign business on local culture.

Economic Environment

The economic environment is of critical importance to marketers because business cycles and other economic environment such as inflation, productivity, shortages, unemployment, resource availability, etc. have a tremendous impact on marketing. This affects consumer's real purchasing power as well as their confidence in purchasing. Economic changes may affect different organizations in unequal ways. Hence, they have to prepare the marketing programmes and strategies according to their individual requirements. Key factors in the economic environment of a country in which a firm is doing business are the nature and the extent of competition, growth rates and living standards, tax regimes, import controls and market opportunities as a whole. The balance of payment is also an important economic factor affecting international marketing.

Economic Differences in Standards of Living

Many variations in marketing systems originate in straightforward economic differences - they are due to differences in standards of living found around the world. The significant differences are those between low, moderate and high-income societies.

Low Income Countries

Low-income countries are those with per capita national incomes of less than $400 per year. The marketing in these societies is relatively simple. A large proportion of population live by subsistence farming, producing most of the food, housing, clothing, and other goods they need with their own labour. They engage in a small amount of selling in order to buy a few manufactured goods. A marketing system exists to accomplish this exchange, but the volume is small and the variety of goods involved is very limited. Hence, the volume of goods limits the marketing process. The channels of distribution are simple. Sales promotion is practices, but typically at a low level of development.

The Moderate-Income Category

The important distinction between moderate-income countries and low-income countries is that with the ability to purchase many items beyond the bare subsistence level, appreciable discretionary buying power emerges in moderate income countries. The magnitude of the marketing system is greater and therefore, different types of distribution channels appear, and the advertising and sales-promotion process develops as sellers seek to steer the discretionary buying power in one direction or another.

High Income Societies

The United States is an excellent example for high-income societies and differs from moderate-income group of societies as the large part of societies in U.S. could achieve an adequate level of income by prevailing social standards. In high-income societies, most people can afford many luxury items of a good life. The marketing system in these societies show increased complexity because of the greater volume of goods handled. But the most important characteristic is the high degree to which their distribution and sales promotion systems are geared to influence the buyer because they must not only guide but also generate demand.

Element of Dynamism

The second aspect of the economic dimension in marketing systems is the element of change. A society that is stagnant is quite different for marketing purposes from one that is moving ahead. We have seen many of the low-income countries move from stagnation to rapid progress. In a stagnant society, consumption pattern tend to become set, and the whole marketing process becomes a routine supply operation. In contrast, in a dynamic society, consumption patterns are changing and the marketing system must organize itself to the new patterns and it has to influence the process of change through distribution methods and promotion. For example, in Germany, in 1953, 92 per cent of the average family's income went for necessities, by 1967, income had roughly doubled and the portion going for luxuries had jumped from 8 per cent to 33 per cent.

Geography

The third aspect of the economic dimension is geography. The most important elements in this category are natural resources, climate, and conditions that affect transportation. Some of the effects of geography are of simple nature-such as the greater need for clothing and shelter in harsh climates. Others are more complex and influence the character of an economy. For example, some countries because of their rich natural resources have developed a much greater money economy than is typical of others in their vicinity – Venezuela and Saudi Arabia, to cite two cases in point. Other countries, weak in natural resources, but favoured by good transportation conditions, have prospered by importing raw materials, manufacturing and exporting finished goods - England and Japan being the classic examples. These characteristics are most important in the development of international marketing plans.

The economic environment can be viewed from two different angles - the micro view and the macro view. According to the macro view, people's wants, needs and economic policy of a country establish market scope and economic outlook. A micro environmental view focuses on a firm's ability to compete within a market.

Macroeconomic Environment

The most important macroeconomic environmental factors are population and income, concept of economic advancement, structure of consumption in addition to other economic indicators like economic systems and mutual economic dependence.

Population and income

The aggregate consuming capacity depends upon total population as well as per capita income. The consumption rate can be satisfied either domestically or through imports. The reason for the concentration of U.S. multinationals in Western Europe, Japan and Canada are due to their high per capita income. In contrast, despite a large population, India does not offer a huge market potential.

Concept of Economic Advancement

Economic advancement is characterized by such factors as relatively small allocation of labour force to agriculture: energy available in large amounts at low cost; high level of output and income; high level of per capita consumption; relatively low rates of population growth, etc.

Structure of Consumption

Although details of imports are important to estimate the demand for a particular product in a particular market, but the data on imports are not enough to discover a market's true size and potential. What is more important to estimate that how much of that product in the target market is actually consumed. It is therefore, necessary to find:

1. Size and trends of production within the target market
2. Size and trends of Imports within the target market
3. Size and trends of Exports for that particular product from the target market and
4. The factors that will be affecting the share of imports in consumption of that particular product in the target market.

Having the data on imports, exports and production, an international marketer may estimate the apparent consumption of a particular product i.e. Production + Imports – Exports = Apparent Consumption. It also necessary for an intelligent international marketer to ascertain the derived demand of the product, particularly if the product in question, is an industrial one.

Derived Demand[8]

In many cases a market researcher is concerned with industrial products. These are product purchased by manufacturing enterprises or other types of institution for various purposes:

- For their own use (e.g. typewriters, stationery);
- As raw materials or components of products they manufacture (e.g. raw cotton, cotton textiles, car tyres);
- As element used in manufacturing (e.g. machinery) or in providing a service (e.g. food used by a restaurant)

The demand for industrial products depends on the demand for the products for which they are sued to produce, or on the state of health of the purchasing organizations, For example, the demand for cotton textiles reflects the demand for clothing and home furnishings. This is known as derived demand. Here is another example for the derived demand as the demand for bearing is related to the demand for textile machinery (Exhibit)

Bearing Units Sew Up Expansion Plans on Textile Boom

BEARING manufacturers in Surendranagar (Gujarat State of India) are on a roll thanks to the boom in the textile sector. With the demand for textile bearings and other parts going up by 15% as compared to previous year, a large number of units are expanding their production capacity.

There are around 50 small and medium sized textile bearing manufacturers in and around Surendranagar. These firms produce various parts for textile sector and supply to the domestic as well as export markets.

KCI Industries, a textile bearing manufacturing company, plans to increase its production capacity by two lakh pieces a year. "Our total capacity will go up to 8.5 lakh pieces from the present 6.5 lakh," says HA Gadani, MD of KCI.

Initially, the company plans to invest about ₹ 50 lakh for the expansion. "This may go up next year," he says. The requirement for textile machinery is going up and hence the company has decided to upgrade production facilities, he adds. Considering the opportunities in the segment, RMD Bearings has firmed up plans to ramp up its capacity up to 2.75 lakh pieces with an investment of ₹ 6 crore by modifying its technology.

The company has been supplying products like jockey pulleys bearings, needle bearings, needle bearings, bushings and so on to domestic textile players like Laxmi Machine Works, Trumek Textiles, Zinsar Textiles. While the medium-sized units are expanding, small units are looking at China's low cost bearing model, which is likely to be launched in India by April-end. Although the low-cost product may not be preferred by the big companies, local textile players are waiting for it to be launched.

Owner of Arihant Industries Hemant Shah says: "We are waiting for the Chinese product, which will be launched soon."

Mr. Shah is sewing up plans to increase his production capacity by 50% this year from about 5,000 pieces per month.

Source: Adapted from The Economic Times, April 6, 2007, p.3

Consumption in most advanced countries is characterized by a higher proportion of expenditures devoted to capital goods than consumption goods against poor countries, where substantially more is spent on consumer goods. The structural differences with regard to expenditures among nations can be explained by a theory propounded by the German Statistician Engel. The law of consumption (Engel's Law) states that poorer families and societies tend to spend a greater proportion of their incomes on food than well to-do people.

Other Economic Indicators

In addition to population, income, and expenditures, there are many other aspects of economic environment that are important to an international marketer. Raw materials – natural and industrial, production of food stuffs, prices, supply of electricity, finance, etc. are all important as far as international marketing is concerned. A marketer need not gather information about all these indicators. The purpose of the project determines the economic indicators to be examined at a particular time.

Economic Systems

The economic system of a country - Capitalism, Socialism, Communism and Mixed Economy are other economic factors that a marketer must understand. The nature of economic systems affects the political/regulatory control of the economy. Thus, when performing an economic analysis, an international marketer needs to consider the economic perspectives of the overall world economy, particularly those of its major trading partners and the host country.

Microeconomic Environment

Microeconomic environment refers to the environment surrounding a product or market of interest to a company. An examination of microenvironment indicates whether the company can successfully enter the market. Essentially the microeconomic environment concerns competition.

Sources of Competition

A company may face competition in an international market from three different sources: local business, other companies of the home country and other foreign companies. Different competitors may satisfy different types of demand: existing demand, latent demand and incipient demand. Existing demand refers to a product bought to satisfy a particular need. Latent demand applies in a situation where a particular need has been recognized, but no products have been offered. Incipient demand describes a projected need that will emerge when customers become aware of it some time in future. Competition can also be analyzed by the characteristics of products. Three product categories are in use and they are breakthrough product – a unique innovation that is mainly technical in nature, such as a digital watch, a colour television, etc. A competitive product - one of many brands currently available in the market and has no special advantage over the competing products, and an improved product - not unique but is generally superior to many existing brands.

The nature of the competition that a company faces in entering an overseas market can be determined by relating the three types of products to the three types of demand. After examining the competition, a company should be able to ascertain which product/market is most suitable to the company.

Socio-cultural Environment

Cultural differences deeply affect market behaviour. International marketers, therefore, need to be familiar with the cultural traits of any country they want to do business with. International business literature is full of instances where stereotyped notions of countries' cultures have led to insurmountable problems. Practically international marketing decisions are culture bound. To understand the ways in which marketing differs among countries, one should look the role of marketing in the structure of society. The simple social systems of the primitive tribe have progressed in to a proliferation of organizations including the social, religions, family, educational, and work groups as well as other units like fraternal societies that are primarily social in purpose. Since the early days of subsistence production, the process by making goods and getting them from producer to consumer has expanded into our extensive economic structure of which the marketing system is a central component. Religion plays a major role in family systems, and much education is accomplished within work units. We must, therefore, consider marketing not only in its direct role as the physical process by which goods move to the consumer, but also in its relation to the other systems of society. Material goods and marketing process contribute to the satisfaction of the other needs of man. Probably the most significant effects are in the social area, for the marketing system often satisfies a sizeable part of a person's social needs.

The influences of the religion, family, educational, and social systems of a society on the marketing system comprise the cultural dimension of our picture. The cultural attitudes vary among countries and it is difficult to find a general pattern. To determine the cultural aspects of markets, we must analyse each society by itself without the benefit of guiding generalizations. Religion, family systems, social and educational systems are some of the common threads that run through the cultures of groups of countries.

Religion

A few major religions have spread over large areas. Religion has much to do with the types of products people buy, the way they buy them, and the way they manage businesses. Roman Catholicism dominates a large segment of the world, notably Latin America and the Southern European countries. Islam covers another large area stretching across Northern Africa, through the Middle East, and on as far as Indonesia. These religions have a number of specific marketing effects, such as the Moslem prohibition of liquor, etc. Buddhism and Hinduism are more popular and dominate in many parts of Asia and have affects on high spiritual values, low values for materialistic world resulting in simple living and pay more emphasis on moral values and ethics. Religions are a major determinant of the moral and ethical standards that play a large part in the marketing process. Religions are a major determinant of the moral and ethical standards that play a large part in the marketing process.

Family System

Family system differs widely among countries. It differs in placing subordinate or equal role to wife, rights and control over the affairs of the family. Role of women in Muslim countries or families is not as important as in European and American and many other countries.

Educational System

There are also differences in educational methods common to large areas. The differences in educational system have its effects on marketing management and market research.

Social Relationships

We know that the value systems of people are strongly influenced by their quest for the social prestige attached to status symbols, among which is the ownership of various material goods. There are attitudes among each population not encompassed by the basic systems we have been considering. Notable for marketing purposes are the artistic tastes of people, which are important factors in the appearance of products and the character of advertising and other promotion efforts. There are also a host of specific elements in the life of each country that are significant in some way - white is for mourning in China, a cow is sacred in India, and so on. In the socio-cultural arena, marketers must understand people's views of themselves, others, organizations, society, and the nature. They must market products that correspond to society's core and secondary value, and address the needs of different subcultures within a society.

The cultural traits of a country have a profound effect on people's life style and behaviour patterns, and these are reflected in the market place. Culture is a complex term, and its precise definition is difficult. Broadly defined, however, it refers to all learned behaviour of all facets of life and living transmitted from generation to generation. Cultural differences among countries can be subtle and zealously followed. The study of culture includes material life; social interactions between individuals and groups in formal and informal situations; language (spoken/written words, symbols and physical expressions that people use to communicate); aesthetics (art, drama, music); religion and faith; pride and prejudice and ethics and more. Cultural traits account for such differences among nations as colour preferences, concept of time, and authority patterns. For example, in Western countries a bride's gown is usually white. In the Far East, however, women wear white during mourning. Cultural differences have impact on marketing decisions affecting product, price, distribution, and promotion. To conduct business successfully across national boundaries, marketers must adapt themselves to local cultures. For cultural adaptation, self-reference criterion (SRC) should be avoided so as to understand new foreign situations. A discussion of culture must also deal with cultural change. Cultures do change, but change is usually slow. Industrialization is an important factor behind cultural change. Multinational corporations, through involvement in the industrialization process, serve as change agents in foreign cultures. Their worldwide networks of affiliates transmit the values of the parent corporation culture through advertising media and through the internationalization of business education.

Each country has its own folkways, norms and taboos when designing international marketing strategies. Companies must understand how culture affects consumer reflections in each of its world markets. In turn, they must also understand how their strategies affect local cultures. The seller must examine the ways consumers in different countries think about and use certain products before planning marketing program. For example, the average French man uses almost twice as many cosmetics and beauty aids as his wife. Italian children like to eat Chocolate bars between slices of bread as a snack. Women in Tanzania will not give their children eggs for fear of making them bald or impotent. Overlooking cultural differences can result in embarrassing mistakes.

A nation's culture represents a collective frame of reference through which a wide range of issues and problems are interpreted. It determines how individuals affect specialization, friendship patterns, social institutions, and aesthetics of language perceive symbols, sounds, pictures and behaviour. An important function of culture is that it helps the individual to define concepts. This is vitally important for the design of advertising images because culturally based conceptualizations can determine how a message is interpreted and how the message recipient responds to its contents. National media that carry advertisements are influenced by a nation's culture in terms of the spoken and written language, the editorial of magazines, newspapers and radio and television programmes.

Attitudes Expressed by the Media towards National Issues

Culture affects what people buy (taboos, local tastes, historical traditions, etc.), when they buy (e.g. the spending boom around Christmas in Christian countries) who does the purchasing (men or women) and the overall pattern of consumer buying behaviour. Culture can also affect consumer behaviour in relation to: which consumer needs are felt more intensely, which family members take purchasing decisions, etc.

Attitudes towards Foreign Products

Cultural influences are evident in some aspects of a country's demographic make up. E.g. Fords Pinto car sold poorly in certain parts of Latin America, where the word 'Pinto' is slang for 'small make sexual organ'.

Social Values

These are moral principles or standards against which the desirability of certain modes of behaviour may be assessed. Values help determine what an individual considers important personal priorities, and how he or she assesses other people's worth. Values influence perspectives on a variety of matters: the work ethic, honestly, social responsibility, choice of career and so on. Values change over time; some may disappear entirely as environmental circumstances alter. Also values may vary across industries and from state to state.

Concept of Culture

Culture has been defined in different ways. It includes all learned behaviour and values that are transmitted to an individual living within the society through shared experience. The concept of culture is broad and extremely complex. It encompasses virtually every part of person's life. A nation may embody more than one culture. The two cultures may exhibit fundamental cultural differences. Cultural understanding requires examination of cultural elements within a country like material life, social interactions, language, aesthetics, religion and faith, ethics and mores, role and responsibility, and pride and prejudice.

Material life

Material life refers to economics - how people derive their livelihood. Material life reflects standard of living and degree of economic advancement. In a less developed country, a large proportion of population is engaged in agriculture. The medium of exchange is a barter system, markets are local, and living is entirely rural. These descriptions suggest that the society is primitive and in primitive societies, multinational business will be nonexistent. In contrast, the culture of a society where manufacturing industry serves as the major source of employment, people live in urban centres, money is the medium of exchange, business across national boundaries would make sense.

Social Interactions

Social interactions establish the role that people play in a society and their authority/responsibility pattern. Social roles also are established by culture. For example a woman can be a wife, a mother, a community leader, and/or employee. What role is preferred in different situations is culture bound. The authority of the aged, the teacher, and the religious in many societies is held high. The educational system, the social settings and customs and traditions reassert the prescribed roles and patterns of individuals and groups. With reference to marketing, the social interactions influence family decision-making and buying behaviour and define the scope of personal influence and opinion. An empirical study showed how cultural differences affect the husband-wife influence in buying decisions. A Singapore husband played a more dominant role than his U.S. counterpart in family decision-making. Language as part of culture is important in international marketing. Some times same word may mean an entirely different thing in different cultures. Therefore, an international marketer must be careful in handling the matter of language in business dealings, contracts, negotiations, advertising, and so on. Symbolic communication is equally important. In many situations the symbolic language of communication is more important than the actual words, and people respond accordingly. Therefore, an international businessperson must understand cultural differences and behave accordingly to avoid inadvertently communicating the wrong message.

Aesthetics

Aesthetics include art, the drama, the music, the folkways, and the architecture endemic in a society. These aspects of society convey the concept of beauty and expression revered in a culture. For example, different colours have different meanings worldwide. In Western societies, wedding gowns are usually white, but in Asia white symbolizes sorrow. Red roses in Spain are related with more of lust than love whereas, in France Yellow indicates unfriendly and cut flowers are unlucky. The yellow colour in Africa is associated with disease. The aesthetic values have an impact on the design and marketing of different people. Following tables give the positive and negative impact of different colours in selected countries which an international marketer must take into consideration to get a successful entry in the particular market[9].

Colours Having Positive Impact in Selected Countries

Colour(s)	Country(ies)
White, Pink and Yellow	Chad
White, red, green, yellow	Romania
Yellow, Green and Red	Argentina
Red, Orange and bold colours	Malaysia
Red, White and Blue	Czechoslovakia, Denmark
Bold Yellow, Green and Blue	Greece
Soft tones for clothing, cosmetics	Italy
Green	Libya
Subtle colours	Mauritania
Red	Sierra Leone
Red & Green	Afghanistan
Yellow and bold colours	Taiwan
Red, Blue and Yellow	Colombia
Bright Colours	Peru, Surinam
Red or Green on White or Black background	Egypt
Red and Yellow	China

Colours Having Negative Impact in Selected Countries

Colour(s)	Country(ies)
Red & Black	Benin, Chad, Nigeria, Togo
Black	Ethiopia, Ghana, Liberia, Madagascar, Sierra Leone, Malaysia, Pakistan, Singapore, Czechoslovakia, Greece, Romania, Argentina
Black, White and dull colours	Ivory Coast

Colour(s)	Country(ies)
Yellow	Togo
Purple	Italy
White, Black and Grey	Hong Kong, Korea
The flag colours-Blue, White, Blue horizontal strips	Nicaragua
Flag Colours	Venezuela (It is prohibited in Venezuela)
Black, White, Yellow and Purple	Japan (It is associated with funeral in Japan)
Red (printing)	South Korea

Religion and Faith

Religion influences a culture's outlook on life; its meaning, and concept. Religion also influences male-female roles, as well as societal institutions and customs, such as marriage and funeral rites. It also affects patterns of living in various other ways. It establishes authority relationships, and individual's duties and responsibilities. The religious traits and tenets may profoundly affect marketing and international marketers must be sensitive to the religious principles of the host country.

Pride and Prejudice

Culture fosters pride and prejudice in its inhabitants. Cultural pride and prejudice make many nations reject foreign ideas and imported goods.

Ethics and Customs

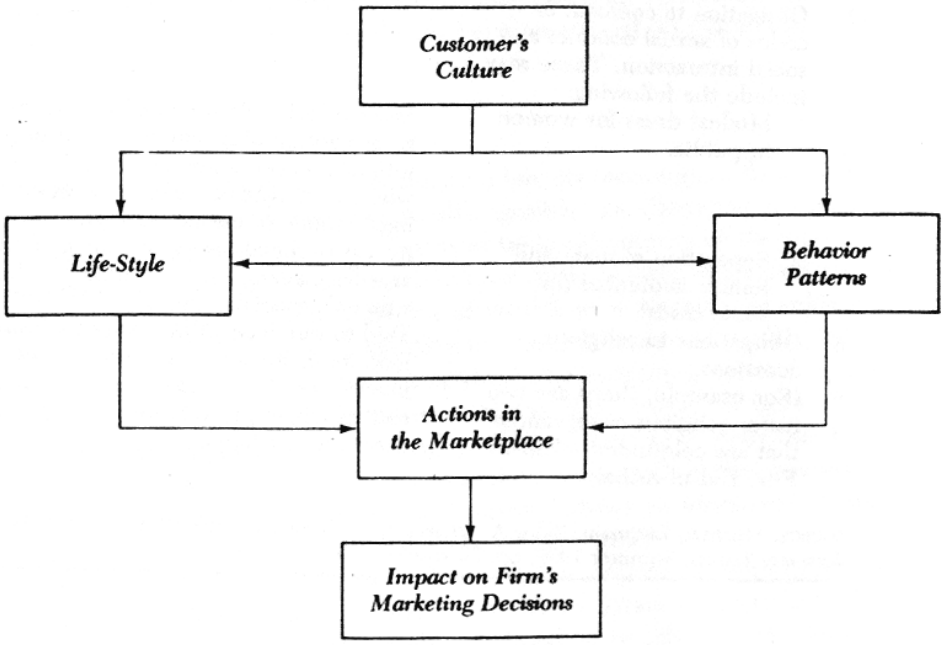
The concept of what is right or wrong is based on culture.

Culture and Marketing

Culture influences every aspect of marketing. Figure describes the linkage between culture and marketing. A marketing oriented firm should make decisions based on customer perspectives. Customers' actions are shaped by their lifestyles and behaviour patterns as they stem from their society's culture. Thus, the products that people buy, the attributes that they value are all culture-based choices. Thus, a person's perspectives, resources, problems and opportunities are generated and conditioned by culture to a considerable extent.

Culture will have its impact on the food habits of people. Food consumption, acquisition, and preparation also are interrelated with many of the other universals of culture, including religious observances and ceremonies, fasting, folklore, and the division of labour. Cultural pressures easily overrule physiological necessities. Therefore, it becomes even more difficult for an individual alien to a culture to predict that culture's preference for or rejection of certain food habits. No matter who shops, or where, cultural differences always affect decision making when it comes to the product and its price, as well as to the way it is distributed and promoted.

Impact of Culture on Marketing Decisions



The product

The performance of a product /market depends on a variety of factors. The failure of a product in a country is traceable to cultural blunders. A product that has been highly profitable in a country may fail in another country due to cultural differences. Thus the product positioning in a foreign market should match the country's unique cultural environment.

Distribution

Channels of distribution may need to be modified to suit local conditions. The method of door-to door and other direct selling may work in some countries, which may fail in certain other countries.

Promotion

Promotion practices, particularly advertising, are most susceptible to cultural error. Examples abound where advertising copy and design were culturally revolting and therefore, totally ineffective. Pepsi ran into difficulties in Germany for using its U.S. ad, “Come alive, you’re in the Pepsi generation,” which in German meant, “Come alive out of the grave.’’

Cultural Analysis

The analysis of cultural differences is necessary for the formulation of international marketing strategy. The cultural analysis may be based on three approaches viz. - ethnocentrism, assimilation, and primacy of host country viewpoint. The ethnocentrism assumes that what is good at home should work in foreign countries a well. The assimilation approach assumes that the cultural traits demonstrated in one society is relevant anywhere. The primacy of host country approach concerns market composition and emphasizes basing decisions on host country cultural traits. This approach considers domestic information as inappropriate to successful operation in markets outside the home country.

Assessment of Culture

An assessment of country’s culture for marketing’s sake involves the analysis of the people’s attitudes, motivations, perceptions, and learning processes. However, simply knowing about the religion or morality of a culture is not enough. The marketer must analyse the product planned to be introduced into the country has any direct or indirect connotations that conflict with the cultural patterns of the society. Similarly, an examination of advertising themes, phrases, words, or expressions should confirm the viability of promotional decisions. The cultural values of a nation may be studied through either observation or fieldwork.

Cultural Adaptation

It refers to the making of business decisions appropriate to the cultural traits of the society. Thus, the decisions should be sensitive to the local culture to ensure that the native customs, traditions, and taboos offer no constraint to their implementation.

The impact of culture is ever-present in all marketing decisions. Obviously, international marketers must seek cultural adaptation overseas. All their decisions and actions should be fully similar with local culture. The cultural adaptation is very difficult to practice. The major reason for this difficulty is the Self Reference Criterion (SRC). The SRC explains that whenever people are faced with unique situations, their own values are the measure for their understanding and response to the circumstances. For example, if some one in the United States is late for an appointment, that person will feel guilty about it and apologize for being late. On the other hand, to the Arab, a 9 A.M. meeting does not communicate an exact time but would be understood as sometime in the morning. The tendency toward SRC is a stumbling block in cultural adaptation.

Areas of Adaptation

There are three areas of foreign business adaptation: product, institutional, and individual. The product may be modified to fit to the foreign country climate. The Institutional behaviour includes adaptation of the organization and business interactions to match the host's perspective. The adaptation of Individuals' responses to foreign situations should strive to be free of SRC. Such adaptation may be required in all regards - the meaning of time, social behaviour, play behaviour, family interactions, and more.

Views of themselves

People vary in the relative emphasis they place on self-gratification. In the United States during the 1960s and 1970s, "pleasure seekers" sought fun, change, and escape. Others sought "self-realization." People bought dream cars and dream vacations and spent more time in health activities, in introspection, and in arts and crafts. Today, some people are adopting more conservative behaviours and ambitions. Marketers must recognize that there are many different groups with different views of themselves.

Views of others

People are concerned about the homeless, crime and victims, and other social problems. They would like to live in a more human society. At the same time, people are seeking out their "own kind" and avoiding strangers. These trends signify a growing market for social-support products and services that promote direct relations between human beings, such as health clubs, and religious activity. They also suggest a growing market for "social surrogates," things that allow people who are alone to feel that they are not, such as television, home video games, and chat rooms on the Internet.

Views of Organizations

People vary in their attitudes toward corporations, government agencies, trade unions, and other organizations. Most people are willing to work for these organizations, but there has been an overall decline in organizational loyalty. Many people today see work not as a source of satisfaction, but as a required task to earn money to enjoy their no work hours. This outlook has several marketing implications. Companies need to find new ways to win back consumers' and employees' confidence. They need to make sure that they are good corporate citizens and that their consumer messages are honest.

Views of Society

People vary in their attitudes toward their society. Some defend it (preservers), some want to change it (changers) some are looking for something deeper (seekers), and some want to leave it (escapers). Consumption patterns often reflect social attitude. Changers usually live more thriftily, driving smaller cars and wearing simpler clothes. Escapers and seekers are a major market for movies, music, surfing and camping.

Views of Nature

People vary in their attitudes toward nature. Some feel dominated by it, others feel in harmony with it, and still others seek mastery over it. Recently, people recognize that nature can be destroyed by human activities. Business has responded to this as tour operators are packaging tours to wilderness areas and food producers preparing natural food products. There are some other cultural characteristics of interest to marketers - the persistence of core cultural values, the existence of subcultures, and shifts of values through time.

Persistence of Core cultural values

The people living in a particular society hold many core beliefs and values that tend to persist. Core beliefs and values are passed on from parents to children and are reinforced by major social institutions - schools, churches, businesses, and governments. Secondary beliefs and values are more open to change. Believing in the institution of marriage is a core belief; believing that people ought to get married early is a secondary belief. Thus family planning marketers could make some headway arguing that people should get married later, rather than that they should not get married at all. Marketers have some chance of changing secondary values but little chance of changing core values.

Existence of Subcultures

Each society contains subcultures, groups with shared values emerging from their special life experiences or circumstances. To the extent that sub cultural groups exhibit different wants and consumption behaviour, marketers can choose particular subcultures as target markets. Although core values are fairly persistent, cultural swings do take place. In the 1960s, hippies and other cultural phenomena had a major impact on young people's hairstyles, clothing and life goals. New heroes and new activities influence today's young people.

Summary

Economic variables relating to the various markets characteristics - population, income, consumption patterns, infrastructure, geography, and attitudes toward foreign involvement in the economy - form a starting point for assessment of market potential for the international marketer. These data are readily available but should be used in conjunction with other, more interpretive data because the marketer's plans often require a long-term approach. Data on the economic environment produce a snapshot of the past; in some cases, old data are used to make decisions affecting operations two years in the future. Even if the data are recent, they cannot themselves indicate the growth and the intensity of development. Some economies remain stagnant, plagued by natural calamities, internal problems and lack of export markets, whereas some witness booming economic development. Economic data provide a baseline from which other more market/product-specific and even experimental data can be collected. Understanding the composition and interrelationships between economic indicators is essential for the assessment of the other environments and their joint impact on market potential. The international marketer needs to understand the impact of the economic environment on social development.

The emergence of economic integration in the world economy poses unique opportunities and challenges to the international marketer. Eliminating barriers between member markets and erecting new ones vis-à-vis non-members will call for adjustments in past strategies to fully exploit the new situations. In the late 1980s and early 1990s, economic integration increased substantially. The signing of the North American Free Trade Agreement (NAFTA) produced the largest trading bloc in the world, whereas the Europeans are moving in their cooperation beyond the pure trade dimension. In the economic arena, marketers need to focus on income distribution and levels of saving, debt, and credit availability.

