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Global Marketing

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MBA - GLOBAL MARKETING

IV - Semester

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Paper - XX

Global Marketing

Objectives

- This course is designed to provide knowledge of marketing management in the international scenario, and
- To enable the student to appreciate the nuances of international marketing environment and develop marketing strategies for the dynamic international markets.

Unit - I

The international marketing environment - Political and legal systems - Multilateral and Geographical Groupings - Culture and Business Customs - Economic and Financial dimensions.

Unit - II

Understanding the global consumer market - Scope and challenges of international marketing - Assessing international market opportunities - Marketing Research.

Unit - III

International marketing management - Planning and organization - Market entry strategies - Export, joint ventures and direct investments.

Unit – IV

Global product management - standardization vs. differentiation - Product planning and development - Marketing industrial products and services globally - Pricing for international markets.

Unit – V

Global logistics management - International distribution systems - Global advertising and promotional strategies - Sales management - Developing marketing strategies and programs for international markets.

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UNIT - I

Learning Objective

After going through this Lesson you should be able to:

- Understand the International Marketing Environment
- Explain Multinational Geographical Groupings
- Understand Culture and Business Customs
- Analyze Economics and Financial Dimensions

Unit Structure

Lesson 1.1 - The International Marketing Environment
Lesson 1.2 - The Political and Legal system
Lesson 1.3 - Multilateral and Geographical Groupings
Lesson 1.4 - Culture and Business Customs
Lesson 1.5 - Economics and Financial Dimensions

Lesson 1.1 - The International Marketing Environment

Introduction

In order to take advantage of global opportunities, as well as meet the challenges presented by so doing a number of concepts can be particularly useful. Every organization needs an understanding of what is involved in “strategy”, or else the haphazardness involved in chance exporting can be accepted as the norm with all inherent dangers involved. Also potential exporters need to know what is going on in the global “environment”. Just as in domestic marketing “Government” “competition”, “social” and other factors need to

be accounted for; such is the case in international marketing. If one can place products or services at a point on an environmental sensitivity/insensitivity continuum, one can see more clearly the need to account for differences in the marketing mix. By comparing the similarities and differences between domestic and international marketing needs and planning requirements, then the organization is in a better position to isolate the key factors critical to success. Environmental analysis allows the organization to cluster markets according to similarities and differences, based on the environmental "uncontrollable" factors. The international "uncontrollable" are in addition to the organization's domestic "uncontrollable" so need to be treated with extra care.

This lesson examines all these concepts in brief.

International Marketing

International Marketing is any marketing activity which supports business activity, in a country other than the one that the business is located in. International marketing enables businesses to provide benefits (in the form of products and services) to consumers around the world.

Global Marketing

Global marketing is "Marketing on a worldwide scale reconciling or taking commercial advantage of global operational differences, similarities and opportunities in order to meet global objectives".

Why to go Global?

There are a number of reasons why businesses decide to trade internationally including:

- Competition within the national market is becoming too intense.
- Sales and profit are declining in national markets. International expansion (market development) is suggested as an option to plug falling sales.
- International markets offer the opportunity for products with a life cycle coming to an end in national markets.
- Overseas markets contain similar markets as national markets.
- Easy international travel and technology are turning national brands into international brands and facilitating the move into international markets. Consumers and buyers

in other countries may already have become familiar with the brand during trips abroad and through the internet

- The business is doing well in national markets and the firm have decided to become a global player

Evolution to Global Marketing

Global marketing is not a revolutionary shift, it is an evolutionary process. While the following does not apply to all companies, it does apply to most companies that begin as domestic companies.

Domestic Marketing

A marketing restricted to the political boundaries of a country, is called "Domestic Marketing". A company marketing only within its national boundaries only has to consider domestic competition.

Even if that competition includes companies from foreign markets, it still only has to focus on the competition that exists in its home market. Products and services are developed for customers in the home market without thought of how the product or service could be used in other markets. All marketing decisions are made at headquarters.

The biggest obstacle these marketers face is being blindsided by emerging global marketers. Because domestic marketers do not generally focus on the changes in the global marketplace, they may not be aware of a potential competitor who is a market leader on three continents until they simultaneously open 20 stores in the Northeastern U.S. These marketers can be considered ethnocentric as they are most concerned with how they are perceived in their home country.

Domestic market is a large market that every nation needs. These markets are all restricted to be under control of certain boundaries in that company or country. This type of marketing is the type of marketing that takes place in the headquarters. The disadvantage that this brings is that they really don't have that much of a say of what happens within the company. In domestic markets it helps reduce the cost of competition. By reducing competition the company has a better shot of being more successful in the long run. Also if the company's competition is not a big factor that will affect their business, they have a good shot at making prices higher and people will still purchase that product.

A domestic market also gets the opportunity to operate in different areas and this gives the company an opportunity to have bigger markets to advertise to. Even in Domestic markets businesses are still trying to trade with each other to promote their business to other businesses in the area. A good thing that helps out Domestic market is that they might be able to receive tax benefits, because they offer jobs to the nation and give people opportunities for work. Domestic market helps country's out by offering more jobs bring in good business to the market and also helps with the trading around the market.

International Marketing

International marketing is the export, franchising, joint venture or full direct entry of a marketing organization into another country. This can be achieved by exporting a company's product into another location, entry through a joint venture with another firm in the target country, or foreign direct investment into the target country. The development of the marketing mix for that country is then required - international marketing.

It can be as straightforward as using existing marketing strategies, mix and tools for export on the one side, to a highly complex relationship strategy including localization, local product offerings, pricing, production and distribution with customized promotions, offers, website, social media and leadership.

Internationalization and international marketing meets the needs of selected foreign countries where a company's value can be exported and there is inter firm and firm learning, optimization and efficiency in economies of scale and scope. The firm does not need to export or enter all world markets to be considered an international marketer.

Global Marketing

Global marketing is a firm's ability to market to almost all countries on the planet. With extensive reach, the need for a firm's product or services is established. The global firm retains the capability, reach, knowledge, staff, skills, insights, and expertise to deliver value to customers worldwide.

The firm understands the requirement to service customers locally with global standard solutions or products, and localizes that product as required to maintain an optimal balance of cost, efficiency, customization and localization in a control-customization continuum to best meet local, national and global requirements to position itself against or with competitors, partners, alliances, substitutes and defend against new global and local market entrants per country, region or city.

The firm will price its products appropriately worldwide, nationally and locally, and promote, deliver access and information to its customers in the most cost-effective way. The firm also needs to understand, research, measure and develop loyalty for its brand and global brand equity (stay on brand) for the long term.

At this level, global marketing and global branding are integrated. Branding involves a structure process of analyzing "soft" assets and "hard" assets of a firm's resources. The strategic analysis and development of a brand includes customer analysis (trends, motivation, unmet needs, segmentation), competitive analysis (brand image/identity, strengths, strategies, vulnerabilities), and self-analysis (existing brand image, brand heritage, strengths/capabilities, organizational values)

Further, Global brand identity development is the process establishing brands of products, the firm, and services locally and worldwide with consideration for scope, product attributes, quality/value, uses, users and country of origin; organizational attributes (local vs. global); personality attributes (genuine, energetic, rugged, elegant) and brand customer relationships (friend, adviser, influencer, trusted source); and importantly symbols, trademarks metaphors, imagery, mood, photography and the company's brand heritage.

In establishing a global brand, the brand proposition (functional benefits, emotional benefits and self-expressive benefits are identified, localized and streamlined to be consistent with a local, national, international and global point of view. The brand developed needs to be credible.

A global marketing and branding implementation system distributes marketing assets (website, social media, Google PPC, PDFs, sales collateral, press junkets, kits, product samples, news releases, local mini-sites, flyers, posters, alliance and partner materials, affiliate programs and materials, internal communications, newsletters, investor materials, event promotions and trade shows to deliver an integrated, comprehensive and focused communication, access and value to the customers, that can be tracked to build loyalty, case studies and further establish the company's global marketing and brand footprint.

Global Marketing Specialization

Global marketing is a field of study in general business management to provide valuable products, solutions and services to customers locally, nationally, internationally and worldwide.

Elements of the Global Marketing

Not only do standard marketing approaches, strategies, tactics and processes apply, global marketing requires an understanding of global finance, global operations and distribution, government relations, global human capital management and resource allocation, distributed technology development and management, global business logic, inter firm and global competitiveness, exporting, joint ventures, foreign direct investments and global risk management.

The standard "Four P's" of marketing: product, price, placement, and promotion are all affected as a company moves through the five evolutionary phases to become a global company. Ultimately, at the global marketing level, a company trying to speak with one voice is faced with many challenges when creating a worldwide marketing plan. Unless a company holds the same position against its competition in all markets (market leader, low cost, etc.) it is impossible to launch identical marketing plans worldwide.

Product

A global company is one that can create a single product and only have to tweak elements for different markets. For example, Coca-Cola uses two formulas (one with sugar, one with corn syrup) for all markets. The product packaging in every country incorporates the contour bottle design and the dynamic ribbon in some way, shapes, or form. However, the bottle can also include the country's native language and is the same size as other beverage bottles or cans in that same country.

Price

Price will always vary from market to market. Price is affected by many variables: cost of product development (produced locally or imported), cost of ingredients, cost of delivery (transportation, tariffs, etc.), and much more. Additionally, the product's position in relation to the competition influences the ultimate profit margin. Whether this product is considered the high-end, expensive choice, the economical, low-cost choice, or something in-between helps determine the price point.

Place/Distribution

How the product is distributed is also a country-by-country decision influenced by how the competition is being offered to the target market. Using Coca-Cola as an example again, not all cultures use vending machines. In the United States, beverages are sold by the

pallet via warehouse stores. In India, this is not an option. Placement decisions must also consider the product's position in the market place.

For example, a high-end product would not want to be distributed via a "dollar store" in the United States. Conversely, a product promoted as the low-cost option in France would find limited success in a pricey boutique.

Promotion

After product research, development and creation, promotion (specifically advertising) is generally the largest line item in a global company's marketing budget. At this stage of a company's development, integrated marketing is the goal.

The global corporation seeks to reduce costs, minimize redundancies in personnel and work, maximize speed of implementation, and to speak with one voice. If the goal of a global company is to send the same message worldwide, then delivering that message in a relevant, engaging, and cost-effective way is the challenge.

Effective global advertising techniques do exist. The key is testing advertising ideas using a marketing research system proven to provide results that can be compared across countries. The ability to identify which elements or moments of an ad are contributing to that success is how economies of scale are maximized.

Advantages and Disadvantages of Global/ International Marketing

Advantages

- Economies of scale in production and distribution
- Lower marketing costs
- Power and scope
- Consistency in brand image
- Ability to leverage good ideas quickly and efficiently
- Uniformity of marketing practices
- Helps to establish relationships outside of the "political arena"
- Helps to encourage ancillary industries to be set up to cater for the needs of the global player

Disadvantages

- Differences in needs, wants of the consumers and usage patterns for products
- Differences in consumer response to the elements of Marketing Mix
- Differences in brand and product development and the competitive environment
- Differences in the legal environment, some of which may conflict with those of the home market
- Differences in the institutions available, some of which may call for the creation of entirely new ones (e.g. infrastructure)
- Differences in administrative procedures
- Differences in product placement.
- Differences in the administrative procedures and product placement can occur

The Global Marketing Environment

Global marketing Environment is complex term to explain because it is covering all the issues of world that are continuously changing. To explain the true present picture of the Environment it's necessary to go through the most up-to-date literature and study the current changes. This chapter is giving the idea about the today's marketing and changes & challenges of the sub environmental forces.

Today's Marketing

The changing behavior of customers and proliferation of new marketing channels setups the new issues in the business world. In international market competition it's becoming harder and harder to maintain the life time relation with customers. Selling quality product and service in affordable price is not enough to gain the customer loyalty there are also many other dimensions of care. These all changes make profit secondary and modify organizations to customer-focused organizations and born the new theories and approaches.

Today's marketing has come out with the circle of 4P's (Product, Price, Place and Promotion) and in the broader sense it is taking as an organizational function. The modified form of marketing is to provide greater value to customer and develop and maintain a healthy relationship.

According to the American Marketing Association today's Marketing is:

"Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in way that benefit the organization and its stakeholders."(Keefe, 2004)

The Intermediate and Macro Environment

The global marketing environment comprises the intermediate and the macro environment. The intermediate environment contains those factors which are semi-controllable through contracts and they will be categorized as suppliers, Distributors, facilitators and shareholders. For example in software industries the different vendors, application sellers, temporary specialist staffs and subcontractors etc are part of intermediate environment. The macro environment is made up of those factors and forces which are generally uncontrollable. (Lee, 2005)

For the Global strategic marketing planning to evaluate and investigate the threats, opportunities and for risk assessment usually organizations used the PESTLE analysis here PESTLE stands for Political, Economic, Social, Technological, Legal, and Environmental Factors. Mostly external auditor is used to audit the impact of these forces.

International Environment

An analysis of the environmental uncontrollable allows the potential marketers to place products on a continuum of environmental sensitivity. At the one end are environmentally insensitive products and at the other end, those more sensitive to economic, socio cultural, physical and other factors. The greater the sensitivity, the greater the need for the organization to learn the way the product interacts with the environment

The International Marketing Environment

A number of factors constitute the international environment: social, cultural, political, legal, competitive, economic, plus technology. Each should be evaluated before a company makes a decision to go international.

The Social/Cultural Environment

The cultural environment consists of the influence of religious, family, educational, and social systems in the marketing system. Marketers who intend to market their products

overseas may be very sensitive to foreign cultures. While the differences between our cultural background in the United States and those of foreign nations may seem small, marketers who ignore these differences risk failure in implementing marketing programs.

Failure to consider cultural differences is one of the primary reasons for marketing failures overseas. This task is not as easy as it sounds as various features of a culture can create an illusion of similarity. Even a common language does not guarantee similarity of interpretation. For example, in the US we purchase “cans” of various grocery products, but the British purchase “tins”. A number of cultural differences can cause marketers problems in attempting to market their products overseas.

These include:

(a) Language,
(b) Color,
(c) Customs and taboos,
(d) Values,
(e) Aesthetics,
(f) Time,
(g) Business norms,
(h) Religion, and
(i) Social structures.

Each is discussed in the following sections.

Language

The importance of language differences cannot be overemphasized, as there are almost 3,000 languages in the world. Language differences cause many problems for marketers in designing advertising campaigns and product labels. Language problems become even more serious once the people of a country speak several languages. For example, in Canada, labels must be in both English and French. In India, there are over 200 different dialects, and a similar situation exists in China.

Colors

Colors also have different meanings in different cultures. For example, in Egypt, the country’s national color of green is considered unacceptable for packaging, because

religious leaders once wore it. In Japan, black and white are colors of mourning and should not be used on a product's package.

Similarly, purple is unacceptable in Hispanic nations because it is associated with death. Consider how the following examples could be used in development of international marketing programs: In Russia, it is acceptable for men to greet each other with a kiss, but this custom is not acceptable in the US. Germans prefer their salad dressing in a tube, while Americans prefer it in a bottle.

In France, wine is served with most meals, but in America, milk, tea, water, and soft drinks are popular. McDonalds's Corporation has opened 20 restaurants in India. Since 80 percent of Indians are Hindu, McDonald's will use a non beef meat substitute for its traditional hamburger.

The likely beef substitute will be lamb, a very popular meat in India. In anticipation of its restaurant openings, McDonald's conducted extensive market research, site selection studies, and developed a relationship with India's largest chicken supplier. McDonald's has opted to market its product in India, largely because India's population of more than 900 million represents one sixth of the world's population.

Values

An individual's values arise from his/her moral or religious beliefs and are learned through experiences. For example, in America we place a very high value on material well-being, and are much more likely to purchase status symbols than people in India. Similarly, in India, the Hindu religion forbids the consumption of beef, and fast-food restaurants such as McDonald's and Burger King would encounter tremendous difficulties without product modification. Americans spend large amounts of money on soap, deodorant, and mouthwash because of the value placed on personal cleanliness. In Italy, salespeople call on women only if their husbands are at home.

Aesthetics

The term aesthetics is used to refer to the concepts of beauty and good taste. The phrase, "Beauty is in the eye of the beholder" is a very appropriate description for the differences in aesthetics that exist between cultures. For example, Americans believe that suntans are attractive, youthful, and healthy. However, the Japanese do not.

Time

Americans seem to be fanatical about time when compared to other cultures. Punctuality and deadlines are routine business practices in the US. However, salespeople who set definite appointments for sales calls in the Middle East and Latin America will have a lot of time on their hands, as business people from both of these cultures are far less bound by time constraints. To many of these cultures, setting a deadline such as "I have to know next week" is considered pushy and rude.

Business Norms

The norms of conducting business also vary from one country to the next. Here are several examples of foreign business behavior that differ from US business behavior: In France, wholesalers do not like to promote products. They are mainly interested in supplying retailers with the products they need. In Russia, plans of any kind must be approved by a seemingly endless string of committees. As a result, business negotiations may take years. South Americans like to talk business "nose to nose". This desire for close physical proximity causes American business people to back away from the constantly forward-moving South Americans. In Japan, businesspeople have mastered the tactic of silence in negotiations. Americans are not prepared for this, and they panic because they think something has gone wrong. The result is that Americans become impatient, push for a closure, and often make business concessions they later regret. These norms are reflected in the difficulty of introducing the Web into Europe.

Religious Beliefs

A person's religious beliefs can affect shopping patterns and products purchased in addition to his/her values, as discussed earlier. In the United States and other Christian nations, Christmastime is a major sales period. But for other religions, religious holidays do not serve as popular times for purchasing products. Women do not participate in household buying decisions in countries in which religion serves as opposition to women's rights movements.

Every culture has a social structure, but some seem less widely defined than others. That is, it is more difficult to move upward in a social structure that is rigid. For example, in the US, the two-wage earner family has led to the development of a more affluent set of consumers. But in other cultures, it is considered unacceptable for women to work outside the home.

The Technological Environment

The level of technological development of a nation affects the attractiveness of doing business there, as well as the type of operations that are possible. Marketers in developed nations cannot take many technological advances for granted. They may not be available in lesser developed nations. Consider some of the following technologically related problems that firms may encounter in doing business overseas: Foreign workers must be trained to operate unfamiliar equipment. Poor transportation systems increase production and physical distribution costs. Maintenance standards vary from one nation to the next. Poor communication facilities hinder advertising through the mass media. Lack of data processing facilities makes the tasks of planning, implementing, and controlling marketing strategy more difficult.

The Economic Environment

A nation's economic situation represents its current and potential capacity to produce goods and services. The key to understanding market opportunities lies in the evaluation of the stage of a nation's economic growth. A way of classifying the economic growth of countries is to divide them into three groups:

(a) Industrialized,
(b) Developing, and
(c) Less-developed nations.

The industrialized nations are generally considered to be the United States, Japan, Canada, Russia, Australia, and most of Western Europe The economies of these nations are characterized by private enterprise and a consumer orientation. They have high literacy, modem technology, and higher per capita incomes. Developing nations are those that are making the transition from economies based on agricultural and raw materials production to industrial economies. Many Latin American nations fit into this category, and they exhibit rising levels of education, technology, and per capita incomes, Finally, there are many less developed nations in today's world. These nations have low standards of living, literacy rates are low, and technology is very limited.

Usually, the most significant marketing opportunities exist among the industrialized nations, as they have high levels of income, one of the necessary ingredients for the formation of markets. However, most industrialized nations also have stable population bases, and market saturation for many products already existing. The developing nations, on the other hand, have growing population bases, and although they currently import limited goods

and services, the long-run potential for growth in these nations exists. Dependent societies seek products that satisfy basic needs-food, clothing, housing, medical care, and education. Marketers in such nations must be educators, emphasizing information in their market programs. As the degree of economic development increases, so does the sophistication of the marketing effort focused on the countries.

The Political/Legal Environment

The political/legal environment abroad is quite different from that of the US. Most nations desire to become self-reliant and to raise their status in the eyes of the rest of the world. This is the essence of nationalism. The nationalistic spirit that exists in many nations has led them to engage in practices that have been very damaging to other countries' marketing organizations. For example, foreign governments can intervene in marketing programs in the following ways:

Contracts for the supply and delivery of goods and services, the registration and enforcement of trademarks, brand names and labeling, patents, marketing communications, pricing, product safety, acceptability, and environmental issues.

Political Stability

Business activity tends to grow and thrive when a nation is politically stable. When a nation is politically unstable, multinational firms can still conduct business profitably. Their strategies will be affected however. Most firms probably prefer to engage in the export business rather than invest considerable sums of money in investments in foreign subsidiaries. Inventories will be low and currency will be converted rapidly. The result is that consumers in the foreign nation pay high prices, get less satisfactory products, and have fewer jobs.

Monetary Circumstances

The exchange rate of a particular nation's currency represents the value of that currency in relation to that of another country. Governments set some exchange rates independently of the forces of supply and demand. The forces of supply and demand set others. If a country's exchange rate is low compared to other countries, that country's consumers must pay higher prices on imported goods. While the concept of exchange rates appears relatively simple, these rates fluctuate widely and often, thus creating high risks for exporters and importers.

Trading Blocs and Agreements

US companies make one-third of their revenues from products marketed abroad, in places such as Asia and Latin America. The North American Free Trade Agreement (NAFTA) further boosts export sales by enabling companies to sell goods at lower prices because of reduced tariffs. Regional trading blocs represent a group of nations that join together and formally agree to reduce trade barriers among themselves. NAFTA is such a bloc. Its members include the US, Canada, and Mexico. No tariffs exist on goods sold between member nations of NAFTA. However, a uniform tariff is assessed on products from countries not affiliated with NAFTA. In addition, NAFTA seeks common standards for labeling requirements, food additives, and package sizes. One of the potentially interesting results of trade agreements like NAFTA is that many products previously restricted by dumping laws, laws designed to keep out foreign products, would be allowed to be marketed. The practice of dumping involves a company selling products in overseas markets at very low prices, one intention being to steal business from local competitors. These laws were designed to prevent pricing practices that could seriously harm local competition. The laws were designed to prevent large producers from flooding markets with very low priced products, gain a monopoly, and then raise prices to very high levels. In 1993, about 40 nations, counting the European Community as one, had anti-dumping legislation. Those in favor of agreements argue that anti-dumping laws penalize those companies who are capable of competing in favor of those companies that are not competitive. Almost all the countries in the Western hemisphere have entered into one or more regional trade agreements. Such agreements are designed to facilitate trade through the establishment of a free trade area customs union or customs market. Free trade areas and customs unions eliminate trade barriers between member countries while maintaining trade barriers with nonmember countries. Customs Unions maintain common tariffs and rates for nonmember countries. A common market provides for harmonious fiscal and monetary policies while free trade areas and customs unions do not. Trade agreements are becoming a growing force for trade liberalization; the development of such agreements provides for tremendous opportunities for US companies doing business in Latin America and North America.

The creation of the single European market in 1992 was expected to change the way marketing is done worldwide. It meant the birth of a market that was larger than the United States, and the introduction of European Currency Units (Euros) in place of the individual currencies of member nations. Experience in multilingual marketing would help non-European companies succeed in this gigantic market. With new technologies such as multilingual processing programs, it would be possible to target potential customers anywhere in Europe, in any language, and in the same marketing campaign. Progress toward European unification has been slow-many doubt that complete unification will ever

be achieved. However, on 1 January 1999, 11 of the 15 member nations took a significant step toward unification by adopting the Euro as the common currency. These 11 nations represent 290 million people and a USD 6.5 trillion market. Still, with 14 different languages and distinctive national customs, it is unlikely that the EU will ever become the "United States of Europe".

Tariffs

Most nations encourage free trade by inviting firms to invest and to conduct business there, while encouraging domestic firms to engage in overseas business. These nations do not usually try to strictly regulate imports or discriminate against foreign-based firms. There are, however, some governments that openly oppose free trade. For example, many Communist nations desire self-sufficiency. Therefore, they restrict trade with non-Communist nations. But these restrictions vary with East-West relations. The most common form of restriction of trade is the tariff, a tax placed on imported goods. Protective tariffs are established in order to protect domestic manufacturers against competitors by raising the prices of imported goods. Not surprisingly, US companies with a strong business tradition in a foreign country may support tariffs to discourage entry by other US competitors.

Expropriation

All multinational firms face the risk of expropriation. That is, the foreign government takes ownership of plants, sometimes without compensating the owners. However, in many expropriations there has been payment, and it is often equitable. Many of these facilities end up as private rather than government organizations. Because of the risk of expropriation, multinational firms are at the mercy of foreign governments, which are sometimes unstable, and which can change the laws they enforce at any point in time to meet their needs

The Competitive Environment

Entering an international market is similar to doing so in a domestic market, in that a firm seeks to gain a differential advantage by investing resources in that market. Often local firms will adopt imitation strategies, sometimes successfully. When they are successful, their own nation's economy receives a good boost. When they are not successful, the multinational firm often buys them out. Japanese marketers have developed an approach to managing product costs that has given them a competitive advantage over US competitors. A typical American company will design a new product, and then calculate the cost. If the estimated cost is too high, the product will be taken back to the drawing board. In Japan, a company typically starts with a target cost based on the price that it estimates the market is

most willing to accept. Product designers and engineers are then directed to meet the cost target. This approach also encourages managers to worry less about product costs and more about the role it should play in gaining market share. Briefly, at Japanese companies like NEC, Nissan, Sharp, and Toyota, a team charged with bringing a product idea to market estimates the price at which the product is most likely to appeal to the market. From this first important judgment, all else follows. After deducting the required profit margin from the selling price, planners develop estimates of each element that make up the product's cost: engineering, manufacturing sales, and marketing. US firms tend to build products, figure how much it costs to build the product, and then ask whether the product can be sold at a profitable price. US companies tend not to assess what the market will be willing to pay.

Summary

The marketing environment consists of all factors external to an organization that can affect its marketing activities. Elements of the marketing environment are largely uncontrollable, although marketers have influence over some factors. Environmental factors can affect the size and growth rate of markets and can influence marketing activities. Thus, changes in the marketing environment offer opportunities and threats to marketers. Identifying and responding effectively to these opportunities and threats is a major challenge.

The social environment comprises all factors and trends related to groups of people, including their number, characteristics, behavior, and growth projections. Its major components are the demographic and cultural environments. The demographic environment refers to the size, distribution, and growth rate of people with different characteristics. The cultural environment refers to factors and trends related to how people live and behave. Demographic factors typically relate to the number of people in different markets, whereas cultural factors generally influence the needs of these markets. The technological environment includes factors and trends related to innovations that affect the development of new products or improving marketing practice. Technological advances are happening so rapidly that marketers must constantly monitor the technological environment to keep abreast of latest developments.

The economic environment includes factors and trends related to the production of goods and services and the relationships between this production and income levels. The economic environment affects the purchasing power of consumers, which is an important determinant of the size of a market. The political/legal environment, encompassing factors related to governmental activities and laws and regulations, directly affects marketing activities. Laws and regulations normally present constraints within which marketers

must operate. These laws and regulations are closely related to current political trends. Some marketers, however, can identify market opportunities arising from these laws and regulations.

The competitive environment consists of all the organizations that attempt to serve the same customers. Brand competitors compete directly by offering the same type of product to the same market. Product competitors compete more indirectly by offering different types of products to satisfy the same basic need. The institutional environment consists of all the organizations involved in marketing products and services. These include marketing research firms, advertising agencies, wholesalers, and retailers. As the characteristics of these and other institutions change, so will the marketing strategies necessary to serve different customers and to compete effectively in different industries.

Self Assessment Questions

1. What do you understand by global marketing?
2. What are the elements of global marketing?
3. What are the advantages and disadvantages of global marketing?
4. What are the different types of environment in global marketing?

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Lesson 1.2 - The Political and Legal Systems

Introduction

Today we are living in global economy where we use goods manufactured in one country and packaged in another country. Businesses have cross boundaries of countries and expanded themselves across the world, in search of availability of raw materials, cheap labor, talent and market for their goods. However, doing business internationally is totally different than in home country. While doing business in other countries, business people have to be well aware of the political and legal systems of those countries.

The legal system of a country is significantly important to international businesses. Differences in legal systems can affect the attractiveness of a country as market or investment site. A country's law regulate business practices, defines business policies, rights and obligations involved in business transactions. The government of a country defines the legal framework within which firms do businesses. Therefore laws differ from country to country. For example, China has Communists government where business laws are strictly controlled by government to controlled business sectors. Whereas India has democratic government and business laws are made to protect small businesses and consumers. Although different countries have different laws and regulations, knowledge of common law, civil law, contract laws, and laws governing property rights, product safety and liability for a country helps business people to make business decisions.

The common law system is commonly found in former Great Britain's colonies and is based on country's legal history, past court rulings on cases and ways in which laws are applied in specific situations. Judges in a common law system have power to interpret the law under unique circumstances for an individual case. Countries like United States, Australia, India uses common law systems. In civil law system, laws are based on detailed set of written rules and codes. Judges have less flexibility and have power only to apply the law. France, Germany, Russia operate with a civil law system. Some counties have legal system, which is based on religious teachings. Countries like Pakistan, Saudi Arabia, Iran and Middle Eastern nations follow Islamic laws, which are based on holy principles of Koran. It is very important for international business to interpret law according to country and its impact on their commercial activities.

Many business transactions are regulated by contract, and contract law governs contract enforcement. It is very important for international business people to have good understanding of country's contract laws. Contracts drafted under common law system are tend to be very detailed, whereas contracts are much shorter and less specific in civil law system due to already drafted civil codes. Therefore common law system has long and expensive jurisdiction process. However it has advantage of greater flexibility and allows judges to interpret a contract dispute in particular situation as compare to civil law system. Businesses should consider these differences while dealing with contracts. Most of countries have laws to protect property rights but in reality local authorities do not enforce these laws.

Property rights can be violated through private action or by public action. Private action refers to piracy, theft, blackmail and threats from individuals and groups. A weak legal system might not able to protect businesses from wrong doings. For example, after collapse of communism in Russia, weak legal system and local authorities were failed to protect local as well as international businesses from "Russian Mafia". Business people often have to pay these mafias to protect their businesses. Public actions involve violation by local authorities or government bureaucrats for some favor or as a part of corruption for monetary benefits. Corruption in government is very common in countries like India and Mexico. The protection of intellectual property rights differs from country to country. Weak enforcement encourages the piracy of intellectual properties like patents, copyrights and trademarks. Pirated software is widely available in China, where as selling of Rolex watches, Levi's jeans and computer software on streets is very common in Asian countries.

Courtiers are taking steps to enforce the law to protect intellectual properties, reduce piracy to attract international businesses. International business community has come together to form set of rules to resolve contract dispute by forming 'United Nations Convention on Contracts for international Sale of Goods" (CIGS). By adopting CIGS, a nation agrees to the other member nation that it will treat the convention's rule as part of its law. When firm do not wish to accept CIGS, dispute can be settled in any recognized arbitration court like 'Court of Arbitration of International Chamber of Commerce' in Paris. Many countries have also signed an agreement to crack down piracy and protect intellectual properties by signing 'Paris Convention for the Protection of Industrial Property". In 1970s, United States government passed the 'Foreign Corrupt Practices Act' to prevent US businesses bribing foreign government officials to obtain business contracts.

Considering impact of various aspects of legal system in international business, it is very important for business people to have good understanding of legal systems of countries they do business with.

Why should businesses care about the different political and legal systems around the world? To begin with, despite the globalization of business, firms must abide by the local rules and regulations of the countries in which they operate. US-based Google had to deal with the Chinese government's restrictions on the freedom of speech in order to do business in China. China's different set of political and legal guidelines made Google choose to discontinue its mainland Chinese version of its site and direct mainland Chinese users to a Hong Kong version.

Until recently, governments were able to directly enforce the rules and regulations based on their political and legal philosophies. The Internet has started to change this, as sellers and buyers have easier access to each other. Nevertheless, countries still have the ability to regulate or strong-arm companies into abiding by their rules and regulations. As a result, global businesses monitor and evaluate the political and legal climate in countries in which they currently operate or hope to operate in the future.

Global Political Trends

In today's world economy, international political events greatly affect marketing activities. One significant trend is a move from government-dominated economies and socialist political systems toward free market economies and, in many countries, democratic governments. The republics in the Commonwealth of Independent States and former communist countries in Eastern Europe, such as Hungary, Romania, and Poland, are moving in this direction at various rates. China is taking a different tack: trying to promote a free market economy within its socialist political system. This objective may be difficult to achieve, as rapid economic growth is generating pressure for a more democratic political system. These historic developments offer potentially huge market opportunities for many firms, given that these populations need many different types of products and services. Creating effective free market economies is likely to take a long time and considerable effort. Many countries continue to struggle with new political and economic systems.