Culture is one of the most challenging elements of the international market place. This system of learned behaviour patterns characteristic of the members of a given society is constantly shaped by a set of dynamic variables: language, religion, values and attitudes, manners and customs, aesthetics, technology, education and social institutions. An international manager, to cope with this system, needs both factual and interpretive knowledge of culture. To some extent, the factual can be learned; the interpretation comes only through experience. The most complicated problems in dealing with the cultural environment stem from the fact that we cannot leave culture - we have to live with it. Two schools of thought exist in the business world on how to deal with cultural diversity. One is that business is business the world around, following the model of Pepsi and McDonald's. In some cases, globalization is a fact of life; however, cultural differences are still far from converging.

The other school proposes that companies must tailor business approaches to individual cultures. Setting up policies and procedures in each country has been compared to an organ transplant; the critical question centers on acceptance or rejection. The major challenge to the international manager is to make sure that rejection is not a result of cultural myopia or even blindness. The internationally successful companies all share an important quality – i.e. the patience. They have not rushed into situations but rather built their operations carefully by following the most basic business principles. These principles are to know your adversary, know your audience, and know your customer.

Culture has both a pervasive and changing influence on each national market environment. International marketers must recognize the influence of culture and must be prepared to either respond to it or change it. International marketers have played an important and even a leading role in influencing the rate of cultural change around the world. This is particularly true of food, but it includes virtually every industry, particularly in consumer products. Soap and detergent manufacturers have changed washing habits, the electronics industry has changed entertainment patterns, clothing marketers have changed styles, and so on. In industrial products culture does affect product characteristics and demand but is more important as an influence on the marketing process, particularly in the way business is done. International marketers have learned to rely upon people who know and understand local customs and attitudes for marketing expertise. Often, but not always, these are local nationals. The world is becoming more and more monocultural. Today you can get Japanese noodles in the United States and McDonald's hamburgers in Japan. Therefore, on may like to say that cultural factors are simply not as important as they were 50, 40 or even 10, years ago because in the era of globalization the changes are taking place, however, one has to accept the truth that some adaptations to suit the local needs are essential to become the successful global enterprise.

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Lesson 2.4 - Political and Legal Environment and the Impact of Environment on International Marketing Decisions

Introduction

The role of the political system on marketing comes from laws, regulations, and other government actions that restrict or direct the way in which business may be conducted. Companies planning international marketing must have an in depth knowledge of the political environment in the countries where they like to do business. There are many types of political risk associated with actions of the governing bodies. There are wide variations in the political environments of countries and if the political environment is characterized by instability and uncertainty, entry for marketing will be prevented. In brief a thorough review of the political environment must pave the way to a new market in a foreign country. Furthermore, the political environments of countries do not remain static. Political changes and upheavals may occur after an international marketer has made a promise and has and established business. Political environment connotes diverse happenings. It may be a national difficulty like the conflict between the Communist government in Poland and solidarity or acts of terrorism against business (for example, kidnappings, arson) or conflicts between countries in a particular region like the war between India and China or India and Pakistan or an unending problem like the enmity between Israel and its Arab neighbours.

Political risk is associated with the actions of local and regional governing bodies affecting the international company with the overall economic and political stability within a particular country. Political stability of a country is one of the fundamental factors that companies consider when going overseas. There are various types of political risks in international marketing. Political risks will emerge to due to unstable political environment such as violence, expropriation, restriction of operations, and restrictions on repatriation of capital and remittances of profits. If the risk is high in a particular politically unstable country, it is necessary to know how to monitor that country's ongoing political situation. The political conflicts and difficulties in foreign countries and their effects on overseas business are analyzed here. Planned responses to political change accessible to multinational marketers are also examined.

a. Politics and Marketing

Marketing decisions in the international context are deeply affected by the political perspectives of both home and host countries. For example, government decisions have significantly affected the U.S automotive industry. Stringent requirements such as the fuel efficiency standards have burdened the industry in several ways. Government around the world helps their domestic industries to strengthen their competitiveness through various fiscal and monetary measures. Such political support can play a key role in an industry's search for markets abroad. Without such assistance, an industry may face a difficult situation. The competition facing U.S manufacturers, therefore, both at home and in international markets, is potent and resourceful. Moreover, a number of these overseas competitors are wholly or partly state-owned and respond to the direction of their governments, which depend heavily on their export business for the maintenance of employment and the earning of foreign exchange. This makes politics important, deeply influencing the perspectives of international marketing. Politics may affect international marketing in various ways. For example, during late 1980's Japan liberalized tobacco imports by lifting restrictions on price, distribution, and the number of retail outlets that can handle their products. This was to encourage foreign suppliers to intensify their marketing efforts. In July 1985, Mexico approved the long-delayed, once-rejected 100 per cent IBM-owned microcomputer plant to encourage more foreign investment.

Theoretically, multinational enterprises are affected by politics in three areas. They are the pattern of ownership in the parent company of the affiliate, the direction and nature of growth of the affiliate, and the flow of product, technology and managerial skills within the companies of the group. The government can substantially influence the strategy of Multinational Corporations (MNCs) affiliates in ways that were thought impossible even a few years ago. In India, many MNC affiliates had to diversify into areas where neither the parent company nor the affiliate had the core capabilities. Competence ceased to be an important factor in strategy formulation compared to the need to conform to political directives and regulations. In general, the transfer of product and technology from the parent company in order to exploit new markets in the host country meets with obstruction from the government unless the technology is in the areas specified by regulation.

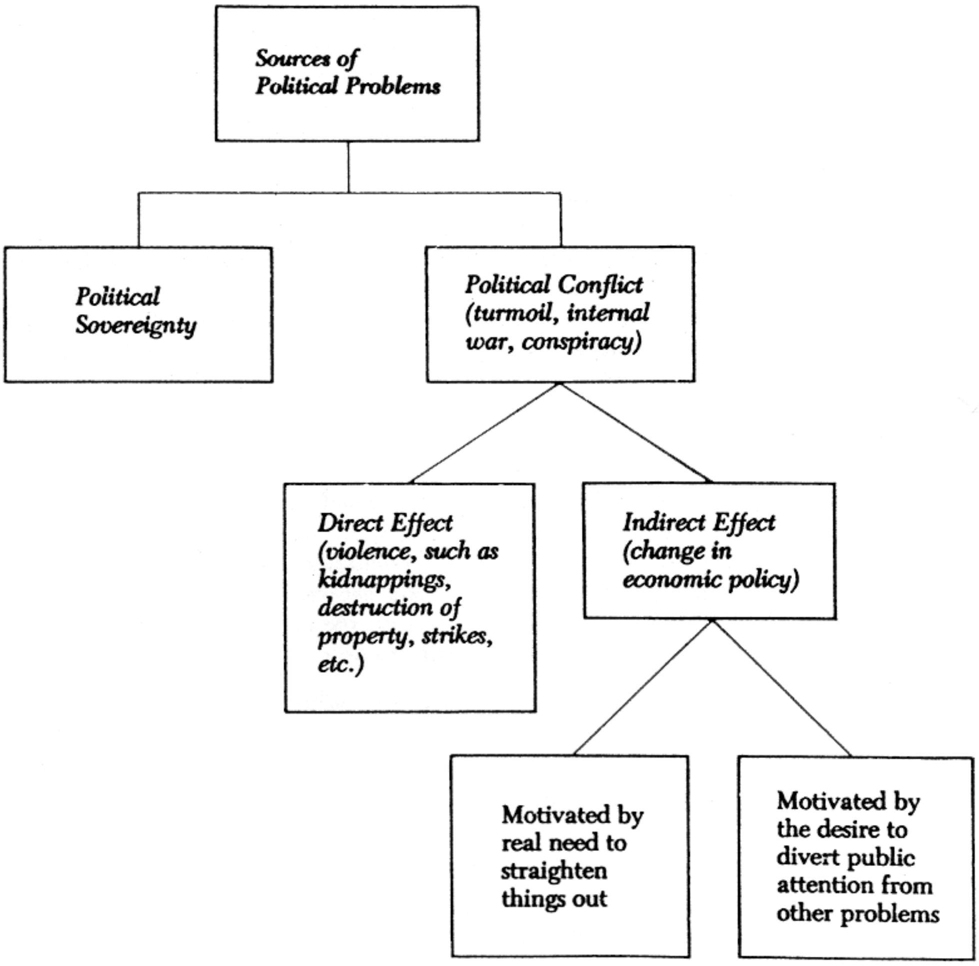
The political impact does not end here. It has further ramifications on the MNC's worldwide operations. With regulations forcing MNC affiliates, operating in controlled economies, to move into areas where the parent company may or may not have prior experience, the parent company will find increasing difficulties in developing worldwide strategies to maximize their corporate interests. The large MNCs will have problems in achieving worldwide integration of resources, physical, human, and financial. Dilution of ownership will lead to erosion of the power of the parent company to control the management process in the affiliates. In short, the dissimilarity of business between the affiliates and the parent, along with reduced ownership by parent, will make the latter primarily an investor. If this pattern continues, parent companies will soon find that they are no longer in a position to integrate their resources worldwide.

b. Sources of Political Problems

Figure illustrates sources of political problems for firms doing business in foreign countries. Political impact on business comes mainly from political sovereignty and political conflict.

Political Sovereignty

Political sovereignty refers to a country's aspiration to declare its power over foreign business through diverse sanctions. Such sanctions are normal and evolutionary predictable. An example is increases in taxes over foreign operations. Many of the less-developed countries impose restrictions on foreign business to protect their independence. These nations are envious of their political freedom and want to protect it at all costs, even if it means going at a slow economic pace and without the help of multinational corporations. The industrialized nations require a more open policy for the economic realities of today's world. Today, governments are likely to curtail unemployment, reduce inflation, redistribute income, provide health services, and not misuse the environment. These



objectives make developed countries seek foreign technology, use foreign capital and foreign raw materials, and sell their products in foreign markets. In brief, among the developed countries multi-nationalism of business is politically tolerable and economically attractive.

Political Conflict

Several countries of the world experience political conflict of diverse sorts. Political conflicts may be categorized as turmoil, internal war and conspiracy. Turmoil refers to instant upheaval on a massive scale against an established system. Internal war means large-scale, organized violence against a government such as guerrilla warfare. Conspiracy represents an immediate, deliberate act of violence against those in power (for example, the assassination of Egyptian President Anwar Sadat). Political conflict may have an impact on business. Political change may also lead to a more favourable business climate. After the assassination of

Prime Minister Indira Gandhi in 1984, India's policy became highly good for international business. Gillette Company, for example, obtained the Indian government's permission to set up a razor blade plant after some eight years of asking. It is important to make a distinction between political risk and political conflict. Political conflict in a country may lead to unstable conditions, but those conditions may or may not result from political unrest. Business must analyze each occurrence of political conflict and assess the likelihood of its impact on business. The effect of political conflict on business may be direct or indirect. Direct effects would be violence against the firm such as the kidnapping of an executive, damage to company property, a labour strike, and the like. Overall, direct effects are usually temporary and do not result in huge losses. Indirect effects occur because of changes in government policy.

In short, political conflict may change a government's economic perception. Such change may come from a new attitude on the part of an existing government or through a new government. Further, the changes may be motivated by a sincere desire to set right things to divert public attention from other domestic problems of the country. From the viewpoint of foreign businesses, it is important to understand the nature of political conflict and the motivation behind government action. If a change in government policy is for names sake, it represents less risk to foreign businesses. On the other hand, when a new policy is expressed through the imposition of certain constraints, requirements, and controls on foreign businesses, the government must spread and enforce the new policy. Otherwise, the new policy will be futile without any actual effects on foreign businesses.

c. Political Intervention

Political intervention may be defined as a decision on the part of the host country government that may force a change in the operations, policies, and strategies of a foreign firm. The intervention may range from some sort of control to complete take over of the foreign enterprise. The magnitude of intervention would vary according to the company's business in the country and nature of the intervention. There are different forms of intervention: expropriation, domestication, exchange control, import restrictions, market control, tax control, price control, and labour problems.

Expropriation

Among the various forms of political intervention, expropriation is the most severe. It is official seizure of foreign property by a host country whose intention is to use the seized property in the public interest. Expropriation is recognized by international law as the right of sovereign states, if the expropriated firms are given prompt compensation at fair market value, in convertible currencies. Other terms used interchangeably with expropriation are nationalization and socialization. Nationalization refers to a transfer of the entire industry within that country from private to public ownership with no discrimination as to foreign ownership or local ownership. Socialization, also referred to as communization, differs from nationalization in that it is a transfer of all the industries within the country. Confiscation means expropriation without compensation. Patterns of expropriation have been differentiated according to industry, region, type of ownership, technology, asset size, and politico-economic situation.

Domestication

Domestication is a process of controls and restrictions placed on the foreign firm, which gradually reduces the control of the owners. Although, domestication may ultimately lead to expropriation, it offers a compromise to both parties. The multinational corporation continues to operate in the country while the host government is able to maintain leverage on the foreign firm through imposing different controls. Measures of domestication involve several forms, including gradual transfer of ownership to nationals, promotion of a large number of nationals to higher levels of management, greater decision-making powers to nationals, more products produced locally rather than imported, and specific export regulations to dictate participation in world markets.

Other Forms of Intervention

The other forms of intervention include government involvement in foreign enterprise taking the form of legislative action enacted in the national interest. Moreover, intervention applies to both domestic and foreign business. However, in actual practice, certain aspects of the law are irrelevant for domestic business and are meant to control foreign business. For example, a clause in a decree restricting repatriation or profits to stockholders outside the country would be meaningless for native companies. Exchange control, import restrictions, market control, tax control, price control, and labour restrictions are the other important forms of intervention by the government.

Exchange Control

Those countries having difficulties with the balance of trade impose restrictions on the free use of foreign exchange. For example, import of luxuries from outside the country is restricted. In the same way, limitations are placed on the remittances from the country involving hard currency. The exchange control may also be an effort to encourage domestic industry. Exchange control measures affect foreign business in two ways. First, profits and capital cannot be returned to the parent company at will. Second, raw material, machinery, spare parts and the like cannot be liberally imported for operating purposes. Most developing countries utilize exchange control to regulate their hard currency balances. The need for such regulations is one important reason for restrictions on imports of consumer in most emerging countries. Sometimes even developed countries may resort to exchange control.

Import Restrictions

Import restrictions are primarily for the support of native industries. Consider a foreign pharmaceutical company traditionally importing certain compounds and chemicals from the parent company. If the host country places restrictions on imports, it may be forced to depend on local sources of supply for these new materials. This can create two types of problems for the foreign firm. First, the local product may be of inferior quality, which would affect the quality of the finished product. Second, locally the product may be in such short supply that the foreign manufacturer cannot acquire it in adequate quantity. Apparently governments legislate import restrictions to all industries and the difficulties to be faced by a foreign company do not figure in the discussion. Further, when a country wants to encourage domestic industry as a matter of industrial policy, import restrictions are adopted with the realization that the local product will be inferior, at least initially. Strictly from the point of view of the government, import restrictions seem reasonable, but they ordinarily jeopardize the functions of foreign business.

Market Control

The government of a country sometimes imposes controls to prevent foreign companies from competing in certain markets. For example, until recently Japan had prohibited foreign companies from selling sophisticated communication equipment to the Japanese government. As a result many popular companies could not do business with Japan. The Arab boycott of companies doing business with Israel is an interesting example of market control.

Tax Control

Government may also impose heavy taxes on foreign business. For example, a new form of excise tax for which there is no precedent may be placed on the output of a foreign firm. As a result, problems may arise due to taxes imposed at variance with the company's agreement with the government. For example, the host government may have agreed to give a tax holiday to a company, say for five years, to establish its operations in the country. Three years later, the government chooses to reverse its position for some reason, such as a new government's refusing to live with the agreement entered into by its predecessor.

Price Control

For the sake of the public interest, countries may resort price controls. Likewise, countries use price control devices in various ways to improve their economies. For example, a country may set an official price on essential products such as drugs, oil, sugar, and cereals. Further, if the product of a particular foreign company has been singled out for price control, without any economic rationale, such a measure amounts to undesirable intervention in the working of a foreign firm.

Labour Restrictions

In many nations, labour unions are very strong and have great political influence. Using its strength, they may be able to talk the government into passing very restrictive laws that support them at heavy cost to business. For example, labour unions in Latin America were able to prevent layoffs, plant shutdowns, and the like, even when business could not afford to meet such demands. Foreign firms may find it difficult to accommodate labour demands transformed into laws. Even where there are no labour laws to comply with, there may be labour problems. Problems can reach such a level that the foreign enterprise is left with no other choice but to leave.

Political Perspectives

An international marketer must make a thorough analysis of the political risks peculiar to a foreign country's political system as well as risks peculiar to the company's industry in foreign settings. The political perspectives of a nation can be studied using very important factors such as type of government, change in government's policy, host country's attitude toward foreign investment, etc. The importance of these factors varies from country to country, although, it is desirable to consider them all to ensure a complete knowledge of the political outlook for doing business in a particular country.

Types of Government

World governments can be realistically grouped in four categories: democratic republics, communist dictatorships, dictatorships and monarchies. In each category there is a spectrum of variation. Democratic governments are formed through regular elections and have different party systems. Communist governments are rigidly regulated by complete government control of all business activity. Dictatorships are authoritarian regimes. These governments are run either by military dictators or by civilian dictators. Monarchy refers to a government whose ruler derives power through inheritance. A country may have a monarchy and yet be democratic, such as Great Britain, whose Queen Elizabeth II is titular head of the country but not head of the British government. But in many countries, the government is actually run with the monarch as the head. Saudi Arabia and Jordan have monarchies. Any review of a country's political system and its impact on foreign business must remain free of stereotyped notions. Political philosophies change over time. Thus, what a government or a party stood for in the 1960s may not hold true in the 1990s. Obviously, current and emerging perspectives should be analyzed and understood. Clearly, economic and political trends in a country require close scrutiny by potential foreign investors and marketers.

Government Stability

A country's government may change frequently. Such changes may create difficulties in implementing the agreement because the new government may or may not subscribe to the commitments made by its predecessor. Thus, its is important for the international marketers to examine in advance of making agreements whether the current government will continue to be in office to implement agreements made with it.

Change in Government Policy

Policy changes may occur even without a change in government. When this type of environment exists, it makes things so uncertain that foreign business cannot know what it is getting into. It is important, therefore, for the foreign business to analyze the mechanism of governmental policy changes.

Attitude toward Foreign Investment

In response to national attitudes, nations legislate a variety of laws and regulations to prescribe the role of foreign investment in their economies. It is appropriate, therefore, to review the host country's regulations and identify underlying attitudes and motivations. Indirectly, the success of other multinational business in a country indicates a favourable attitude.

Legal Environment of International Marketing

International legal considerations impose restrictions on contracts of sale, carriage of goods, insurance of payments and of consignments, and the means for financing transactions. Disputes concerning these matters must be resolved, ultimately, through the courts. There are complications due to different laws, interpretations and legal methods applying to commercial litigation within each nation, and conflicts between the legal systems of specific countries frequently occur. There is no informal law governing international trade and it is the application of a nation's domestic law to international transactions. However, the domestic commercial laws adhere to rules established via international conventions. Three bodies of law affect the International marketing. They are International laws, Host-country laws and Home-country laws.

International Laws

International laws are a body of rules and regulations that countries agree to abide by. International law addresses agreements among countries with regard to trade, protection of property, and other issues in the political and economic sphere. International law bodies, although not enforceable, can appropriately address international law agreements. A variety of international laws regulate business across national boarders. The agreements of institutions like General Agreement on Tariffs and Trade (GATT/WTO), the International Monetary Fund (IMF) and the World Bank, etc. are some type of laws, which influence business in different ways.

GATT (General Agreement of Tariffs and Trade), now one of the three important pillars of WTO system, is a set of norms and procedures applicable to trade in goods that 152 governments (WTO members as on April 2008) have accepted to create order and predictability in international trade relations. Similarly there is another agreement under WTO known as general agreement on trade in Services popularly known as GATS which lays down the framework of rules and regulation with respect to trade in services.

There are following four basic principles in the GATT:[10]

1. Protection to Domestic Industry through Tariffs

Even though GATT stands for liberal trade, it recognizes that its member countries may have to protect domestic production against foreign competition. However, it requires countries to keep such protection at low levels and to provide it through tariffs. To ensure that this principle is followed in practice, the use of quantitative restrictions is prohibited, except in a limited number of situations.

2. Binding of Tariffs

Countries are urged to reduce and, where possible, eliminate protection to domestic production by reducing tariffs and removing other barriers to trade in multilateral trade negotiations. The tariffs so reduced are bound against further increases by being listed in each country's national schedule. The schedules are an integral part of the GATT legal system.

3. Most Favoured-Nation (MFN) Treatment

This important rule of GATT lays down the principle of non-discrimination. The rule requires that tariffs and other regulations should be applied to imported or exported goods without discrimination among countries. Thus it is not open to a country to levy customs duties on imports from one country at a rate higher than it applies to imports from other countries. There are, however, some exceptions to the rule. Trade among members of regional trading arrangements, which is subject to preferential or duty-free rates, is one such exception. Another is provided by the Generalized System of Preferences. Under the system, developed countries apply preferential or duty free rates to imports from developing countries, but apply MFN rates to imports from other countries.

4. National Treatment (NT) Rule

While the MFN rule prohibits countries from discriminating among goods originating in different countries, the national treatment rule prohibits them from discriminating between imported products and equivalent domestically produced products, both in the matte of the levy of internal taxes and in the application of internal regulations. Thus it is not open to a country, after a product has entered its market on payment of customs duties, to levy an internal tax [e.g. sales tax or value-added tax (VAT)] at rates higher than those payable on a product of national or domestic origin.

The real function of GATT is to enable countries to defend national economic interests not against the national interests of other countries but against sectional interests within their own and other countries. Thus, GATT is formally an international agreement among countries, but functionally it is part of the domestic legal order of each country. It serves as a defense that governments can refer to in defending themselves against pressure groups. The GATT regulations are particularly relevant for marketers since they deal with trade restrictions and barriers that affect market potential.

One of the most important influences on business affairs is the actions of regulatory agencies that address such matters as price control, valuation of imports and exports, trade practices, labeling, food and drug regulations, employment conditions, collective bargaining, advertising content, competitive practices, and so on. The influence of regulatory agencies is pervasive, and an understanding of how they operate is essential for protecting business interests and the advancing of new programs.

In addition to these institutions, the other areas covered by international law and the agencies that administer international laws are:

Protection of Property

Property here refers to patents, trademarks, and the like. Companies spend millions of dollars to build up and establish trademarks and brand names. If a foreign firm steals a company's established brand name and uses it on a locally manufactured product, the interests of the established company could be hurt. It would mean not only loosing potential markets, but also gaining a bad name for poor performance.

Efforts to develop rules providing adequate protection to intellectual property rights (IPRs) at the international level have been made for over a century, mainly under the auspices of the World Intellectual Property Organization (WIPO) and its predecessor organizations. As a result, a number of conventions such as Berne Convention, Paris Convention, Rome Convention, Hague Agreement, Madrid Agreement, Geneva Convention, etc. laying down international obligations to protect the right of owners of intellectual properties have been adopted.

For the protection of property out side the home country, there are international conventions and agreements. The most important among them are the International Bureau for the Protection of Industrial Property, the Inter – American Convention, UN Treaties and Conventions, UN Guidelines on Consumer Protection, Regional Laws and Arbitration. The United Nations has established a number of autonomous bodies and agencies to encourage world wide economic cooperation and prosperity. Among them, the World Health Organization (WHO), International Civil

Aviation Organization (ICAO), International Telecommunications Union (ITU), Universal Postal Union (UPI), International Labour Organization (ILO), International Telecommunications Satellite Consortium (INTELSAT), and International Standards Organization (ISO) are the most important. ISO is a specialized UN agency, which directly related to marketing. ISO promotes standardization of different products and processes. The ultimate purpose is to encourage world trade and business without hindrance from design/style/feature variations among nations.

The list of some of the important conventions covering intellectual property rights and their instruments, subject matter, field of application and related WIPO and other international agreement is given in the following Exhibit:

The development of international trade can be adversely affected, if the standards adopted by countries to protect IPRs vary widely from country to country. Furthermore, the lax or ineffective enforcement of such rights can encourage trade in counterfeit and pirated goods thereby damaging the legitimate commercial interest of manufacturers who hold or have acquired those rights. Therefore, the agreement on Trade Related Aspects of Intellectual Property popularly known as TRIPS – the another pillar of the WTO system was negotiated in the Uruguay Round which lays down the minimum standards for the protection of intellectual property rights as well as the procedures and remedies for the enforcement. It establishes mechanism for the consultations and surveillance at the international level to ensure compliance with these standards by member countries at the national level. The basic structure of this agreement, however, is built on the existing international conventions dealing with IPRs[11]

Regional Laws

Regional laws pertain to specific areas involving a group of countries tied together through some kind of regional economic cooperation (e.g. European Community, NAFTA etc.).

Intellectual Property Rights: Instruments, Subject Matter, Fields of Application and Related WIPO and Other International Agreements

Types of intellectual property rights	Types of instrument	Subject matter	Main fields of application	Major international agreements
Industrial property	Patents	New, non-obvious, industrially applicable inventions	Manufacturing	Paris Convention; Patent Cooperation Treaty; Budapest Treaty
	Utility models	Functional designs	Manufacturing	Paris Convention
	Industrial designs	Ornamental designs	Clothing, motor cars, electronics etc.	Hague Agreement; Paris Convention; Locarno Agreement
	Trade-marks	Signs or symbols to distinguish the goods and services of one enterprise from those of others.	All industries	Paris Convention Madrid Agreement (international registration); Nice Agreement; Madrid Protocol (not yet in force); Trademark Law Treaty (not yet in force)
	Geo-graphical indications	Identification of the place of origin of goods indicative of the quality or other characteristics associated with the area.	Agricultural and food industries, notably the sectors for wine and spirits	Lisbon Agreement; Madrid Agreement (false indications)

Types of intellectual property rights		Subject matter	Main fields of application	Major international agreements
Types of instrument				
Literary and artistic property	Copyrights and neighbor-ing rights	Original works of authorship and related contributions from performers, produc-ers of sound recordings, and broadcasting organizations	Printing, entertainment (au-dio, video, motion pictures) software, broadcasting	Berne Convention; Rome Convention; Geneva Convention; Brussels Convention; Universal Copyright Convention
Sui generis protection	Breeder's rights	New, stable, homogenous, distinctive varieties	Agriculture and food industry	Union for the International Protection of New Plant Varieties (UPOV)
	Integrated circuits	Original layout designs	Micro-electronics industry	Washington Treaty (not yet in force)
Trade secrets		Secret business information	All industries	

Source: Carlos Braga, "Trade-Related Aspects of Intellectual Property Issues: The Uruguay Agreement and the Economic Implications" (World Bank conference paper, 26-27 January 1995).

Note: With the exception of UPOV, all treaties identified above are administered by WIPO. The Washington Treaty, not yet in force, has also been negotiated under WIPO auspices. The Rome Convention is administered jointly by WIPO, ILO and UNESCO. The Universal Copyright Convention is administered by UNESCO.

Adapted from: “Business Guide to the Uruguay Round”, International Trade Centre UNCTAD/WTO and Commonwealth Secretariat, 1996.

Washington Treaty on Intellectual Property in Respect of Integrated Circuits - The Treaty has not yet entered into force, but the following States have ratified it or acceded to it: Bosnia and Herzegovina: Accession - March 8, 2007, Egypt: Ratification - July 26, 1990, Saint Lucia: Accession - December 18, 2000. For details see http://www.wipo.int/treaties/en/ip/washington/

Arbitration

Arbitration is a method by which a multinational firm or international trading firm can resolve a conflict regarding the interpretation of the contractual terms with the host country government; a native firm; or an international firm belonging to a third country in a foreign environment. Arbitration can be defined as a process of settling disputes by referring the matter to a disinterested party for a review of the merits of the case and for a judgment. There are a number of institutions for arbitration like The International Center for Settlement of Investment Disputes (ICSID), The Inter-American Commercial Arbitration Commission, The International Chamber of Commerce (ICC), and The American Arbitration Association (AAA), Indian Council of Arbitration (ICA), etc.

Host-Country Laws

Host–country’s laws are the laws of the different countries where the company operates. The legal system in the host country could differ substantially from that of the company’s home country. Hence, countries enact laws to control foreign business in their economies. Some of the laws are discriminatory against foreign goods and businesses. Laws are sometimes designed to allow reciprocity with on good trading terms with the country. In some instances, extremely favourable laws may be passed to attract foreign investment. In general, the legal environment of a country for foreign commerce depends on that country’s economic objectives and its obligations and position in relation to worldwide commerce. In some situations, the laws may have political aims as well. For example, a government may decide to restrict all imports in order to promote a national feeling among the people and their political supporters. On the other hand, political considerations may require a country to liberalize its laws pertaining to foreign business.

Laws pertaining to entry into foreign markets take several forms including tariffs, antidumping laws, export/import licensing, investment regulations, legal incentives, and restrictive trading laws. These are discussed briefly in the following paras:

Tariffs

It is a tax that a government levies on exports and imports. If the tax is imposed on exports, it is called export duty. If is levied on imports it is known as import duty or customs duty. On the other hand, subsidy is a reverse tariff. Many countries provide a subsidy for local manufacturers for export.

Antidumping Laws

Dumping is a type of pricing strategy for selling products in foreign markets below cost, or below the price charged to domestic consumers. Dumping is practiced to capture a foreign market and to damage rival foreign national enterprises. Host government's often pass laws against dumping with a view to protect local industries. In international business, dumping inhibit the orderly development of national industry. From this point, attacks on rival markets by dumping amount to destructive as well as unscrupulous means of securing market position. It is for this reason that countries legislate anti-dumping laws. GATT/WTO's agreement on anti-dumping practices (ADP) authorizes member countries to levy anti-dumping duties on products that are being dumped[12].

Export Import Licensing

Many countries have laws on the books that require exporters and importers to obtain licenses before engaging in trade across national boundaries. This may be for statistical records on exports/imports or to ensure that certain goods are not exported/imported to/from certain countries. Import licensing is enforced to control the unnecessary purchase of goods from other countries. Thus, this licensing system is a kind non-tariff barrier as many a time these licenses are used as an obstacle in the smooth movement of international trade. The Agreement on Import Licensing Procedures under the GATT 1994/WTO sets out guidelines for licensing authorities to follow in issuing import licenses and the time limits within which they should be issued, where countries require such licenses as a precondition for import.

Foreign Investment Regulations

One of the primary aims of laws and regulations on foreign investment is to limit the influence of multinational corporations. It may be also for achieving a pattern of foreign investment that contributes most effectively to the realization of the host country's objectives. However, while doing so, almost all the countries of the world, often impose some restrictions on foreign investors so that the investment may flow according to certain national priorities/objectives. The GATT 1994/WTO's Agreement on trade related investment measures (TRIMs) which has been negotiated under the Uruguay Round prohibits WTO member countries from using five types of measures because these are inconsistent with the GATT rules of national treatment and the rule which prohibits the use of quantitative restriction on imported goods[13].

Legal Incentives

Governments to attract foreign investments in most of the developing countries provide investment incentives. For example presently China and India have been offering a number of incentive including tax holidays for setting up units in Special Economic Zones (SEZs).

Restrictive Trading Laws

Many governments adopt measures that restrict imports or artificially stimulate exports. Such laws are refereed as non-tariff barriers in international trade. The major types of non-tariff barriers are government participation in trade – subsidies, government procurement, and state trading, or customs and entry procedures – documentation, health and safety regulations, or standards – product standards, packaging, specific limitations, or quotas - exchange controls, import restraints and licensing, import charges, or credit restrictions for imports, special duties, etc.

Home–Country Laws

Home-country laws are the laws of the company's home country. Home country laws follow the company all over the world. For example U.S. companies must abide by all three types of law. They must abide by international trade laws and agreements, such as World Trade Organisation (WTO) trade regulations; they must abide by host – country laws governing every aspect of the company's operations; and they must abide by home-country laws, such as anti-trust regulations and corrupt practices regulations.

Legal Systems

The three important types of legal systems are: common law, civil codes (code law) and Islamic law.

Common Law

Common law is based on prior court rulings. It applies in English speaking countries and many other countries formerly colonized by Britain.

Code Law (Civil Law)

Code law has written rules that specify what constitutes legal behaviour. It has its root in Roman law. This law is shared by most of the countries of the world, including Latin America, China, Taiwan, Japan and others.

Islamic Law

Islamic law is a system of law based on the interpretation of the Koran, Islam's holy book. Islamic law establishes rules for business practices that can affect firm operations. Islamic laws affect a firm's operations in North Africa, the Middle East, Pakistan and Malaysia, among others.

Conflict and Jurisdiction of Laws

The export of goods from one country to another necessarily involves transactions that are subject to the laws of different nations, and these laws might conflict. Owing to the different legal systems across nations, there is a need to establish jurisdiction in international legal disputes. There is no international body to make rules and oversee their fulfillment by different parties. Thus, a business incorporated in a particular country carries the burden of complying with the laws of both the incorporating nation and the host country. Often problems occur when laws of more than one country must be respected and these laws have different values. If a conflict occurs between two contracting parties, the question arises as to which nation's laws should be used to resolve the problem. If the contract contains a jurisdiction clause stipulated which country's legal system should be used to settle disputes, the matter can be settled accordingly. However, if the parties have failed to include a jurisdiction clause in this contract, there are two alternatives. They are to settle the dispute by following the laws of the country where the agreement was made or resolve the dispute by applying the laws of the country where the contract has to be fulfilled.

If these two alternatives were likely to result in different conclusions, each party naturally would like to settle the issue according to the legal system that favours its position. Obviously, this may lead to legal actions, presumably in different courts, perhaps in different countries. An alternative to legal action is arbitration. For example, the Bhopal tragedy in which over 2000 people died from a gas leakage accident in a Union Carbide plant in India. The Indian government would like the question of compensation to survivors settled in the U.S. courts, because the U.S. courts have been more liberal than the Indian courts in granting compensations to victims in such cases. However, the Union Carbide was interested to settle the case in Indian courts, in the hope that their liability would be reduced substantially.

Impact of Environment on International Marketing Decisions

Marketing environment can be internal or external. The most important internal factors influencing the decisions of a company are the objectives, the organizational structure, the internal power relationship, and the characteristics of human resources, etc. The external environment again is divided into microenvironment and macro environment. Microenvironment consists of the forces close to the company that affects its ability to serve its customers. Marketing environment can also be classified into controllable and uncontrollable. Marketing policies and strategies framed by the company are controllable forces whereas uncontrollable forces are those forces, which are beyond the control of the company. Uncontrollables are classified into domestic uncontrollables and foreign uncontrollables. Political forces, legal structure and economic climate are uncontrollables, which affect foreign business. The most important among them are geographical, economic, socio-cultural, political and legal environment.

Although marketing principles are universally applicable, the environment within which the marketer must implement marketing plans can change dramatically from country to country. Most problems encountered by the foreign marketer result from the strangeness of the environment within which marketing programmes are to be implemented. An international marketer must have the capability to adapt to the changing environment. To adapt marketing to foreign markets, marketers must be able to interpret effectively the influence and impact of each of the environmental elements on the marketing plan for each foreign market in which they hope to do business. In dealing with unfamiliar markets, marketers must be aware of the frames of reference they are using in making their decisions of a market. The key to successful international marketing is adaptation to the environmental differences from one market to another. Adaptation is a conscious effort on the part of the international marketer to anticipate the influences of both the foreign and domestic environments on a marketing mix, and then to adjust the marketing mix to minimize the effects.

Geography of country is a vital factor affecting the marketing decision of a marketer. An international marketer must adapt to the climate and topographical differences. Location, place, movement, and region are all important factors in international marketing. There are geographical influences on the development of the economy and society of a country. Climate and topography demands product adaptations.

Changes in the demographic environment will also have its impact on the international marketing decisions. Data on demographic characteristics help marketers to produce goods according to the specific requirements of population. The population in different countries differs in their achieved educational level and this will have its implications on the demand. Changes in household patterns also change the demand for products. Hence, an international marketer has to adapt his production to suit the requirements of different age groups.

The international marketer needs to understand the impact of the economic environment on social development. Economic environment does affect international marketing decisions. The impact of the U.S. economic environment on international business activity is very popular. For example, U.S. firms enter the international market during a recession (low economic activity) to sustain their business only to withdraw as the domestic scene improves. The economic environment sets the limit of activity in different sectors of the economy. For example, when the economy is booming, there will be plenty of jobs, consumers will be optimistic, and the international marketer will have more opportunities in the market place. But when an economy is down, unemployment may rise, interest rates may go up, sales could be more difficult and the international marketer's decisions will take a different shape.

Cultural differences have impact on marketing decisions affecting product, price, distribution and promotion. To conduct business successfully across national boundaries, marketers must adapt themselves to local cultures. Culture is another important factor affecting marketing and an international marketer must alter business approaches to individual cultures. Culture has both a pervasive and changing influence on each national market environment. International marketers must recognize the influence of culture and must respond to it.

The political situation of a country may or may not be conducive to profitable business. Political problems related to foreign business occur mainly because of political sovereignty. Such troubles may lead a country to intervene politically in the affairs of a foreign firm. Intervention may range from some form of control to complete takeover.

The legal environment in the home country, the environment in the host country, and the laws and agreements governing relationship among nations are all-important to the international marketer. These laws can control exports and imports both directly and indirectly, and can also regulate the international business behavior of firms. To avoid the problems that can result from changes in the political and legal environment, the international marketer must anticipate changes and develop strategies for coping with them.

Company's can passively accept the marketing environment as an uncontrollable element to which they must adapt. They must avoid threats and take advantage of opportunities as they arise. Many companies view the marketing environment as an uncontrollable element to which they must adapt. They analyze the environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Some other companies take an environmental management perspective and these firms will try to influence the publics and forces to their advantage. Such companies influence legislation affecting their industries. They run advertisements and editorials to shape public opinion to favour them. They file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels. Often companies can find positive ways to overcome uncontrollable environmental constraints.

Summary

The political situation of a country may or may not be conducive to profitable business. Political problems related to foreign business occur mainly because of political sovereignty. Such troubles may lead a country to intervene politically in the affairs of a foreign firm. Intervention may range from some form of control to complete takeover.

The legal environment in the home country, the environment in the host country, and the laws and agreements governing relationship among nations are all-important to the international marketer. These laws can control exports and imports both directly and indirectly, and can also regulate the international business behavior of firms. To avoid the problems that can result from changes in the political and legal environment, the international marketer must anticipate changes and develop strategies for coping with them.

An international marketer should be familiar with host country laws pertaining to competition, price setting, distribution arrangements, product liability, patents and trade marks, and advertising as there are differences among countries regarding these laws.

Self Assessment Questions

1. Describe the environmental forces that affect the company's ability to serve its customers.
2. Explain the factors and forces of internal environment that affect the company's ability to serve its customers?
3. Explain the meaning of External environment and how it affects the company's ability to serve its customers.
4. Describe the importance geography in understanding the international markets?
5. Examine the effects of topography and climate on products, population, transportation, and economic growth?
6. Explain how changes in the demographic environments affect marketing decisions?
7. Why is it necessary for international marketers to study political environment? How can foreign politics affect marketing decision?
8. Describe how international law, home country law, and host country law affect international marketing?
9. Define the terms dumping and arbitration. Why do countries legislate antidumping laws?
10. What is the impact of economic environment on international marketing?
11. What are the key methods for tracking and identifying opportunities in the macro environment?
12. Explain how changes in Socio -cultural environments affect marketing decisions?
13. Why is it necessary to consider the derived demand while esti-

mating the demand for a particular product in international marketing?

14. Describe the environmental forces that affect the company's ability to serve its customers?
15. Describe the importance of geography in understanding the international markets?
16. Examine the effects of topography and climate on products, population, transportation, and economic growth?
17. Explain how changes in the demographic environment affect marketing decisions?
18. Examine the effects of topography and climate on products, population, transportation, and economic growth?
19. Explain how changes in Socio - cultural environments affect marketing decisions?
20. Why is it necessary for international marketers to study political environment? How can foreign politics affect marketing decision?
21. Define the terms dumping and arbitration. Why do countries legislate antidumping laws?

CASE STUDY

Two senior executives of the World’s largest firms with extensive holdings outside the home country speak.

Company A: ”We are a multinational firm. We distribute our products in about 100 countries. We manufacture in over 17 countries and do research and development in three countries. We look at all new investment projects both domestic and overseas-using exactly the same criteria”.

The executive from company A continues, “of course the most of the key ports in our subsidiaries are held by home country nationals. Whenever replacements for these men are sought, it is the practice, if not the policy, to look next to you at the lead office and picjk some one (usually a home country national) you know and trust”.

Company B: “We are a multinational firm. Our product division executives have worldwide profit responsibility. As our organizational chart shows, the United States is just one region on a par with Europe, Latin America, Africa etc. in each division”.

“The executive firm company B goes on to explain, “the worldwide Product division concept is rather difficult to implement. The senior executives in charge of these divisions have little overseas experience. They have been promoted from domestic ports and tend to view foreign consumers needs a really basically the same as ours. Also, product division executives tend to focus on domestic market, because it generate more revenue than foreign market. The rewards are for global performance, but strategy is to focus on domestic. Most of the senior executives simply do not understand what happens overseas and really do not trust foreign executives, even those in key positions?

Question

Which company is truly multinational? Why

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UNIT - III

Learning Objectives

After reading this Unit you will be able to:

- Understand the basic concept of a product
- Analyze how to position the product in the market.
- Understand Product design considerations
- Understand the role of new product in global marketing
- Understand the strategic significance of Branding
- Understand the significance of Packaging
- Understand the significance of Sales related Services

Unit Structure

Lesson 3.1 - Product Decisions

Lesson 3.2 - Management of International Brands

Lesson 3.1 - Product Decisions

Products: Definition and Classifications

What is a product?

On the surface, this seems like a simple question with an obvious answer.

A product can be defined in terms of its tangible physical attributes – such as

- weight,
- dimensions, and
- materials,

thus, an automobile could be defined as 3,000 kgs of metal or plastic, measuring 190” long, 75” wide, and 59” high. However, any description limited to physical attributes gives an incomplete account of the benefits a product provides. At a minimum, car buyers expect an automobile to provide safe, comfortable transportation, which derives from physical features such as air bags and adjustable seats. However, marketers cannot ignore status, mystique, and other intangible product attributes that a particular model of automobile may provide. Indeed, major segments of the auto market are developed around these intangible attributes.

A product can be defined as a collection of physical, psychological, service, and symbolic attributes that collectively yield satisfaction or benefits to a buyer or its user. A number of frameworks for classifying products have been developed. A frequently used classification is based on users and distinguishes between consumer and industrial goods. Both types of goods, in turn, can be further classified on the basis of other criteria, such as how they are purchased (convenience, preference, shopping, and specialty goods) and their life span (durable, non-durable, and disposable). These and other classification frameworks developed for domestic marketing are fully applicable to global marketing.

Products: Local, National, International and Global

Many companies find that, as a result of expanding the existing businesses or acquiring a new business, they have products for sale in a single national market. For example, Kraft Foods at one time found itself in the chewing gum business in France, the ice cream business in Brazil, and the pasta business in Italy. Although each of these unrelated businesses was, in isolation, quite profitable, the scale of each was too small to justify heavy expenditures on R&D, let alone marketing, production, and financial management, etc. from the international business magnitudes and scale of operations. An important question, therefore, is to decide if any particular product has the potential for expansion into other international markets. The answer will largely depend on the company's goals, objectives and on perceptions of opportunities.

Managers run the risk of committing two types of errors regarding product decisions in global marketing:

One error is to fall victim to the "not invented here" (NIH) syndrome, ignoring product decisions made by subsidiary or affiliate managers. Managers who behave in this way are essentially abandoning any effort to leverage product decision policy on all affiliate companies on the assumption that what is right for customers in the home market must also be right for customers everywhere.

The four product categories in the local-to-global continuum, viz.

- Local,
- National,
- International, and
- Global are described in the following sections:

1. Local products

A local product is available in a portion of a national market. In the United States, the term regional product is synonymous with local product. These products may be new products that a company is introducing using a rollout strategy or a product that is distributed exclusively in that region. Originally, cape Cod Potato Chips was a local product in the New

England market. The company was later purchased by Frito-Lay and distribution was expanded to other regions of the United States.

2. National Products

A national product is one that, in the context of a particular company, is offered in a single national market. Sometimes national products appear when a global company caters to the needs and preferences of particular country markets. For example, Coca-Cola developed a no carbonated ginseng-flavored beverage for sale only in Japan and a yellow carbonated flavored drink called Pasturing to compete with Peru's favorite soft drink, Inca Cola. After years of failing to dislodge Inca Cola, Coke followed the old strategic maxim. "If you can't beat them, buy them," and acquired Inca Cola.

Similarly, Sony and other Japanese consumer electronics companies produce a variety of products that are not sold outside of Japan. The reason: Japanese consumers have a seemingly insatiable appetite for electronic gadgets.

3. International Products

International products are offered in multinational, regional markets. The classic international product is the Euro product, offered throughout Europe but not in the rest of the world. Renault was for many years a Euro product When Renault entered the Brazilian market, it became a multi-regional company. Most recently, Renault invested in Nissan and has taken control of the company. The combination of Renault in Europe and Latin America, and Nissan in Asia, the Americas, Europe, the Middle East and Africa, has catapulted Renault from a multi-regional to a global position. Renault is an example of how a company can move overnight through investment or acquisition from an international to a global position.

4. Global Products and Global Brands

Global products are offered in global markets. A truly global product is offered in the Triad, in every world region, and in counties at every stage of development. Some global products were designed to meet the needs of a global market; others were designed to meet the needs of a national market but also, happily, meet the needs of a global market.

It may be noted that a product is a product – it is a product category, and therefore, a product is not a brand. For example, portable personal sound systems or personal stereos are a category of global product, whereas the Sony is a global brand. A global brand, like a national or international brand, is a symbol about which customers have beliefs or perceptions. Many companies, including Sony, make personal stereos. Sony created the category more than 10 years ago, when it introduced the Walkman. It is important to understand that marketers must create global brands; a global brand name can be used as an umbrella for introducing new products. Although Sony, as noted previously, markets a number of local products, the company also has a stellar track record both as a global brand and "a manufacturer of global products".

The qualities of a global brand: It has the same name as is the case for Coke, Sony, BMW, Harley-Davidson, and so on; or it may be the same meaning in different languages, as is true of Unilever's Snuggle (United States) fabric softener, which carries a cuddly teddy bear logo and the local translation of a meaning identical or similar to the meaning of snuggle in American English. A global brand has a similar image, similar positioning, and is guided by the same strategic principles. However, the marketing mix for a global brand may vary from country to country. That means that the product, price, promotion, and place (channels of distribution) may vary from country to country. Indeed, if one tracks the examples - Marlboro, Coke, Sony, Mercedes, and Avon - one will indeed find that the marketing mix for these products varies from country to country.

The Mercedes, which is exclusively a luxury car in the United States, is also a strong competitor in the taxi market in Europe. Avon, which is a premium-priced and packaged cosmetic line in Japan, is popularly priced in the rest of the world. In spite of these variations in marketing mix, each of these products is a world or global brand.

Global product differs from a global brand in one important respect: It does not carry the same name and image from country to country. Like the global brand, however, it is guided by the same strategic principles, is similarly positioned, and may have a marketing mix that varies from country to country. Whenever a company finds itself with global products, it faces an issue: Should the global product be turned into a global brand? This requires that the name and image of the product be standardized. The two biggest examples of this move were the shift from Standard Oil's many different local brands to Exxon, and Nissan's decision to drop the Datsun marque in the United States and adopt various model names for Nissan's worldwide product line.

When an industry globalizes, companies are under pressure to develop global products. A major driver for the globalization of products is the cost of its R&D. As competition intensifies, companies discover that they can reduce the cost of R&D for a product by developing a global product design. Even products such as automobiles, which must meet national safety and pollution standards, are under pressure to become global: With a global product, companies can offer an adaptation of a global design instead of a unique national design in each country.

Coke is arguably the quintessential global product and global brand. Coke's positioning and strategy are the same in all countries; it projects a global image of fun, good times, and enjoyment. Coke is "the real thing." There is only one Coke. It is unique. It is a brilliant example of marketing differentiation. The essence of discrimination is to show the difference between your products and other competing products and services.

This positioning is a considerable accomplishment when you consider the fact that Coke - is a low/no-tech product. It is flavored, carbonated, sweetened water in a plastic, glass, or metal container. The company's strategy is to make sure that the product is within arm's reach of desire. However, the marketing mix for Coke varies. The product itself is adapted to suit local tastes; for example, Coke increases the sweetness of its beverages in the Middle East, where customers prefer a sweeter drink. Also, prices may vary to suit local competitive conditions, and the channels of distribution may differ. However, the basic underlying strategic principles that guide the management of the brand are the same worldwide. Only an ideologue would insist that a global product couldn't be adapted to meet local preferences; certainly, no company building a global brand needs to limit itself to absolute marketing mix uniformity. The issue is not of the exact uniformity but rather offering essentially the same value.

Global marketers should systematically identify and assess opportunities for developing global brands. Creating a global brand requires a different type of marketing effort - including up-front creative vision than that required to create one or more national brands. On the other hand, the ongoing effort to maintain brand awareness is less for a leading global brand than it is for a collection of local brands. What criteria do marketers use to decide whether to establish global brands? One expert has argued that the decision must be "determined by bottom-up consumer-driven considerations, not by top-down manufacturer-driven business convenience". A major determinant of success will be whether the marketing effort is starting from scratch with a "blank slate, or whether the task is to reposition or rename an existing local brand in an attempt to create a global brand. Starting with a blank slate is vastly easier - than repositioning existing brands.

Many a time a company's marketing strategy is driven by the concept of "think global and act local" for building the brands and suitable initiatives are planned in this direction. Working on this approach recently the German liqueur brand 'Jagermeister' has plans to spread it wings in India, primarily in the two tier cities (Exhibit).

German Liqueur Brand Sets Foot in India

Brand Promotion '*Jagermeister' Plans to Spread its Wings in Tier-2 Cities*

German premier spirit label Jagermeister (pronounced Yagermeister) is aiming to become the number one shots brand in India in the next three years.

"Jagermeister is a spirit that is a category by itself. It will be endorsed as a shots brand largely due to the emerging shots culture in India, "says David Bell, regional director (Asia Pacific), Jagermeister.

"Since it is a niche drink, our competition will be more image-based. For example, a Jack Daniels or a tequila brand would be our competitor," he adds.

The Mast-Jagermeister AG offering, which debuted in India in May this year, is all set for a national roll-out through a series of parties in the metros before heading for tier-2 cities. The herbal liqueur is said to be made of 56 herbs. The company sold 6.2 million cases of Jagermeister last year globally and is currently rated as the 13^{th} most popular brand internationally.

The liqueur market in India witnessed nearly 90 per cent growth with the total consumption touching 12,000 cases this year, as against 6,300 cases in 2006.

"Our business in the Asia-Pacific region has witnessed more than five-fold growth in the last two years. India will be an important market for us moving forward. I think the time is right to take the first step into the market, as the drinking preference of the Indian consumer is changing," says Bell.

Jagermeister has already been launched in 15 countries in the Asia-Pacific region. "These markets are not only diverse, but they are also at different stages of economic development. Every sale is local, so we adapt our brand building strategy for each country following a multi domestic approach," adds Bell.

"The company's marketing strategy is driven by the think global, act local' approach," says Bell. At present, the company is concentrating on brand building initiatives, with a below-the-line approach and on-premise activities to establish the brand before going in for national-level advertising.

Jagermeister hopes to establish its presence in India through a series of consumer parties which will be held across Mumbai, Delhi, Bangalore and Kolkata, followed by Chandigarh and Bangalore.

In the international arena, the product as repositioned as a party drink to push sales and the concept of branded tap machines at the point of purchase to serve chilled Jagermeister was also introduced.

The company plans to apply this international marketing mix to India with Jagermeister party series, designed to communicate the Jagermeister brand essence to Indian consumers.

The Jagermeister party crew, known as the Jagerettes, will introduce Indian consumers to Ice Cold Jagermeister shots and mixed drinks. The Jagermeister Tap Machines will also be used at venues to ensure Jagermeister shots are served at an ice-cold temperature. The company plans to introduce 1,000 Tap Machine Dispensers by 2009.

Jagermeister Music Tour is also likely to come to India once the brand has established its presence in the country.

"At this point, we are more concerned about image competitors within the party drink brands: We see great potential in tier-2 markets and plan to take the promotional activities to these cities within the next six-eight months," says Bell.

Source: Adapted from the Business Standard, December 18, 2007

Activity 1

Differentiate between Global Products and Brands. List five Global Products and Brands.

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Product Positioning

Product positioning is a communications strategy based on the notion of mental "space" positioning. It refers to the act of locating a brand in customers' minds over and against other products in terms of product attributes and benefits that the brand does and does not offer. The word positioning, first formally used in 1969 by Ries and Trout in an article that appeared in Industrial Marketing, describes a strategy for "staking out turf' or "filling a slot" in the minds of target customers.

Several general strategies have been suggested for positioning products: positioning by attribute or benefit, quality/price, use or application, and use/user? Two additional strategies, viz. high-tech and high-touch have been suggested for global products.

1. Attribute or Benefit

A frequently used positioning strategy exploits a particular product attribute, benefit, or feature. In global marketing, the fact that a product is imported can itself represent a benefit positioning. Economy, reliability, and durability are other frequently used attribute/benefit positions. Volvo automobiles are known for solid construction that offers safety in the event of a crash. In the ongoing credit card wars, VISA's advertising focuses on the benefit of worldwide merchant acceptance.

2. Quality/Price

This strategy can be thought of in terms of a continuum from high fashion/quality and 'high price to good value' (rather than low quality) at a low price. The American Express Card, for example, has traditionally been positioned as an upscale card whose prestige justifies higher annual fees than VISA or MasterCard. The Discover card is at the other end of the continuum. Discover's value position results from no annual fee and a cash rebate to cardholders each year.

3. Use/User

Positioning can also be achieved by describing how a product is used or associating a product with a user or class of users the same way in every market. For example, Benetton uses the same positioning for it's clothing when it targets the global youth market. Marlboro's extraordinary success as a global brand is due in part to the product's association with cowboys—the archetypal symbol of rugged independence, freedom, space, and Americana—and transformation advertising that targets urban smokers.

Why choose Marlboro instead of another brand? Smoking Marlboro is a way of getting in touch with a powerful urge to be free and independent. Lack of physical space may be a reflection of the Marlboro user's own sense of "macho-ness" or a symbol of freedom and independence. The message is reinforced in advertising with an image carefully calculated to appeal to the universal human desire for those things and urges smokers to "join that rugged, independent cowboy in the Old West" The advertising succeeds because it is very well done and, evidently, addresses a deep, powerful need that is found around the globe, not surprisingly, Marlboro is the most popular cigarette brand in the former Soviet Union.

4. High-Tech Positioning

Personal computers, video and stereo equipment, and automobiles are product categories for which high-tech positioning has proven effective. Such products are frequently purchased on the basis of physical product features, although image may also be important. Buyers typically already possess or wish to acquire considerable technical information. High-tech products may be divided into three categories technical products, special interest products, and demonstrable products.

Computers, chemicals, tires, and financial services are technical products in the sense that buyers have specialized needs, require a great deal of product information, and share a common language. Computer buyers in Russia and the United States are equally knowledgeable about Pentium microprocessors, hard drives, and random access memory (RAM) requirements. Marketing communications for high-tech products should be informative and emphasize features.

Special-interest products are also characterized by a shared experience and high involvement among users, although they are less technical and mote leisure or recreation oriented. Again, the common language and symbols associated with such products can transcend language and cultural barriers. Fuji bicycles, Adidas and Nike sports equipment, Canon cameras, and Sega video game players are examples of successful global special - interest products.

5. High -Touch Positioning

Marketing of high-touch products requires less emphasis on specialized information and more emphasis on image. Like high-tech products, however, high-touch categories are highly involving for consumers. Buyers of high-touch products also share a common language and set of symbols relating to themes of wealth, materialism, and romance. There are three categories of high-touch products: products that solve a common problem, global village products, and products with a universal theme. At the other end of the price spectrum from high-tech, high-touch products that can solve a problem often provide benefits linked to “life’s little moments.” Ads that show friends talking over a cup of coffee in a cafe or quenching thirst with a soft drink during a day at the beach put the product at the center of everyday life and communicate the benefit offered in a way that is understood worldwide. Upscale fragrances and designer fashions are examples of products whose positioning is strongly cosmopolitan in nature. Fragrances and fashions have traveled as a result of growing worldwide interest in high-quality, highly visible, high-priced products that often enhance social status.

Products may have a global appeal by virtue of their country of origin. The Americanness of Levi’s, Marlboro, McDonald’s, and Harley-Davidson enhances their appeal to cosmopolitans around the world and offers opportunities for benefit positioning. In consumer electronics, Sony is a name synonymous with vaunted Japanese quality. In automobiles, Mercedes is the embodiment of legendary German engineering.

Some products can be positioned in more than one way, within either the high-tech or high-touch poles of the continuum. A sophisticated camera, for example, could simultaneously be classified as technical and special interest. Other products may be positioned in a bipolar fashion, that is, as both high-tech and high-touch. For example, Bang & Olufsen consumer electronics product by virtue of their design elegance, are perceived as both high-tech and high-touch.

Activity: 2

Give examples of each type of positioning for both National and Global Products

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Product Design Considerations

Product design is a key factor in determining success in global marketing. Should a company adapt product design for various national markets or offer a single design to the global market? In some instances, making a design change may increase sales. However, the benefits of such potential sales increases must be weighed against the cost of changing a product's design and testing it in the market. Global marketers need to consider four factors when making product design decisions: preferences, cost, laws and regulations, and compatibility.

1. Preferences

There are marked and important differences in preferences around the world factors such as color and taste. Marketers who ignore preferences do so at their own peril. In the 1960s, for example, Italy's Olivetti Corporation had gained considerable distinction in Europe for its award-winning modern consumer typewriter designs; Olivetti typewriters had been displayed at the Museum of Modern Art in New York City. Although critically acclaimed, Olivetti's designs did not enjoy commercial success in the United States. The U.S. consumer wanted a heavy, bulky typewriter that was ugly by modern European design standards. American consumers considered bulk and weight prima facie evidence of quality, and Olivetti was, therefore, forced to adapt its award-winning design in the United States.

Sometimes, a product design that is successful in one world region does meet with success in the rest of the world. BMW and Mercedes dominate the luxury car market in Europe and are strong competitors in the rest of the world, with exactly the same design. In effect, these companies have a world design. The other global luxury car manufacturers are Japanese, and they have expressed their flattery and appreciation for the appeal of the BMW and Mercedes look by styling cars that are influenced by the BMW and Mercedes line and design philosophy. If imitation is the most sincere form of flattery, BMW and Mercedes have been honored by their competition.

2. Cost

In approaching the issue of product design, company managers must consider cost factors broadly. Of course, the actual cost of producing the product will create a cost floor. Other design-related costs whether incurred by the manufacturer or the end user-must also be considered. It is found out that the cost of repair and services varies around the world and has an impact on product design.

3. Laws and Regulations

Compliance with laws and regulations in different countries has a direct impact on product design decisions, frequently leading to product design adaptations that increase costs. This may be seen especially clearly in Europe, where one impetus for the creation of the single market was to dismantle regulatory and legal barriers - particularly in the areas of technical standards and health and safety standards - that prevented pan-European sales of standardized products. In the food industry, for example, there were 200 legal and regulatory barriers to cross-border trade within the European Union (EU) in 10 food categories. Among these were prohibitions or taxes on products with certain ingredients, and different packaging and labeling laws. Experts predict that the removal of such barriers will reduce the need to adapt product designs and will result in the creation of standardized Euro-products.