A second important political trend is movement toward free trade and away from protectionism. One approach is the development of trading blocs throughout the world. The largest trading bloc is the European Economic Area (EEA). It consists of 17 European countries from the Arctic to the Mediterranean, representing 372 million consumers and a combined GDP of $6.6 trillion.

The next largest is the North American Free Trade Agreement (NAFTA). It consists of the US, Mexico, and Canada and includes 360 million consumers and $6 trillion GDP. The aim is to eliminate trade barriers and to promote easier access to the markets in each

participating country. As this development continues, trading blocs have the potential to generate many opportunities for marketers. The free trade trend goes beyond trading blocs and encompasses a global perspective. The best example of this perspective is the General Agreement on Tariffs and Trade, or GATT. This agreement was signed by 124 countries in 1994 to eliminate trade barriers worldwide. The World Trade Organization (WTO) was established as the watchdog organization, and a world court was set up in Geneva to arbitrate trade disputes. Although results have been mixed, the WTO is making slow but steady progress toward free trade around the world.

A final trend is the use of embargoes or sanctions by the UN or individual governments to limit trade to specific countries, a popular political weapon in recent years. For example, the US participated in embargoes against Iraq, South Africa, Libya, and Vietnam. An embargo, of course, eliminates many potential market opportunities. In contrast, the lifting of trade sanctions, as in the case of South Africa, can release pent-up demand and produce tremendous opportunities. Unilateral embargoes are especially difficult for affected firms. A case in point involves Vietnam, against which the US had a near total economic embargo for 18 years. When the embargo was lifted in February 1994, Boeing, Marriott, Johnson & Johnson, Coca-Cola, Kodak, Du Pont, Kellogg, and American Express initiated efforts to enter the Vietnamese market. This is an attractive market because of its size (72 million people) and movement toward a market-based economy. However, American firms are at a competitive disadvantage. Firms from Asia, Australia, and Europe have invested over $7.5 billion in Vietnam since 1987. Sanyo, Toshiba, and Honda are among the firms that have already established strong competitive positions. US firms will have to work hard to overcome the problems caused by the embargo.

One specific issue of enormous interest around the world is the reversion of Hong Kong to Chinese control. Hong Kong becomes a Special Administrative Region (SAR) of China on July 1, 1997. C. H. Tung has been selected to be the first chief executive of the SAR. Under British control, Hong Kong has grown economically under a democratic government. Although China has largely embraced free market capitalism, it has remained largely a tightly controlled communist state. How this political change is handled will have effects worldwide.

Global Legislation

Organizations must deal with laws at the international, federal, state, and local levels. US laws directly affecting marketing typically fall into two categories: those promoting competition among firms and those protecting consumers and society. Table presents examples of each type. Laws promoting competition focus on outlawing practices that give

a few firms unfair competitive advantages over others. The specific impact of these laws depends on court rulings that may change over time or differ at the state and national levels. An interesting example is in the area of pricing. A federal court ruled that American Airlines was not guilty of trying to drive weaker competitors out of business when it slashed fares in 1992. In contrast, a state court in Arkansas found Wal-Mart guilty of predatory pricing by selling pharmacy products below cost to drive out competitors. These examples illustrate the complexity of the Global political/legal issues.

Consumer protection laws generally indicate what firms must do to give consumers the information they need to make sound purchasing decisions or to ensure that the products they buy are safe. For example, the Fair Packaging and Labeling Act requires packages to be labeled honestly; the Child Protection Act regulates the amount of advertising that can appear on children's television programs.

Laws typically affect marketing activities by indicating what can or cannot be done.

Until recently, Germany had a law that forced most retail stores to close at 6:30 PM on weekdays and 2 PM on Saturdays, and it did not allow commercial banking on Sunday. This restricted the operations of retailers. A new law expanded allowable shopping hours to 8 PM on weekdays and 4 PM on Saturdays; it also allowed bakeries to sell fresh bread on Sunday mornings. Other stores must remain closed on Sunday.

Some laws are directed at providing marketing opportunities. Syria, for example, in trying to open its economy to the private sector and foreign investment, passed a law that exempts investors in approved projects from taxes for five to nine years, waives customs duties on certain imports, and removes regulations that made it difficult to do business in Syria. Known as No. 10, it has contributed to a 7 to 8 percent growth in the Syrian economy.

U.S Marketing Regulation and Regulatory Agencies

Most legislation in the US is enforced through regulations developed by a variety of agencies, and marketers must often work with regulatory authorities at the federal, state, and local levels. Often, regulations are not the same at different governmental levels. For example, the Federal Trade Commission (FTC) enforces guidelines for how firms promote the environmental advantages of their products, but these guidelines do not supersede state laws or regulations. Now, 12 states regulate environmental claims in some way, with more states likely to follow in the future. Sorting through different regulations is a complex task for marketers. Several of the most important federal agencies are described in Table. Some of these regulatory agencies cut across industries (FTC, CPSC, and EPA); others focus on

specific industries (FDA, ICC, FCC). The impact of these regulatory agencies is especially evident in the pharmaceutical industry. The FDA must approve a new drug before it is marketed and can place limitations on its use. For example, the FDA approved Warner-Lambert's anticonvulsant, Neurontin, but only as an add-on therapy for patients taking other epilepsy medications. This stipulation limits Warner-Lambert's marketing efforts for Neurontin.

FDA actions can also produce marketing opportunities. The approval of smoking-cessation nicotine drugs as over-the-counter products opened up a large market to marketers of nicotine gum and patches. As more firms participate in the global marketplace, the need for international regulations is emerging. One example is the International Standards Organization's 25-page set of quality standards called ISO 9000. These standards apply to 20 different functions within a company, such as product design, process control, purchasing, customer service, inspection and testing, and training, and are being incorporated into laws

Key US Laws Affecting Marketing

A. Promoting competition	
Act	Purpose
Sherman Act (1890)	Prohibits monopolistic practices
Clayton Act (1914)	Prohibits anticompetitive activities
Federal Trade Commission Act (1914)	Establishes regulatory agency to enforce laws against unfair competition
Robinson–Pitman Act (1936)	Prohibits price discrimination
Lanham Trademark Act (1946)	Protects trademarks & brand names
Magnusson–Moss Act (1975)	Regulates warranties
US–Canada Trade Act (1988)	Allows free trade between US & Canada
B. Protecting consumers & society	
Food, Drug, and Cosmetics Act (1938)	Regulates food, drug & cosmetic industries
Fair Packaging and Labeling Act (1966)	Regulates packaging & labeling
Child Protection and Toy Safety Act (1969)	Prevents marketing of dangerous products to children
Consumer Credit Protection Act (1968)	Requires full disclosure of financial charges for loans
Fair Credit Report Act (1970)	Regulates reporting & use of credit information
Fair Debt Collections Practice Act (1970)	Regulates methods for collecting debts

Child Protection Act (1990)	Regulates advertising on children's television programs
Americans with Disabilities Act (1990)	Prohibits discrimination against consumers with disabilities

Important US Regulatory Agencies

Agency	Responsibilities
Federal Trade Commission (FTC)	Regulates business practices
Consumer Product Safety Commission (CPSC)	Protects consumers from unsafe products
Environmental Protection Agency (EPA)	Protects environment
Food & Drug Administration (FDA)	Regulates food, drug & cosmetic industries
Interstate Commerce Commission (ICC)	Regulates interstate transportation industry
Federal Communications Commission (FCC)	Regulates interstate communications industry

Different Political Systems

The study of political systems is extensive and complex. A ***political system*** is basically the system of politics and government in a country. It governs a complete set of rules, regulations, institutions, and attitudes. A main differentiator of political systems is each system's philosophy on the rights of the individual and the group as well as the role of government. Each political system's philosophy impacts the policies that govern the local economy and business environment.

There are more than thirteen major types of government systems, each of which consists of multiple variations. Let's focus on the overarching modern political philosophies. At one end of the extremes of political philosophies, or ideologies, is ***anarchism***, which contends that individuals should control political activities and public government is both unnecessary and unwanted. At the other extreme is ***totalitarianism***, which contends that every aspect of an individual's life should be controlled and dictated by a strong central government. In reality, neither extreme exists in its purest form. Instead, most countries have a combination of both, the balance of which is often a reflection of the country's history, culture, and religion. This combination is called ***pluralism***, which asserts that both public and private groups are important in a well-functioning political system. Although most countries are pluralistic politically, they may lean more to one extreme than the other.

In some countries, the government controls more aspects of daily life than in others. While the common usage treats totalitarian and authoritarian as synonyms, there is a distinct difference. For the purpose of this discussion, the main relevant difference is in ideology. Authoritarian governments centralize all control in the hands of one strong leader or a small group of leaders, who have full authority. These leaders are not democratically elected and are not politically, economically, or socially accountable to the people in the country. Totalitarianism, a more extreme form of authoritarianism, occurs when an authoritarian leadership is motivated by a distinct ideology, such as communism. In totalitarianism, the ideology influences or controls the people, not just a person or party. Authoritarian leaders tend not to have a guiding philosophy and use more fear and corruption to maintain control.

Democracy is the most common form of government around the world today. Democratic governments derive their power from the people of the country, either by direct referendum (called a direct democracy) or by means of elected representatives of the people (a representative democracy). Democracy has a number of variations, both in theory and practice, some of which provide better representation and more freedoms for their citizens than others.

It may seem evident that businesses would prefer to operate in open, democratic countries; however, it can be difficult to determine which countries fit the democratic criteria. As a result, there are a variety of institutions, including the ***Economist***, which analyze and rate countries based on their openness and adherence to democratic principles.

There is no consensus on how to measure democracy, definitions of democracy are contested and there is an ongoing lively debate on the subject. Although the terms "freedom" and "democracy" are often used interchangeably, the two are not synonymous. Democracy can be seen as a set of practices and principles that institutionalize and thus ultimately protect freedom. Even if a consensus on precise definitions has proved elusive, most observers today would agree that, at a minimum, the fundamental features of a democracy include government based on majority rule and the consent of the governed, the existence of free and fair elections, the protection of minorities and respect for basic human rights. Democracy presupposes equality before the law, due process and political pluralism.

To further illustrate the complexity of the definition of a democracy, the Economist Intelligence Unit's annual "Index of Democracy" uses a detailed questionnaire and analysis process to provide "a snapshot of the current state of democracy worldwide for 165 independent states and two territories (this covers almost the entire population of the

world and the vast majority of the world's independent states (27 micro states are excluded) [as of 2008)]." Several things stand out in the 2008 index.

Although almost half of the world's countries can be considered to be democracies, the number of "full democracies" is relatively low (only 30); 50 are rated as "flawed democracies." Of the remaining 87 states, 51 are authoritarian and 36 are considered to be "hybrid regimes." As could be expected, the developed OECD countries dominate among full democracies, although there are two Latin American, two central European and one African country, which suggest that the level of development is not a binding constraint. Only two Asian countries are represented: Japan and South Korea.

Half of the world's population lives in a democracy of some sort, although only some 14 percent reside in full democracies. Despite the advances in democracy in recent decades, more than one third the world's population still lives under authoritarian rule.

What businesses must focus on is how a country's political system impacts the economy as well as the particular firm and industry. Firms need to assess the balance to determine how local policies, rules, and regulations will affect their business. Depending on how long a company expects to operate in a country and how easy it is for it to enter and exit, a firm may also assess the country's political risk and stability.

A company may ask several questions regarding a prospective country's government to assess possible risks:

1. How stable is the government?
2. Is it a democracy or a dictatorship?
3. If a new party comes into power, will the rules of business change dramatically?
4. Is power concentrated in the hands of a few, or is it clearly outlined in a constitution or similar national legal document?
5. How involved is the government in the private sector?
6. Is there a well-established legal environment both to enforce policies and rules as well as to challenge them?
7. How transparent is the government's political, legal, and economic decision-making process?

While any country can, in theory, pose a risk in all of these factors, some countries offer a more stable business environment than others. In fact, political stability is a key

part of government efforts to attract foreign investment to their country. Businesses need to assess if a country believes in free markets, government control, or heavy intervention (often to the benefit of a few) in industry.

The country's view on capitalism is also a factor for business consideration. In the broadest sense, ***capitalism*** is an economic system in which the means of production are owned and controlled privately. In contrast, a ***planned economy*** is one in which the government or state directs and controls the economy, including the means and decision making for production. Historically, democratic governments have supported capitalism and authoritarian regimes have tended to utilize a state-controlled approach to managing the economy.

As you might expect, established democracies, such as those found in the United States, Canada, Western Europe, Japan, and Australia, offer a high level of political stability. While many countries in Asia and Latin America also are functioning democracies, their stage of development impacts the stability of their economic and trade policy, which can fluctuate with government changes. Within reason, in democracies, businesses understand that most rules survive changes in government. Any changes are usually a reflection of a changing economic environment, like the world economic crisis of 2008, and not a change in the government players.

This contrasts with more authoritarian governments, where democracy is either not in effect or simply a token process. China is one of the more visible examples, with its strong government and limited individual rights.

However, in the past two decades, China has pursued a new balance of how much the state plans and manages the national economy. While the government still remains the dominant force by controlling more than a third of the economy, more private businesses have emerged. China has successfully combined state intervention with private investment to develop a robust, market-driven economy—all within a communist form of government. This system is commonly referred to as "a socialist market economy with Chinese characteristics.

" The Chinese are eager to portray their version of combining an authoritarian form of government with a market-oriented economy as a better alternative model for fledging economies, such as those in Africa. This new combination has also posed more questions for businesses that are encountering new issues—such as privacy, individual rights, and intellectual rights protections—as they try to do business with China, now the second-largest economy in the world behind the United States. The Chinese model of an authoritarian

government and a market-oriented economy has, at times, tilted favor toward companies, usually Chinese, who understand how to navigate the nuances of this new system. Chinese government control on the Internet, for example, has helped propel homegrown, Baidu, a Chinese search engine, which earns more than 73 percent of the Chinese search-engine revenues.

Baidu self-censors and, as a result, has seen its revenues soar after Google limited its operations in the country. It might seem straightforward to assume that businesses prefer to operate only in democratic, capitalist countries where there is little or no government involvement or intervention. However, history demonstrates that, for some industries, global firms have chosen to do business with countries whose governments control that industry. Businesses in industries, such as commodities and oil, have found more authoritarian governments to be predictable partners for long-term access and investment for these commodities.

The complexity of trade in these situations increases, as throughout history, governments have come to the aid and protection of their nation's largest business interests in markets around the world. The history of the oil industry shows how various governments have, on occasion, protected their national companies' access to oil through political force. In current times, the Chinese government has been using a combination of government loans and investment in Africa to obtain access for Chinese companies to utilize local resources and commodities. Many business analysts mention these issues in discussions of global business ethics and the role and responsibility of companies in different political environments.

Different Legal Systems

Let's focus briefly on how the political and economic ideologies that define countries impact their legal systems. In essence, there are three main kinds of legal systems-common law, civil law, and religious or theocratic law.

Most countries actually have a combination of these systems, creating hybrid legal systems.

Civil law is based on a detailed set of laws that constitute a code and focus on how the law is applied to the facts. It's the most widespread legal system in the world.

Common law is based on traditions and precedence. In common law systems, judges interpret the law and judicial rulings can set precedent.

Religious law is also known as theocratic law and is based on religious guidelines. The most commonly known example of religious law is Islamic law, also known as ***Sharia***. Islamic law governs a number of Islamic nations and communities around the world and is the most widely accepted religious law system. Two additional religious law systems are the Jewish Halacha and the Christian Canon system, neither of which is practiced at the national level in a country. The Christian Canon system is observed in the Vatican City.

The most direct impact on business can be observed in Islamic law—which is a moral, rather than a commercial, legal system. Sharia has clear guidelines for aspects of life. For example, in Islamic law, business is directly impacted by the concept of interest. According to Islamic law, banks cannot charge or benefit from interest. This provision has generated an entire set of financial products and strategies to simulate interest—or a gain—for an Islamic bank, while not technically being classified as interest. Some banks will charge a large up-front fee.

Many are permitted to engage in sale-buyback or leaseback of an asset. For example, if a company wants to borrow money from an Islamic bank, it would sell its assets or product to the bank for a fixed price. At the same time, an agreement would be signed for the bank to sell back the assets to the company at a later date and at a higher price. The difference between the sale and buyback price functions as the interest. In the Persian Gulf region alone, there are twenty-two Sharia-compliant, Islamic banks, which in 2008 had approximately $300 billion in assets. Clearly, many global businesses and investment banks are finding creative ways to do business with these Islamic banks so that they can comply with Islamic law while earning a profit.

Governments Intervention in Trade

While the past century has seen a major shift toward free trade, many governments continue to intervene in trade. Governments have several key policy areas that can be used to create rules and regulations to control and manage trade.

- **Tariffs.** Tariffs are taxes imposed on imports. Two kinds of tariffs exist—***specific tariffs***, which are levied as a fixed charge, and ***ad valorem tariffs***, which are calculated as a percentage of the value. Many governments still charge ad valorem tariffs as a way to regulate imports and raise revenues for their coffers.
- **Subsidies.** A subsidy is a form of government payment to a producer. Types of subsidies include tax breaks or low-interest loans; both of which are common.

Subsidies can also be cash grants and government-equity participation, which are less common because they require a direct use of government resources.

- **Import quotas and VER.** Import quotas and voluntary export restraints (VER) are two strategies to limit the amount of imports into a country. The importing government directs import quotas, while VER are imposed at the discretion of the exporting nation in conjunction with the importing one.

- **Currency controls.** Governments may limit the convertibility of one currency (usually its own) into others, usually in an effort to limit imports. Additionally, some governments will manage the exchange rate at a high level to create an import disincentive.

- **Local content requirements.** Many countries continue to require that a certain percentage of a product or an item be manufactured or "assembled" locally. Some countries specify that a local firm must be used as the domestic partner to conduct business.

- **Antidumping rules.** Dumping occurs when a company sells product below market price often in order to win market share and weaken a competitor.

- **Export financing.** Governments provide financing to domestic companies to promote exports.

- **Free-trade zone.** Many countries designate certain geographic areas as free-trade zones. These areas enjoy reduced tariffs, taxes, customs, procedures, or restrictions in an effort to promote trade with other countries.

- **Administrative policies.** These are the bureaucratic policies and procedures governments may use to deter imports by making entry or operations more difficult and time consuming.

Summary

Businesses have cross boundaries of countries and expanded themselves across the world, in search of availability of raw materials, cheap labor, talent and market for their goods. However, doing business internationally is totally different than in home country. While doing business in other countries, business people have to be well aware of the political and legal systems of those countries. The study of political systems is extensive and complex. A political system is basically the system of politics and government in a country. It governs a complete set of rules, regulations, institutions, and attitudes. A main differentiator of political systems is each system's philosophy on the rights of the individual

and the group as well as the role of government. Each political system's philosophy impacts the policies that govern the local economy and business environment. There are more than thirteen major types of government systems, each of which consists of multiple variations. There are three main kinds of legal systems-common law, civil law, and religious or theocratic law. Most countries actually have a combination of these systems, creating hybrid legal systems. While the past century has seen a major shift toward free trade, many governments continue to intervene in trade. Governments have several key policy areas that can be used to create rules and regulations to control and manage trade.

Self Assessment Questions

1. What is the need of understanding political/ legal issues of a Country?
2. Explain the important political systems that exists globally
3. Describe different Legal systems that are in practice
4. How do you relate the relevance of religious law to business?
5. Is government intervention in business is necessary?

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Lesson 1.3 - Multilateral and Geographical Groupings

Introduction

With the dissolution of the Communist bloc, and with nations throughout the World now intent on pursuing free-market economic policies, a new, fiercely competitive world is taking shape. New Capitalist nations and many of the developing nations are being integrated into the Global economy.

In this emerging new world, free trade is the animating spirit, leading to a global climate in which multilateral (multinational) and geographical (regional) groupings (trade blocs) will emerge. Among the important global trends today is the evolution of the multinational market region – those groups of countries that seek mutual economic benefit from reducing intraregional trade and tariff barriers.

Organizational form varies widely among market regions, but the universal orientation of such multinational cooperation is economic benefit for the participants. Political and social benefits sometimes accrue, but the dominant motive for affiliation is economic, as countries, all over the world, now look for economic alliances to expand their access to free markets. Regional economic cooperative agreements have been found since the end of World War II. The most successful has been the European Community (EC), the world's largest multinational market region and foremost example of economic cooperation.

Multilateral and Geographical market groups form large markets that provide potentially significant market opportunities for international business. When it became apparent that the EC was to achieve its long-term goal of a single European market, a renewed interest in economic cooperation was sparked.

The European Economic Area (EEA), a 17-country alliance between the European Union (EU) and members of EFTA (European Free Trade Area), became the world's largest single unified market. Canada, the United States, and Mexico entered into a free-trade agreement to form NAFTA (North American Free Trade Agreement). Many countries in Latin America, Asia, Eastern Europe, and elsewhere are either planning some form of economic cooperation or have entered into such agreements. With the dissolution of the

USSR (Soviet Union) and the independence of Eastern European countries, linkages among the independent states and republics are also forming. The Commonwealth of Independent States (CIS) is an initial attempt at realignment into an economic union of some of the Newly Independent States (NIS)-former republics of the USSR.

The growing trend of economic cooperation is increasing concerns about the effect of such cooperation on global competition. Governments and businesses are concerned that the EEA, NAFTA, and other cooperative regional groups have become regional trading blocs without trade restrictions internally but with borders protected from outsiders.

Multinational/ Multilateral Trading Blocs (MTBs)

Motivations

The motivation for forming MTBs varies from region to region, and even from country to country within an MTB, but the following factors seem to play a major role (Nejdet Delener, Strategic planning and multinational trading blocs, Green wood publishing group)

- Members may see economic benefits from achieving a more efficient production structure and enhanced economic growth from foreign direct investment, learning by doing, and research & development.
- Members may value non economic objectives (i.e. strengthening political ties, managing migration flows, etc..,)
- Members may want to improve their bargaining power in multilateral trade negotiations.
- Smaller countries may seek increased security of market access – safe heavens – by forming MTBs with larger countries.
- Members may want to promote industries that are not viable without protected multinational market / infant industries, the idea being that they would be internationally competitive if given sufficient time to develop.
- Trade is diverted from third world countries as countries form new MTBs, or strengthen existing ones. This may tip the political balance in third world countries in favour of joining the MTB, as exporters interests begin to prevail over the interests of import – competing firms.

Multinational/ Multilateral Trading Blocs (MTBs)

Principles

MTBs may be designed to promote Global trade through the adaptation of the following principles

- **World Trade Organization compatibility:** Though in practice most existing MTBs omit at least some trade from liberalizations, as specified in Article XXIV of the GATT, a free trade area or customs union should eliminate barriers to most trade among members.
- **Low Tariffs:** If tariffs are initially low, or lowered as trade between MTB members is freed, the risk of trade diversion will be reduced.
- **Liberal accession clauses:** Liberal rules for accession to an MTB help facilitate the multilateral trade liberation process, since this allows liberalizations to be spread to new members.
- **Deep integration:** Although it will have both trade creating and trade diverting effects, deeper integration offers greater scope for economic gains from efficient resource allocation within the MTB.
- **Liberal rules of origin:** To specify whether a product qualifies for preferential duty treatment a rule of origin is needed, so that third countries do not simply deflect trade through the member with the lowest external trade barriers.
- **Limiting anti – dumping actions:** Multinational trade liberalization may increase pressures for protecting through other means, such as anti – dumping measures. MTBs should prohibit use of those measures against members and should minimize resort to anti – dumping duties against non members

Patterns of Geographical and Multilateral Groupings

Many countries of the world started forming some multilateral market groups which are mainly based on their geographic locations. These groups took several forms, varying significantly in the degree of cooperation, dependence, and inter relationship among participating nations. There are five fundamental groupings for regional economic integration ranging from regional cooperation for development, which requires the least amount of integration, to the ultimate integration of political union.

Regional Cooperation Groups

The most basic economic integration and cooperation is the regional cooperation for development (RCD). In the RCD arrangement, governments agree to participate jointly to develop basic industries beneficial to each economy. Each country makes an advance commitment to participate in the financing of a new joint venture and to purchase a specified share of the output of the venture. An example is the project between Colombia and Venezuela to build a hydroelectric generating plant on the Orinoco River. They shared jointly in construction costs and they share the electricity produced.

Free-Trade Area (FTA)

A free-trade area requires more cooperation and integration than the regional cooperation of groups. It is an agreement among two or more countries to reduce or eliminate customs duties and non-tariff trade barriers among partner countries while members maintain individual tariff schedules for external countries. The FTA consists of a number of countries within which trade is free in the sense that customs duties are not levied at the frontier on trade but in practice it is limited to specified products with specified exceptions.

Essentially, an FTA provides its members with a mass market without barriers that impede the flow of goods and services. The United States has free- trade agreements with Canada and Mexico (NAFTA) and separately with Israel. The seven-nation European Free Trade Association (EFTA), among the better- known free-trade areas, still exists although five of its members also belong to the EEA.

Customs Union

A customs union represents the next stage in economic cooperation like FTA; there are no internal tariff barriers on intra-union trade. The customs union is a logical stage of cooperation in the transition from an FTA to a common market. The European Community was a customs union before becoming a common market. Customs unions exist between France and Monaco, Italy and San Marino, and Switzerland and Liechtenstein.

Common Market

Common market is the succeeding stage of economic integration. A common market agreement eliminates all tariffs and other restrictions on internal trade, adopts a set of common external tariffs, and removes all restriction on the free flow of capital and labour

among member nations. Thus a common market is a common marketplace for goods as well as for services (including labour) and for capital. It is a unified economy and lacks only political unity to become a political union.

The European Economic Community (EEC) is the most successful experiment so far as a common market is concerned. The Treaty of Rome (which established the European Economic Community) called for common external tariffs and the gradual elimination of intra-market tariffs, quotas, and other trade barriers. The treaty also called for elimination of restrictions on the movement of services, labour, and capital; prohibition of cartels; coordinated monetary and fiscal policies; common agricultural policies; use of common investment funds for regional industrial development; and similar rules for wage and welfare payments. Latin America boasts two common markets, the Central American Common Market (CACM) and the: Andean Common Market. Both have roughly similar goals and seek eventual full economic integration.

Political Union

Political union is the most fully integrated form of regional cooperation. It involves complete political and economic integration; it may be voluntary or enforced. The most notable enforced political union was the Council for Mutual Economic Assistance (COMECON), a centrally controlled group of countries organized by the USSR. With the dissolution of the USSR and the independence of Eastern Europe, COMECON was disbanded.

The Commonwealth of Nations is a voluntary organization providing for the loosest possible relationship that can be classified as economic integration. The British Commonwealth is comprised of Britain and countries formerly part of the British Empire. Its members recognize the British Monarch as their symbolic head although Britain has no political authority over the Commonwealth. Its member states had received preferential tariffs when trading with Great Britain but, when Britain joined the European Community, all preferential tariffs were abandoned. The Commonwealth can best be described as the weakest of political unions and is mostly based on economic history and a sense of tradition. Heads of state meet every three years to discuss trade and political issues they jointly face, and compliance with any decisions or directives issued is voluntary. Two new political unions have come into existence in this decade, the Common-wealth of Independent States (CIS), made up of the republics of the former USSR, and the European Union (EU).

The European Union was created when the 12 nations of the European community ratified the Maastricht Treaty. The members committed themselves to economic and political integration. The treaty allows for the free movement of goods, persons, services,

and capital throughout the member states; a common currency; common foreign and security policies, including defence; a common justice system; and cooperation between police and other authorities on crime, terrorism, and immigration issues. However, no all the provisions of the treaty have been universally accepted. The dismantling of border controls to permit passport-free movement between countries, for example, has been implemented by only 7 out of 15 EU member states.

A World of Trading Blocs

Trading blocs have been dramatically expanding throughout the world economy. In 1992, the European Union (EU) completed the single-market program and began a historic initiative for monetary union. The United States, Canada, and Mexico launched the North American Free Trade Agreement (NAFTA) in1994. Even Japan, for years the only industrial country that was not a member of any regional arrangement, completed a trade agreement with Singapore in2001. Overall, half of the regional trade agreements notified to the General Agreement on Tariffs and Trade (GATT) were negotiated in the last decade 133 in all since the creation of the World Trade Organization (WTO). Several post-Soviet states and past members of the Eastern bloc have lined up to enter the EU; thirty-four countries in the Americas envision free trade "from Alaska to Tierra del Fuego"; the Association of Southeast Asian Nations (ASEAN) is preparing to establish a free trade area; and Japan is exploring trade pacts with the Philippines, Thailand, Malaysia, and South Korea.

Trade Blocs Definition and the Main Trade Blocs in the World

A trade bloc can be defined as a 'preferential trade agreement' (PTA) between a subset of countries, designed to significantly reduce or remove trade barriers within member countries. When a trade bloc comprises neighboring or geographically close countries, it is referred to as a 'regional trade (or integration) agreement'. It is sometimes also referred to as a 'natural' trade bloc to underline that the preferential trade is between countries that have presumably low transport costs or trade intensively with one another.

The two principal characteristics of a trade bloc are that: (1) it implies a reduction or elimination of barriers to trade, and (2) this trade liberalization is discriminatory, in the sense that it applies only to the member countries of the trade bloc, outside countries being discriminated against in their trade relations with trade bloc members. Though few, there exist as well regional integration agreements in which co-operation rather than preferential market access is emphasized. Trade blocs can also entail deeper forms of integration, for instance of international competition, investment, labour and capital markets (including movements of factors of production), monetary policy, etc.

The integration of countries into trade blocs is commonly referred to as 'regionalism', irrespective of whether the trade bloc has a geographical basis or not. The first waves of PTAs appeared in the 1930s leading to a fragmentation of the world into trade blocs. This 'old (first) regionalism' is also associated with regional initiatives involving developing countries in the 1950s and 1960s.

Based on the objective of import-substitution industrialization, the rationale was that developing countries could reap the benefit from economies of scale by opening up their trade preferentially among themselves, hence reducing the cost of their individual import-substitution strategy while the trade bloc became more self-sufficient. More successful experiences followed with the recent proliferation of trade blocs, the so-called 'new (second) regionalism', which involve mostly countries from the North with the South (the North-South trade blocs).

The main trade blocs in the world are:

EU (European Union): The EU is become a most powerful trade block in the world. It has members of Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Lather lands, Porchukcal, Spain, Sweden, and U.K.

NAFTA (North American Free Trade Agreement): 99% of the goods traded between Mexico, Canada, and the U.S. It is a large trading block but includes countries of different sizes and wealth. Additional provisions are:

- Workers right
- Dispute resolution mechanism

LAFTA (Latin American Free Trade Association): LAFTA and the **Caribbean Free Trade Association (CARIFTA)** changed their names to the Latin American Integration Association and **Caribbean community and common market (CARICOM)**. It has U.S as their major export market.

ASEAN (Association of South East Asian Nations): It is organized in 1967and it has Cambodia, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Jan 1, 1993 ASEAN officially formed the **ASEAN Free Trade Area (AFTA)**.

Its goal is to cut tariffs on all intra-zonal trade to a maximum of 5%.

APEC (Asia Pacific Economic Co-operation): It was formed in NOV 1989 to promote multilateral economic co-operation in trade and investment in the Pacific Rim.

It is composed of 21 countries that border the Pacific Rim – both Asia as well as the America.

It's creating new opportunities for American business and creating new employment for American workers.

EFTA (European Free Trade Association): It was established in Jan 1960, EFTA currently joins 4 countries – Norway, Iceland, Liechtenstein and Switzerland. Members are Austria, Finland, and Sweden joined on 1/1/1996.

SAARC (The South Asian Association for Regional Co-operation): The SAARC involving seven countries, namely India, Bangladesh, Pakistan, Nepal, Bhutan, Sri Lanka, and Maldives, was formally launched in Dec 1985.
Objectives are:

1. To promote welfare of the people of South Asia.
2. To accelerate economic growth.
3. To strengthen co-operation with other developing countries.

SAPTA (The SAARC Preferential Trading Arrangement): The SAPTA has the members of India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan and Maldives.

1. Overall reciprocity and mutuality of advantages.
2. Step by step negotiations and extension of preferential trade arrangement in stages.
3. Inclusion of all types of products – Raw, Semi-processed, Processed.
4. Special and favorable treatment to Least Development Countries (LDCs).

Indo – Lanka Free Trade Agreement: According to the Bilateral Free Trade Area Agreement signed by India and Sri Lanka on 28th Dec 1998, a large number of items will be eligible for duty free trade. It has offered to permit as much as 1000 items on Zero duty from Sri Lanka and Sri Lanka will allow duty free imports of 900 items from India.