The more recent example of such types of regulatory legislation that may be cited here is of chemical sector. In case of chemicals import into European Union nations, the EU has put a new legislation known as - Registration Evaluation and Authorization of Chemicals (REACH), which came into effect from June 2007, and to fulfill that requirement the exporters have to incurred additional cost and get registration. This has posed a new challenge, particularly for the small and medium sized units and to bail them out, some times state or central government may have to provide them assistance so that they can meet at least a part of such additional expenses (Exhibit). International marketers should be aware of such scheme and get the advantage of the same.

Government to Aid Chemical Exporters

Registration, Evaluation and Authorization of Chemical (REACH) the EU's Legislation

Small and medium chemical industries from Gujarat state of India, that export to the European countries need not worry about the high costs involved in complying with Registration Evaluation and Authorization of Chemicals (REACH) legislation introduced by the European Union (EU) recently.

Considering the impact the legislation would have on the Rs. 2,500 crore chemical export businesses from the state, the union commerce ministry has decided to bail out the exporters by funding 65 per cent of the costs incurred in getting registered with REACH. According to the estimates, any company exporting to the EU will have shell out at least 1,200 Euros towards the registration cost. And the amount will shoot up sharply along with quantity of exports.

REACH, which came into effect from June 2007, is aimed at detecting, limiting and replacing hazardous substance with safer chemicals in the European countries. REACH will identify hazardous chemicals and compel the industries to seek authorization for using these chemicals for specified uses.

"The government is planning to 65 per cent of the total cost. The decision has been taken considering the high cost involved in the process. Small companies will not be able to afford the expenditure," said K C Mishra, joint secretary, union ministry of chemicals and fertilizers.

Mishra said the government will finance only the small and medium companies, as the big companies are financially sound. He was in the city to attend the REACH awareness seminar organized by the Gujarat chapter of Indian Chemical Council on Tuesday. The move will help the one billion dollar chemical export trade from the country to the EU every year. Gujarat accounts for about 55 per cent of the total exports.

Apart from financial aid, the Centre has also decided to start a help desk for guiding the chemical exporters who want to get registered with REACH. The help desk will be run by Chemixil – the export promotion council for chemical trade.

"Chemical industries need to be educated about procedures to get registered under REACH as they are very complex. The seminar was aimed at educating chemical exporters and we got a very good response from the industry, said Ravi Kapoor, chairman of ICC Gujarat Chapter. Industries will have to pre-register with REACH by November 2008.

Source: Adapted from the Times of India, August 1, 2007

4. Compatibility

The last product design issue that must be addressed by company managers is product compatibility with the environment in which it is used. A simple thing such as failing to translate the user's manual into various languages can hurt sales of American-made: home appliances built in America outside the United States. Also, electrical systems range from 50 to 230 volts and from 50 to 60 cycles. This means that the design of any product powered by electricity must be compatible with the power system in the country of use.

Manufacturers of televisions and video equipment find that the world is a very in-compatible place for reasons besides those related to electricity. Three different TV broadcast and video systems are found in the world today: the U.S. NTSC system, the French SECAM system, and the German PAL system. Companies that are targeting global markets design multi system TVs and VCRs that allow users to simply flip a witch for proper operation with any system. Companies that are not aiming for the global market design products that comply with a single type of technical requirements.

Measuring systems do not demand compatibility, but the absence of compatibility in measuring systems can create product resistance. The lack of compatibility is a particular danger for the United States, which is the only major non-metric country in the world. Products calibrated in inches and pounds are at a competitive disadvantage in metric markets. When companies integrate their worldwide manufacturing and design activity, the metric-English measuring system conflict requires expensive conversion and harmonization efforts.

5. Labeling and Instructions

Product labeling and instructions must comply with national law and regulation. For example, there are very precise labeling requirements for prescription drugs and poisons. In addition, however, labeling can provide valuable consumer information on nutrition, for example. Finally, many products require operating and installation instructions.

In which languages should labeling and instructions be printed? One approach to this issue is to print labels and instructions in languages that are used in all of the major markets for the product. The use of multiple languages on labels and instructions simplifies inventory control: The same packaging can be used for multiple markets. The savings from simplicity must be weighed against the cost of longer instruction booklet and more space on labels for information.

Activity: 3

Give examples of each attributes discussed above for designing a Global Product.

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Visit the website of European Union to find out the various restrictions for exporting chemical, electronic and electrical goods to EU countries.

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Geographic Expansion – Strategic Alternatives

Product Life Cycle

It has been widely accepted that the global marketing may enable a manufacturer to change the shape of product life cycle - PLC (Exhibit), even when the sale of a particular product has reached at its maturity stage. The firm even in such cases may manage to keep its sale growing by exporting its products to foreign markets particularly to developing or less developed countries where the product has not yet been introduced or accounts for the negligible sales. It is indeed now a known fact that several products are introduced in new geographical locations of the world such as in developing or least developed countries when they have become obsolete in developed or advanced nations where they were introduced at first stage.

Strategic Alternatives

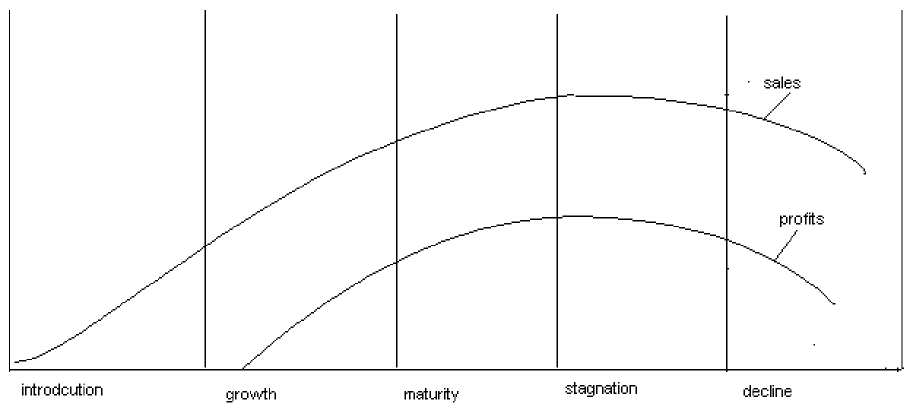
Companies can grow in three different ways. The traditional methods of market expansion-further penetration of existing markets to increase market share and extension of the product line into new-product market areas in a single national market are both available in domestic operations. In addition, a company can expand by extending its existing operations into new countries and areas of the world. The latter method, geographic expansion, is one of the major opportunities of global marketing. To pursue geographic expansion effectively, a framework for considering alternatives is required. When a company has a product/market base, it can select from five strategic alternatives to extend this base into other geographic markets, or it can create a new product designed for global markets.

The Product Life Cycle

When tracing consumption trends and attempting to predict how they will develop in the future, it is important to assess at what point the product happens to be in its 'product life cycle' in the particular market. Although the concept of the life cycle may have little practical value for many basic commodities and essential products like bread, it is valid for the majority of both industrial and consumer products. As the graph shows, products (at least in a particular form) pass through five stages in their 'life' in a given market in terms of both sales and profitability.

1. *Introduction:* In this stage the product is launched or enters the market and sales rise slowly.
2. *Growth:* The product is becoming accepted and penetrating the market; if the product 'catches on' there is a period of rapid growth in sales.
3. *Maturity:* Sales growth starts to slow down.
4. *Stagnation:* Sales reach their peak, and level off.
5. *Decline:* There is a decline in demand for the product, at least in its initial form, and sales decline accordingly.

Almost all products eventually pass through all five stages. Products move through the cycle at different speeds, which can vary even within a product category. When formulating research plans it is necessary to know which phase the product is in at any given time. Note that profitability tends to decline earlier and more rapidly than sales.



When the statistics show that the sales of a product have been stagnating or declining over a period of time, this can indicate that the product has reached its stage of maturity or decline and may not have much of a future in that market. However, it could be wrong to conclude that this market should be dropped from consideration. Products are often given a new lease of life by being changed in some way – sometimes in basic ways, sometimes only in how they are presented. Or sales of a product can be revived by a new marketing approach. In the terminology of marketing, a 'new product' can be created this way and can start fresh on a new life cycle. In other cases, opportunities can arise in a stagnant market if a supplier drops out.

Deciding what stage a product has reached in its life cycle can be more difficult when the sales figures are still rising. The problem then is to estimate how much longer they will *continue* to rise. Merely studying the sales charts will not provide the answer. The researcher must seek the answer in the various factors that lie behind consumption and sales.

Source: ITC/UNCTAD/GATT (1978), "Introduction to Export Market Research

Strategy 1. Product/Communication Extension (Dual Extension)

Many companies employ product/communication extension as a strategy for pursuing opportunities outside the home market. Under the right conditions, this is the easiest product marketing strategy and, in many instances, the most profitable one as well. Companies pursuing this strategy sell exactly the same product, with the same advertising and promotional appeals as used in the home country, in some or all world-market countries or segments.

The critical difference is one of execution and mind-set. In the stage 2 companies, the dual extension strategy grows out of an ethnocentric orientation; the stage 2 companies are making the assumption that all markets are alike. A company in stage 4 or 5 does not make such as assumptions; the company's geocentric orientation allows it understand its markets thoroughly and consciously take advantage of similarities in world markets.

The product/communication extension strategy has an enormous appeal to global companies because of the cost savings associated with this approach. The two most obvious sources of savings are manufacturing economies of scale and elimination of duplicate product R&D costs. Also important are the substantial economies associated with standardization of marketing communications. For a company with worldwide operations, the cost of preparing separate print and TV ads for each market can be enormous. Although these cost savings are important, they should not distract executives from the more important objective of maximum profit performance, which may require the use of an adaptation or invention strategy. As we have seen, product extension, in spite of its immediate cost savings, may in fact result in market failure.

Strategy 2: Product Extension/Communication Adaptation

When a product fills a different need, appeals to a different segment, or serves a different function under conditions of use that are the same or similar to those in the domestic market, the only adjustment that may be required is in marketing communications. Bicycles and motor scooters are examples of products that have been marketed with this approach. They satisfy recreational needs in the United States but serve as basic or urban transportation in many other countries. Similarly, outboard marine motors are usually sold to a recreation market in the high-income countries, whereas the same motors in lower-income countries are mainly sold to fishing and transportation fleets. Another example is the U.S. farm machinery company that decided to market its U.S. line of home lawn and garden power equipment in: less developed countries (LDCs) as agricultural implements. The equipment was ideally suited to the needs of farmers in many LDCs. Equally important was the lower price almost a third less than competing equipment especially designed for small acreage farming, and offered for sale by competing foreign manufacturers.

As these examples show, the product extension/communication adaptation strategy either design or by accident-results in product transformation. The same physical product ends serving a different function or use than that for which it was originally designed or created.

The appeal of the product extension/communication adaptation strategy is its relatively low cost of implementation. Because the product in this strategy is unchanged - the R&D, tooling, manufacturing setup, and inventory costs associated with additions to the product line are avoided. The only costs of this approach are on identifying different product functions and revising marketing communications (including advertising, sales promotion, and point of sale material) around the newly identified function.

Strategy 3: Product Adaptation/Communication Extension

A third approach to global product planning is to extend, without change, the basic home-market communications strategy while adapting the product to local use or preference conditions. Note that this strategy (and the one that follows) may be utilized by both stage 3 and stage 4 companies. The critical difference, as noted earlier, is one of the execution and mind-set. In the stage 3 company, the product adaptation strategy grows out of a polycentric orientation; the stage 3 company assumes that all markets are different. By contrast, the geocentric orientation of managers and executives in a Stage 4 global company has sensitized them to actual, rather than assumed differences between markets.

Exxon adheres to this third strategy: It adapts its gasoline formulations to meet the weather conditions prevailing in different markets while extending the basic communications appeal, "Put a tiger in your tank," without change.

There are many other examples of products that have been adjusted to perform the same function around the globe under different environmental conditions. Soap and detergent manufacturers have adjusted their product formulations to meet local water and washing equipment conditions with no change in their basic communications approach. Household appliances have been scaled to sizes appropriate to different use environments, and clothing has been adapted to meet fashion criteria. Also, food products, by virtue of their potentially high degree of environmental sensitivity, are often adapted.

Strategy 4: Dual Adaptation

Sometimes, when comparing a new geographic market to the home market, marketers discover that environmental conditions or consumer preferences differ; the same may be true of the function a product serves or consumer receptivity to advertising appeals. In essence, this is a combination of the market conditions of strategies 2 and 3. In such a situation, stage 4/5 companies will utilize the strategy of product and communications adaptation. As is true about strategy 3, stage 3 companies will also use dual adaptation-regardless of whether the strategy is warranted by market conditions, preferences, function, or receptivity.

Unilever's experience with fabric softener in Europe exemplifies the classic multinational road to adaptation. For years, the product was sold in 10 countries under seven different brand names, with different bottles and marketing strategies. Unilever's de-centralized structure meant that product and marketing decisions were left to country managers. They chose names that had local-language appeal and selected 'package designs to fit local tastes'. Today, rival Procter & Gamble is introducing competitive products with a pan-European strategy of standardized products with single names, suggesting that the European market is more similar than what Unilever had assumed. In response, Unilever's European brand managers are attempting to move gradually toward standardization.

Sometimes, a company will draw on all four of these strategies simultaneously when marketing a given product in different parts of the world. For example, Heinz utilizes a mix of strategies in its ketchup marketing. Whereas a dual extension strategy works in England; the spicier and hotter formulations are also popular in Central Europe and Sweden. Recent ads in France featured a cowboy lassoing a bottle of ketchup and, thus, reminded consumers of 'the product's American heritage. Swedish ads conveyed a more cosmopolitan message; by promoting Heinz as "the taste of the big world" and featuring well known landmarks such as the Eiffel Tower, the ads disguised the product's origin.

Strategy 5: Product Invention

Adaptation strategies are effective approaches to international and multinational marketing, but they may not respond to global market opportunities. They do not respond to the situation in markets in which customers do not have the purchasing power to buy either the existing or adapted product. This latter situation applies to the LDCs of the world, which are home to roughly three quarters of the world's population. When potential customers have limited purchasing power, a company may need to develop an entirely new product, designed to satisfy the need or want at a price that is within the reach of the potential customer. Invention is a demanding but potentially rewarding product strategy for reaching mass markets in LDCs.

The winners in global competition are the companies that can develop products offering the most benefits, which in turn create the greatest value for buyers. In some instances, value is not defined in terms of performance but rather in terms of customer perception. The latter is as important for an expensive perfume or champagne as it is for an inexpensive soft drink. Product quality is essential - indeed, it is frequently a given but it is also necessary to support the product quality with imaginative, value-creating advertising and marketing communications. Most industry experts believe that a global, appeal and a global advertising campaign are more effective in creating the perception, of value than a series of separate national campaigns.

Activity: 4

Prepare a list of Geographical alternatives while expanding a product reach in the Global Market.

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How to Choose a Strategy

Most companies seek a product strategy that optimizes company profits over the long term. Which strategy for global markets best achieves this goal? There is, unfortunately, no general answer to this question. Rather, the answer depends on the specific product market-company mix.

Companies differ in both their willingness and capability to identify and produce profitable product adaptations. Unfortunately, too many stage one and stage two companies are oblivious to the foregoing issues. One new-product expert has described three stages that a company must go through as follows:

1. **Cave dweller**- The primary motivation behind launching new products internationally is to dispose the excess production or increase plant-capacity utilization.
2. **Naive nationalist** - The Company recognizes growth opportunities outside the domestic market. It realizes that cultures and markets differ from country to country, and as a result, it sees product adaptation as the only possible alternative.
3. **Globally sensitive** - This Company views regions or the entire world as the competitive marketplace. New-product opportunities are evaluated across countries, with some standardization planned as well as some differentiation to accommodate cultural variances. New-product planning processes and control systems are reasonably standardized.

To sum up, choice of product and communications strategy in international marketing is a function of three key factors: (1) the product itself, defined in terms of the function or need it serves; (2) the market, defined in terms of the conditions under which the product is used, the preferences of potential customer and the ability to buy the products in question; and (3) the costs of adaptation and manufacture to the company considering these product/communications approaches. Only after analysis of the product/ market fit and of company capabilities and costs can executives choose the most profitable international strategy.

New Products in Global Marketing

What is new product? Newness can be assessed in the context of the product itself, the organization, and the market. The product may be an entirely new invention or innovation; for example, the videocassette recorder (VCR) or the compact disc. It may be a line extension (a modification of an existing product) such as Diet Coke. Newness may also be organizational, as when a company acquires an already existing product with which it has no previous experience. Finally, an existing product that is not new to a company may be new to a particular market.

In today's dynamic, competitive market environment, many companies realize that continuous development and introduction of new products are keys to survival and growth. Which companies excel at these activities? Gary Rainer, a new-product specialist with the Boston Consulting Group, has compiled the following list: Honda Compaq, Motorola, Canon, Boeing, Merck, Microsoft, Intel, and Toyota. One common characteristic: They are global companies that pursue opportunities in global markets in which competition is fierce, thus ensuring that new products will be world class. Other characteristics noted by *Reiner* are as follows:

1. They focus on one or only a few businesses.
2. Senior management is actively involved in defining and improving the product development process.
3. They have the ability to recruit and retain the best and the brightest people in their fields.
4. They understand that speed in bringing new products to market reinforces product quality.

Activity: 5

Prepare a presentation for adopting new product ideas in the targeted Market.

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Identifying New Product Ideas

The starting point for an effective worldwide new-product program is an information system that seeks new product ideas from all potentially useful sources and channels. Those ideas relevant to the company undergo screening at decision centers within the organization. There are many sources of new-product ideas, including customers, suppliers, competitors, company sales people, distributors and agents, subsidiary executives, headquarters executives, documentary sources (for example, information service reports and publications), and finally actual firsthand observation of the market environment.

New-Product Development Location

A global company must make an important decision regarding new-product development. Should development activity be dispersed to different country/regional locations, or should new-product activities' be concentrated in a single location? The advantage of concentration is that all of the new-product development people can interact daily on a face-to-face basis. There may also be cost efficiencies in a single location. The disadvantage of concentration is that it does not take advantage of global thinking and separates the developers from the ultimate consumer. Utilizing a dispersed strategy requires co-ordination of employees and the effective transfer of information between locations, and may result in duplicated efforts.

Regardless of which strategy a company selects, a high volume of information flow is required to scan adequately for new-product opportunities, and considerable effort is subsequently required to screen these opportunities to identify candidates for product development. An organizational design for addressing these requirements is a new-product department. The function of such a department is fourfold: (1) to ensure that all relevant information sources are continuously tapped for new-product: ideas; (2) to screen these ideas to identify candidates for investigation; (3) to investigate and analyze selected new-product ideas; and (4) to ensure that the organization commits resources to the most likely new product candidates and is continuously involved in an orderly program of new-product introduction and development on a worldwide basis.

With the enormous number of possible new products, most companies establish screening grids to focus on those ideas that are most appropriate for investigation. The following questions are relevant to this task:

1. How big is the market for this product at various prices?
2. Can we market the product through our existing structure? If not, what changes will be necessary and what costs will be required to make the changes?

3. Given estimates of potential demand for this product at specified prices with estimated levels of competition, can we source the product at a cost that will yield an adequate profit?
4. What are the likely competitive moves in response to our activity with this product?
5. Does this product fit our strategic development plan?
    a. Is the product consistent with our overall goals and objectives?
    b. Is the product consistent with our available resources?
    c. Is the product consistent with our management structure?
    d. Does the product have adequate global potential?

Testing New Products in National Markets

The major lesson of new product introduction outside the home market has been that whenever a product interacts with human, mechanical, or chemical elements, there is the potential for a surprising and unexpected incompatibility. Since virtually every product matches this description, it is important to test a product under actual market conditions before proceeding with full-scale introduction. A test does not necessarily involve a full-scale test-marketing effort. It may simply involve observing the actual use of the product in the target market.

Failure to assess actual use conditions can lead to big surprises, as in the case of Singer sewing machines sold in African markets. These machines, manufactured in Scotland by Singer, were slightly redesigned by Scottish engineers. The location of a small bolt on the product's base was changed; the change had no effect on product performance but did save a few pennies per unit in manufacturing costs. Unfortunately, when the modified machine reached Africa, it was discovered that this small change was disastrous for product sales. The Scottish engineers did not take into account the fact that in Africa, it is customary for women to transport any bundle or load including sewing machines on their heads. The relocated bolt was positioned at exactly the place where head met machine for proper balance; since the sewing machines were no longer transportable, demand decreased substantially.

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Lesson 3.2 - Management of International Brands

In many countries, branding may be nothing more than the simple process of putting a manufacturer's name, signature, or picture on a product or its package. Many U.S. firms did precisely this in the old days, as illustrated by King Gillette's own portrait being used as a trademark for his Gillette razor blades.

The basic purposes of branding are the same everywhere in the world. In general, the functions of a brand are to (1) create identification and brand awareness, (2) guarantee a certain level of quality, quality, and satisfaction, and (3) help with promotion. All of these purposes have the same ultimate goal: to induce repeat sales. The Spalding name, for example, has a great deal of marketing clout in Japan. In fact, a group of investors bought the company in 1982 because they felt that Spalding was the best-known name in sports in the free world and that the name was underutilized.

For American consumers, brands are important. Overseas consumers are just as brand conscious if not more so because of their social aspirations and the social meanings that brand names can offer. Eastern European consumers recognize many Western brand names, including some that are unavailable in their countries. Among the most powerful brand names are Sony, Adidas, Ford, Toyota, Volvo, BMW, and Mercedes. When International Semi Tech Microelectronics Inc. acquired troubled SSMC Inc.; the most important asset was probably the Singer trademark.

When a company is for sale, the remainder of the purchase price after deducting the fair value of the physical assets is called goodwill, "going concern value:' or an intangible asset. In the case of service businesses, nearly the entire purchase price that companies generate tends to be goodwill. The brand has brand equity when there is value that is attached to that brand. Perhaps, Coca-Cola's most valuable asset is its brand equity, which is worth $39 billion.

Marketing Strategy 1

Name Selection

Brand name selection, although an artistic process has become more scientific.

In the case of automobiles, brand names are carefully chosen so they can connote certain positive meanings.

Oldsmobile has changed some of its name plates. Calais has become Achieva. Calais is a Seaport in northern France on the Strait of Dover. Achieva, in contrast, can communicate the idea that the car is a "compact, dependable, nimble, and responsive automobile". Achieva is a computer-generated name. Although it does not really mean anything, it connotes achievement. Olds mobile initially called it the Achiever, which implied somewhat negatively a young urban professional who had "made it."

Just like Achieva, Acura is a neologism. Created by Name Lab, the name suggests precision.

One of Honda's desired hallmarks for the brand was precise engineering.

Altima is a neologism. The word has no real meaning but hints at ultimate or best.

Geo is a morpheme or the smallest meaningful language unit. It means world in many languages.

Mondeo means world in Italian.

Mitsubishi, in Japanese, means three pebbles. The company changed it to three diamonds whose design serves as the company's logo.

The wives of the vice president and the top engineer of ford car product development were born under the Taurus sign of the Zodiac. As a result, Taurus was used as the project code name and in the end stayed as the name of the car.

Wind star is a successor to Ford's aero star minivan. The company, while wanting to keep a family relationship to the Aerostar, also wanted a different name to tell buyers that Wind star was a new vehicle.

Taking into consideration the importance of branding as a marketing tool, one would expect that corporate headquarters would normally have a major role in brand planning for overseas markets. As a component of an MNC's marketing mix, branding is the area in which standardization appears to be relatively high. One study found standardization - branding rate of 82.5 per cent among U.S. consumer goods manufacturers. In comparison to the large U.S. based industrial firms' European marketing strategies, these same firms' marketing mix strategies in Latin America appear to be more standardized. As expected, branding and product were least adapted, probably because of the relatively greater cost of adapting products and brands.

Another study found that international marketing managers considered some cultural and socioeconomic conditions of foreign countries in making global brand image strategy decisions. If the markets are similar, a firm may be able to use the standardization strategy by extending its brand-image theme to the other markets. However, when markets differ in cultural uncertainty avoidance, individualism, and national socioeconomic, managers tend to employ the image-customization strategy.

Branding Levels and Alternatives

There are four levels of branding decisions:

1. No brand versus brand
2. Private brand versus manufacturer's brand
3. Single brand versus multiple brands
4. Local brands versus worldwide brand

Branding Versus No Brand

To brand or not to brand, that is the question. Most U.S. exported products are branded, but that does not mean that all products should be. Branding is not a cost-free proposition because of the added costs associated with marking, labeling, packaging, and legal procedures. These costs are especially relevant in the case of commodities (e.g. salt, cement, diamonds, produce, beef, and other agricultural and chemical products).

Commodities are "unbranded or undifferentiated products which are sold by grade, not by brands." As such, there is no uniqueness, other than grade differential, that can be used to distinguish the offerings of one supplier from those of another. Branding is then probably undesirable because brand promotion is ineffective in a practical sense and adds unnecessary expenses to operations costs. The value of a diamond, for example, is determined by the so-called four "Cs" viz. cut, color, clarity, and carat weight and not by brand. This is why DeBeers promotes the primary demand for diamonds in general rather than the selective demand for specific brands of diamonds.

On the positive scale, a brand less product allows flexibility in quality and quantity control, resulting in lower production costs along with lower marketing and legal costs.

The basic problem with a commodity or unbranded product is that its demand is strictly a function of price. The brand less product is thus vulnerable to any price swing or price cutting. Farmers can well attest to this vulnerability because prices of farm products have been greatly affected by competition from overseas producers. Yet, there are ways to remove a company from this kind of cutthroat competition Branding, when feasible, transforms a commodity into a product (e.g., Chiquita bananas, Dole pineapples, Sunkist oranges, Morton salt, Holly Farms fryers, and Perdue fryers).

A product is a "value-added commodity," and this bundle of added values includes the brand itself as well as other product attributes, regardless of whether such attributes are physical or psychological and whether they are real or imaginary. The 3M Company developed brand identity and packaging for its Scotch videotapes for the specific purpose of preventing them from becoming just another commodity item in the worldwide, price-sensitive market.

Branding makes premium pricing possible because of better identification, awareness, promotion, differentiation, consumer confidence, brand loyalty, and repeats sales. Although branding provides the manufacturer with some insulation from price competition, a firm must still find out whether it is worthwhile to brand the product. In general, these pre-requisites should be met:

1. Quality and quantity consistency, not necessarily the best quality or the greatest quantity.
2. The possibility of product differentiation.
3. The degree of importance consumers place on the product attributes to be differentiated.

As an example, Nike's unique designs (e.g. waffle sole) allowed the company to differentiate its brand from others and to become the top rated brand among serious joggers.

Activity: 6

Prepare a List of Examples of Branding Decisions.

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Private Brand Versus Manufacturer's Brand

Branding to promote sales and move product necessitates a further branding decision: whether the manufacturer should use its own brand or a distributor's brand on its product. Distributors in the world of international business include trading companies, importers, and retailers, among others; their brands are called private brands. Many portable TV sets made in Japan for the U.S. market are under private labels. In rare instances, Japanese marketers put their brands on products made by U.S. companies, as evidenced by Matsushita's purchases of major appliances from White and D&M for sale in the United States. The Oleg Cassini trademark is put on the shirts actually made by Daewoo.

Even though it may seem logical for a distributor to carry the manufacturer's well-known brand, many distributors often insist on their own private brands for several reasons.

First, a distributor may be able to create a unique product by bundling or unbundling product attributes and then adjusting the price to reflect the proper value. Carrefour, a French retail giant, sells some 3,000 in-house products at prices about 15 per cent lower than national brands. J. Sainsbury PLC, a British retailer, has a private brand that is able to get 30 per cent of the detergent market, moving it ahead of Unilever's Persil and just behind Procter & Gamble's Ariel, which is the market leader. It is believed that private-label products now account for 32 per cent of supermarket sales in the United Kingdom and 24 per cent in France.

Second, a private brand is a defensive strategy that guarantees that a distributor is not by passed by its supplier. For example, Ponder and Best, after losing the Rolleiflex and Olympus distributorships, came up with its own brand of photographic products, Vivitar.

Third, distributors can convert fixed production costs into variable costs by buying products made by others. Sperry's products are made by more than 200 manufacturers (e.g., Sperry's personal computer is manufactured by Mitsubishi). With this practice, Sperry is able to save cash and research and development expenses. Of course, it is important for a distributor with a private brand to have a reliable supplier.

Fourth and perhaps the most important reason for a distributor's insistence on a private brand is brand loyalty, bargaining power, and price. In spite of the lower prices paid by the distributor and ultimately by its customers, the distributor is still able to command a higher gross margin than what a manufacturer's brand usually offers. The lower price can also be attributed to the distributor's refusal to pay for the manufacturer's full costs. A distributor may want to pay for the manufactures variable costs but not all of the fixed costs. Or a distributor may want to pay for production costs only but not the manufacturer's promotional expenditures, because a distributor gets no benefit from the goodwill of a manufacturer's advertised brand. If a firm has any problem with the supplier (manufacturer), it has the flexibility of switching to another supplier to make the identical product, thus maintaining brand loyalty and bargaining power without any adverse effect on sales. RCA; for example, switched from Matsushita to Hitachi for its portable units of VCRs.