Its Objectives are.

1. Expansion of trade the harmonious development of the economic relations between India and Sri Lanka.
2. Removal of barriers to trade.
3. Expansion of world trade.

Statistics of trade blocs: *This list is based on the data of United Nations Statistics Division*

Trade bloc	Population	Gross domestic product (USD)				Members
		2006	2007	growth	per capita	
Common markets, Economic and Monetary unions						
EMU	324,879,195	10,685,946,928,310	12,225,304,229,686	14.41%	37,630	17
OECS	593,905	3,752,679,562	3,998,281,731	6.54%	6,732	06
OII	504,476	12,264,278,329	14,165,953,200	15.51%	28,081	03
CCCM	6,418,417	39,616,485,623	43,967,600,765	10.98%	6,850	12
EEA	499,620,521	14,924,076,504,592	17,186,876,431,709	15.16%	34,400	30
Customs and monetary unions						
CEMAC	39,278,645	51,265,460,685	58,519,380,755	14.15%	1,490	06
UEMOA	90,299,945	50,395,629,494	58,453,871,283	15.99%	647	08
Customs unions						
CAN	96,924,486	281,269,141,372	334,172,968,648	18.81%	3,448	04
EAC	127,107,838	49,882,030,443	61,345,180,041	22.98%	483	05
EUCU	574,602,745	15,331,827,900,202	17,679,376,474,719	15.31%	30,768	33
GCC	36,154,528	724,460,151,595	802,641,302,477	10.79%	22,200	06
MERCOSUR	271,304,946	1,517,510,000,000	1,886,817,000,000	12.44%	9,757	05
SACU	58,000,000	1,499,811,549,187	1,848,337,158,281	23.24%	6,885	05

Preferential trade areas and Free trade areas						
AANZFTA-ASEAN+3	2,085,858,841	10,216,029,899,764	11,323,947,181,804	10.84%	5,429	15
ALADI	499,807,662	2,823,198,095,131	3,292,088,771,480	16.61%	6,587	12
AFTZ	553,915,405	643,541,709,413	739,927,625,273	14.98%	1,336	26
APTA	2,714,464,027	4,868,614,302,744	5,828,692,637,764	19.72%	2,147	06
CARIFORUM-EUCU-OCTs	592,083,950	15,437,771,092,522	17,798,283,524,961	15.29%	30,060	67
CACM	37,388,063	87,209,524,889	97,718,800,794	12.05%	2,614	05
CEFTA	27,968,711	110,263,802,023	135,404,501,031	22.80%	4,841	08
CISFTA	272,897,834	1,271,909,586,018	1,661,429,920,721	30.62%	6,088	11
DR-CAFTA-US	356,964,477	13,345,469,865,037	14,008,686,684,089	4.97%	39,244	07
ECOWAS	283,096,250	215,999,071,943	255,784,634,128	18.42%	904	15
EFTA-SACU	68,199,991	1,021,509,931,918	1,139,385,636,888	11.54%	16,707	09
EAEC	207,033,990	1,125,634,333,117	1,465,256,182,498	30.17%	7,077	06
NAFTA	449,227,672	15,337,094,304,218	16,189,097,801,318	5.56%	36,038	03
TPP	25,639,622	401,810,366,865	468,101,167,294	16.50%	18,257	04
SAARC	1,567,187,373	1,162,684,650,544	1,428,392,756,312	22.85%	911	08
SPARTECA	35,079,659	918,557,785,031	1,102,745,750,172	20.05%	31,435	21

The Effects of Trade Blocs

Most of the analyses on the effects of trade blocs focus on FTAs and/or CUs. The effects of a PTA are of two types: the trade effects and the welfare effects. The trade effects comprise the impact of a PTA on the volume and quantity of trade, on the terms of trade (i.e. prices) and on the level of protection (generally tariffs) for PTA members and excluded countries. In analyzing the welfare effects of a PTA, it is important to distinguish between the impact of trade bloc (formation and expansion) on the welfare of

(1) Each of its member,
(2) The trade bloc as a whole and
(3) The countries excluded from the trade bloc.

A standard result of international trade theory is that, in a competitive environment and in the absence of market distortions and externalities, free trade will maximize global welfare. Removing trade barriers between a subset of countries could therefore appear to be, a priori, a move in the right direction. Yet, the 'theory of second best' points out that removing a distortion while others remain in place may not increase welfare.

Trade blocs are examples of second best since a distortion is removed, i.e. trade barriers between member countries, while another distortion is created in the form of a discrimination between members and non-members (the latter facing trade barriers from the PTA), as well as other market imperfections. Hence, the welfare implications of a trade bloc are ambiguous as they depend on many factors. The demonstration of the theory of second best situation entailed by a PTA was derived from the seminal work of Jacob Vainer (1950), which shows that while liberalizing trade between a group of countries can lead to 'trade creation' between members (which should increase welfare), it can also reduce trade between the CU and its trading partners. This 'trade diversion' can potentially reduce welfare for all as a member switches from a relatively efficient, low cost producer outside the CU to less efficient, higher cost producer within the CU, leading to a global misallocation of resources.

Most of the debate on the static impacts of trade blocs on the global economy rests on the theoretical and empirical evaluations of whether a PTA is more trade-creating or trade-diverting.

Another important element in assessing the trade impact of a PTA are the price, or 'terms of trade', effects of a trade bloc. Again, as intra-bloc trade is liberalized while extra-bloc trade is not, PTA members buy more from each other (trade creation) and less

from third countries. If the PTA is not economically small, world prices will be affected as the demand for (and thus the price of) non-member exports decreases, creating a positive terms of trade effect for PTA members and a likely deterioration of the terms of trade for third countries.

Hence, trade blocs allow member countries to exploit their joint market power over their terms of trade. This capacity to influence its terms of trade is an important element in the analysis of the trade policy determination and welfare effects of a PTA. Due to their increased market power, the members of a trade bloc can extract rents from the excluded trading partners by setting 'optimal tariffs' and behaving in a co-ordinate strategic way. Such considerations also led to some predictions with regards the dynamics of trade blocs. In particular, it is expected that, if countries are symmetric, trade diversion and optimal tariffs increase as the world integrates in a smaller number of expanding trading blocs.

Although the level of optimal tariffs with expanding trade blocs depends on the factor endowments (i.e. comparative advantages) of the member countries, the welfare losses associated to trade bloc formation and expansions seem to be due more to trade diversion than to potential increases in optimal tariffs.

Ultimately, the optimal number of trade blocs in the world depends on the one hand on the potential positive welfare effects resulting from trade creation, and on the other hand on the potential negative welfare impacts result from trade diversion and adverse changes in the terms of trade. Besides, a larger market resulting from the creation and extension of trade blocs does not only increase the market power of its members, but it also provides opportunities for greater productivity efficiency for industries facing economies of scale and increased competition within the PTA market. This in turn may contribute to reduce distortions within the trade bloc. In this respect, it is worth noting that small countries could benefit more from joining a PTA than larger countries, in particular if the trade bloc is initially formed by large members, as small countries will derive relatively larger economic advantages from gaining access to the potentially large market of the bloc.

Since trade blocs are more likely to have a positive impact on welfare if they are more trade-creating and less trade- diverting, it is sometimes argued that welfare improving PTAs are likely to be those which

(1) Are large (stimulating intra-bloc trade),
(2) Involve countries at similar stages of development (generating intra-industry trade), and
(3) Have a regional basis (since geographic proximity favors trade).

Yet, the main lesson from the new theory of regionalism is that there are no strict rules and generalizations are dangerous, as the impacts on trade and welfare of PTAs crucially depends on the model adopted. For instance, although the notion of 'natural trade blocs' (based on lower transport costs associated to regional trade) is common, it is doubtful that transport costs considerations provide a justification (over other types of costs) for the desirability or superiority of regional trade blocs over non-regional blocs. The fact that countries geographically close trade more together, as suggested by the gravity model, does not imply that their welfare will improve by forming a trade bloc, nor that trade barriers with distant trading partners is desirable.

Finally, while most analyses on trade blocs either consider PTAs in general, or associate trade blocs with CUs, the distinction between the forms taken by the PTA, namely a FTA or a CU, is crucial to determine the trade and welfare impacts of a grouping of countries. Focusing on the rules of origin requirements in a FTA, it is tempting to conclude that CUs are superior to FTAs as the former generate less trade diversion. However, when considering the strategic interaction between members and non-members and their potential market power, FTAs could be considered as more desirable on welfare ground than CUs.

Conflict Between Multilateralism and Regionalism

Both GATIT and WTO accommodated regional arrangements. The major argument for regionalism has been that smaller group of countries would find it easier to move towards integration than in a much wider multilateral system.

However, as the groupings become larger, this argument tends to lose validity. Many of the new regional arrangements contain countries as diverse in outlook, economic size and level of development as any countries in the multilateral system. Thus the fact remains that regional and geographical arrangements are exceptions to the MFN principle which is the essence of the WTO rules.

Summary

The globalization of markets, the restructuring of Eastern Europe into independent market-driven economies, the dissolution of the Soviet Union into independent states, the worldwide trend toward economic cooperation, and enhanced global competition make it important that market potential be viewed in the context of regions of the world rather than country by country. Formal economic cooperation agreements such as the EC are the most notable examples of multilateral and geographical economic groups.

Multilateral and economic cooperative agreements have been around since the end of World War II. These economic groupings give rise to many benefits to the member countries which are multilateral in nature and scope.

Geographical and multilateral market groups take several forms, varying significantly in degree of cooperative, dependence and their relationship among participating nations.

There are five fundamental groups for multilateral and geographical integration. The various possible multilateral and geographical groupings are: regional cooperation groups, free trade area, customs union, common market and political union. The major multilateral and geographical groupings in the world are: European union (EU), European Free Trade Area (EFTA), North American Free Trade Area (NEFTA), Southern Common Market (SCM), The Andean Community (AC), Central American Common Market (CACM), Caribbean Community and Common Market (CARICOM), Association of South East Asian Nations (ASEAN), Global System of Trade Preferences among Developing Countries (GSTP) and South Asian Preferential Trading Arrangement (SAPTA) and the Bank of Agreement of Asia Pacific Economic Cooperation (APEC).

Among the important global trends today is the evolution of the multinational market region – the groups of countries that seek mutual economic benefit from reducing intraregional trade and tariff barriers.

Multinational market groups from large markets that provide potentially significant market opportunities for international business. Multinational market groups take several forms, varying significantly in the degree of cooperation, dependence, and interrelationship among participating nations.

Self Assessment Questions

1. Explain the evolution of Multilateral and Geographical groupings
2. What motivates the Countries to join in a Trading bloc/ group?
3. High light the principles that may be adopted in the formation of trading blocs
4. Recognize the important trading blocs in the World
5. Identify the role of WTO in encouraging the formation of trading groups
6. Present a brief note on the consequences of trading blocs

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Lesson 1.4 - Culture and Business Customs

Introduction

The late 1990's have been proved to be the beginning of the most exciting and opportunistic years in the history of marketing. Mass marketing, as we know it is "out" and customized marketing becomes more and more important as we are entering the 21st Century. It is clear that marketers in the 21st Century will need to face challenges more than ever before in terms of electronic marketing, global marketing, and cross-cultural marketing. At the same time these three formats of marketing provide more opportunities for the marketers in the practice. These three types of marketing are the most discussed hot topics in the marketing area theoretically and practically as well; they will generate certain impacts and influences on the whole marketing areas and directions.

The marketing professionals not only need to realize these potential impacts and influences but also need to seriously deal with these impacts and influences. Each of these three types of marketing could be a series of topics for marketing course. For example, new marketing techniques are growing as quickly as the Internet and thus generate electronic marketing; in turn electronic marketing may uncover every phase of marketing in the 21st Century in terms of electronic media, e-mail, CD ROMs, Internet and rapidly growing Infomercials, etc. The marketplace in the 21st century will be exposed to every new marketing technique that will be producing volume sales for thousands of outlets and corporations any time in today's marketplace.

Globalization is an inevitable process in the 21st Century, and so is the cross-culturalisation. On the one hand, the world is becoming more homogeneous, and distinctions between national markets are not only fading but, for some products, will disappear altogether. This means that marketing is now a world-encompassing discipline. However, on the other hand, the differences among nations, regions, and ethnic groups in terms of cultural factors are far from distinguishing but become more obvious. It is suggested that the claims for "a right to culture" by national states in recent years can be important criteria for trade policy making, intellectual property rights protection, and the resource for national interests. The last summit of francophone nations in the 20th century called for a "cultural exception" in GATT/WTO rules governing trade of goods. The claims will not only affect public policy in these nations but international trade rules. It might

initiate a worldwide cultural protectionism for trans-national marketing while we are approaching the globalization economically in the 21st Century. From a marketing point of view it is very important for marketers to realize that as the world becomes globalized the cultural imperative is upon us; markets in the 21st century are world and yet cross-cultural markets. To be aware of and sensitive to the cultural differences is a major premise for the success in the 21st Century marketplace.

Clearly in the 21st Century we need an examination of "borderless" markets where national boundaries are no longer the only relevant criteria to be considered in marketing, economic planning, and business decisions. Understanding cultural borders is especially important for products and industries that are "culture bound". National culture is one critical factor that affects economic development, demographic behavior, and general business policies around the world.

We also need to realize that Cross-cultural issues not only affect international marketing but also will affect the domestic marketing as well. For instance, in the United States foreign culture is not the exclusive domain of foreign citizens. In this new multicultural age of 21st century American citizens could be of Vietnamese, Chinese, Japanese, Haitian, Russian, Bosnian, Native American, or Indian ethnic descent. Therefore, understanding of culture is of major importance, even to those who deal with only domestic plants and domestic customers. To those who do deal with foreign customers, suppliers, and bankers, understanding culture becomes not only important but also mandatory. The changed world makes marketing a cross-cultural process that requires marketers must be well informed with cultural difference nationally, locally, and ethnically to be the winner in the 21st Century markets.

Culture in International Marketing

Culture has an influence on the way people operate and manage their businesses. It also plays a significant role in the way managers negotiate and interact with other business people, organizations and consumers. It is important that you adapt your management style to reflect the market in which you are working.

An understanding of the common management styles used in different countries is important if you want to be successful at an international level. A lack of knowledge about international business practices is one of the most common causes of conflicts and misunderstandings between managers from different nations. Another significant problem is a lack of tolerance to different management styles, resulting in disagreements and missed opportunities.

There are three main classifications of business customs that marketers and managers need to be conscious of when working internationally. They are cultural imperatives, cultural electives and cultural exclusives. Cultural imperatives are business customs that are essential for foreign managers to adhere to. They apply all over the world and include factors such as building trust, forming friendships and developing rapport.

Whilst cultural imperatives are seen as critically important before serious business can be conducted, cultural electives are customs that are considered optional to outsiders. Cultural electives are behaviors' that are common amongst locals and may be practiced in by foreigners but participation is not vital. However, if done respectfully, participating in certain local customs can help to build rapport and business relationships.

Cultural exclusives are the opposite of cultural imperatives. They are reserved for local people only and it is considered disrespectful, ignorant or even unacceptable for foreigners to become involved in. Typically, foreign managers should avoid commenting on local politics, religion or traditions even if the local people do so. If you do or say the wrong thing, be prepared to apologize for your mistake.

Gender equality and inequality can become an issue when conducting international business. Whilst it is becoming less prevalent all the time, there are still some situations where women may not receive sufficient respect or recognition in international business meetings. It is important that you make yourself aware of any potential issues beforehand, express to other people that you have the full support of your organization and then demonstrate your ability confidently.

Different cultures operate on different levels of formality and place varying emphasis on time constraints. In some parts of the world, more value is placed on a meeting resulting in positive outcomes than if it begins or ends on time. It is important that you accept that as long as you achieve your objectives, the way a meeting takes place is not so important.

It is important to remember that much of the information you read or hear about foreign markets is based on stereotypes and traditional ways of doing business. As the level of global business increases, business people become more aligned with what their foreign counterparts expect to get out of a meeting and are prepared to make compromises. The best way to improve your international business skills is to go out and experience working in a foreign business environment.

Cultural Impacts

The globalization of the economic environment had made it increasingly important for today's marketing mangers to understand how to do business in different cultural context. Effective distribution of products cross-culturally has become a critical factor for success.