Advantages of Each Branding Alternative (from Manufacturer's Viewpoint)	
No Brand ➢ Lower production cost ➢ Lower marketing cost ➢ Lower legal cost ➢ More flexibility in quality and quantity control (i.e., possibility of less rigidity in control) ➢ Good for commodities (undifferentiated items)	**Brand** ➢ Better identification ➢ Better awareness ➢ Better chance for product differentiation ➢ Better chance for repeat sales ➢ Possible premium pricing (i.e., removal from price competition) ➢ Possibility of making demand more price inelastic
Private Brand ➢ Ease in gaining dealers' acceptance ➢ Possibility of larger market share ➢ No promotional hassles and expenses ➢ Good for small manufacturer with unknown brand and identity	**Manufacturer's Brand** ➢ Better control of products and features ➢ Better price because of more price inelasticity retention of brand loyalty ➢ Better bargaining power ➢ Assurance of not being bypassed by channel members

Multiple Brands (in single market)	Single Brand (in single market)
➢ Utilization of market segmentation technique ➢ Creation of excitement among employees ➢ Creation of competitive spirits ➢ Avoidance of negative connotation of existing brand gain of more retail shelf space ➢ Retention of customers who are not brand loyal allowance of trading up or down without hurting existing brand	➢ Better marketing impact ➢ Permitting more focused marketing ➢ Brand receiving full attention ➢ Reduction of advertising costs because of better ➢ Economies of scale and lack of duplication ➢ Elimination of brand confusion among employees, dealer, and consumers ➢ Good for product with good reputation and quality (halo effect)
Local Brands	**Worldwide Brand**
➢ Legal necessity (e.g., name already used by someone else in local market) ➢ Elimination of difficulty in pronunciation ➢ Allowance for more meaningful names (i.e., more local identification ➢ Elimination of negative connotations. ➢ Avoidance of taxation on international brand ➢ Quick market penetration by acquiring local brand allowance of variations of quantity and quality across markets	➢ Better marketing impact and focus ➢ Reduction of advertising costs ➢ Elimination of brand confusion ➢ Good for culture-free product ➢ Good for prestigious brand ➢ Easy identification/ recognition for international travelers ➢ Good for well-known designer

Single Brand Versus Multiple Brands

When a single brand is marketed by the manufacturer, the brand is assured of receiving full attention for maximum impact. But a company may choose to market several brands within a single market based on the assumption that the market is heterogeneous and thus - must be segmented. Consequently, a specific brand is designed for a specific market segment.

The watch industry provides a good illustration for the practice-of-using-multiple brands in a single market for different market segments. Bulova, a well-known brand, also has the Accutron and Caravelle brands. Citizen, in its attempt to capture the new youth and multiple watch owners' market, traded down to include a new brand called Vega. Likewise, Hattori Seiko is well known for its Seiko brand, which is sold at the upper-medium price range ($100-300) in better stores; to appeal to a more affluent segment, the firm traded up with the Lassale name. Seiko's strategy is to deliberately divorce the Seiko and Lassale names, once used together, in the public mind with the gold-plated Lassale line retailing for $225-750 and the karat-gold Jean Lassale line retailing for $675-35,000. Lassale watches have Seiko movements but are made only in the United States and Western Europe in order to curb parallel trading and they are distributed only through jewelers and department stores. The company also trades down with Pulsar (the cheapest model at $50), Lorus ($12.95-49.95), and Alba ($9.95-19.95) for Asia.

Multiple brands are suitable when a company wants to trade either up or down because both moves have a tendency to hurt the firm's main business. If a company has the reputation for quality, trading down without creating a new brand will hurt the prestige of the existing brand. By the same rationale, if a company is known for its low-priced mass-produced products, trading up without creating a new brand is hampered by the image of the existing products. Casio is perceived as a manufacturer of low-priced watches and calculators and the name adversely affects its attempt to trade up to personal computers and electronic musical instruments. To overcome this kind of problem, Honda uses the Acura name for its sporty cars so that Acura's image is not affected by the more pedestrian Honda image.

IBM has begun to segment the PC market and has employed a multi brand strategy. Toward this end, the company aims different brands and separate sales channels at different groups of customers. In Europe it has four product lines, which range from a law-priced PS/1 home model to relatively expensive PS/2 hub far corporate networks. The other two lines are Ambra and Value Paint. Ambra is noteworthy because it is it product line of imparted Asian computers which are sold in Europe under a non-IBM label.

Cultural Dimension Multi-brand Marketing

Timex's most valuable asset may be its brand name. Its advertisements showing how rugged. Timex watches have been well received over the years. As a matter of fact, the 1992 Gallup Watch Brand Survey found that Timex is number one in terms of name recognition, with 98 per cent of consumers knowing the Timex name. Seiko, with 87 per cent recognition, took second place.

Timex's marketing error was its failure to keep up with market trends as the watch evolved from a functional object to a fashion accessory. According to the Jewelers of America, the average consumer has five watches, drastically different from 1.5 watches from thirty years ago. Timex's Japanese rivals, Seiko and Citizen, have long adjusted by introducing a wide variety of styles and prices so that customers can have different watches for different looks. In the meantime, Timex was moving along as a one-brand company. The company has finally decided to go multi-brand.

Source: "At Timex, They're Positively Glowing," Business Week, 12 July 1993, p. 14

Local Brands Versus Worldwide Brand

When the manufacturer decides to put its awn brand name on the product, the problem does not end there if the manufacturer is an International marketer. The possibility of having to modify the trademark cannot be dismissed. The international marketer must then consider whether to use just one brand name worldwide or different brands far different markets/countries. To market brands worldwide and to market worldwide brands are not the same thing. A single worldwide brand is also known as - an international, universal, or global brand. A Euro-brand is a slight modification of this approach, as it is a single product far a single region.

For a brand to be global or worldwide it must by definition have a commonly understood set of characteristics and benefits in all of the markets where it is marketed. Coca cola is a global brand in the sense that it has been successful in maintaining similar perceptions across countries and cultures. However, most other brand does not enjoy this kind of consistency thus making it debatable whether a gullible brand is a practical solution.

A worldwide brand has several advantages. First, it tends to be associated with status and prestige. Second, it achieves maximum market impact overall while reducing advertising costs because only one brand is pushed. Bata Ltd. a Canadian shoe marketer and retailer in ninety-two countries found out form its research that consumers greatly thought Bata to be a local concern, no matter the country surveyed. The company thus decided to become and official sponsor of world cup soccer in order to enhance Bata's international stature. For Bata and others it is easier to achiever worldwide exposure for one brand than it is for multiple local brands. Too many brands create confusion and fragmentation.

Third, a worldwide brand provides a convenient identification, and international travelers can easily recognize the product. There would be no sense in creating multiple brands for such international products as Time magazine, American Express credit card, Diner's Club credit card, Shell gasoline, and so on;

Finally, a worldwide brand is an appropriate approach when a product has a good reputation or is known for quality. In such a case, a company would be wise to extend the brand name to other products in the product line. This strategy has been used extensively by GE. In another case, 3M perceived commonalities in consumer demographics and market development worldwide; in response, it devised a "convergence remarketing" strategy to develop global identity for its Scotch brand of electronic recording products, whose design prominently displays the Scotch name and a globelike logo.

The use of multiple brands, also known as the local or individual approach, is probably much more common than many people realize. The automobile industry is a good example. The Japanese strategy is to introduce a new car in Japan for one year before exporting it to the U.S. market under a different name. Toyota XX and Datsun Sunny, dubbed Toyota Supra and Nissan Sentra for the United States, are examples of this practice. In the case of Unilever, its fabric softener is sold in ten European countries under seven names. Due to decentralization, the multinational firm allows country managers to choose names, packages, and formulas that will appeal to local tastes. More recently, the company, while keeping local brand names, has been gradually standardizing packaging and product formulas.

Packaging and Labeling

Much like the brand name packaging is another integral part of a product. Packaging serves two primary purposes: functional and promotional. First and foremost, a package must be functional in the sense that it is capable of protecting the product at minimum cost.

If a product is not manufactured locally and has to be exported to another country, extra protection is needed to compensate for the time and distance involved. A country's adverse environment should also be taken into account. When moisture is a problem, a company may have to wrap pills in foils or put food in tin boxes or vacuum-sealed cans. Still, the type of package chosen must be economical. In Mexico, where most consumers cannot afford to buy detergents in large packages, detergent suppliers found it necessary to use plastic bags for small packages because cardboard would be too expensive for that purpose.

For most packaging applications, marketers should keep in mind that foreign consumers are more concerned with the functional aspect of a package than they are with convenience. As such, there is usually no reason to offer the great variety of package sizes or styles demanded by Americans. Plastic and throwaway bottles are regarded as being wasteful, especially in LDCs, where the labor cost for handling returnable is modest. Non-American consumers prefer a package to have secondary functions. A tin box or a glass bottle can be used after the product content is gone to store something else. Empty glass containers can be sold by consumers to recoup a part of the purchase price.

From the marketing standpoint, the promotional function of packaging is just as critical as the functional aspect. To satisfy the Japanese preference for beautiful packaging, Avon upgraded its inexpensive plastic packaging to crystalline glass. Similarly, BSR packs its product into two cartons, one for shipping and one for point-of purchase display, because Japanese buyers want a carton to be in top condition. The successful campaign for Bailey's Irish Cream in the United States included a fancy gold foil box package that promotes this whiskey-based drink's upscale image. In any case, packaging does not have to be dull. Novel shapes and designs can be used to stimulate interest and create excitement.

Mandatory Package Modification

A package change may be either mandatory or at the discretion of the marketer. A mandatory change is usually necessitated by government regulations. Sometimes, it is for safety and other reasons. Sometimes, packaging regulations are designed more for protection against imports than for consumer protection.

Several countries require bilingualism (e.g., French and English in Canada and French and Flemish in Belgium). This requirement may force the manufacturer to increase package size or shorten messages and product name, as a bilingual package must have twice the space for copy communications. In some cases, modification is dictated by mechanical or technical difficulties, such as the unavailability of certain typographic fonts or good advertising typographers.

In many cases, packaging and labeling are highway related. Packages may be required to describe contents, quantity, manufacturer's name and address, and so on in letters of designated sizes. Any pictorial illustration that is used should not be misleading. In Singapore, Certain foods must be labeled to conform to defined standards. When terms are used to imply added vitamins or minerals (e.g., enriched, fortified, vitaminized), packages must show the quantities of vitamins or minerals added per metric unit. In addition, if the product is hazardous or contain any hazardous material, marketers should adopt the United Nations' recommendations for the labeling and packaging of hazardous materials.

Exporters of textile products must conform to countries' varying regulations. Spain has specific and extensive requirements concerning fiber content, labeling, and packaging. In addition to its flammability requirements, Sweden's labeling regulations include size, material, care, and origin. Venezuela requires all packaged goods to be labeled in metric units while specifically prohibiting dual labeling to show both metric and non metric units. Germany wants the description of fiber content to be in German, but labeling for Denmark must be in Danish or kindred language. In the case of France care labeling (if used) must meet an International Standardization Organization (ISO) directive.

Different countries' different measurement systems may necessitate some form of product modification, and necessity applies to packaging as well. Products, toiletries included, cannot be sold in Australia in ounces. The Australian regulations require products to be sold in metric numbers, in increments of 25 mm. In Germany, liquid products must be bottled or packaged in standard metric sizes. Interestingly, the United States, a non-metric nation, has the same requirement for liquor products.

Optional Package Modification

Optional modification of package, although not absolutely necessary, may have to be undertaken for marketing impact or for facilitating marketing activities. Through accidents and history, users in many countries have grown accustomed to particular types of packages. Mayonnaise, cheese, and mustard come in tubes in Europe, but mustard is sold in jars in the United States. Orange bottles are popular in the Netherlands. While non-Dutch beer drinkers all over the world readily recognize a green Heineken bottle; the domestic Heineken beer comes in a brown bottle. Ironically, because of a strike at home, Heineken was forced to import 1.8 million gallons at one time from some of its ninety breweries worldwide.

In selecting or modifying a package, a marketer should consider local conditions related to purchasing habits. Products conventionally sold in packs in the United States are not necessarily sold that way elsewhere and may require further bulk breaking. This phenomenon is in part the result of lower income levels overseas and in part the result of a lack of unit pricing, which makes it difficult for buyers to see any savings derived from the purchase of a bigger package. Foreign consumers may, desire to buy one bottle of beer or soft drink at a time instead of buying a six-pack or eight pack. Likewise, one cigarette, not the whole pack, may be bought in a purchase transaction.

Activity: 7

Prepare a list of examples where Packaging helped in creation of Brand Value.

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Provision of Sales Related Services

Business Practices in International Product Delivery

Companies should be aware of basic business practices that are paramount to successful international selling. Because cultures vary, there is no single code by which to conduct business. These practices transcend culture barriers and will help the U.S. a company (as also the any other company from different parts of the world) to conduct business overseas:

- ***Keep promises***. The biggest complaint from foreign importers about U.S. suppliers is failure to ship as promised. A first order is particularly important because it shapes the customer's image of a firm as a dependable or an undependable supplier.
- ***Be polite, courteous, and friendly***. However, it is important to avoid undue familiarity or slang. Some overseas firms feel that the usual brief U.S. business letter is lacking in courtesy.
- ***Personally sign all letters***. Form letters are not satisfactory.

Building a Working Relationship

Once a relationship has been established with an overseas customer, representative, or distributor, it is important that the exporter work on building and maintaining that relationship. Common courtesy should dictate business activity. By following the points outlined in this chapter, a U.S. firm can present itself well. Beyond these points, the exporter should keep in mind that a foreign contact should be treated and served as well as a domestic contact. For example, the U.S. Company (and for that matter any international company from any parts of the world) should keep customers and contacts notified of all changes, including price, personnel, address, and phone numbers.

Because of distance, a contact can "age" quickly and cease to be useful unless communication is maintained. For many companies, monthly or quarterly visits should be made to customers or distributors. This commitment to the business relationship, although not absolutely necessary, ensures that both the company and the product maintain high visibility in the marketplace.

After-Sales Service

Quality, price, and service are the three critical factors to the success of any export sales effort. Quality and price are addressed in earlier chapters. Service, which is addressed here, should be an integral part of any company's export strategy from the start. Properly handled, service can be a foundation for growth. Ignored or left to chance, it can cause an export effort to fail.

Service is the prompt delivery of the product. It is courteous sales personnel. It is a user or service manual modified to meet your customer's needs. It is ready access to a service facility. It is knowledgeable, cost-effective maintenance, repair, or replacement. Service is location. Service is dealer support.

Service varies by the type of product, the quality of the product, the price of the product, and the distribution channel employed. For export products that require no service - such as food products, some consumer goods, and commercial disposables - the issue is resolved once distribution channels, quality criteria, and return policies have been identified.

On the other hand, the characteristics of consumer durables and some consumables demand that service be available. For such products, service is a feature expected by the consumer. In fact, foreign buyers of industrial goods typically place service at the forefront of the criteria they evaluate when making a purchase decision.

All foreign markets are sophisticated, and each has its own expectations of suppliers and vendors. International marketers, manufacturers or distributors, irrespective if the country they belong to, must therefore ensure that their service performance is comparable to that of the predominant competitors in the market. This level of performance is an important determinant in ensuring a reasonable competitive position, given the other factors of product quality, price, promotion, and delivery.

An exporting firm's strategy and market entry decision may dictate that it does not provide after-sale service. It may determine that its export objective is the single or multiple opportunistic entry into export markets. Although this approach may work in the short term, subsequent product offerings will be less successful as buyers recall the failure to provide expected levels of service. As a result, market development and sales expenditures may result in one-time sales.

Service Delivery Options

Service is an important factor in the initial export sale and ongoing success of products in foreign markets. U.S. firms have many options for the delivery of service to foreign buyers.

A high-cost option - and the most inconvenient for the foreign retail, wholesale, commercial, or industrial buyer - is for the product to be returned to the manufacturing or distribution facility in the United States for service or repair. The buyer incurs a high cost and loses the use of the product for an extended period, while the seller must incur the export cost of the same product a second time to return it. Fortunately, there are practical, cost-effective alternatives to this approach.

If the selected export distribution channel is a joint venture or other partnership arrangement, the overseas partner may have a service or repair capability in the markets to be penetrated. An exporting firm's negotiations and agreements with its partner should include explicit provisions for repairs, maintenance, and warranty service. The cost of providing this service should be negotiated into the agreement.

For goods sold at retail outlets, a preferred service option is to identify and use local service facilities. Though this requires up-front expenses to identify and train local service outlets, the costs are more than repaid in the long run.

For example, a leading Canadian manufacturer of consumer personal care items uses U.S. distributors and sales representatives to generate purchases by large and small retailers across the United States. Individual consumers purchase the products at retail. The Canadian firm contracted with local consumer electronic repair facilities in leading U.S. cities to provide service or replacement for its product line. Consequently, the manufacturer can include a certificate with each product listing "authorized" local warranty and service centers.

There are administrative, training, and supervisory overhead costs associated with such a warranty and service program. The benefit, however, is that the company is now perceived to be a local company that competes on equal footing with domestic U.S. manufacturers. U.S. exporters should keep this example in mind when entering foreign markets.

Exporting a product into commercial or industrial markets may dictate a different approach. For the many U.S. companies that sell through distributors, selection of a representative to serve a region, a nation, or a market should be based not only on the distributing company's ability to sell effectively but also on its ability and willingness to service the product.

Assessing that ability to service requires that the exporter ask questions about existing service facilities; about the types, models, and age of existing service equipment; about training practices for service personnel; and about the firm's experience in servicing similar products.

If the product being exported is to be sold directly to end users, service and timely performance are critical to success. The nature of the product may require delivery of on-site service to the buyer within very specific time parameters. These are negotiable issues for which the U.S. exporter must be prepared. Such on-site service may be available from service organizations in the buyer's country; or the exporting company may have to send personnel to the site to provide service. The sales contract should anticipate a reasonable level of on-site service and should include the associated costs. Existing performance and service history can serve as a guide for estimating service and warranty requirements on export sales, and sales can be costed accordingly. Small and large exporters alike accept this practice.

At some level of export activity, it may become cost-effective for a U.S. company to establish its own branch or subsidiary operation in the foreign market. The branch or subsidiary may be a one-person operation or a more extensive facility staffed with sales, administration, service, and other personnel, most of whom are local nationals in the market. This high-cost option enables the exporter to ensure sales and service quality, provided that personnel are trained in sales, products, and service on an ongoing basis. The benefits of this option include the control it gives to the exporter and the ability to serve multiple markets in a single region.

Manufacturers of similar or related products may find it cost-effective to consolidate service, training, and support in each export market. U.S.-based personnel, a foreign facility under contract, or a jointly owned foreign-based service facility can deliver Service. Despite its cost benefits, this option raises a number of issues. Such joint activity may be interpreted as being in restraint of trade or otherwise market controlling or monopolistic. Exporters that are considering it should, therefore, obtain competent legal counsel when developing this joint operating arrangement. Exporters may wish to consider obtaining an export trade certificate of review, which provides limited immunity from U.S. antitrust laws.

Legal Considerations

Service is a very important part of many types of representation agreements. For better or worse, the quality of service in a country or region affects the U.S. manufacturer's reputation there.

Quality of service also affects the intellectual property rights of the manufacturer. A trademark is a mark of source, with associated quality and performance. If quality control is not maintained, the manufacturer can lose its rights to the product, because one can argue that, within that foreign market, the manufacturer has abandoned the trademark to the distributor.

It is, therefore, imperative that agreements with a representative be specific about the form of the repair or service facility, the number of people on the staff, inspection provisions, training programs, and payment of costs associated with maintaining a suitable facility. The depth or breadth of a warranty in a given country or region should be tied to the service facility to which the manufacturer has access in that market. It is important to promise only what can be delivered.

Another part of the representative agreement may detail the training the exporter will provide to its foreign representative. This detail can include frequency of training, who must be trained, where the training is provided, and which party absorbs travel and per diem costs.

New Sales Opportunities and Improved Customer Relations

Foreign buyers of U.S.-manufactured products typically have limited contact with the manufacturer or its personnel. The foreign service facility is, in fact, one of the major contact points between the exporter and the buyer. To a great extent, the U.S. manufacturer's reputation is made by the overseas service facility.

The service experience can be a positive and reinforcing sales and service encounter. It can also be an excellent sales opportunity if the service personnel are trained to take advantage of the situation. Service personnel can help the customer make life cycle decisions regarding the efficient operation of the product, how to update it for more and longer cost-effective operation, and when to replace it as the task expands or changes. Each service contact is an opportunity to educate the customer and expand the exporter's sales opportunities.

Service is also an important aspect of selling solutions and benefits rather than product features. More than one leading U.S. industrial products exporter sells its products as a "tool to do the job" rather than as a "truck" or a "cutting machine" or "software." Service capability enables customers to complete their jobs more efficiently with the exporter's "tool." Training service managers and personnel in this type of thinking vitalizes service facilities and generates new sales opportunities.

Each foreign market offers a unique opportunity for the U.S. exporter. Care and attention to the development of in-country sales and distribution capabilities is paramount. Delivery of after-sales service is critical to the near-and long-term success of the U.S. company's efforts in any market.

Senior personnel should commit to a program of regular travel to each foreign market to meet with the company's representatives, clients, and others who are important to the success of the firm in that market. Among those persons would be the commercial officer at the Commercial Service's post and representatives of the American Chamber of Commerce and the local chamber of commerce or business association.

The benefits of such a program are twofold. First, executive management learns more about the foreign marketplace and the firm's capabilities. Second, the in-country representative appreciates the attention and understands the importance of the foreign market in the exporter's long-term plans. As a result, such visits help build a strong, productive relationship.

Conclusion

A product is a bundle of utilities, and the brand and package are part of this bundle. There is nothing unusual about consumers' reliance on brand names as a guide to product quality. As shown by the perfume industry, the mystique of a brand name may be so strong as to overshadow the product's physical attributes. When practical and well executed, branding allows a commodity to be transformed into a product. In doing so with the aid of product differentiation, brand loyalty is created, and the product can command a premium price.

Branding decisions involve more than merely deciding whether a product should be branded or not. Branding entails other managerial decisions. A manufacturer must decide whether to use its own brand or that of its dealer on its product. A marketer must also determine whether to use a single brand for maximum impact or multiple brands to satisfy the different segments and markets more precisely. Regardless of the number of brands used, each brand name must be selected carefully with the international market in mind. Once selected, the brand name must be protected through registration, and other measures should be taken to prevent any infringement on that name.

Like the brand name, which may have to be varied from one country to another, packaging should be changed when needed. Mandatory modification of packaging should not be considered a problem because the marketer has no choice in the matter-if a marketer wants to market a product; the marketer must conform to the country's stated packaging requirements. Unilever, for instance, has to conform to the French requirement of selling cube-shaped packs, not rectangular packs, of margarine. Its descriptions for mayonnaise and salad dressing also have to vary from country to country.

Optional or discretionary packaging modification, in contrast, is a more controllable variable within a marketer's marketing mix. Usually, discretionary packaging is more re1ated to product promotion, and it can take on the same importance as mandatory packaging. Soft-drink containers are good example of how packaging requirements must be observed. In many countries bottles are manufactured in metric sizes because of government requirements. And the containers must be made of glass because consumers abroad regard plastic throw-away bottles as being wasteful. Therefore, both mandatory and optional packaging changes should be considered at the same time.

Self Assessment Questions

1. What are the requirements that must be met so that a commodity can effectively be trans-formed into a branded product?
2. Explain the "least dependent person" hypothesis and its branding implications.
3. When is it appropriate to use multiple brands in

   (a) the same market and

(b) several markets/countries?

4. What are the characteristics of a good international brand name?

5. Explain these legal requirements related to branding:

    (a) registration,
    (b) registration eligibility,
    (c) use,
    (d) renewal, and
    (e) generic trademark.

6. Distinguish colorable imitation from counterfeit trademark.

7. Cite the factors that may force a company to modify its package for overseas markets. Discuss both mandatory and optional modification.

CASE STUDY

The questionnaire below is designed for the purpose of a study to answer the following among othe issues concern:

(a) Whether male textile consumers have become aware of the classic brand of textiles?

(b) How do they rate it in comparision with other brands?

(c) How effective has been the advertisement for 'classic' range of textiles?

Critically comment on the appropriateness and effectiveness of the questionnaire. Point out the specific weakness of the questionnaire in terms of possible ambiguity, difficulty in getting and analyzing the responses, omissions and commissions. Illustrate how you would have worded a specific question of the questionnaire which you find is unsatisfactory and explain how your version is superior?

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UNIT – IV

Learning Objectives

- Understand the nature and scope of global marketing management.
- Define global marketing management
- Understand the nature and technique of pricing mechanism
- Understand the importance of personal selling and sales promotion
- Understand the influences of environmental factors and pricing decisions.

Unit Structure

Lesson 4.1 - Pricing Decisions and Environmental Influences in Pricing Decisions

Introduction

It is a universally accepted fact that "Price" is the hero of any transaction, because the demand for any commodity or service, depends on the price quoted for it. Similarly, the supply of any commodity or service also depends on the price is paid for it.

The transaction takes place where the prices for demand and supply meet. Under the conditions of perfect competition, "bargaining" takes place and an average price is arrived at.

Here, it will be pertinent to define the two words "Price" and "Price Level". Price is defined as the particular value of exchange or money quoted for a particular commodity at a particular time of a particular day. (For instance the price in share market as well as the foreign exchange market which used to vary in general three times a day i.e., at 10 A.M., 2 A.M. and 5. P.M now varies many times in a day depending up the demand and supply conditions and is applicable for the particular time when transaction takes place.)

Price level is defined as the average of higher quotations and lower quotations given by various dealers for one particular commodity (for example the price of goods is higher in air – conditioned shops with all facilities when compared to the price of the same commodity on a road – side dealers shop. This average price is the basis for demand and also repeated demand for goods. In the matter of services like very popular high class hospitals, the changes are very high than the Government Hospitals.

Therefore, wherever a new product is introduced in the market, this factor called 'Price Level' must be considered as the basis for the sales price or selling price. In this connection the famous formula is CP + P = SP. Where CP is cost of purchase / production; P is profit margin and SP is the selling price. In the market economy of the capitalistic countries, this formula is generally followed because P is determined by demand and supply, as per law of demand.

For a need product in the market, if there is not much of competition, P can be more. In contrast, when there is cut – throat competition P may be less. Here, we may recollect the old saying that "failing at one unit in a million is better than aiming at one hundred and getting full success". In the long run when the total sales is very high the P (Profit margin may be kept lower). Equally the P has to be fixed at a lowest level in market penetration conditions for a new product.

In the global marketing management "Price" refers to the "Export Price" mainly. The global marketing management should pay a special attention to the development of suitable policies for pricing. They are analyzed thoroughly as product policies.

Almost all information on global firms applies a standard "markups" to sales in any part of the globe. This is probably because of the greater diversity of foreign market conditions, the various levels of intervention by government, the escalation cost for certain exports, due to tariff and non-tariff barriers and the volatility of currencies in the exporting and importing countries.

Therefore, the Global Marketing Management must consider the "Price" as the integral part of the whole global marketing strategy. The Price is very closely related to the utility, as utility is the ability of a commodity to satisfy human wants.

The global marketing management is comprised of the following three different stages:

(1). Export,

(2). Create foreign exchange, and

(3). Import

When these stages or steps are followed especially in multinational corporations (MNCs) there will be a smooth outflow of goods. Hence, the export pricing decisions are very important.

Generally, the pricing policy covers export pricing as well as transfer pricing. The transfer – pricing is the pricing within an MNCs global system or between two countries, if two firms that are inter–dependant (related) on each other, of course, 'finance' is considered as a vital supporting – activity for global marketing programmes.

Thus, transfer prices refers to the prices charged by the Multinational Corporations to its associated units or enterprises in host countries for supply of goods such as machinery, equipment, tools, dies, jigs, accessories, any kind of input or raw materials, etc[14].

The pricing decisions may be divided into the following sections:

1. Export pricing in the global markets
2. The MNC pricing, including transfer pricing
3. Discussion on tax – incentives
4. Financial Exposure, cash management moving money across national boundaries.
5. Describing the government support systems for financing exports, foreign investment and foreign trade and
6. Comments on foreign aid as finance for creating markets.

Export Pricing in the Global Markets

The market place in Global Marketing Management may be divided into the following three different segments:

a. This is the segment where the market prices are determined by the relativity of free play of demand and supply factors. Hence, this may be called as the 'free market – price segment"
b. This is the segment where the prices are fixed by the global commodity agreements and similar forms of long term contracts through government decisions and.
c. This is the Segment for MNC firms and / or other firms that are not independent but inter–dependant (associated) on each other. Thus, this is called as the 'transfer pricing segment".

Each of the above segments is equally large in terms of values of global trade.

This lesson mainly deals with free market – pricing of products as well as services, including licensing and leasing. The exporters pricing decisions are depending upon the demand curve, costs of procurement and the long term marketing strategy. Hence, the exporter is a "price – taker", with no choice but to meet the existing global price. Hence, he can use the 'Cost plus method'. This is to fix the price by adding on the full cost of the freight and forwarding charges, customs and other duties, currency fluctuations, etc., This is how a price – maker in the domestic market becomes the price – taker in the world market. In some cases, this is because of the barriers in the domestic market etc.

Export Pricing in Practice

High prices, for example, will combine with a high – quality image and must be supported by appropriate distribution and promotion. Low prices may result in quicker penetration and the target segment wants this and competition permits.

Globally, pricing must consider costs and then be adopted to local requirements in foreign markets but, at the same time, it must be consistent with the firms worldwide objectives, such as profit maximization, ROI (Return on Investment), or market–share.

Global pricing decisions include the expenses on fees, tariffs, special taxes, additional packaging, labeling, shipping, middlemen, additional risks, insurance, and financing costs, etc. arising from varying levels of inflation and fluctuation in currency rates. Volkswagen concluded that many of these charges forced the price of their "Rabbit" model in the American market to reach at uncompetitive levels. So, they decided to produce "Rabbit" in the United States of America.

MNC's Pricing in a National Market

Generally, the goals of a MNC are achieving a satisfactory ROI, followed by maintaining the market share and meeting a specific profit goal.

Transfer Pricing within a MNC

The need occurs for rational systems to price MNC intra – firm transfer of goods at various stages of production which would satisfy the goal of manages abroad to earn adequate profits for their subsidiaries and affiliates, while simultaneously furthering corporate project goals. Evidence indicates that head quarters management, in setting transfer prices, often considers the differential incidence in taxation in various nations in which MNC operates.