It was reported that the Japanese made color TV sets dominated the imported TV set market in China during the period of later 1980s to the 1990s. In the early 1980s, many foreign TV set manufacturers, primarily Japanese and Europeans, made comprehensive studies of Chinese market. After their initial research the European marketers decided not to market their products in China. They concluded that given the low GDP per capita in China at the time when they probed the Chinese market it was unlikely that the Chinese people were willing to buy the luxury like color TV sets.

However, the Japanese TV set marketers, after a long careful observation, found out that the Chinese people had a cultural tradition by handing down savings from generation to generation. They also found out that the Chinese tend to save money for future consumption, which differs from the western culture of spending future money for the present consumption. Moreover, they realized that although there were Chinese domestic color TV set makers the Chinese consumers were more confident about imported products. Accordingly, the Japanese marketers concluded that the Chinese families were able to mobilize their financial resources to purchase color TV sets with high quality made by Japanese. As they anticipated, almost every family in China had been accumulating their monthly wages for 2-3 years to realize their dream of getting a TV set. As the result the Japanese color TV set marketers had made their great profits in the Chinese market due to their sound understanding the Chinese cultures while the European competitors lost their opportunities for their lack of understanding the Chinese cultures. Such examples could be endless; for instance, to be successful on the Persian Gulf most American franchisers have to make some adaptability and flexibility in their operations and policy because of the cultural sensitivity (Martin, 1999).

The impact of culture on marketing is obvious, to study about these impacts we need to probe culture per se first. There are many definitions about culture; however, the most cited one by the marketing scholars is the one that Harris and Moran (1987) defined. According to them, culture gives people a sense of who they are, of belonging, of how they should behave, and of what they should be doing. It provides a learned, shared,

and interrelated set of symbols, codes, and values that direct and justify human behavior. In marketing and consumer behavior research the use of the culture concept has been minimal; it has been common for marketers and consumers to ignore the depth of the concept and its implications for the analysis of human behavior.

Marketers indicate that culture can be characterized as a continuum between two extremes: tradition-based versus modern-based. This classification is further defined along with two interrelated dimensions: economic and cultural bound. Economically, modern-based cultures are characterized as market-driven, competitive, post-industrialized economic systems. The United States, Canada, and other Westernized societies are categorized as modern-based. In contrast, Africa, Asia, and Middle Eastern societies are typically categorized as tradition-based which is featured with centralized, cooperative, agrarian, pre-industrialized systems.

In terms of cultural bounds, tradition-based cultures place a great deal of emphasis on their history, traditions, and established conventions, whereas, modern-based cultures are not strongly tied to traditions within their society. The cultural bound of tradition-based societies carries over into its market system. Developing countries, which are classified in general as tradition-based societies, have strikingly dissimilar market systems than modern cultures. Consistent with the modern-versus tradition-based cultural orientation, it may be suggested that both economic and social factors influence the development, and adaptation, of marketing institutions.

The understanding of cultural bounds of business (i.e., the willingness of a culture to relinquish its traditional methods and adopt new ones) is not only imperative for international marketing effectiveness but also for marketing to ethnic populations domestically. A research conducted in a minority region in China (a tradition-based culture) indicates that culture influences consumer behavior regarding products distribution. It is noted that the cultural orientation of the ethnic group consumers has helped to establish and maintain, through vendor loyalty, plenty of small retailers supported by an inefficient, multi-tiered distribution networks. It makes the Chinese State-owned retail business far from being profitable let alone the foreign commercial institutions. Similarly, cultural overtones in marketing operations are derived, to some extent, from consumer preferences.

The Impact of Culture on Product Decisions

Product decisions are rather diverse, from packaging to branding issues and including product specifications. Marketers designing product strategies have to take the impact of culture into account mostly in the area of positioning, product presentation,

and packaging. As far as the specific elements of culture which affect these strategies, the symbolic representation of objects is a key factor. Symbolic representation is presented, in turn, as an expression of habits and customs prevalent in any cultural setting. Symbolic value of products as the key cultural factor involved product decisions. Cultural differences may lead to differing symbolic interpretations, especially with regard to the physical aspect of products and to their packaging.

If a Symbolic attribute of the product is perceived differently or negatively in foreign market, then appropriate product adaptations have to be made. Factors causing product changes include environmental factors like legal factors, purchasing power differences and, of particular interest here, "socio cultural customs and taboos". Other factors causing product changes include so-called marketing factors like competition, distribution, material availability but also consumer preferences, and consumer purchasing habits. Obviously, a difference in consumer preferences and purchasing habits has to be accounted for, at least in part, by differences in cultural settings.

Since the consumer preferences and purchasing habits categories cover so much ground they are also bound to impinge upon practically all product decision areas. The data indicates that customs and taboos cause product changes mostly with regard to labeling, package aesthetics and products constituents.

The Impact of Culture on Pricing Decisions

Culture "... is a convenient catch call for the many differences in market structure and behavior that cannot readily be explained in terms of more tangible factors." This, of course, is a less than desirable way of taking culture into account but it is nevertheless what is actually most often done in cross-national management studies. Whatever are the differences in consumers; trade or firm practices observed in cross-national studies, these differences are to be assumed the result of cultural differences. Unfortunately, other environmental differences not specifically taken into account may contribute to the explanation of these "residuals".

With regard to pricing, three dimensions of culture are at work: Values which affect the propensity to bargain; the legal framework which determine the extent to which fixed resale prices are to be allowed, and customs which command margins taken by trade intermediaries, and which, as a result, affect the overall price level.

The cultural factors that affect pricing are the politico-legal framework and norms of consumer and trade intermediaries. The politico legal framework is responsible for the

adoption of a system of state-controlled prices or alternatively, of a market-controlled price system. As far as norms are concerned, they impinge upon consumer attitudes in shaping quality/ price relationships, and credit use. They also affect the propensity of intermediaries to enter into price wars with competitors. It is also to be noted that in a number of cultures, prices are pretence for discussion between buyers and sellers. In addition, the level at which the price is settled depends on the relative negotiating skills of the two parties.

Price may also be considered as a decisive social-interaction instrument (bargaining and communication). Also noted is the variability of the price/quality relationship across cultures, these relationships between pricing and cultural dimensions are more like observations than like evidences produced by rigorously scientific research processes.

In a study based on an experimental design involving French and American subjects, the two authors Peterson and Jolibert (1960) explore the relationships between perceived product quality, price and branding. They observe a highly significant nationality effect on perceived quality/price relationships (p =.000). Although the impact of culture on price is not their main research concern, they speculate that consumers of differing cultures may use different cues or use cues differently in evaluating product qualities. In other words, price as a cue of product quality may be interpreted differently across culture. From a cultural perspective, it could be construed therefore that values inherent to specific cultures affect the way consumer perceive price as an indicator of product quality.

The Impact of Culture on Place/Distribution or Channel Decisions

Channel decisions cover several areas. They include decisions with regard to the consumer needs to be addressed through channel organization, the type of channel available for market penetration or of intermediaries to be adopted within a given channel, and the management of internal channel relationships. With regard to the specific influence of cultural variables on international channel management, a review of the literature indicates that inquiries fall fairly equally in these three categories. Buzzell draws attention to customs expressed through consumer shopping patterns that affect both the type of channel structure available to international marketers, and to consumers needs to be addressed through that system.

A rather substantial body of writing deals with the specific nature of foreign distribution system as an expression of the overall cultural setting of specific countries. The overall cultural system which is taken into account rather than any specific cultural dimension whose impact on channel management is to be assessed across more than one country.

Cultural dimensions to be taken into consideration are to be borrowed from Hofstadter, namely individualism, power distance, uncertainty avoidance, and masculinity. Intra-channel processes involve initiation, implementation, and review processes that constitute basic stages in the development of international channel relationships. Channel relationships in high masculinity cultures would evidence frequent conflicts and relatively low co-operation among channel members.

The Impact of Culture on Promotion/ Communication Decisions

Culture is at the center of all social interaction processes. It is therefore to be expected that the impact of culture would be more clearly identifiable on communication decisions than on any other marketing mix variable. Culture will affect the type of roles depicted in ads, and the choice of themes which relate to underlying values and norms. Advertising budget and structure will depend on buyers' habits and consumption style, namely again on values and norms, and on media availability which in turn depends on the state of the material culture. Attitudes (values and norms) towards selling are the key cultural factors affecting sales force decisions, and language, literacy, and symbolism as the major ones affecting advertising and promotion decisions.

As far as advertising is concerned, there are variations from country to country (culture to culture) in attitudes (related to prevalent norms and values) towards the social role and acceptability of advertising, comparative advertising, and information content of advertising. Language and roles affect advertising copy, and slogans as well as mores, customs and religion. Advertising spending and media allocation are both affected by material culture. The choice of sales promotion depends on the legal framework of a nation.

An analysis by Snyder, Willenborg and Watt (1991) on the use of symbols and linguistic cues in printed advertising in Europe concluded that over the 1953 to 1989 period, culturally neutral ads are on the wane but that there is an increase in foreign products using foreign imagery, and that domestic products are more likely to display domestic cultural symbols. The authors conclude that their data does not show any increase in the Americanization of advertising image in Europe, the frequency of advertisements using European-wide cultural symbols actually decreased over that period.

Summary

The Culture refers to factors and trends related to how people live and behave. Cultural factors, including the values, ideas, attitudes, beliefs, and activities of specific population subgroups, greatly affect consumers' purchasing behavior. Thus, marketers

must understand important cultural characteristics and trends in different markets. Clearly in the 21st Century we need an examination of "borderless" markets where national boundaries are no longer the only relevant criteria to be considered in marketing, economic planning, and business decisions. Understanding cultural borders is especially important for products and industries that are "culture bound". National culture is one critical factor that affects economic development, demographic behavior, and general business policies around the world.

There are three main classifications of business customs that marketers and managers need to be conscious of when working internationally. They are cultural imperatives, cultural electives and cultural exclusives. Cultural imperatives are business customs that are essential for foreign managers to adhere to. They apply all over the world and include factors such as building trust, forming friendships and developing rapport.

Whilst cultural imperatives are seen as critically important before serious business can be conducted, cultural electives are customs that are considered optional to outsiders. Cultural electives are behaviors' that are common amongst locals and may be practiced in by foreigners but participation is not vital. However, if done respectfully, participating in certain local customs can help to build rapport and business relationships.

Cultural exclusives are the opposite of cultural imperatives. They are reserved for local people only and it is considered disrespectful, ignorant or even unacceptable for foreigners to become involved in. Typically, foreign managers should avoid commenting on local politics, religion or traditions even if the local people do so. If you do or say the wrong thing, be prepared to apologize for your mistake.

Marketers indicate that culture can be characterized as a continuum between two extremes: tradition-based versus modern-based. This classification is further defined along with two interrelated dimensions: economic and cultural bound. Economically, modern-based cultures are characterized as market-driven, competitive, post-industrialized economic systems. The United States, Canada, and other Westernized societies are categorized as modern-based. In contrast, Africa, Asia, and Middle Eastern societies are typically categorized as tradition-based which is featured with centralized, cooperative, agrarian, pre-industrialized systems.

In terms of cultural bounds, tradition-based cultures place a great deal of emphasis on their history, traditions, and established conventions, whereas, modern-based cultures are not strongly tied to traditions within their society. The cultural bound of tradition-based societies carries over into its market system. Developing countries, which are classified in

general as tradition-based societies, have strikingly dissimilar market systems than modern cultures. Consistent with the modern-versus tradition-based cultural orientation, it may be suggested that both economic and social factors influence the development, and adaptation, of marketing institutions.

Self Assessment Questions

1. How do you understand the impact of culture on business?
2. Define culture and explain various factors that influence the culture
3. In what way tradition bound and modern cultures are different to business
4. Assess the impact of culture on the esthetic decisions of a product
5. Identify the critical points of the culture that influences pricing and distribution activities
6. Make note on the cultural considerations in marketing communications

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Lesson 1.5 - Economic and Financial Dimensions

Introduction

Economic Environment refers to all those economic factors, which have a bearing on the functioning of a business. Business depends on the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods. Naturally, the dependence of business on the economic environment is total and is not surprising because, as it is rightly said, business is one unit of the total economy.

Economic environment influences the business to a great extent. It refers to all those economic factors which affect the functioning of a business unit. Dependence of business on economic environment is total — i.e. for input and also to sell the finished goods. Trained economists supplying the Macro economic forecast and research are found in major companies in manufacturing, commerce and finance which prove the importance of economic environment in business. The following factors constitute economic environment of business:

(a) Economic system
(b) Economic planning
(c) Industry
(d) Agriculture
(e) Infrastructure
(f) Financial & fiscal sectors
(g) Removal of regional imbalances
(h) Price & distribution controls
(i) Economic reforms
(j) Human resource and
(k) Per capita income and national income

The state became the encourager of savings and also an important investor and the owner of capital. Since the state was to be the primary agent of economic change, it followed that private sector activities had to be strictly regulated and controlled to conform to the objectives of state policy.

Economic development differs widely among the countries and regions of the world. Countries can be categorized as either developing or developed. Developing countries are referred to as less developed countries (LDCs). The criterion traditionally used to classify countries as developing is per capita income, which is the income generated by the nation's production of goods and services divided by total population.

The developing countries have low per capita incomes. LDCs generally are located in Asia, Africa, and South America. Developed countries are generally located in North America, Europe and Japan.

Most international business firms are headquartered in the wealthier, economically advanced countries; however, smart companies are investing heavily in Asia, Eastern Europe and Latin America. For example the number of Internet users and the rate of e-commerce in Latin America are rapidly growing.

Computer companies have launched on line stores for Latin American customers to buy computers over the Internet. American Online sees Latin America as crucial to expanding its global presence, even though Universe Online International (UOL) based in Brazil got a tremendous head start over AOL. These companies face risks and challenges today, but they stand to reap huge benefits in the future.

A country's physical facilities that support economic activities make up its infrastructure which includes transportation facilities such as airports highways, and railroads, energy producing facilities such as utilities and power plants and communication facilities such as telephone lines and radio stations. Companies operating in LDCs must contend with lower levels of technology and perplexing logistical distribution and communication problems.

The Economic Environment of Business

Meaning of Economic Environment

Those Economic factors which have their affect on the working of the business are known as economic environment. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth etc. Economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like change in Govt. policies, political situations.

Elements of Economic Environment

It has mainly five main components:-

1. Economic Conditions
2. Economic System
3. Economic Policies
4. International Economic Environment
5. Economic Legislations

Economic Conditions

Economic Policies of a business unit are largely affected by the economic conditions of an economy. Any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply, distribution of income etc. largely affects the size of the market. Business cycle is another economic condition that is very important for a business unit. Business Cycle has 5 different stages viz.

(i) Prosperity
(ii) Boom
(iii) Decline
(iv) Depression
(v) Recovery.

Following are mainly included in Economic Conditions of a country:-

i. Stages of Business Cycle
ii. National Income, Per Capita Income and Distribution of Income
iii. Rate of Capital Formation
iv. Demand and Supply Trends
v. Inflation Rate in the Economy
vi. Industrial Growth Rate, Exports Growth Rate
vii. Interest Rate prevailing in the Economy
viii. Trends in Industrial Sickness
ix. Efficiency of Public and Private Sectors
x. Growth of Primary and Secondary Capital Markets
xi. Size of Market

Economic Systems

An Economic System of a nation or a country may be defined as a framework of rules, goals and incentives that controls economic relations among people in a society. It also helps in providing framework for answering the basic economic questions. Different countries of a world have different economic systems and the prevailing economic system in a country affect the business units to a large extent. Economic conditions of a nation can be of any one of the following type:-

Capitalism

The economic system in which business units or factors of production are privately owned and governed is called Capitalism. The profit earning is the sole aim of the business units. Government of that country does not interfere in the economic activities of the country. It is also known as free market economy. All the decisions relating to the economic activities are privately taken. Examples of Capitalistic Economy:- England, Japan, America etc.

Socialism

Under socialism economic system, all the economic activities of the country are controlled and regulated by the Government in the interest of the public. The first country to adopt this concept was Soviet Russia.

The two main forms of Socialism are: -

(a) Democratic Socialism:- All the economic activities are controlled and regulated by the government but the people have the freedom of choice of occupation and consumption.

(b) Totalitarian Socialism:- This form is also known as Communism. Under this, people are obliged to work under the directions of Government.

Mixed Economy

The economic system in which both public and private sectors co-exist is known as Mixed Economy. Some factors of production are privately owned and some are owned by Government. There exists freedom of choice of occupation and consumption. Both private and public sectors play key roles in the development of the country.

Economic Policies

Government frames economic policies. Economic Policies affects the different business units in different ways. It may or may not have favorable effect on a business unit. The Government may grant subsidies to one business or decrease the rates of excise or custom duty or the government may increase the rates of custom duty and excise duty, tax rates for another business. All the business enterprises frame their policies keeping in view the prevailing economic policies. Important economic policies of a country are as follows:-

i. **Monetary Policy:** - The policy formulated by the central bank of a country to control the supply and the cost of money (rate of interest), in order to attain some specified objectives is known as Monetary Policy.

ii. **Fiscal Policy:** - It may be termed as budgetary policy. It is related with the income and expenditure of a country. Fiscal Policy works as an instrument in economic and social growth of a country. It is framed by the government of a country and it deals with taxation, government expenditure, borrowings, deficit financing and management of public debts in an economy.

iii. **Foreign Trade Policy:** - It also affects the different business units differently. E.g. if restrictive import policy has been adopted by the government then it will prevent the domestic business units from foreign competition and if the liberal import policy has been adopted by the government then it will affect the domestic products in other way.

iv. **Foreign Investment Policy:** - The policy related to the investment by the foreigners in a country is known as Foreign Investment Policy. If the government has adopted liberal investment policy then it will lead to more inflow of foreign capital in the country which ultimately results in more industrialization and growth in the country.

v. **Industrial Policy:** - Industrial policy of a country promotes and regulates the industrialization in the country. It is framed by government. The government from time to time issues principals and guidelines under the industrial policy of the country.

Global/International Economic Environment

The role of international economic environment is increasing day by day. If any business enterprise is involved in foreign trade, then it is influenced by not only its own country economic environment but also the economic environment of the country from/to

which it is importing or exporting goods. There are various rules and guidelines for these trades which are issued by many organizations like World Bank, WTO, and United Nations etc.

Economic Legislations

Besides the above policies, Governments of different countries frame various legislations which regulates and control the business.

The Importance of Economic Stability

There are basic economic factors in terms of economic growth, and the problems it faces. There are problems no matter where in the world we live. Decisions have to be made on how the types of goods and services are to be produced. Is farming and agriculture a good market, or is the money in housing and education? Consideration also has to be taken into account, such as how these goods and services should be produced, by people (labour intensive), or hi-tech methods that cost a lot of money to run. And finally, who should get the goods and/or services that the business produces? Does everyone get an equal share?

The ways in which a business chooses to answer these questions will dictate the economy in which we live. If the economy produces a fairly constant output in terms of goods and services, then provided the prices of those goods and services are affordable to those who use them, then we will have a stable economy.

The problems occur however when the economy becomes unstable, when goods and services are in short supply, or that the prices become so high that people can no longer afford them. The fact that unemployment is rising can mean that the production and supply of goods begins to decrease and the amount of money to purchase the goods available decreases too, mostly to do with the reduction in wages.

Therefore instability in the economy can lead to a huge shortage of goods and services. In countries of extreme poverty this could even mean food and medicines. The loss of jobs and income is also a factor, so if there were goods and services people could not afford to buy them.

Stability is determined by consumer confidence. If consumers are not confident, then the economy develops a slump. Yet when consumers are confident, the economy grows.

The other factors that indicates the economic stability includes,

Interest Rates: The rate that is charged or paid for the use of money.

Recession: During this period, interest rates tend to fall during the months of recession to stimulate the economy by offering cheap rates at which to borrow money. People are therefore encouraged to spend money rather than save, as saving will give them a poor return on their money, and so that the economy will grow.

Growth: In times of growth, interest rates tend to raise thus encouraging people to save money rather than spend. Because the interest rate is higher, then people get more for their money if they choose to save.

Inflation Rates: Inflation represents the general increase in prices. Inflation is a sustained increase in the average price level of a country. The rate of inflation is measured by the annual percentage change in the level of prices. For example a small company borrows capital from a bank to buy new assets for their business, and in return the lender receives interest at an interest rate for deferring the use of funds and instead lending it to the borrower. Interest rates are normally expressed as a percentage of the principal for a period of one year.

The Impact of Economic Environment on Business

To assess the impact of economic environment one need to understand the following

GDP: GDP is the measure upon which we value every single product and service that is available to us. If GDP is going down, then that means the economy is shrinking, which in turn creates falling house prices and job cuts. If GDP is rising, then that means the economy is expanding, which creates more wealth and more new jobs. A limitation with GDP is that it gives us information about what has already happened, and is not good for finding information about the road ahead.

Business Cycle: The business cycle is the sequence of a slump, recovery, boom and recession. It is the regular patterns of up and downs in the economy. We record this in a cyclical movement of economic growth categorized by recovery, boom, recession and slump. It is measured by changes in GDP from one quarter to the next.

Employment: Unemployment varies with the level of economic activity. In early 2004 there was plenty of employment in the UK, so employment figures were low. Now in 2011 there are fewer jobs and high unemployment. Employers were reporting skill shortages in a number of areas. One cause of unemployment may be downswings

in the trade cycle i.e. periods of recession. People also argue that new technology generates new products, new services and therefore new jobs. Fewer workers may be required in some production processes where specific tasks are taken over, but rising productivity boosts incomes and the demand for new jobs in the economy as a whole.

Inflation rate: High rate of inflation leads to lower purchasing power for consumers resulting in lower demand for goods and services. Moreover, a higher inflation rate will make business uncompetitive in the international market leading to lower sales for the business.

Prevailing interest rates: Higher Interest rates will lead to a fall in the aggregate demand in the economy thus leading to difficulty for business to find customers willing to buy its product. Lower interest rates will lead to a increase in demand in the economy.

Labor costs: High labor cost will result higher production costs. This will make a firm's product more expensive as compared to other firms affecting its sales and profit margin.

Levels of disposable income and income distribution: High level of disposable income is good for business producing luxury goods. A large disparity in income distribution will promote businesses dealing in luxury goods as well as inferior goods.

Taxes: High level of taxes will lead to low disposable income and contraction of demand in the economy. Business will find it difficult to attract consumers.

Tariffs: Tariffs are taxes and imposed on imported goods. If the tariffs are low the domestic market may be flooded with cheap imported goods and the local businesses will have tough time selling their products.

The Impact of Economic Environment on International Business

IB managers need to understand and assess international economic forces at work. Key variables that need to be examined include Gross Domestic Product (GDP) per capita, regional distribution of GDP, levels of investment, consumer expenditure, labour costs, inflation and unemployment. Variables that are examined when assessing national economic environments include:

National Economic Policies

National economic policies depend on that country's socio-economic and cultural background. All governments aspire to achieve four major economic objectives:

- Full employment.
- A high economic growth rate.
- A low rate of inflation.
- Absence of deficit in the country's balance of payments.

The basic problem is that the first two objectives work against the last two. Measures such as low interest rates, tax cuts and increase in public spending creates jobs and stimulates growth but also causes inflation, increase in wage, and higher imports. Due to increased consumer expenditure the country's balance of trade worsens.

So the issue lies in balancing the effects of the policies to achieve the four given objectives.

Foreign Direct Investment (FDI) Policy

Foreign direct investment (FDI) is an investment made with an intention of establishing a long term interest by a business enterprise in another country. It is also required that such an enterprise holds directly or indirectly, an ownership of 10% or more of voting rights in the target enterprise.

FDI policy, which is dictated by the Government of the host country, plays a vital role in the economic growth of that country. Attracting FDI inflows with constructive policy is a challenge for any nation. Developing countries offer a lot of incentives for FDI, particularly in capital intensive sectors like power, infrastructure, transport, construction. Effective FDI policies help the host country to portray itself as an attractive investment destination.

Main objectives of FDI policy are to provide and facilitate investor friendly business environment, so that the foreign investors feel safe with the financial and legal framework of the country. The Government of the host countries often formulate new or special regulatory framework to attract FDI. The host country often needs to invest in development of domestic infrastructure to make it investor friendly.

Economic Structure

The structure of a nation's economy is determined by the size and rate of its population growth, income levels and distribution of income, natural resources, agricultural, manufacturing and services sector. Economic infrastructure is the sum of all the external facilities and services that support the work of firms including communication, transportation, electricity supply, banking and financial services.

Industry Structure

The structure of an industry is determined by factors such as:

- Entry and exit barriers.
- Number of competing firms.
- Market share among firms in that sector.
- Average size of competing units.

Market growth – It is measured in terms of local currency and adjusted for inflation. Local currency is used because conversions into other currencies are affected by exchange rate fluctuations.

Income levels – It is taken as the Gross Domestic Product (GDP) per capita and GDP is directly proportional to the productivity of the country. Net income is another important variable and is without tax payments from individual gross incomes.

Sector wise trends – Growth activity in a country might vary significantly among certain industries. For example, India has a vibrant software services industry.

Openness of the economy – The ratio of a country's imports and exports to its Gross National Product (GNP) indicates its vulnerability to fluctuations in international trade. A nation with a high foreign trade or GNP depends heavily on the economic well-being of the nations it exports to. Conversely, closed economies have a high degree of control of the economy.

International debt - The comparison of a nation's obligations to service and repay foreign debt with its foreign exchange earnings shows its ability to remain solvent. On the other hand, a high foreign debt servicing requirement maybe a positive indicator, suggesting that a country has borrowed heavily to invest in its future.

Degree of urbanization - This is an important factor because in most countries there are important differences in incomes and lifestyles between urban and rural areas. Major dissimilarities are:

- Shopping patterns – shopping frequency, average purchase value.
- Nature of goods bought.
- Expectations in quality and technical sophistication.
- Education levels.
- Ease of distribution.

Balance of Payments

Balance of payments is a record of all transactions that occur between residents of that country and foreigners over a specific period of time. The balance is shown monthly, quarterly or annually. The accounts show the structure of the external trade, net position as a lender or borrower and trends in economic relationships with the world. The balance of payments is a good overall indicator of its economic health; the likelihood of the country's government imposing foreign exchange controls, import restrictions and policies such as tax increases and interest rate hikes. Balance of payment account attempt to identify the reasons behind various categories of international receipts and payments, making it possible to establish the values of payments by domestic residents to foreigners, and vice versa, for purchase of imports, use of services, lending, or direct foreign investment. The account is divided into categories for long and short term financial transactions which is initiated by the national monetary body, and involves goods and services.

Deficits and Surpluses

Current account deficit, records physical imports and exports along with international transactions in invisibles, that is non-physical items such as residents' pensions, interest and royalties from abroad, domestic firm's fees for the movement of goods in other countries, and so on. The balance of trade within the current account is the balance on physical (visible) imports and exports. The other major grouping is the capital account which shows the balance of transactions in financial assets, including direct investments in foreign financial instruments, movements in short-term assets, inter-governmental loans and changes in the country's gold and foreign exchange reserves. Reserves will decline if there is, for example, a current account deficit which in turn affects the currency rate. To prevent the local currency from depreciating too far, some foreign currency reserves will be sold, but since it is limited, this is only a temporary measure.

The International Economic System

Several factors have contributed to the growth of the international economy post World War II. The principal forces have been the development of economic blocs like the European Union (EU) and then the “economic pillars”- the World Bank (or International Bank for Reconstruction and Development to give its full name), the International Monetary Fund (IMF) and the evolution of the World Trade Organization from the original General Agreement on Tariffs and Trade (GATT).

Until 1969 the world economy traded on a gold and foreign exchange base. This affected liquidity drastically. After 1969 liquidity was eased by the agreement that member nations to the IMF accept the Special Drawing Rights (SDR) in settling reserve transactions. Now an international reserve facility is available. Recently, the World Bank has taken a very active role in the reconstruction and development of developing country economies, a point which will be expanded on later.

Until the General Agreement on Tariffs and Trade (GATT) after World War II, the world trading system had been restricted by discriminating trade practices. GATT had the intention of producing a set of rules and principles to liberalize trade. The most favoured nation concept (MFN), whereby each country agrees to extend to all countries the most favorable terms that it negotiates with any country, helped reduce barriers. The “round” of talks began with Kennedy in the 60s and Tokyo of the 70s.

The latest round, Uruguay, was recently concluded in April 1994 and ratified by most countries in early 1995. Despite these trade agreements, non tariff barriers like exclusion deals, standards and administrative delays are more difficult to deal with. A similar system exists with the European Union, - the Lomè convention. Under this deal, African and Caribbean countries enjoy favoured status with EU member countries.

Relative global peace has engendered confidence in world trade. Encouraged by this and the availability of finance, global corporations have been able to expand into many markets. The breakup of the former Soviet Union has opened up vast opportunities to investors, aided by the World Bank and the European Development Bank.

This atmosphere of peace has also allowed the steady upward trend of domestic growth and again opened up market opportunities domestically to foreign firms. Peace in Mozambique, the “normalisation” of South Africa, and peace in Vietnam as examples have opened up the way for domestic growth and also, therefore, foreign investment. The liberation of economies under World Bank sponsored structural adjustment programmes

has also given opportunities. This is very true of countries like Zambia and Zimbabwe, where in the latter, for example, over Z$2.8 billion of foreign investment in the stock exchange and mining projects have occurred in the early 1990s.

Sometimes, market opportunities open up through "Acts of God". The great drought of 1992 in Southern Africa necessitated a large influx of foreign produce, especially yellow maize from the USA and South America.

Not only did this give a market for maize only, but opened up opportunities for transport businesses and services to serve the drought stricken areas. Speedy communications like air transportation and electronic data transmission and technology have "shrunk" the world. Costs and time have reduced enormously and with the advent of television, people can see what is happening elsewhere and this can cause desire levels to rise dramatically. Only recently has television been introduced into Tanzania, for example, and this has brought the world and its markets, closer to the average Tanzanian.

No doubt a great impetus to global trade was brought about by the development of economic blocs, and, conversely, by the collapse of others. Blocs like the European Union (EU), ASEAN; the North American Free Trade Agreement (NAFTA) with the USA, Canada and Mexico has created market opportunities and challenges. New countries are trying to join these blocs all the time, because of the economic, social and other advantages they bring. Similarly, the collapse of the old communist blocs have given rise to opportunities for organizations as they strive to get into the new market based economies rising from the ruins. This is certainly the case with the former Soviet bloc.

In the late 1980s and early 90s, the United States, along with Japan, have been playing an increasingly influential role in world affairs, especially with the collapse of the former USSR. Whilst on the one hand this is good, as the USA is committed to world welfare development, it can be at a price. The Gulf War coalition of the 90s, primarily put together by the USA as the leading player, was an example of the price.

Global Economic Integration

Global economic integration is not a new phenomenon. Some communication and trade took place between distant civilizations even in ancient times. Since the travels of Marco Polo seven centuries ago, global economic integration—through trade, factor movements, and communication of economically useful knowledge and technology—has been on a generally rising trend. This process of globalization in the economic domain has not always proceeded smoothly. Nor has it always benefited all whom it has affected.

But, despite occasional interruptions, such as following the collapse of the Roman Empire or during the interwar period in this century, the degree of economic integration among different societies around the world has generally been rising. Indeed, during the past half century, the pace of economic globalization (including the reversal of the interwar decline) has been particularly rapid. And, with the exception of human migration, global economic integration today is greater than it ever has been and is likely to deepen going forward.

Three fundamental factors have affected the process of economic globalization and are likely to continue driving it in the future. First, improvements in the technology of transportation and communication have reduced the costs of transporting goods, services, and factors of production and of communicating economically useful knowledge and technology.

Second, the tastes of individuals and societies have generally, but not universally, favored taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration. Third, public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration.

These three fundamental factors have influenced the pattern and pace of economic integration in all of its important dimensions. In particular, this paper discusses three important dimensions of economic integration:

(1) Through human migration;
(2) Through trade in goods and services; and
(3) Through movements of capital and integration of financial markets.

After examining how fundamental forces have influenced economic integration in these dimensions, the paper concludes with reflections on three issues of general importance to the future course of global economic integration: the importance of communication as an influence on integration; the possibility that we may see a sharp reversal in the general trend of increasing integration, as occurred in the interwar period; and the apparent end of imperialism as a mechanism of integration.

Before turning to this agenda, however, it is important to emphasize a key theme that will recur in subsequent discussion: the main factors that drive the process of economic integration exert not only independent influences but also interact in important and complex ways.

Summary

Economic environment influences the business to a great extent. It refers to all those economic factors which affect the functioning of a business unit. Dependence of business on economic environment is total — i.e. for input and also to sell the finished goods. Trained economists supplying the Macro economic forecast and research are found in major companies in manufacturing, commerce and finance which prove the importance of economic environment in business.