This practice raises two kinds of problems. One is an external problem as government tax authorities in most countries try to contract the MNC. The second is internal. Pricing for tax savings causes aberrations in the subsidiary and affiliate operational result.

There are two alternatives, one is to transfer at cost or cost plus, and the other is to transfer at an arm's length price, which is the price which would have been arrived at by independent parties, in a similar transaction.

In MNCs, the corporate costs and projects are affected by import duties. Sending goods at low prices to countries with high rates of duties adds on to an MNC's profits. Also the transfer prices actually are used as a device at times to counter act the inflationary erosion of assets. A MNC can also help an oiling subsidiary or affiliate, which is faced with a competitive problem, by lowering the transfer prices charged. MNC operations in the high tax countries can sell at or below costs to the ones in the low tax rate countries.

As these prices are, essentially, administered prices and the value of goods, equipment, spares, services, etc. is determined by the foreign technology suppliers, there is a tremendous scope and reasons to believe, that these are distorted and there are enough evidences that MNEs have manipulated transfer pricing to the disadvantages of host countries[15].

The transfer prices must be acceptable to national tax and customs authorities. Moreover, it must enable the purchasing unit to meet project targets despite the pressure. To avoid/reduce the disputes between the taxation authority and the MNCs on the issues on transfer pricing, OECD has detailed the advance pricing arrangement which may be used to the extent possible wherever it is possible.

Transfer Pricing and Advance Pricing Arrangement

Almost in every parts of the world the significance of transfer pricing has now been recognized. For example all OECD countries have agreed in principle that the income and expenses should be allocated according to arm's length principle. To enable host country to get its fair share of tax revenue from any overseas entity operating in its territory, the tax offices are required to ascertain that this business entity must declare a level of income to reflect a fair return for the activities conducted at the land of host country. The aim of the advance pricing arrangement (APA) is thus, to give an opportunity to such entities to reach an agreement with the taxation authorities on the future application of arm's length principle in their international transactions that are related with their associates so as to set an advance system of resolving any uncertainty and disputes arising out from such dealings. The system thus, creates an environment of cooperation to negotiate and conduct business as agreed on a transfer pricing methodology that would result in suitable allocation of income and expenses between the associated parties. APA, in general, when finalized and concluded lasts for the duration of three to five years and is renewable on case to case basis. The APAs may cover various international dealings with are carried out between the related parties including the transfer of tangible or intangible property, services, cost sharing for doing certain activities, global trading or manufacturing, etc[16].

MNCs and Export Restrictions

Multinational corporations (MNCs) are known to be adopting a number of methods for achieving their prime objective of optimizing global profits. The approach of putting export restrictions in foreign collaboration agreements (FCAs) is one such practice which has taken manifestations ranging from total ban on exports to prohibition on the use of trade marks for exports or charging the higher rate of royalties for export sales (Exhibit). The export managers or the international marketers must therefore, thoroughly study their foreign collaboration agreements before targeting their exports to a particular country and taking the pricing decision. The components of costing must consider the higher royalty rate to be paid to the collaborator for the exports when compared to the lower rate of royalties to be paid for domestic sales. According to Chugan (1999, p.133) the higher royalties can be paid, if the firm is efficient enough in producing and marketing abroad and incidence of higher royalties may either be passed on to importers or partially or fully be offset by adjusting suitably the cost elements or economies of the scale if production increases substantially. Further, firms with its will for exports and marketing efforts can export to countries where export restrictions do not come in the way. Moreover, with suitable adaptations, modifications, etc. products may be differentiated so that they could be exported within the framework of export restrictions[17].

Various Types of Export Restrictions in Foreign Collaboration Agreements

1. Total ban on exports.
2. Prohibition of exports to countries in which the collaborator operates through branches, subsidiaries, affiliates or is having similar collaboration agreement.
3. Prohibition of exports to collaborator's country.
4. Prohibition of exports to countries other than those covered in 2 and 3 above.
5. Permission of collaborator for export is needed.
6. Exports only through collaborator/his agents/distributors.
7. Exports restricted to certain types of products.
8. Prohibition on the use of trade marks for exports.
9. Restriction on the annual value/quantum of exports.
10. Restriction on exports prices.
11. Charging of higher royalty rate for that portion of output which is exported as compared to that on internal sales.
12. Prohibition on use of technology obtained through the foreign collaboration agreement for export.
13. Any other restrictions on exports.

Source: Adapted from: Chugan Pawan Kumar (1995), "Foreign Collaboration and Export Restrictions in Indian Industry", Himalaya Publishing House, Mumbai.

Environmental Influence in Pricing Decisions

For the study of Global Marketing Management, the environmental analysis is very important. The differences in culture, the economic environment and political and legal factors are considered as important in global marketing.

Social and Cultural Forces

Culture is a set of shared values passed down from generation to generation in a society. These values determine the socially acceptable behaviour. Some of the Cultural elements are given below.

(a). Family

In some countries the family is an extremely close – knit unit, whereas in some other countries the family members act more independently.

(b). Social Customs and Behaviour

Customary behaviour varies from country to country. For example, in taking medicine, the English and Dutch customers prefer white pills, the French customers like purple and all the three dislike red which is more popular in USA.

(c). Education

The literacy level influences advertising, branding and labeling. The 'Brand' mark or design may become dominant marketing strategy particularly, when customers look into the label only or the picture in the label.

(d). Language Differences.

Some words may have different meanings in some language. Therefore, it is better to print the contents of label in the local and national language. If possible in the international language "English" should also be used along with the local language.

In the matter of economic environment, a country's infrastructure and the stage of economic development are the key economic factors that affect the attractiveness of a market and suggest the appropriate marketing strategy in the Global Marketing Management.

Political and Legal Factors

In this area, the stability of government and its attitudes towards free trade is more important. The major legal forces affecting global markets are the barriers created by governments to restrict trade to protect domestic industries.

The following are some of such barriers:

a. Tariff

This is normally a tax imposed on a product, entering a country. The tariffs are used to protect the domestic producers. For example, Japan has a very high tariff on imported rice.

b. Import Quota

This is a limitation on the amount of a particular product that may be brought into a country. Like tariffs, the quotas are also intended to protect the local industries. For example U.S.A has promulgated a law called "The Quantity Restriction Act".

c. Local Content Law

This is a regulation, specifying the particular proportion of a finished products components and labour which must be provided by the importing country. For example, to sell a Japanese Car in Taiwan, the car must be assembled in Taiwan. A firm may import most of the products parts and buy some parts locally and have the final product assembled locally. These laws are used to provide jobs and protect domestic industries.

Trade Agreements

These trade agreements will reduce the trade barriers by giving preferential treatment to the firms in the member – countries. By analyzing the major trade agreements, we can form an impression of the role they play in global marketing.

a. The General Agreement on Tariffs and Trade (GATT)

This agreement was created in 1947 to develop certain fair trade practices among members (contracting parties to the agreement). Presently, the GATT 1995, the updated version of GATT 1947 is one of the most important pillars of WTO system which lays down the various rules and regulations governing the international trade in goods and its various agreements, under the single under taking rule of WTO, are applicable to about 152 nations (WTO's total members as on 16 May, 2008 Ukraine becoming the 152^{nd} member on this date). These members participate in WTO negotiations, on such issues like tariff reductions, import restrictions, subsidization of industry by government, etc[18].

b. The European Economic Community (EEC.)

A political and economic alliance was evolved among to countries (France, Italy, Belgium, West Germany, Luxembourg and Netherlands) under the Treaty of Rome in 1957. This was otherwise known as European Common Market (EEC). The aim of the EEC was to create a single market for its members, which would permit the free movement of goods, services, people and capital. The member – countries would be governed by the same set of rules for transporting goods, etc. Presently, EEC has grown in much larger is size (27 nations as compared to only six at the beginning in 1957) and is known as European Union (EU) and is looking forward to sign the Free Trade Agreements with Non-European nations such as India, China and Gulf countries.

c. The European Free Trade Association (EFTA)

This association was formed in 1960, with a view to eliminate most of the trade barriers between the member countries. In 1992, a treaty was reached between EFTA and EEC towards the single market concept.

d. The North American Free Trade Agreement (NAFTA)

The Governments of U.S.A. and Canada have entered into an Agreement in 1988, with the intention of eliminating tariffs between them, for a period of 10 years and was enlarged to include Mexico in 1994 turning the North America as one of the giant Free Trade Area (FTA). It is expected that it will further expand in future with the inclusion of the more countries from Central and South American region.

e. Some Other FTAs

With the globalization process, there has been a trend of growing regionalism and intra-regional trade the world over. Indeed one can notice a rapid proliferation of regional free trade agreements (FTAs) or regional integration agreements (RIAs) or regional trade agreements (RTAs). Some of the important agreements where India is one of the party include India-Sri Lanka FTA, which was signed on December 1998; India Thailand FTA which was signed on October, 2003; India-Singapore Comprehensive Economic Cooperation Agreement (DECA) singed in June 2005; The South Asia Free Trade Agreement (SAFTA) between India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka that came into force with effect from July 2006, etc. Amongst others we may mention the name of the Asia Pacific Trade Agreement (formerly known as the Bangkok Agreement) between India, Bangladesh, Korea, China and Sri Lanka. Besides, the Global System of Trade Preferences is an trade agreement between 47 countries to enable freer global trade in goods through several facilitating mechanism. Moreover negotiations are also under way to sign the India-China FTA, India -US FTA and India-EU FTA[19].

Finally, we would end up with lesson-1, by emphasizing that an understanding of the environmental factors of global marketing is yet another important aspect for the global marketer.

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Lesson 4.2 - International Pricing Policies, Entry Strategies and Promotion Decisions

Introduction

International pricing policies have, probably not been analyzed as thoroughly as product policies. For example, many global or international firms tend to apply standard markups to sales anywhere in the world. This is too simplistic because of the greater diversity of foreign markets, the different degrees of government intervention, the cost escalation that builds into certain exports due to the tariff and non–tariff barriers and also the volatility of currencies.

Moreover, the international pricing policies must consider the 'price' as the essential part of global marketing strategy. Therefore, the policy must be closely related to the utilities created by the product, the promotional messages and the channel structure. The international pricing policy covers export pricing as well as transfer pricing. The latter is the pricing within an MNC global system or between two firms which are not independent of each other; but inter–dependant of each other.

The international pricing policy covers all sources of funds and safeguarding of monies. The exporter, here, is assumed to be marketing to an independent party in a foreign country. Therefore, the exporter's pricing policy is depending upon the demand curve, costs, and also the long–term strategy. Normally, in the international trade the exporters face very elastic demand curve, under the conditions of the intense competitiveness. So, the exports must meet the existing global price and compete with the suppliers from the other parts of the world. At the same time particularly in developing countries exporters face an inelastic demand curve for their import requirements and use the cost–plus method.

The common and more usual case, especially for the branded goods, is to go in – between the cost and the price. The demand in the world market place is elastic because of profit competition in the world market place. Hence, the world market place prices are generally lowest and that the firm can be a price – maker in the domestic market and a price – taker in the world market.

The international pricing policy process starts with the selection of the target market. The next step is determining the market mix. The policy must be consistent with the firm's world–wide objectives such as profit maximization.

The global marketing management deals with multiple sets of environmental constrains, market factors and varying foreign exchange and inflation rates. Hence, the prices, markups and other allowances will have to vary between domestic and foreign and also between several foreign markets. The main question regarding cost as a price – determinant is whether to utilize full or variable costs. Export sales are going to be a significant proportion of total sales; the firm must recover full cost to remain profitable.

The international pricing policy should recognize that mere cost plus pricing where plus is based on the firms usual profit margin is a defensive policy which pays little attention to foreign demand.

The combined effect of cost factors and the international environment very often, signifies that the consumer prices in some foreign markets are far in excess of the exporter's price in the domestic market. This phenomenon is called as "International price escalation". It can occur for several reasons, for example, exporting to the Less Developed Countries (LDCs) where competition is low or competition among foreign products with high quality images and consequently high prices. Also, a product which is already at the maturity stage in the home market may initially be introduced in a foreign market as a luxury product at a high price. Kentucky's blended whisky which is exported to West Germany and Japan and the "Perrier" mineral water to the United States are best examples. As is always seen, profiteering by middlemen could also cause high prices. Frequently, a relatively large manufacturer–exporter has to decide on what price quotations to submit to foreign markets.

A recent survey showed that the cost plus export pricing is common among the small North–American manufacturers across a range of electronics, machinery, and light industry. Some of the products were as common place as frozen vegetables, fruits, windshield wipers, display shelves and kiosks, key blanks and lock components and sets. Others were in the sectors of avionics, flight simulators and petroleum exploration supplies.

However, a major firm usually adopts a more aggressive international pricing policy which takes due consideration of demand and its selected inter national marketing segments. It, then, develops its product positioning strategy which encompasses pricing as a key element in the international transactions. The MNCs are involved in two specific types of international pricing policy as their own strategy. One relates to pricing in each foreign market and the other relates to intra–firm pricing.

International Pricing Strategies

The components of strategic planning process involve four sets of inter – related decisions. The first defines the business. The second determines the mission and sets specific performance expectations. The third formulates functional strategies and the fourth connects resource allocation and the required budget.

Also, the strategic planning, deals with five areas such as the commitment, market selection, mode of entry, marketing organization and marketing mix.

International Marketing Strategy

To develop an international marketing strategy following four sets of inter–related decisions are taken into consideration.

The first decision defines the business. This includes product and market scope, as to what type of products are to be served? Which needs are to be satisfied? And what technologies are to be used to satisfy these needs?

Evolving a strategy on the basis of these questions is related to products. The strategy on market segmentation forms the market scope.

The Second decision is to determine the mission and set specific performance expectations for each business and programme across the international markets in which the firm functions. This involves fixing the market – share, gains, project, etc.

The third decision is to formulate functional strategies for international marketing, manufacturing, research and development (R&D,) service and physical distribution.

The fourth decision includes the resource allocation and establishing the budget for executing the plans.

Methods of Entry, as a Strategy

The most important strategic decision in international marketing is the mode of entering into the foreign market. There are many alternatives in between the choice of a suitable alternative and the foreign market.

The important international market entry strategies are as shown below:

1. Exporting
2. Contract Manufacturing.
3. Management Contract.
4. Assembly Operations.
5. Fully Owned Manufacturing
6. Counter trade
7. Strategies Alliance and
8. Third Country Location

Besides, what is stated above, there are certain other avenues of strategy, like joint ventures, joint ownership ventures, merger and acquisition, etc.

Joint Ventures (JVs)

These have become very popular now–a–days. An international joint venture is an association between two or more firms to carry on a business as a separate local entity, established and controlled by the participants. In the widest sense, any form of association, which implies collaboration for more than a transitory period, is a joint venture. There are different forms of joint venture.

Joint Ownership Venture

In this venture, ownership and control are shared between a foreign firm and a local firm. This may be brought about by a foreign investor buying an interest in a local company, buying an interest in an existing operation of a foreign company or an initiative by both the parties jointly to form a new company. It is a method of overseas operation whereby a company in one country (the licensor) enters into an agreement with a company in another country (the licensee) to use manufacturing, processing, trade mark or name, patent, technical assistance, etc. provided by the licensor. In exchange, the licensee pays the licensor some royalties or fees which are the major source of income to the licensor.

The Case of Matsushita – Anchor Joint Venture

The age-old corporate formula of buying out a dominant player to get a foothold in a growing market is at work again. Mumbai based electrical accessories major Anchor Electricals has offered Japanese electrical giants – Matsushita Electric Works (MEW) – on 80% stake in the company for ₹ 2,000 crore. Consequently, the ₹ 920-crore company has become a consolidated subsidiary of Matsushita Electric Works.

The new joint venture between Matsushita and Anchor's promoters, the Shah family, will retain the name – Anchor Electricals – and the reconstituted board will have six representatives from Matsushita and four members from the Shah family. The company will also continue to sell products under the Anchor brand till Matsushita gets a fair understanding of the Indian consumer and the distribution network in the country, top officials said.

Toshihide Arii will be the chairman and CEO of the new venture, and Atul Shah will continue as MD. On a query on the exit option for Anchor eventually, Mr. Shah said, “We are not planning to get out of the business at all. We thought it best to be 20% of a larger global group rather than be a small entity in a globalized market.” The joint venture will allow Anchor Electricals to share and collaborate with MEW on a wide range of product line-ups and proprietary technologies contributing large expansions of its business operations. For Matsushita, it would help launch a full-fledged business operation in India, allowing a smooth entry into the latest growing market in Asia. The electrical accessories market is estimated to be around ₹ 2,500 crore and is growing at 30% annually.

If the partnership succeeds, both parties may explore possible joint ventures in other customer categories like appliances and electronics, top officials said. Last year, Chinese durables major Haier picked up Anchor Electronics for₹ 100 crore.

The Anchor acquisition gives National Matsushita a strong foothold in the overall switches, sockets and miniature circuit breakers (MCB) industry in India, pegged at Rs. 2,000 crore. In the switches and sockets segment, which is a Rs. 1,000 crore market, Anchor Electricals is the market leader with 30% share, followed by MK Electric and Havell’s with 20% share each.

Source: Adapted from the Economic Times April 24, 2007

Mergers and Acquisitions

This is considered to be the very important entry strategy as well as expansion strategy. This provides the interact access to markets and the distribution net work. For example, Vijay Mallaya’s U.B. Group (Indian largest brewing and distilling group) has acquired a small British company called Wiltshire brewery. The attraction of Wiltshire for U.B. is that the former offers a ready made chain of 40 pubs (public houses) throughout England.

This could be used by U.B. Group to market its beer brands like King Fisher and U.B. Lager brands in U.K. There are also other advantages such as new technology and reduction in the level of competition.

A Case of Leyland for Acquiring the US firm "DTE"

Commercial vehicle major Ashok Leyland (AL), a flagship of Hinduja Group, has announced that it will acquire the entire equity capital of the US-based Defiance Testing and Engineering Services (DTE) for a sum of $17 million.

AL has signed a share purchase agreement to acquire 100 per cent of the paid-up capital of DTE, which is engaged in providing independent testing services for leading auto OEMs and their Tier-1 and Tier-2 suppliers.

The acquisition is subject to completion of the agreed closing conditions and further corporate and statutory approvals from both GenTek and Ashok Leyland.

The transaction is expected to be completed by the end-May, according to a company statement.

DTE is presently owned by Nasdaq-listed Gen Tek Inc, USA, which is primarily engaged in the manufacture of industrial components, including precision-engineered components for value-train systems and performance chemicals.

DTE, which employs about 100 people has been a successful and profitable organization and its capabilities lie in the areas of the laboratory-based testing and data acquisition, simulation durability testing, NVH testing, road load data acquisition, safety testing and facilities management and test laboratory consulting, the statement added.

The acquisition of the testing facilities of DTE located near Detroit, Michigan, is expected to help Ashley Design and Engineering Services Division (ADES) of AL to enlarge its existing customer base and serve the leading automakers in the US, and provide the ability to offer greater breadth of integrated value-added service propositions from engineering design and development to testing.

ADES has been providing design and engineering services to the automobile industry and also to the customers in the industrial machines and power generation sectors.

Ashok Leyland expects that together with DTE's existing assets and testing facilities, and harnessing the synergy with ADES, DTE will target higher value-added businesses with existing and new customers.

Source: Adapted from the Business Standard May 1, 2007

Promotion Decisions

It is vital that international or global marketing managers understand the power and the constraints of international promotion decision policy. International or Global promotion policy determines the positioning of the product abroad.

The formulation of this technique is dependent, to an extent, on where the product is in its life cycle in the particular markets. This is likely to vary between different foreign markets, depending on the time of entry, market structure, competitors and customers. Further, the effective implementations of promotion decisions are the key points, for the success in the international marketing programmes.

The coordinating and integrating of promotional mix elements with other aspects of the marketing programme is often more difficult in foreign markets. The type of promotional tools available and the media vehicles, plus existing regulations are the parameters which limit what can be done. The international marketer must know these parameters well.

Used in it wider sense, the promotion in international marketing covers advertising, sales literature, trade fairs and other trade exhibitions, international direct mail, publicity releases and point–of–purchase and other materials. It also corers a very powerful promotion vehicle – the "sales force". There are two parts for this promotion:

The first part relates to the international advertising and the second part, to the remainder of promotion. Prior to the two parts, we look at how the promotion helps the product positioning. Part 1 comprises of seven sections. The first section gives an overview of advertising worldwide but concentrates on the major countries. The second section comments on advertising in selected counties or segments to yield a flavour of this medicinal impact in various countries.

The third section discuses the aspects of standardization v/s adoption of international advertising. The fourth section for focuses on the development of an international advertising strategy. The fifth section deals with the management of advertising function. The sixth section reviews the international advertising research, and reviews the international advertising research. The seventh section looks at the sales literature, trade fairs, direct mail and publicity releases. Also, it deals with the point of purchase promotion and includes an example of a new foreign product launch, along with the international sales force and their management.

Promotion and Products Positioning

In the early 1950s, only a very few brands competed in most product categories, so a little hard-sell TV advertising would generally result in the increase in sales. In the 1960s, more products were being introduced through TV advertising. The hard-sell competition for a smaller market share of each market caused marketers to seek new methods of communication to differentiate their products. The idea grew that each brand has to have its own image. ESSO's "put a Tiger in your Tank" used an animated tiger to build an image for an unromantic product like gasoline, but imitations crowded in and eventually brought an end to the "image–era" of the 1960s.

Then came, the concept of product positioning – promotion policy can help in such positions. The concept positioning emphasizes marketing and promotion technique but includes creativity. The positioning concept, however, is yet to be used extensively on a multi-national basis, although it has helped those who have tried it. To illustrate, the seven up introduced the "Wet and wild" campaign, but it failed.

Marketing research revealed that even though consumers know seven-up was a soft drink, they could not differentiate it. Since, Coke and Pepsi accounted for a 40% share, and both promoted a similar image, the word 'cola' became generic to mean soft drink. As cola occupied the leading soft drink position in consumers' minds, seven up had to differentiate itself in terms as an alternative to "Cola the Uncola". It succeeded.

The Uncola campaign could not be exported because the slogan could not be translated into other languages and still retain its special meaning. But J. Walter Thompson, the advertising agency, created an unusual character who lived in a little green box. The activity of this amusing visual device cut across may levels of sophistication to develop a style, very distinctive from cola. In effect the Uncola campaign strategy was being used on a multi–national basis, but through the little green box.

In the second year of campaign, the green box impact was tested in 10 selected national markets compared to sales over the same period in 10 other markets of roughly similar size which used different advertising or promotional material. The difference was significant, even after adjustments were made for market variations.

Some companies may also go for foreign brand acquisitions to enlarge their product promotion and distribution networks. One of the recent examples is the case of Tata Tea for acquiring the polish brands 'Vitax' and 'Flosana' that took place by the acquisition route through a subsidiary of Tata Tea Group namely Tetley Group (Exhibit).

TATA Tea Acquires Polish Tea Brands Vitax & Flosana

TATA Tea has acquired two Polish tea brands Vitax and Flosana from premium Foods SA, a local company headquarters in Krakow, for an undisclosed amount.

The acquisition, made through Tetley Group, a subsidiary of the Tata Group, catapults Tetley to the second position in the Polish tea market with a 10.5% value share and a turnover of $36 million. The combined turnover of Vitax, which is one of the leading players in the Polish specialty tea segment, and Flosana brands, is $23 million, Tata Tea said in a release.

Premium Foods currently distributes the Tetley brand in Poland alongside Vitax and Flosana and this distribution arrangement would continue, the release added.

Tetley Group Managing Directors of Europe and Emerging Markets Garry Nield said, “Tetley already has a strong business in Poland build on black and Earl Grey teas. There is significant potential to grow the fruit and herbal market in Poland and it makes sense for us to acquire an established and successful range of fruit and herbal products rather then start afresh with a new Tetley range”. This transaction will allow Tetley to offer the Polish tea a drinker a wider choice of great tasting whilst continuing our strong distribution arrangements to deliver outstanding customer services, he added.

With the stagnation in demand for black teas, Tata Tea is increasingly focusing on specialty teas to drive growth in the branded tea space worldwide. The acquisition of two Polish speciality tea brands – Vitax and Flosana – from Premium Tea, by Tata Tea subsidiary.

This is Tatas Tea’s fourth acquisition in the speciality tea segment. In February 2000, Tata Tea first made an entry in the speciality tea space by acquiring UK’s Tetley Group, which has a strong presence in flavoured, herbal and ice teas, at a consideration of 271 million. Subsequently, the company acquired other speciality tea brands – Good Earth of the US in October 2005 and Jemca in the Czech Republic in May 2006 for undisclosed sums. Incidentally, Good Earth is the latest growing speciality tea brand in US with particular strength on the West Coast.

Tata Tea is increasingly leveraging the trend in the global beverages market. The traditional concept of tea as a beverage is changing worldwide, especially with consumers around the world seeking more benefits and exciting tastes – at home as well as when they are out. This ‘new face’ of tea that is redefining the competitive landscape of the tea industry has opened up new vistas for Tata Tea.

"Even though the market for speciality teas isn't big compared to black tea, the unit price realization in speciality tea is much higher compared to black teas. Which is why, real growth will come from this segment in coming years," said a Tata Tea source.

The scrip of Tata ended the day with a gain of more than 2% (Rs. 17.20) at₹ 790.55 on BSE with volumes of 3.15 lakh shares. The acquisition comes amidst reports that Coca Cola, the world's largest beverage maker could bid for Energy Brands, the makers of Glaceau wellness drinks, in which Tata Tea holds a 30% stake. Tata Tea had, last year acquired a 30% stake in America's largest growing health beverage company Glaceau for $677 million in its bid to become a global player.

Source: Adapted from the Economic Times, April 27, 2007

Lesson 4.3 - Complexities and Issues in International Advertisement

Introduction

It is common knowledge that “International Marketing” has received an increased attention from Governments and Business firms in the four decades since the end of the Second World War. Exports are growing year by year. In this context it is very much imperative and essential to understand the special features of international or global marketing - its basis, its benefits, complexities and important / special issues arising from such complexities.

Every country is an independent sovereign and hence each Government enacts its own legislation in order to control its foreign trade. Protecting the domestic industries, in the eye of cut-throat competition is much more important than importing goods from outside. International Marketing has to cross many barriers, arising from many factors. Similarly, the foreign exchange regulations, such as the “Quantity Regulation Act” for granting foreign exchange to import are the big hurdles. To add this, there are considerable controls on financing of overseas operations. Likewise the human needs and wants have different attributes in international markets.

Competition Within and Outside the Country

By competition within the country - we mean the competition within the exporting country - as there may be a lot of other organizations/firms exporting the same goods to the same countries. For example, after the tenth five year plan, India has made a significant advertisement in the production of electronic goods and computer software. When Indian companies tries to export these goods, especially to the fully developed countries like, U.S.A., U.K., Canada and France they have to face competition first within India to export these products from their rival units and then from Japan and other countries who are already exporting such goods to these countries.

There are only two strategies to be adopted for attracting the foreign markets – one is produce goods of high quality and durability and the other is to fix a competitive price in the export market. In this connection we may recall the famous devaluation of Indian Rupee on 6th June 1966, reducing voluntarily the value of Indian Rupee by 36.5 per cent. This was directed for the export market only.

The net favourable result was that the importing countries which had to pay 100 paise per Rupee upto 5th June 1966, had to pay only 63.5 paise. When they paid 127 paise (Rs.1.27) they got 2 units of the same goods (Just for 27 paise more according to the previous position).

It is said that this devaluation of 1966 had brought wonderful and magical effect on India's exports. All the produced goods stocked unsold were sold like hot cakes within a period of 3 months. The producers got rid of the botherations of paying bank interest and installment dues (When the goods were not exported).

Competition outside the country is more dangerous i.e., instead of fighting at home, we are fighting outside the home country. This is the case of Coca cola and Pepsi. They both are multi-millionaire giants in U.S.A., but they are fighting with each other in their foreign markets. As already mentioned the competition outside the country is crueler and more expensive. There are two ways – one is giving new Brand Names for their own additional products like Fanta, etc., changing the colour of the content – e.g. from original black plus to Orange, Blue and Green (for the by-product Fanta, etc.)

Price–wise also they have to compete - Pepsi and Coca Cola are the two main players in the soft-drinks market in India. One company is carefully watching the other in the matter of advertisement, size and shape of bottle and other steps in sales promotion. To cite one example, if Coca cola presents a visible door refrigerator to its dealers, immediately Pepsi follows the some technique. Similarly, one can notice the similarities in the case of putting their names/logos along with the name of their dealers. This kind of watching, what the competitor does, by way of sales promotion, by one producer and then copying the same for their goods is called as "GAME THEORY" in Marketing Management. In the matter of global marketing management, it is done in every country to which they export. To sum up, the exporters are fighting, not in their own native country, but in a foreign country for example, the two U.S. manufacturers (Coca Cola and Pepsi) are fighting with each other in all other countries, (Outside U.S.A.) where they sell their products.

These activities cause a big blow on their finance in such countries. As they both are MNCs they transfer the sales - profit of one country to another and then they balance and go for global profit maximization. Their annual balance sheet is for their international market sales. They look at the total net project from their global operation (and not in individual country's operation). This is possible only for multinational companies.

International Advertising

International Advertising Standardization

For the study of the Global Marketing Management, a scrutiny of developing international advertising strategy is necessary. The central issue in the development of international advertising strategy is the extent to which the advertising should be standardized or adopted to the local needs.

Therefore, a "Two – Tier" advertising strategy has become possible. The first tier comprises of standard "ads" crossing the borders through international magazines such as Time, Newsweek, the Economist, Asia Magazine, etc.

The second are similar type of 'ads' in the local media and outdoor or transit sites in urban communities. This latter advertising should look very familiar to the visitors from abroad, but it should also look local and use the domestic language in its messages.

International advertisers are well aware that the visual elements in the advertising designs and logos encourage the international familiarity which is effective across national cultures while it activates cost – efficiencies. International campaigns should be with a more common theme.

In Sum, the following factors influence the need for declaration in international advertising:

1. Market Criteria

Low competition, dissimilar demographics, sparse distribution and low industrialization make the market criteria more effective.

2. Cultural Criteria

Cultural taboos, religious barriers towards foreign firms, cultural–bonds, as supposed to cosmopolitan outlook will make the cultural criteria.

3. Media Criteria

This pertains to the dissimilar media from others, in the home market.

4. Other Criteria

High importance for price–factor, low levels of advertising acceptance, highly subjective and concepts, and high emotional appeal in the ads do fall under this criterion.

Most of the MNCs use these kinds of standardized ads. Nestle, used its standardized "fresh ground aroma" appeal in several countries when it launched its New Nescafe in the early 1960's. Moreover, to accommodate the differences in the different national tastes, the "Instant Coffee" was brewed in 40 different varieties.

"Goodyear" has a universal advertising campaign which uses the basic international appeals of tyre safety, durability and road – holding ability.

These examples point to the fact that market segments are growing up across nations, to which the appeals can be made.

However, Standardizing requires care. Language translations present a problem – symbols in illustrations must be carefully chosen, so that they do not offend traditions, customs, religious and other related cultural features of different societies, In Malaysia, a consumer product coloured "green" failed to sell because green suggested illness. Japanese never like "black" colour, because Lord Buddha, according to them, was against black colour. Red and Yellow are considered lucky in China. Printing in red colour is disliked in South Korea and Green has a special significance in Muslims.

To some Americans "yellow" colour suggest cowardice. In Holland, "Blue" colour is considered as feminine and warm, whereas, in contrast, the Swedish people associate "Blue" colour for Masculinity and coldness. Union Carbide was advised by its agency, not to advertise money – back guarantee in Europe. Generally the consumers become suspicious whenever they see the money – back guarantee.

Triangle shaped packaging is disliked in Korea and Taiwan, while pyramid shaped objects are liked in Egypt and round and square shapes are liked in Middle East.

Pattern and Prototype Standardization.

In pattern campaign, the overall theme, slogan and samples of art–work, advertisement copy and merchandise materials are developed to provide the uniformity in direction. The campaign is designed for use in multiple markets. What is new in pattern? Standardization is a pre – planned effort to provide many or all the benefits attributed to Standardization. In prototype standardization, the same ad is used in multiple markets with the only difference being the language translation.

Generally, some people feel that the prototype standardization could be effectively employed for industrial goods. However, even for these products, the advertiser must recognize the differences in product line, size of market, media availability and degree of ownership influences on the actual amount of standardization used.

Standardized International Advertising Strategy

An advertising programme designed to respond to market similarities could develop to become a source of major international synergy. The particular benchmark design developed by "Colgate – Palmolive" is based on the seven "P" principles outlined below.

1. Positioning – position the product within a specific market segment.
2. Promise competitiveness – identification of consumer benefits.
3. Point of differences - products' differential advantage.
4. Platform - identification of media priority – Communication of one or two most motivating product attributes.
5. Priority – Communication of one or two most motivating product attributes.
6. Proof – show effectiveness of product and
7. Presentation – define important presentation characteristics.

Colgate's advertising strategy for toothpaste in Western Europe is standardized in two different benchmarks. One, which is most widely used, has positioned Colgate as a therapeutic and anti – cavity toothpaste in all counties where the consumer – awareness of the therapeutic attributes of the product is high.

The other benchmark appeals to the cosmetic benefits of fresh – taste and clean mouth and is used in those countries which have larger, more promising cosmetic segments. In contrast Unilever has standardized across Europe through two distinct products. Signal and close–up are both utilizing single themes all over Western Europe, appealing to the other therapeutic and cosmetic segments respectively. Colgate used some different brand names in order to take advantage of linguistics. It is used as "Dentagard" in West Germany, Spain and Switzerland and as "Odorant" in Greece.

Advertising for "Shampoo"

The international marketers feel that the basic motivation of consumers in laying a shampoo generally reflects the desire to have healthy and beautiful hair. When Bristol introduced Clairol herbal shampoo, with its natural ingredients benchmark, it had a great success in North America. This example was followed by Johnson and Johnson which developed the “Baby shampoo” and “Sun silk” the two brands whose concepts were communicated across Western Europe.

In the toilet soaps, international advertising trends are standardized. There are four market segments – cosmetics / beauty, deodorant, mildness / skin care and freshness. Lux was connected with film stars and Rexona was positioned across Western Europe on a common theme as a deodorizing soap and it is also becoming a major brand. Colgate’s “Irish Spring” succeeded in the U.S. but failed in Western Europe.

To facilitate the process through creative communication, some suggestions worth consideration are as follows:

1. Consumer orientation is preferable to product orientation
2. The concept presentation should be developed within the simplest possible structure
3. The consumer should feel rapport with the characters in the situation presented in the ad and
4. A literal translation of appeal should be avoided. The concept can be generally conveyed with minor copy adaptations.

Management of Advertising Function

The standardized approach is of key importance in the advertising function. It is a part of managerial function. The management has to consider the following areas, (1) Objectives advocacy (2) Image building, (3) Budgets, (4) Overall strategy (5) Creative strategy (6) Media strategy (7) Control organization (8) Agency Relationship and (9) The general regulations. In the international firm, the variety of objectives will be diverse.

Most of the MNCs that choose to centralize control over advertising and to make the least adaptation are likely to lean towards having one agency throughout the world. The regulatory impact on advertising is a matter of major concern for the MNCs. International advertising must be tied to international market planning.

Goodyear's International Advertising Campaign

Goodyear International Corporation decided to develop an international pattern advertising campaign. However, Goodyear marketing management has allowed to pattern standardization concepts to be modified by subsidiary managers to ensure a high level cooperation and adequate response to local differences.

The Head office, along with its network ad agency, work directly with both the agencies in the host countries and the firm's local subsidiary representations.

International advertising is necessary for promoting sales globally. For the success of any organization, producing and selling, advertising in international magazines will work as a strong backbone for the firm's Global Marketing Management Strategy.

Now–a–days, the concept of Multinational Corporation has spread its wings globally. What is produced, invented or patented in one corner of the earth, will be spread all over the world within a very short period. Probably, based on this process of fast diffusion around the globe, the world is rightly called as a "Global Village"

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Lesson 4.4 - Personal Selling and Sales Promotion

Introduction

Philip Kotler is of the opinion that personal selling involves oral presentation in a conversation with one or more prospective purchasers, for the purpose of making sales. Like advertising, personal selling is also a method of communication. It is a two way form of communication. It involves individual and social behaviour. It is also a face–to–face conversation. Personal selling influences the buyers to buy a product.

Personal selling reaches the goal of marketing effort i.e., purpose is to bring the right products into contact with the right customers. Personal selling creates product awareness, stimulates interest, develops brand preferences, negotiable price, etc.

Objectives of Personal Selling

1. To do the entire job
2. To serve the existing customers
3. To search out and obtain new customers
4. To secure and maintain customers' cooperation in stocking and promoting the product line
5. To keep the customers well informed of changes in the product line
6. To assist the customers in selling the product line
7. To provide technical advice and assistance to customers
8. To handle the sales personnel of middlemen
9. To provide advice and assistance to middlemen wherever needed and
10. To collect and report market information in interested matters to the company management by periodical returns and in meetings.

Quantitative Objectives

1. To obtain a specified sales volume
2. To obtain the sales volume in certain ways that contribute to profit objectives, by selling proper mix of products
3. To keep the personal selling expenses within a specified limit and
4. To secure and retain a specified share of the market.

Based on all the above points "salesmanship" becomes a key factor in personal selling by the sales force of the company. The expressions like "Personal selling" and "Salesmanship" are often used interchangeably but there is an important difference.

Personal selling is a broader concept. Salesmanship in only an important part of personal selling. Along with the other key marketing elements such as pricing, advertising, product development and research, marketing channels and physical distribution, the 'personal selling' is a means through which marketing programmes are implemented. The very purpose of personal selling is to bring the right products into right contact with the right customers and the ownership transfer. It is defined as a direct, face–to-face; seller–to–buyer influence which can communicate the facts, necessary for marketing a buying decision or it can utilize the psychology of persuasion to encourage the formation of a laying decision. Apart from the knowledge of the product a salesman has to be a psychologist with one prospect, a human computer with another, an adviser to another and a friend with the buyers. Salesmanship may be implemented, not only through personal selling but also through advertisement. Therefore, 'advertising' has been described as "Salesmanship in print".

Salesmanship is the art of influencing people. It is like contractors, teachers, Ministers, authors, politicians, industrial engineers and others.

It is pertinent and not out of place to quote hereunder the famous American Statement.

“He who works with his hands is a labourer”. “He who works with his hands and his head is a craftsman”. “He who works with his hands, head and heart is an artist”– but “He who works with hands, head, heart and feet is a Salesman”.
“A Salesman is not born, but made”

Importance of Salesmanship

1. Importance to Producers.

For pushing the products into the competitive market

To capture new markets

To increase the sales volume

To bring larger profits to producers

To give suggestions, impressions and complaints of the consumers

Create extra demand

To increase thereby, employment

Generate opportunities as well as personal incomes

2. Importance to Consumers

Salesman educates and guides the consumers. He gives them more satisfaction “consumes are right” is the motto in marketing. As such the salesman gives more importance to the consumers. He helps the consumers in making the right decision and proper selection of the products which they want to buy. Salesmanship increases the rate of turnover. And hence, reduces the unsold stock. This minimizes the economic stagnation. So, the consumers can select the best products according to their requirements, taste and money.

Qualities of a Good Salesman.

1. Sound Health.

A Salesman must have a good posture when he meets the prospective buyers. Sound health and good physique are essential for a business salesman. The travelling salesman needs good health to travel many places, eating different varieties of food, to face the different kinds of whether conditions. Because “health is wealth”, a salesman without a sound health fails to carry out his duties. A sound mind occupies a sound body.

2. Good Appearance.

The outward appearance makes some impressions in the mind of the customers. A good looking salesman in a neat dress and with a pleasing appearance will succeed in capturing the minds of the consumers. Cleanliness is important for a better look. He must have a cheerful smiling face, which is considered as the mirror of his mind.

3. Good Posture

The way or the style of holding the body is another controllable factor. A defective posture makes his appearance unwanted. He must display a good posture while standing or sitting and while walking his head must be kept erect.

4. Pleasing Voice

The Voice is very important. The voice is the index of ones own feelings. The words uttered by him should be clear, pleasant and sweet.

The Mental Qualities

1. Quick Action

A Salesman must be alert and quick in action. He has to meet many people of different temperament. He must have the mentality to face any situation and be ready to answer any question. He should not be absent–minded. He must have a quick thought of answering – what to say, how to say and how to tackle the situation, etc. without throwing away the customers.

2. Imagination

The possession of a rich imagination is of great help in solving problems. The salesman has to imagine things from the point of view of the consumers. He becomes consumer – oriented and tackles the difficulties and problems of the consumers. He should put himself in the buyer's position.

3. Self – Confidence.

A confident man never fails. He has the confidence in his own work, capacity and power. Confidence makes him optimistic and enthusiastic. He engages or talks with a customer, makes him believe and the customer acts on his suggestions. Experience and knowledge are necessary inputs for his confidence to get the assigned job successfully.

4. Enthusiasm

It makes the work of a seller pleasant. Enthusiastic talk is always listened to by people. It gains interest and confidence of buyers and in turn, more sales, thereby the profit enhancement, apart from satisfaction of the firm.

5. Observation

A Salesman should have a keen sense of observation. He must have an up-to-date knowledge of the products and the changes in style and fashions, attitudes of competitors and Government, etc. to make him a clever and successful salesman. When a customer enters into his shop, an experienced salesman can imagine the chances of a sale by a look at his face.

Sales Promotion

Definition

According to the American Marketing Association, sales promotion is "those marketing" activities, other than personal selling, advertising and publicity, that stimulate consumer purchasing and the dealer effectiveness such as display shows, expositions, demonstrations and various non – recurrent selling efforts which are not in the ordinary routine".

According to George W. Hopkins, "Sales promotion is an organized effort applied to the selling job to secure the greatest effectiveness for advertising and for dealers help".

The major function of sales promotion is to serve as a connecting link or a bridge between advertising and personal selling, which are the two wings of promotion.

Purpose of Sales Promotion

The basic purpose of sales promotion is to disseminate information to the potential customers. The sellers use incentive–type promotions to attract customers and to increase the re–purchase rates of occasional users. Sales promotions yield faster responses in sales than advertising. Sales promotion is considered as a special selling effort to accelerate sales.

Importance of Sales Promotion

Now–a–days, the amount spent on sales promotion equals the amount spent on advertising. Sales promotion increases according to the changing market environment. The importance of sales promotion increases due to new ideas for favourable consideration of selling and promoting sales and for future expansions.

Objectives of Sales Promotion

1. To increase buying response at the Consumers level
2. To increase the sales effort of dealers and sales personnel
3. To attract new customers
4. To inform the public about the new product and its specialties, attraction, and advantages
5. To capture the major share of the market
6. To enable a favourable attitude towards the product
7. To simplify the job of middlemen
8. To meet the competition of other firms
9. To effect off – season sales to boost the total sales
10. To stock more at the level of traders, through whom aggressive sales can be affected

11. To stimulate the demand by popularizing the use of the products.
12. To establish and maintain communications with large market segments
13. To keep the memory of the product alive in the minds of the buyers
14. To create brand images
15. To create additional talking points to sales persons
16. To remove customers dissatisfaction
17. To bridge the gap between advertising and personal selling
18. To get back the lost customers and retain the existing ones.

Sales promotion encourages quick movements of products along with the channel distribution. It gives extra benefits to consumers, dealers and salesmen, and thereby enabling producers to push out maximum products in the market.

All the manufacturers use various sales forces to maintain the current sales and more particularly to increase the volume of sales for their products. All vigorous efforts to sell more products by widening the market result in aggressive selling. The aggressive sales can be gained by utilizing the various sales promotions, described in this lesson. These promotions will facilitate the progress of the organization as a whole.

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Lesson 4.5 - International Public Relations

Introduction

Public Relations are very important in the business of altering or negotiating relationships between organizations and other nations. Moreover, because of the professional research skills, public relations serve as the eyes, ears and the voice of organizations. When the organizations move into the global economy, the practitioners will need to adjust to see, listen and speak to global publics. An internationalization of public relations is both an opportunity and analyses for professionals.

Lacking international savvy, the managers usually resort to one of the two approaches to international public relations. Some merely extend their domestic practices to other countries with a few minor modifications. This approach ignores the subtle factors in other cultures that mandate departures from the traditional programmes.

The reminder of this lesson sets forth a discussion on how to make public relations effective within the multinational. Through this explanation, the lesson should contribute to the literature on international public relations. It starts with a discussion - how domestic and international public relations are both similar to and different from each other.

Simulations between Domestic and International Public Relations

There is mounting evidence that many of the basics of public relations are more or less universal. The specific tactics, however, certainly change from country to country, wherein strategic public relations seem to be valued highly amongst the practitioners worldwide. At least on the surface some form of media relations occurs almost every where, as do advertising; promotional communication with targeted publics, targeted issues and management with a growing amount of community relations. Often, these functions have been introduced by multinational corporations and public relations firms or by local practitioners who were educated in the United States or United Kingdom.

But, perhaps the greatest argument comes from the question, as to why public relations exist in the first place. All entities viz. manufacturers, traders, service providers, etc. whether domestic or multinational strive to preserve their reputation from internal or external threats. They all try to identify and build relationships with vital publics. They anticipate problems and seek to eliminate them or reduce the adverse effects. They want to be like Coca cola, whose logo is globally consistent and for example, is recognized by 80% of all consumers in China. Such goals are basic or central for an enterprise/organization and never should be compromised /decentralized, whether domestic or international.

A Comprehensive Approach for Balancing Global and Local Public Relations

It seems possible, then to reconcile the apparent contradiction that international and domestic public relations are both similar and different. All public relations should exist to preserve a consistent reputation and build relationships. These over all goals must be similar throughout the world, but they can be fulfilled in different ways from one culture to the other. Achieving these goals is much more difficult in global arena due to cultural and language differences, regulatory environments, political and economic systems, media and other local variables that must be considered. But with a proper organizational thinking, it is possible to respond to all of these factors, while at the same time pre-serving the local and global mandates.

Effective Public Relations in Multinationals

When talking about international public relations, there is no single list of prescription. All multinational entities work in the same global arena, but each has its unique traits and challenges. For example, a few corporations are huge and dispersed the world over, whereas others are operating in few countries only. Many are product oriented, whereas others are in the service mode.

Despite these differences, it is believed that certain minimum standards must exist within any multinational organization to make it more effective in developing its public relations. Some managers might say that the guidelines do not apply to their organizations, but the suggestions that follow should offer possible foundations and road maps to start taking international practitioners beyond the dangerous realm of intuition.

Conclusion

It is apparent that there are many challenges in creating effective public relations for the multi-national entity. Those that are listed above are just a few of the major organizational challenges. It is not as easy as extending traditional domestic activities into the global realm in order to develop the global public relations. To be effective, as described above, multi-national public relations presupposes qualified personnel. A team leader should be well versed in international issues and events, skilled in cultural integration and knowledgeable about public relations. Local officers should be experienced in local public relations.

Summary

Price for any product is fixed and the general average of both high and low quotations. The selling price is the total of cost of production or cost of purchase and the level of projected margin.

The price paid should be equal to the satisfaction obtained, as per the concept of "consumer's surplus". The pricing decision depends upon environment, especially the political environment. A "price-marker" in the domestic market is the "Price-taker" in export market. Various trade agreements help the global community to help each other in international trade.

International marketing strategy depends on what types of products are to be offered, which needs are to be satisfied and what technologies are to be used to satisfy the needs.

The complexities of global marketing management make many hurdles like Quantity Regulation Act of U.S. etc. An exporter has to face the competitions, both in the domestic and international markets. The devaluation of Indian Rupee was made with effect from 06.06.1966. The importing countries which had to pay 100 paise per Rupee upto 05.06.1966 had to pay only 63.5 paise from the next day.

Personal selling is the best way to promote high sales. Salesmanship becomes a key-factor in personal selling, because salesmanship is the art of influencing people. A salesman's top quality is "enthusiasm".

The global or international public relations create a good situation for maximum international business. Language presents a peculiar problem. Corporate slogans, marketing themes and translation in other local language - all these are necessary. On the label of the product – both the local language of the importing country and the international language must be printed.

Self Assessment Questions

1. Define export pricing
2. "High prices will combine with a high Quality image" – Do you agree?
3. Environmental analysis is an important job for the international marketers, Explain.
4. What do you understand by "International Marketing Strategy"?
5. Explain the important steps to be taken for methods of market entry, as a strategy.
6. Explain joint ownership venture.
7. "Competition outside the country is more dangerous" – Comment
8. What is meant by "International Advertising Standardization?
9. Suggest some measures to facilitate creative communication with other countries.
10. What are the objectives of "Personal selling"?
11. Bring out the importance of salesmanship.
13. Explain why International Public Relations is important.
14. Explain the evolution of public relations in multinationals.
15. What do you understand by the term "Effective Public Relations"?

UNIT – V

Learning Objectives

After studying the lesson you should be able to:

- Understand the different forms of distribution system in global marketing
- Illustrate the importance and role of channels of distribution in global marketing.
- Define logistics, understand strategies of logistics in global marketing,
- Understand logistic operation design, logistic information system, and logistics audit rogram.
- Analyse the practices in international logistics, the challenges of international logistics, and strategies for international logistics.

Unit Structure

Lesson 5.1 - Distribution Channels

Introduction

'Distribution' is one of the four aspects of marketing. A distributor is the middlemen between the manufacturer and retailer. After a product is manufactured by a supplier/factory, it is typically stored in the distributor's warehouse. The product is then sold to retailers or customers. The other three parts of the marketing mix are product management, pricing and promotion.

Distribution has two elements, the institutional and the physical. Whilst most agricultural exports from developing countries are either in a "primary" format (for example cotton, maize) or "finished" format (for example flowers, vegetables) increasing attention is being put on "processed" or "added value" formats. This means that, whereas in the former, exporters are in the hands of agents, merchants or other middlemen, in the latter much more needs to be understood of the channel itself. The more is known about the end user and the channel to reach him/her the better equipped will be the exporter to understand and meet the needs of end users and also to perhaps gain more from the exported products through more value addition. It is a fact in case of flowers; for example, that these are sold (exported) from the Dutch market to the Far East, where the price commanded is much more than the original exporter price. If the original exporter could participate in this channel, the greater would be the return. The longer the channel is, the more likely that producer's profits will be indirectly reduced. This is because the end product's price may be too expensive to sell in volumes, sufficient for the producer to cover costs. If the cutting of channel length is possible as per the countries' infrastructure requirements then it may be beneficial for international consumers and sellers as the markups of the middlemen will be less and the product will become more competitive.

Meaning of Distribution Channels

There may be a chain of intermediaries; each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user. This process is known as the 'distribution chain' or, rather more exotically, as the 'channel'. Each of the elements in these chains will have their own specific needs; which the producer must take into account, along with those of the all-important end-user.

A channel is an institution through which goods and services are marketed. Channels give place and time utilities to consumers. In order to provide these and other services, channels charge a margin. The longer the channel the more margins are added. Channels are an integral part of the marketer's activities and as such are very important. They also give a very vital information flow to the exporter. The degree of control one has over a channel depends on the channels type, which is employed.

Types of Channels

There are many types of channel members relevant to global marketing:

Brokers

Brokers do not take title to the goods traded but link suppliers and customers. They are commonly found in international markets and especially agricultural markets. Brokers have many advantages, not least of which is they can be less costly overall for suppliers and customers.

(i) They are better informed by buyers and or sellers;

(ii) They are skilled socially to bargain and forge links between buyers and sellers;

(iii) They bring the "personal touch" to parties who may not communicate with each other;

(iv) They bring economies of scale by accumulating small suppliers and selling to many other parties;

(v) They stabilize market conditions for a supplier and buyer as otherwise they may come across with many outlets and supply sources.

Personalized Trading Networks

Frequently, relationships may be built up between a buyer and a seller, in which over time as confidence grows, unwritten and informal understandings develops. These relationships reduce information, bargaining, monitoring and enforcement costs. Often, as relationships build, then trust develops which may become proxy for laws. Flexibility ensues which often means priorities or “favours” can be expedited. Trust and reciprocity can enable trade to develop in unstable economic circumstances, but both parties are aware the relationship can be undermined through opportunistic behaviour. The Kenyan fresh vegetable industry is a classic example of personalized trading networks enabling international trade between Kenya’s suppliers and their familial (often Asian) buyers in the United Kingdom.

Associations, Voluntary Chains, Cooperatives

Associations, voluntary chains and cooperatives can be made up of producers, wholesalers, retailers, exporters and processors who agree to act collectively to further their individual or joint interests. Members may have implicit or exclusive contracts, membership terms and standard operating procedures. These forms of coordination have a number of advantages:

(i) They counter the “lumpy investment” phenomenon by spreading the cost of investment among members;

(ii) They can reduce or pool members’ risks by bulk buying, providing insurance and credits, pooling market prices and risk;

(iii) They lower transaction costs of members by providing arbitration services for disputes and supplying market information.

(iv) They can reduce marketing costs through the provision of promotion, protection of qualities and monitoring members’ standards;

(v) They can act as a countervailing power between buyers and producers.

This is very important where supermarkets in the UK, for example, are now buying in such quantities that they are dictating terms to suppliers. Developing countries do not have a history of good cooperative development, primarily because of poor management, financial ineptitude and over-reaching themselves. However, the Bombay Milk Scheme in India is working very well. The latter has been very successful in going into value added processing as well.

(a) Export Clusters and Export Consortium

There is ample evidence that small and medium scale enterprises (SMEs) operating in the same or in related industrial sectors tend to cluster close to one another. This tendency to bunch in well defined areas has been observed in different environments in both developed and developing countries, and in different historical periods. There are sound economic reasons for this phenomenon. SMEs operating in such clusters derive a clear competitive advantage from:

1. The proximity to sources of raw inputs,
2. The availability of suitably customized business development services,
3. The abundance of clients attracted by the cluster tradition in that industry, and
4. The presence of a skilled labour force.

SME clustering is common in a wide range of countries and sectors. Accounts exist from Italy and other developed countries such as Germany, the USA, and Japan. Evidence on clusters in Latin America, Asia, and to a lesser extent in Africa, is also available[20]. A group of SMEs having complementarities in production of products coming from these clusters may form the consortia with common object of global marketing and distributing their products globally. There are various clusters in Indian from such consortia's have been formed. The machine tools consortia that comes from Bangalore machine tools cluster is once such case to study to understand the advantage of global marketing under this system (Exhibit).

Consortia in the Machine Tool Cluster of Bangalore

The machine tool cluster of Bangalore encompasses about 125 firms, including 45 machine tools manufacturers (MTMs) and 70 to 80 small-scaled producers. The cluster has a turnover of 50 million USD, approximately 40% of India's total production of machine tools. However, most of this arises from domestic sales of the large MTMs.

In 1999, when UNIDO began its assistance to the Bangalore cluster, the Indian Machine Tools Manufacturer Association (IMTMA) was the main organization for MTMs. Its membership consisted predominantly of large-sale manufacturers and the association mostly dealt with macro-issues. Small-scale units were mostly disorganized and lacked the capacity of collectively addressing their problems, the greatest of which was their inability to market their products.

A recession in the domestic market and the mounting competition from foreign producers intensified the need for improved sales techniques. Traditionally, the small-scale manufacturers had been selling their products through personal connections. However, this strategy was not applicable in export markets. The small firms needed to take up aggressive marketing and to obtain national and international market linkages as well as support services to upgrade their products quality in order to remain competitive in the global market. Yet, all this was beyond their individual reach.

To address these needs. The UNIDO cluster development programme had to take an active lead to promote the creation of several consortia. The programme concentrated on the more dynamic firms, relying on their leadership to rope in more members. To limit the scope for internal conflict, it was decided that firms should not be competitors in the market but should produce complementary goods. Furthermore, it was agreed that members of a consortium should be of similar size in terms of production capacity and ability to invest.

Overall, 56 firms were organized into nine marketing consortia. The programme further helped these groups to form an umbrella association, called the Association for Bangalore Machine Tool Consortia

(ABMTC), to provide a platform to exchange information. The newly created consortia were assisted in hiring a coordinator (called Network Development Agent or NDA in short) to run the day-to-day activities of the consortium. However, it soon became clear that the NDAs that could be recruited locally were not very competent. Moreover, the leadership of some consortia proved unable to effectively guide the NDAs. Most notably, essential skills pertaining to conflict resolution were abundantly missing among the NDAs available locally. To overcome these problems, UNIDO provided capacity training to the NDAs, including on-the-job training and two formal sessions. Each individual consortium has pooled its member's resources to undertake various common marketing initiatives which an individual small firm could not undertake due to the high costs involved. Although activities were initially aimed at the domestic market, they were quickly adapted to foreign markets. Achievements of the consortia, within the 6 months following their creation, included the elaboration of common brochures, establishment of joint marketing office across the country, appointment of common marketing dealers and consultants, creation of common web sites, joint advertising campaigns, a common warehouse and collective participation in several international exhibitions, both in India and abroad. Overall, these new marketing channels have generated business worth approx. USD 460,000 and enquiries worth USD 3.22 million.

One of the main achievements in terms of export related activities so far has been the entry of one consortium into the Chinese market. Throughout the cluster, China was traditionally perceived as a competititor for Indian goods and none of the consortia members wanted to venture into the Chinese market. But Chinese goods are typically standardized and a shortage of customized machine tools existed. The UNIDO programme therefore called in a Business Development Services (BDS) provider to point out this market niche to the firms, who began to see China as an opportunity instead of a threat. The members of the Bangalore Machine Tool Manufacturers Network (BMTMN) became interested in organizing a study tour to China and charged their NDA with preparing the mission. Two months later, a delegation of BMTMN embarked on their study tour to gain more information on the Chinese market and on potential prospects for Indian firms.

The study tour, which included visits to MTMs buyers, fairs and support institutions was perceived as a success and shortly afterwards, the consortium sent back two members to China to assess the need for establishing a sales office. It was found that the creation of a common office was premature and alternative distribution channels were identified. In addition to these missions, three members of the consortium participated in an international fair in China where they distributed BMTMN's common brochure on behalf of the other members.

As a result of BMTMN's positive experience, other consortia, with the support of ABMTC, have prepared study tours besides China and organised their participation to important international fairs abroad.

Cooperation between member firms has improved due to their membership in the consortia. Consortia can share enquiries: often, an order is received by a firm that is not in a position to take up the work. In such cases, the members can share the enquiry within the consortium and if nobody can take up the work, the enquiry is passed to other consortia.

Firms are thus becoming more confident that they can take up large-volume orders and share them among each other. Additionally, members can refer their customers to other consortium members and develop a database of buyers.

Source: Adapted from ITC Executive Form UNIDO, for details see http://www.intracen.org/wedf/ef2005/4%20-%20unido%20paper%20for%20tirupur%202005.pdf

Contracting

Contracting represents an intermediate institutional arrangement between spot market trading and vertical integration. Marketing and production contracts allow a degree of continuity over a season, cycle or other period of time, without the "instantaneous" of spot trading. The two main types of contract are:

(i) Forward Markets: These involve commitments by buyers and sellers to sell and purchase a particular commodity over a stated period of time. Specifications usually include weight, volumes, standards and values. Prices may be based on cost plus approach or negotiated. These contracts exist between farmers and first handlers and exporters and importers.

(ii) Forward resource/management contracts: These arrangements combine forward market sale and purchase commitments with stipulations regarding the transfer and use of specific resources and/or managerial functions. In such a contract the exchange of raw material or commodity is made on condition that it involves the use of certain inputs or methods, advised by the buyer, who may even take over the distribution function. This is a typical Marks and Spencer arrangement. Marks and Spencer is a very successful, high quality and price retail operation in the UK Such arrangements are found in many franchising, distributor or marketing/management agreements and help to internalize many future product transactions.

Both these forms of contract reduce the risks on both the buyers' and the sellers' side. By creating forward markets, the seller reduces market risk, and the buyer ensures that he receives commodities to certain specifications. Forward/resource management contracts also have the advantage of the provision of credit, market information and, perhaps, other "trade" secrets. Production contracts to farmers are also a source of credit collateral.

Integration

Integration vertically involves the combination of two or more separate marketing or production components under common ownership or management. It can involve investments "forward" or "backward" in existing activities or investments in interlinked activities. Integration horizontally means the linking of marketing or production separable at the same level in the system, for example, a group of retailers.

Integration can bring a number of advantages especially in food marketing systems, such as given below:

(i) Production/logistical economies: integration can bring economies of bulk production, transportation of goods and inventories,

(ii) Transaction cost economies: integration brings cost economies because the firm may become the sole supplier of goods and services to itself; these include bargaining costs, information system streamlining and centralized decision making,

(iii) Risk bearing advantages: vertical integration can overcome risk and uncertainty, i.e. by internalizing flows the organization can eliminate the risk of variability in supplies, outlets, and qualities and so on. More direct control over assets may enable the firm to invest in processing and marketing facilities, which further enable the development of economies of scale. Typical examples include nuclear estates and out grower schemes.

(iv) Market imperfections: These can be "absorbed" often by vertically integrated organizations. Taxes, prices and exchange controls and other regulations may be "absorbed" to give pecuniary gains. Also, integration enables the firm to increase its market share and leverage with suppliers and customers.

For example, Lonrho and Anglo American are vertically integrated organizations in agricultural marketing at global level. Lonrho, with its estates in Kenya, is also in processing. Anglo American is also in agriculture and provides an interesting case of vertical integration giving advantages. If one takes the Anglo American operation in Zimbabwe, it owns, amongst other things, citrus estates. It not only grows, but processes and markets domestically and internationally. In addition, Anglo owns training facilities, transport facilities and gives credit and investment capabilities. Its international operation means it knows the Government tax, regulations, exchange controls and other measures very well, and so can "negotiate" around or within this legal/monetary framework.

Government

It can be seen that Government can take a leading role in the distribution of goods and services via state-owned Marketing Boards. Government may provide an infrastructure, which the private sector just cannot afford for example roads, utilities, training and extension. Government has the sovereign authority to provide the regulatory framework within which commodity or agricultural export systems can be developed. It can also define the rules for international trade and market entry. It can negotiate in either a bilateral or multilateral form, to facilitate a particular commodity transfer or arrange lower terms of access.

Government also has other roles to play like cooperating or providing services in defined markets. It can provide credit or market information. It may stabilize prices with price controls like floor or ceiling prices, buffer stocks, quantity controls and so on. Government can regulate the competitive position of markets by passing regulations, which protect or promote a market structure. It may force suppliers into Marketing Boards as the only outlet and so alter the whole competitive structure of industry. Both Marketing Boards and Marketing Orders can be used to control physical commodity flows, enforce market quality standards and pool market risks. Finally, Government can "enable" suppliers through the introduction of export incentives, reduced taxes or export retention schemes.

Channel Structure and Selection

The channel decision is very important. In theory at least, there is a form of trade-off: the cost of using intermediaries to achieve wider distribution is supposedly lower. Indeed, most consumer goods manufacturers could never justify the cost of selling direct to their consumers, except by mail order. In practice, if the producer is large enough, the use of intermediaries (particularly the agents' and wholesalers' level) can sometimes cost more than going direct. Many of the theoretical arguments about channels, therefore, revolve around cost. On the other hand, most of the practical decisions are concerned with control of the consumer. The small company has no alternative but to use intermediaries, often several layers of them, but large companies 'do' have the choice.

However, many suppliers seem to assume that once their product has been sold into the channel, into the beginning of the distribution chain, their job is finished. Yet that distribution chain is merely assuming a part of the supplier's responsibility; and, if he has any aspirations to be market-oriented, his job should really be extended to managing, albeit very indirectly, all the processes involved in that chain, until the product or service arrives with the end-user.

Channel structure varies considerably according to whether the product is consumer or business-to-business oriented. The former tends to have a variety of formats, whereas the latter is less complicated. In deciding on channel design the following have to be considered carefully:

(i) Market needs and preferences;
(ii) The cost of channel service provision;
(iii) Incentives for channel members and methods of payment;
(iv) The size of the end market to be served;
(v) Product characteristics required, complexity of product, price, perishability, packaging;
(vi) Middlemen characteristics - whether they will push products or be passive;
(vii) Market and channel concentration and organization;
(viii) Appropriate contractual agreements and
(ix) Degree of control.

In many countries there is a move to vertical or horizontal integration within channels, especially in developed countries where large chains dominate as in the UK food retail trade. The converse is the scenario in many less developed countries. In East Africa, for example, small "dukas" (carrying less than 100 items and occupying no more than 506.75 square feet of space) operate widely on a margin of 12% as opposed to the developed countries' average of 24% margin. Also there can be very thriving parallel market systems, often difficult to track down. Decisions on what channels and entry strategy to adopt depend heavily on the risks, availability and costs of channels.

Most developing countries rely heavily on agents in distributing their products. Whilst criticism of being "ripped off" is often made, the loss caused by the shrinkage is less than that associated with more sophisticated channel forms.

Summary

Along with price and promotion decisions, a decision has to be made on the distribution system. There are two components to this - the physical (order processing storage/warehousing and transport) and the institutional aspects. The latter involves the choice of agents, distributors, wholesalers, retailers, direct sales or sales forces. Again, each has its own advantages and disadvantages.

However, it is in the channel of distribution that the international marketer can encounter many risks and dangers. These involve many transaction costs both apparent and hidden. Risks include loss in transit, destruction, negligence, non-payment and so on. So, the careful choice and evaluation of channel partner is a necessity.

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Lesson 5.2 - International Logistics

Introduction and Definition of Logistics

The term "logistics" broadly defined as the flow of material and information between consumers and suppliers. In our definition of logistics we include the interdependent processes of customer service and order processing, inventory planning and management, supply, transportation and distribution, and warehousing. In customer service and order processing we include customer service policy design, order entry, order processing, status communication, invoicing, etc. In inventory planning and management we include forecasting, fill rate policy design, order quantity engineering, replenishment design, and deployment. In supply we include supply chain integration, supplier relationships, procurement, and manufacturing engineering. In transportation and distribution we include logistics network design, routing and scheduling, shipment planning and tracking, mode selection, and carrier selection. In warehousing we include cross docking, receiving and put away, storage and handling systems, order picking, shipping, and layout. Our logistics planning methodology addresses in turn performance measures and goals, process design, information systems and infrastructure, and organization design.

Strategies of Logistics in Global Marketing

There are following strategies of logistics- that may be followed in global marketing:

Logistics Master Planning (LMP)

Logistic master planning is a systematic approach to logistics reengineering based our logistics-planning pyramid. The LMP process defines performance measures and goals, processes, system requirements, and organization requirements for customer service and order processing, inventory planning and management, supply, transportation and distribution, and DC operations. LMP short-term and long-term recommendations are evaluated and time-phased with the principles of incremental justification and implementation. The LMP process requires the client to assemble a cross-functional logistics planning and management team. LMP deliverables include detailed, prioritized, and scheduled short and long-term action plans for performance measures and goals, processes, information systems, and organization design; logistics information system requirements; detailed material and information flows; and detailed organizational and training requirements. In some cases Logistics Resources International equips LMP clients with decision support tools for on-going computer-aided logistics planning and management.

Supply Chain Engineering (SCE)

Supply chain engineering program brings together manufacturers, wholesalers, and retailers in a given industry to jointly re-engineer their logistics chain. Our SCE program includes the creation of a supply chain scoreboard, supply chain value analysis, short and long-term recommendations for inventory and cycle time reductions, and supply chain information systems requirements analysis. The SCE program is conducted in a workshop format with facilitated breakout and general working sessions.

Global Logistics (GL)

Global logistics master planning program extends the traditional scope of logistics to include international commerce, global sourcing, international transportation and distribution, International Commercial Terms (INCOTERMS), terms of trade, customs management, global warehousing, international facilities management, Electronic Data Interchange (EDI) and documentation strategies, and international cash flow.

Logistics Organization Design (LOD)

Logistics organization design program assists clients to determine skill, participation, and culture requirements for logistics planning and management teams; to facilitate change and transition management; to identify appropriate performance measures and incentives; and to instill a culture of coordinated, team-based logistics planning and decision making.

Business Case Development (BCD)

Business case development program assists clients to identify, assess and convert business opportunities in the logistics industry. Examples include the creation of a business case and plan for third-party logistics in Latin America, a market assessment of pick-to-light systems in North America, an evaluation of third-party logistics options for three major U.S. corporations.

Logistic Operation Design

The designs for logistic operation are as follows:

Warehouse Master Planning (WMP)

The Warehouse Master Planning program evaluates current warehousing performance and practices and specifies action steps required to achieve world-class performance and practices in warehousing and distribution center operations. The program addresses all functional areas in the warehouse including receiving, put away, storage, replenishment, order picking, shipping, layout, and material handling systems engineering. Typical deliverables include warehouse process definitions, material and information flows, layout drawings, material and information handling system design and justification, and RFPs. The WMS process requires between four and eight weeks to complete and requires the client to assemble a cross-functional warehouse planning and management team.

Transportation Master Planning (TMP)

The Transportation Master Planning program is based on transportation and distribution-planning pyramid addressing performance measures and goals, process design (logistics network design, routing and scheduling, shipment planning and tracking, mode and carrier selection, and fleet configuration and management), transportation management system requirements, and transportation organization design. The program makes use of the logistics modeling software and typical deliverables include a reconfigured logistics network design, routing and scheduling plans, shipment planning tools, and mode/carrier selection policies. The TMP process requires between six and ten weeks to complete.

Logistic Information System

For the purpose of maintaining the relationship with the distributors at global level, following decisions are taken:

Warehouse Management Systems (WMS)

The WMS consulting program assists clients to develop functional and technical requirements for warehouse management systems; to determine appropriate and justifiable system investments; to decide whether to enhance, build, or buy system functionality to close functional and/or technical gaps; to identify and select appropriate WMS vendor(s); to provide expert facilitation and/or project management throughout the WMS implementation process.

Logistics Information Systems (LIS)

The LIS consulting program assists clients to develop functional and technical requirements for logistics information systems incorporating logistics database design, customer response systems, inventory management systems, supply and production management systems, transportation management systems, warehouse management systems, and supporting logistics decision support tools. The program includes system requirements definition, system justification, buy/build analysis, vendor selection criteria, and implementation support.

Logistics Audit

The following programs are prepared for the audit of logistics:

Logistics Audit Program

The logistics audit program is designed to compare the client's logistics performance, practices, systems, and organization with world-class standards. The framework for the audit is logistics-planning pyramid. The audit requires between two and four weeks to complete and relies on the client's completion of forms provided in the Logistics Audit Workbook. The deliverables include a performance, practices, systems, and organization gap analysis; short and long term recommendations; savings projections associated with recommended logistics initiatives; and a logistics master planning project plan.

Warehouse Audit Program

The warehouse audit program is designed to compare the client's warehouse performance, practices, systems, and organization with world-class standards. The framework for the audit is our warehouse-planning pyramid including receiving, put away, storage, restocking, order picking, shipping, and layout. The audit requires between two and four weeks to complete and relies on the client's completion of forms provided in the Warehouse Audit Workbook. The deliverables include a performance, practices, systems, and organization gap analysis; short and long term recommendations; savings projections associated with recommended logistics initiatives; and a warehouse master planning project plan.

Practices in International Logistics

Companies seeking to improve their international logistics performance should consider these best practice tenets as they construct their transformation roadmap.

Envision the Future, Act on the Foundation

Best practice winners set the strategy for international logistics in the context of how their companies compete as businesses. However, they realize logistics excellence is a journey. As a result, they focus their actions on transforming specific, foundational components on which they can drive future improvements. Visibility, trade compliance, and transportation contract management are some of the most common cornerstones.

Partner for Success

Unlike in domestic logistics, it's impossible to "go it alone" in the international arena. To drive their success, best practice winners are creating better ways to leverage the skills (and technology) of partners. They are figuring out new ways to synchronize activities and increase process visibility and control with customs brokers, freight forwarders, ocean carriers, logistics service providers, and others. Best practice winners stress that it is vital to choose partners that provide the best value, not the lowest contract cost.

Automate with Internet-Based Technology

Without exception, best practice winners' logistics strategies revolve around decreasing manual processes and increasing automation. Internet-based technology is enabling a new level of transaction automation and partner synchronization previously not practical or possible. On-demand global trade management platforms and data gateways are driving more electronic collaboration for significantly reduced IT costs.

Create Visibility to Create Control

International logistics is all about managing a network of third-party providers. The foundation for controlling this process is visibility. For a number of best practice winners, visibility does not stop at identifying a shipment delay or inventory issue. Rather, an alert is the first step in a structured notification, resolution, and root cause analysis process. In particular, those companies with strong Six Sigma heritage are using that discipline to create improved international logistics reliability.

Use Inventory More Effectively

A number of international logistics leaders are focusing on extracting more value from their inventory. In some cases, this means creating better in-transit visibility so they can redirect inventory around port congestion or other bottlenecks or to higher points of demand. In other instances, the focus is on optimizing where and how much inventory to hold in the first place. Better leveraging the networks of logistics partners and using multi-echelon inventory optimization tools are some of the success tactics being applied.

Implement Transportation Spend Management

Although companies have focused on spend management discipline in areas like office suppliers, travel expenses, and telecom costs, they have mostly ignored ocean and air freight costs. Two of the best practice winners focused specifically on aspects of transportation spend management to jump-start their improvement initiatives.

Streamline Customs Processes and Maximize Trade Agreements

Without a solid foundation of trade compliance and documentation, purchasing will make the wrong sourcing decisions, goods will be delayed clearing customs, and the business will be put at risk of regulatory infractions. Trade agreement management and integration with broker partners to avoid data keying errors and costs are among the key trade compliance initiatives for best practice winners.

Obsess About Organizational Buy-In

Best practice winners are intensely focused on gaining and maintaining organizational buy-in for their logistics transformation initiatives. This includes gaining the CFO and finance organization's support by focusing not just on logistics-related savings but also translating the initiatives to tangible, direct benefits for them. The heat is turning up on logistics processes as sourcing and manufacturing activities are increasingly being done internationally. Companies going global are experiencing unexpected transportation costs, higher inventory investment, and longer and more unpredictable cycle times, while at the same time their local customers are demanding lower prices, more unique execution, and improved responsiveness. As a result, companies are seeking ways to make their international logistics processes more reliable, more flexible, and less expensive.

The Challenges of International Logistics

In most companies, international logistics processes mirror domestic supply chain practices in the 1970s: logistics staffs keep their supply chains moving through experience-based problem solving, and insistent phoning and faxing of logistics partners. At nearly two-thirds of companies, spreadsheets, department-built access database applications, and emails round out the technology portfolio. Many international logistics groups have reached the breaking point, however, as global sourcing and selling increases, so do transactions, partners, and problems to be managed. But budgets don't allow logistics departments to continue throwing people at these issues. The current manual-intensive process of global logistics is becoming unsustainable. Companies adopting automation are starting to experience cost and speed advantages over their competitors. These companies are using automation to tackle both physical distribution challenges and cost control challenges.

Physical Distribution Challenges

Companies are seeking to improve international logistics processes because of longer lead times, greater supply chain uncertainty, and increased business risk. The greatest handicap to logistics performance, according to two-thirds of firms, is the lack of visibility and metrics for managing overseas vendors and logistics service providers.

Cost Challenges

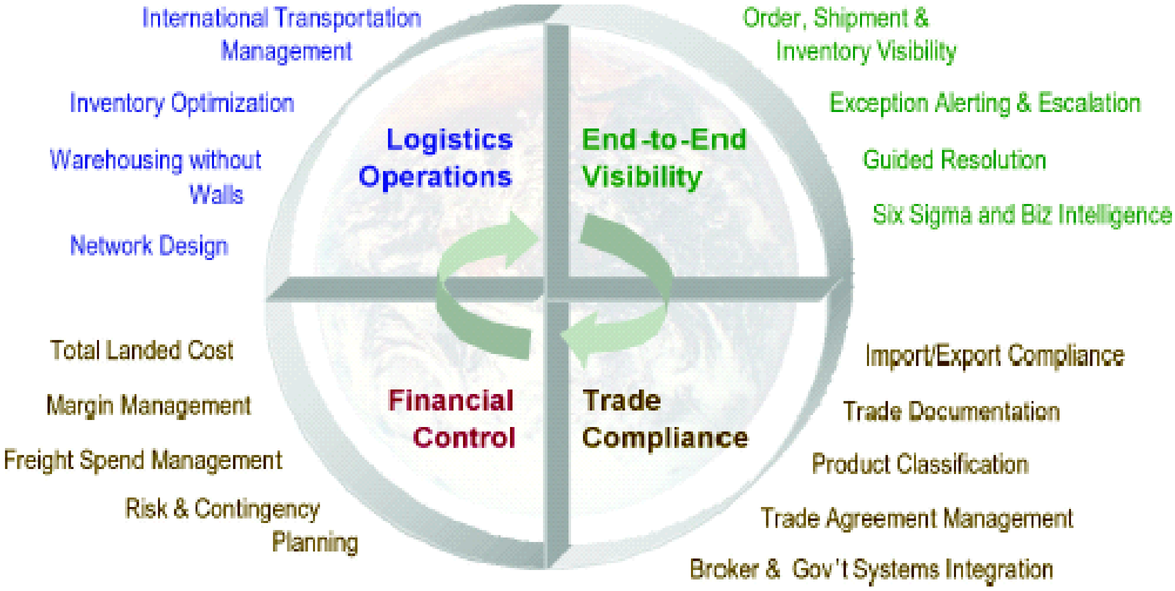
A parallel issue is cost control. "In our domestic supply chain, we can easily attribute freight costs and even understand the impact of truck fuel surcharges at a carton level," says a retail international transportation director. "But on the international side, we were challenged to answer even basic questions such as, "What's the average ocean freight spend per month, by lane?" Because we lacked integrated systems and normalized data." Companies are finding that inadequate transportation spend visibility is leading to unanticipated budget discrepancies, unexpectedly low product margins, and in some cases, higher rather than lower total costs when sourcing from low-cost countries.

Strategies for International Logistics

Top performers are succeeding in using international logistics transformation to drive quantifiable business benefits for their corporations, including cost and speed advantages. These companies are able to invest less capital in international logistics yet provide better service to their customers. They are arming their logistics staffs with up-to-date technology and integration-friendly logistics partners to support today's global-intensive business environment. Analysis of the eight best practice winners found that greater process automation, improved technologies, and increased reliance on logistics partners were instrumental in driving their successes. Although winners focused on different areas of international logistics improvement, they shared common views on how to achieve success. Companies seeking to improve their international logistics performance should consider these best practice tenets as they construct their transformation roadmap.

The strategy for international logistics has to be set in the context of how a company competes as a business. “We have a highly leveraged business model based on product leadership,” says the senior vice president of operations for a mid-size high-tech winner. “We needed a logistics strategy that supported our corporate strategy. For us, this meant outsourcing logistics to a domain expert and creating an international distribution network that was simple, visible, and accountable.” The logistics strategy must envision the future but action needs to be taken on the discrete, foundational components. These elements include such areas as ocean contract management, trade compliance, and visibility. For instance, automating the trade compliance process lays the groundwork for better total landed costing and margin management, smarter sourcing and inventory management decisions, and fewer supply chain delays. Best practice winners seek rapid time to benefit on their logistics transformation projects, often achieving payback on their initiatives in less than a year.

The other aspect of a sound international logistics strategy is that it needs to be built for flexibility. “Expect and prepare a foundation for change,” says the vice president of global logistics for an apparel company. “C-TPAT, advanced manifest requirements, changing trade agreements and free trade zones, new partners and events to track, new distribution bottlenecks to avoid - change is constant.” “Our next core competency,” says an appliance manufacturer’s global value chain leader “is focusing on the speed and velocity in which we can execute the results of new logistics strategies”. Key areas to address in building an international logistics strategy are shown in Figure.



International Logistics Strategy

Partner for Success

Unlike domestic logistics, it's impossible to "go it alone" in the international arena. Best practice winners are figuring out new ways to synchronize activities and increase visibility and control of processes with customs brokers, freight forwarders, ocean carriers, logistics service providers, and others. These companies are leveraging the skills (and technology) of partners to achieve cost and lead time benefits. "Rather than displace our brokers, we want to automate our interactions," says a logistics manager. "The manual process of interacting with them results in high document fees and additional errors because they are re-keying data". Two of the best practice winners embraced total logistics outsourcing. "Don't do outsourcing for the sake of outsourcing," says an executive of one of the winners. "Your strategy needs to take into account the complexity of your products and business model or it will fail." For this company, logistics outsourcing was the right strategy and resulted in a 30% decrease in logistics costs. "If you do outsource, never go with the lowest contract cost," continues the executive. "Go with the best value proposition." "If outsourcing is right for you, move immediately to a single end-to-end logistics provider that can provide you with accessibility, reliability, and visibility," urges another logistics executive. "But make sure you're diligent in your evaluation to pick the right partner and consider not just cost but also quality and communications capabilities."

Automate with Internet-Based Technology

Without exception, best practice winners' logistics strategies revolve around decreasing manual processes and increasing automation. "Automation translates into speed," says one best practice winner. "Manual processes translate into delays and errors." According to another winner, "Having technology that lets you manage by exception is instrumental to boosting efficiency." Internet-based technology is enabling a new level of transaction automation and partner synchronization previously not practical or possible. On-demand global trade management platforms and data gateways are driving more electronic collaboration for significantly reduced IT costs. Best practice winners report very little internal resistance to using on-demand technology, also known as "software as a service" or "hosted, web-based" systems. International logistics has historically been on the bottom of the corporate IT priority list, so CEOs are generally supportive of trying on-demand models in this area rather than having to re-prioritize their projects and re-allocate staff for traditional software installations.

Supplementing existing enterprise systems with advanced optimization is another favored strategy of best practice winners. They realize that optimizing end-to-end inventory or optimizing lane-by-lane awards to carriers or forwarders is too complex to figure out on spreadsheets. Multi-echelon inventory optimization and ocean bid optimization are two areas driving quickly, multi-million dollar savings for companies.

Lay the Foundation for Visibility and Control

International logistics is all about managing a network of third-party providers. The foundation for controlling this process is visibility. Some of the best practice winners have integrated their enterprise customer service and logistics systems with the visibility systems of their logistics providers to obtain automatic status and alert information. Other winners are using on-demand visibility solutions that are independent of their logistics providers' technology. This provides more control of how the technology can be used and also enables easier plug-and-play of logistics providers because technology does not have to be reinstalled when switching providers. Companies that still rely on phone calls, emails, or manual web lookups to track down shipments are at a competitive disadvantage. Real-time knowledge of the location of goods throughout the supply chain makes for faster-moving inventory speeds, cash flow, and receivables, all while reducing inventory carrying costs. For a number of best practice winners, visibility does not stop at identifying a shipment delay or inventory issue. Rather, an alert is the first step in a structured notification, resolution, and root cause analysis process. In particular, those companies with strong Six Sigma heritage are using that discipline to create improved international logistics reliability.

Use Inventory More Effectively

Best practice winners also focus on extracting more value from their inventory. In some cases, this means creating better in-transit visibility so they can redirect inventory around port congestion or other bottlenecks or to higher points of demand. In other instances, the focus is on optimizing where and how much to hold inventory in the first place. Aberdeen research shows that traditional inventory target setting practices are insufficient for situations where there is varying demand and supply uncertainty, often resulting in a company holding 20-30% too much inventory across its supply chain. Many companies use weeks of supply and rules of thumb based on past history to set raw material and work-in-process (WIP) inventory buffers. Whenever the supply base has poor performance, inventory planners ratchet up the inventory targets—but they rarely ratchet them down to account for better performance. So over time, companies can find themselves holding more and more of this just-in-case inventory. By using multi-echelon inventory optimization, which more accurately accounts for supply and demand variability, companies can take out redundant and unnecessary inventory while improving customer service levels.

Implement Transportation Spend Management

A missing discipline in many companies is transportation spend management. Although companies have focused on spend management in areas like office suppliers, travel expenses, and telecom costs, they have mostly ignored ocean and air freight costs. Yet international transportation costs can be two to three times higher than domestic costs and much more variable. Two of the best practice winners focused specifically on aspects of freight spend management to jump-start their improvement initiatives. “Electronic contract management is the foundation for spend management,” explains an international transportation director. “We can exploit this foundation to improve product costing and margin management, automate freight audit processes, and take preemptive action on cost and allocation issues.”

Streamline Customs Processes and Maximize Trade Agreements

Another foundational focus for best practice winners is trade compliance and documentation, which drives and streamlines the cost-efficient, and low-risk international logistics processes. Best practice companies that focus on trade compliance excellence are realizing improvements in a number of areas: automating import/export compliance and documentation processes; maximizing free trade agreement program benefits and automating certificate of origin management with suppliers; and creating paperless work-flows with brokers to lower documentation and transaction costs and increase classification consistency.

Obsess About Organizational Buy-In

Generally, the eight best practice winners are intensely focused on gaining and maintaining organizational buy-in for their logistics transformation initiatives. “Communicate and educate everyone on the costs, risks, and benefits involved to make them aware of how it personally affects them,” advises a global logistics manager. “Start with a small, manageable piece, gain success, and build on it.” In addition to the usual executive support needed for corporate initiatives, international logistics initiatives need to focus on securing the following:

(i) Local operational support: Involve subject matter experts and local logistics, manufacturing, and purchasing managers as early as possible. Early, collaborative review of workflow, data feeds, and optimization models is vital to creating buy-in and realizing the savings of new logistics strategies. Focus on changing the culture from a “We’ve always done it this way” mentality to an innovation mentality where operations staff actively thinks of how to create better ways to do business. Intimately involving the operations staff in the transformation project is the most effective way to foster an innovation mentality.

(i) Vendor and logistics provider support: Similarly, engage vendors and logistics providers as early as possible in the process. Look for ways to leverage their expertise while laying the groundwork for paperless transactions.

(i) Finance organization support: CFOs and finance organizations increasingly realize the value of enhanced international logistics automation and visibility. Key to gaining their support is not just focusing on logistics related savings but also translating the initiatives to tangible, direct benefits for them (e.g., improve margin management, enhance cash flow forward visibility, automate human-intensive freight audit and settlement processes, and decrease cash-to-cash cycles). "To succeed, you absolutely need your finance community and the functional groups in lockstep with you throughout the process," says one logistics manager. Other companies cite Lean and Six Sigma leadership and staff as being key centers of support for international logistics transformations.

Summary

Business success is increasingly linked to effectively managing international logistics. Growing number of low-cost countries vis-à-vis their sourcing and rising sales to international customers are triggering companies to seek new ways to manage the costs, complexities, and uncertainties of moving goods across borders. At global level, customer service policy design, order entry, order processing, status communication, invoicing, etc. are included in customer service and order processing. In inventory planning and management we include forecasting, fill rate policy design, order quantity engineering, replenishment design, and deployment. In supply we include supply chain integration, supplier relationships, procurement, and manufacturing engineering. These all activities are processed through logistics.

Self Assessment Questions

1. Distinguish between "institutional" and "physical" distribution.
2. What are the principle advantages of using brokers, personalized trading networks and associations in the marketing of international commodities?

3. For any agricultural product of your choice discuss the factors which have to be considered in the choice of a channel of distribution.
4. What are the benefits of different channels of distribution?
5. Explain the structure of channels of distribution at global level.
6. Describe the consortium approach for global marketing
7. What are advantages for SME for exporting by forming the consortia from the clusters?
8. Define logistics at global level.
9. What do understand strategies of logistics in global marketing?

CASE STUDY

Mr. Pratap Mehta went to Saudi Arabia for the first time as a business visit in 1998. During his sojourn and Riyadh, he purchased a match box for one Riyal. He was surprised at the price of the match box as one Riyal is equal to ₹ 10 (nearly) and the match box is India Cost ₹ 0.50.
The price of match box in Riyadh was lingering in his mind that night. At one point of time he got a wonderful idea. The idea included:

- Preparing feasibility report for establishing a match box factory in Saudi Arabia
- Importing necessary machinery from India.
- Obtaining necessary permission from the Government of Saudi Arabia.
- Seklecting the market intermediaries in Saudi Arabia.
- Finally establishing the match box factory in Riyadh and Jeddah.

Mr. Pratap conducted a survey and concluded that the idea was commercially feasible and financially profitable. Immediately, he approached a consultant in Jeddah and finalized the deal of getting necessary permission from the Government of Saudi Arabia.

The consultant arranged to get all the permissions. Mr. Pratap got all the permission to establish the factory at Jeddah. Then he arranged to import the machinery from India. After importing the machinery and equipments, Mr. Pratap established the factory and started producing the match box on a commercial scale in January 2000.

Mr. Pratap conducted another survey, and fixed the price of each match box at Riyal 0.50 as as the competitors match boxes were priced at Riyal 1.00 in order to hit all the competiting firms as got as market share as possible.

Mr. Pratap released the first batch of match boxes into the market in March 2000. The first batch of the match boxes were sold like hot cakes and Mr. Pratap was very much thrilled of the success of his project. He released the second batch of match boxes into market. But, unfortunately, he could not sell even a single match box of the second batch. The same was the case of the subsequent batches. Ultimately, Mr. Pratap was forced to close the factory.

Questions

1. What are the reasons for the highly positive response for the first batch of products?
2. What was the reason for the very poor response for second batch of product?
3. Why Mr. Pratap failed in his project?

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