The following factors constitute economic environment of business:

(a) Economic system
(b) Economic planning
(c) Industry
(d) Agriculture
(e) Infrastructure
(f) Financial & fiscal sectors
(g) Removal of regional imbalances
(h) Price & distribution controls
(i) Economic reforms
(j) Human resource and
(k) Per capita income and national income

IB managers need to understand and assess international economic forces at work. Key variables that need to be examined include Gross Domestic Product (GDP) per capita, regional distribution of GDP, levels of investment, consumer expenditure, labour costs, inflation and unemployment. Measures such as low interest rates, tax cuts and increase in public spending creates jobs and stimulates growth but also causes inflation, increase in wage, and higher imports. Due to increased consumer expenditure the country's balance of trade worsens.

Foreign direct investment (FDI) is an investment made with an intention of establishing a long term interest by a business enterprise in another country. It is also required that such an enterprise holds directly or indirectly, an ownership of 10% or more of voting rights in the target enterprise. FDI policy, which is dictated by the Government of the host country, plays a vital role in the economic growth of that country. Attracting FDI inflows with constructive policy is a challenge for any nation. Developing countries offer a lot of incentives for FDI, particularly in capital intensive sectors like power, infrastructure,

transport, construction. Effective FDI policies help the host country to portray itself as an attractive investment destination. Main objectives of FDI policy are to provide and facilitate investor friendly business environment, so that the foreign investors feel safe with the financial and legal framework of the country. The Government of the host countries often formulate new or special regulatory framework to attract FDI. The host country often needs to invest in development of domestic infrastructure to make it investor friendly
.

Balance of payments is a record of all transactions that occur between residents of that country and foreigners over a specific period of time. The balance is shown monthly, quarterly or annually. The accounts show the structure of the external trade, net position as a lender or borrower and trends in economic relationships with the world. The balance of payments is a good overall indicator of its economic health; the likelihood of the country's government imposing foreign exchange controls, import restrictions and policies such as tax increases and interest rate hikes. Balance of payment account attempt to identify the reasons behind various categories of international receipts and payments, making it possible to establish the values of payments by domestic residents to foreigners, and vice versa, for purchase of imports, use of services, lending, or direct foreign investment.

Three fundamental factors have affected the process of economic globalization and are likely to continue driving it in the future. First, improvements in the technology of transportation and communication have reduced the costs of transporting goods, services, and factors of production and of communicating economically useful knowledge and technology. Second, the tastes of individuals and societies have generally, but not universally, favored taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration. Third, public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration.

Self Assessment Questions

1. Identify the factors that constitute the economic environment
2. Is the business influenced by the economic environment?
3. How the FDI policy of a country influences the business
4. Make note on the impact of Balance of Payments on the imports of a country
5. High light the important economic factors to be considered by a Global Marketer
6. Explain the ideal economic conditions for a host country to do business

CASE STUDY

Women's NBA: Women's Team Sports Taking Off

Women's individual sports, such as golf and tennis, have been successful for many years. The same cannot be said for team sports. At least three attempts have been made to establish women's basketball leagues. All have failed. So, why would anyone try again?

Because the marketing environment has changed.

Women's collegiate sports programs have expanded tremendously in recent years. This has produced a new generation of women athletes and fans. And, the stunning success of women athletes at the 1996 Summer Olympic Games in Atlanta added to this interest. The result is the formation of four new women's professional leagues being formed since the Olympics.

One is the Women's National Basketball Association (WNBA). The tip-off of the WNBA will be in June 1997. The league will consist of eight teams operated by NBA teams in eight cities. The Western Conference includes the Los Angeles Lakers, Phoenix Suns, Sacramento Kings, and Utah Jazz. The Eastern Conference teams are the Charlotte Hornets, Cleveland Cavaliers, Houston Rockets, and New York Knicks. The season begins after the NBA playoffs in June and concludes with a championship game on August 30.

The WNBA is working hard to make the new league a success. It will advertise during the NBA's regular season and playoff games. NBC, ESPN, and Lifetime Television will each show one game each week. Four inaugural sponsors have been secured: Lee Jeans, Champion, Anheuser-Busch, and Spalding Sports Worldwide. Other sponsors will be added in the future. The sponsorship package includes advertising during televised games and in WNBA print media, signage in each arena, player appearances, and exclusive rights to the WNBA logo. Each company will develop its own marketing campaign around the sponsorship package.

Even with all of this marketing effort, everyone expects it to take time to get the WNBA firmly established. Estimates are that initial attendance will average about 4,000 per game. This is obviously well below the many thousands of fans that attend most NBA games. As suggested by Brian Donlon, vice president of new media and public affairs for Lifetime Television: "this is a slow build. While there has been an explosion in the interest in women's sports, we are looking at this as something we are in for the long haul."

Questions

1. What trends in the marketing environment represent opportunities for the WNBA?
2. What trends in the marketing environment represent threats to the WNBA?
3. Why would companies such as Lee Jeans, Champion, Anheuser-Busch, and Spalding Sports Worldwide want to be sponsors of the WNBA?
4. What is your assessment of the marketing strategy for the WNBA? What ideas do you have to improve the marketing strategy?

CASE STUDY SOURCES: Margaret Littman, "Sponsors take to the court with new Women's NBA," Marketing News, March 3, 1997, 1 and 6; and Gigi Barnett and Skip Rozin, "A Lot of Leagues of their Own," Business Week, March 3, 1997, 54–56.

UNIT - II

Learning Objective

After going through this Lesson you should be able to:

- Understand the International Consumer Market
- Explain Scope and Challenges of International Market
- Assess the International Market Opportunities
- Discuss International Marketing Research

Unit Structure

Lesson 2.1 - Understanding the International Consumer Market
Lesson 2.2 - Scope and Challenges of International marketing
Lesson 2.3 - Assessing International/Global Market Opportunities
Lesson 2.4 - Global/International Marketing Research

Lesson 2.1 - Understanding the International Consumer Markets

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Introduction

International consumer markets are described as all the individuals & households in international markets who buy or acquire goods & services for personal consumption. Markets (and those which they serve) have to be understood before marketing strategies can be developed.

The consumer market buys goods and services for personal consumption. At present, the world consumer market consists of 6.2 billion people. With respect to the individuals in the consumer market, the behavior of the consumer is influenced by the

buyer's decision process. Buyer characteristics include four major factors: cultural, social, personal, and psychological. Each of these factors is to be explored in detail. Relationships are drawn between the factors (and factor subparts) and the consumption purchases made by consumers. Because many of these factors are deep and long lasting in their effect, the marketing manager should pay special attention to acquiring information about them with respect to the organization's target markets.

A simple model of buying behaviour that explains most of the terms pertinent to the study of buying behaviour. The simple model (consisting of five stages—*need recognition, information search, and evaluation of alternatives, purchase decision,* and *post purchase behaviour*) ties together material about the buying decision process. For new products, special situations affect the consumer choice decision. It has been found that consumers respond at different rates (depending on consumer and product characteristics), gain knowledge about the products in different ways, and become aware of "newness" with varying rates of consideration.

Understanding consumer behaviour is difficult enough for companies marketing within the borders of a single country. The problem is compounded when a firm attempts to market in the global environment. This lesson briefly discloses differences between global and local consumer markets. Marketers must decide whether to adapt their products to match the demands of the global marketplace or not. The question of adaptation or standardization will be a topic for debate for several years to come.

Tips of Consumer Buying Behaviour

a) Many different factors affect consumer buying behaviour. Buying behaviour is never simple. Understanding it, however, is the essential task of marketing management.

b) Consumer buying behaviour refers to the buying behaviour of final consumers, individuals and households who buy goods and services for personal consumption.

c) The consumer market is all the individuals and households who buy or acquire goods and services for personal consumption.

d) The largest consumer market, American consumer market, consists of about 287 million people.

e) These people consume trillions of dollars of goods and services each year.

f) The world consumer market consists of more than 6.2 billion people.

g) Consumers vary tremendously in age, income, education level, and tastes.

Model of Consumer Behaviour

a) Consumers make many buying decisions every day.

b) A model of consumer behaviour helps managers answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy.

   - Learning about the what, where, when, and how much is fairly easy.
   - Learning about the "why" is much more difficult.

c) The central question is: How do consumers respond to various marketing efforts the company might use?

d) The stimulus-response model of buyer behaviour shows that marketing (made up of the four P's—product, price, place, and promotion) and other stimuli (such as the economic, technological, political, and cultural environments) center on the consumer's "black box" and produce certain responses.

e) Marketers must figure out what is "in" the consumer's "black box."

f) The "black box" has two parts.

   - The buyer's characteristics influence how he or she perceive and react to stimuli.
   - The buyer's decision process itself affects the buyer's behaviour.

Characteristics Affecting Consumer Behaviour

Consumer purchases are strongly influenced by cultural, social, personal, and psychological characteristics. For the most part, the marketer cannot control them, but they must be taken into account.

Cultural Factors

a) Cultural factors exert the broadest and deepest influence on consumer behaviour. The marketer needs to understand the role played by the buyer's culture, subculture, and social class.

b) *Culture* is the set of basic values, perceptions, wants, and behaviours learned by a member of society from family and other important institutions. Culture is the most basic cause of a person's wants and behaviour.

   - A child learns or is exposed to the following values:

      a) Achievement and success.

      b) Activity and involvement.

c) Efficiency and practicality.
d) Progress.
e) Material comfort.
f) Individualism.
g) Freedom.
h) Humanitarianism.
i) Youthfulness.
j) Fitness and health.

- Marketers are always trying to spot cultural shifts in order to imagine new products that might be wanted (the fitness and health craze in the developed world of the late80s and 90s for example).

- Each culture contains smaller subcultures. *Subculture* is a group of people with shared value systems based on common life experiences and situations.

- Subcultures might be nationality groups, religious groups, racial groups, or geographic area groups. Many of these subcultures make up important market segments and many times products are designed for them.

- Almost every society has some form of social class structure. *Social class* is the relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviours.

  a) Social class is not determined by a single factor such as income but is measured as a combination of occupation, income, education, wealth, and other variables.

  b) Marketers are interested in social class because people within a given social class tend to exhibit similar behaviour, including buying behaviour. This is most evident in the selection of clothing, home furnishings, leisure activity, and automobiles.

Social Factors

a) A consumer's behaviour is influenced by social factors. These include small groups, family, and social roles and status.

b) A person's behaviour is influenced by many small *groups*. There are several specialized group formations within the larger configuration:

- Membership groups are groups that have a direct influence on a person's behaviour; they are groups to which a person belongs.
- Reference groups are groups that that have a direct (face-to-face) or indirect influence on the person's attitudes or behaviour. People are often influenced by reference groups to which they do not belong.
  a) An aspiration group is a group to which an individual wishes to belong.
  b) Reference groups expose a person to new behaviours and lifestyles.
  c) They also create pressures to conform that may affect the person's product and brand choices.

Personal Factors

a) A buyer's decisions are also influenced by personal characteristics such the buyer's age and life-cycle stage, occupation, economic situation, lifestyle, personality and self-concept.

b) People change the goods and services that they buy over their lifetimes. Part of these changes is shaped by the family life cycle (stages throughout which families might pass as they mature over time). The traditional life cycle stages are being modified as people form new lifestyles (such single parenting).

c) A person's occupation affects the goods and services bought (software bought by accountants, lawyers, and doctors).

d) The economic situation of the buyer is very important in purchase consideration. If a person fears losing their job, their purchasing habits generally change. If the person perceives that their economic situation is going to improve, they might consider making a major purchase.

e) People from the same social strata can have very different lifestyles. A *lifestyle* is a person's pattern of living as expressed in his or her psychographics (such as activities, interests, and opinions). Lifestyle profiles a person's whole pattern of acting and interacting in the world. It is more than the person's social class or personality.

f) The self-concept describes the self-image. The basic idea is that people's possessions contribute to and reflect their identities. Psychological Factors

g) A buyer's choices are influenced by four major psychological factors (motivation, perception, learning, and beliefs and attitudes)

Types of Buying-Decision Behaviour

a) Buying behaviour differs greatly depending on what is being bought.

b) More complex decisions usually involve more buying participants and more buyer deliberation.

c) *Complex buying behaviour* occurs when consumers are highly involved in a purchase and perceive significant differences among brands.

d) Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive.

e) *Dissonance-reducing buying behaviour* occurs when consumers are highly involved with expensive, infrequent, or risky purchase, but see little difference among brands. After these purchases, it is common to experience post purchase dissonance (after-sale discomfort) when they notice certain disadvantages of the purchase or hear favorable things about brands not purchased. Counter dissonance occurs with after-sale communications to support claims and make consumers feel better about purchases.

f) *Habitual buying behaviour* occurs under conditions of low consumer involvement and little significant brand difference.

g) In these cases, consumer behaviour does not pass through the usual belief-attitude behaviour sequence. Ad repetition creates brand familiarity rather than brand conviction.

h) Consumers undertake *variety-seeking buying behaviour* in situations characterized by low consumer involvement, but significant perceived brand differences.

The Buyer Decision Process

a) The buyer decision process examines how consumers make buying decisions. There are five stages within the process: need recognition, information search, evaluation of alternatives, purchase decision, and post purchase behaviour. The model seems to imply that consumers pass through all five stages with every purchase. In more routine purchases, however, a person might skip or reverse some of the stages. Marketers need to focus on the entire buying process rather than on just the purchase decision.

b) *Information search* is the stage of the buyer decision process in which the consumer is aroused to search for more information; the consumer may simply have heightened attention or may go into active information search.

c) As more information is obtained, the consumer's awareness and knowledge of available brands and features increases.

d) Marketers should carefully understand consumer's sources of information and the importance of each source.

e) *Alternative evaluation* is the stage of the buyer decision process in which the consumer uses information to evaluate alternative brands choices. Several basic concepts help to explain the consumer-evaluation process

f) The *purchase decision* is the stage of the buyer decision process in which the consumer actually buys the product. Generally, the consumer's purchase decision will be to buy the most preferred brand; however, two factor's can come between purchase intention and the purchase decision.

g) *Post purchase behaviour* is the stage of the buyer decision process in which consumers take further action after purchase based on their satisfaction or dissatisfaction.

The Buyer Decision Process for New Products

a) A *new product* is a good, service, or idea that is perceived by some potential customers as new. The product may have been around for a while, but marketers are interested in how customers learn about products for the first time and make decisions on whether to adopt them.

b) The *adoption process* is the mental process through which an individual passes from first hearing about an innovation to final adoption. Adoption is defined as the decision by an individual to become a regular user of the product.

Stages in the Adoption Process

- Awareness—where the consumer becomes aware of the new product, but lacks information about it.
- Interest—in which the consumer is stimulated to seek information about the new product.
- Evaluation—in which the consumer considers whether trying the new product makes sense.

- Trial—in which the consumer tries the new product on a small scale to improve his or her estimate of its value.
- Adoption—in which the consumer decides to make full and regular use of the new product.

c) The marketer must plan how to help the consumer move through these stages. Individual Differences in Innovativeness.

d) People differ in their innovativeness or readiness to try new products.

e) Other characteristics such as initial and ongoing costs, risk and uncertainty and social approval also affect the rate of adoption. Consumer Behaviour Across International Borders

f) For companies operating in many countries, it is more difficult, but just as important to understand the consumer behaviour of the international market.

g) Sometimes the differences can be obvious, but most likely they will be subtle.

h) Failing to understand such differences in customs and behaviours from one country to another can spell disaster for a marketer's international products and programs.

i) The marketer will have to decide on the degree of adaptation or standardization that will be appropriate for the international marketplace. Which is the best course of action is open to debate.

Understanding the Global Consumer Markets

"Companies must learn to operate as if the world were one large market-ignoring superficial regional and national difference" -Theodore Levitt

Markets Are Becoming Global, Globalization is a process of interaction and integration among people, companies, and governments of many nations, is driven by international trade and investment and has resulted in what some call a global economy. Increasing mobile workforce, more informed customers, and rapidly changing technologies and business models are making the global marketing a tuff task. Marketing strategy is the key to attaining competitive advantage in the global marketplace. Developing and sustaining a successful global marketing strategy requires the firm to focus its efforts world-wide, rather than developing marketing strategies on a country by country basis. The objective of the global marketing strategy must be coordination and integration of production, marketing and other functional activities across countries.

Understanding the CAGE Distance Framework measured by 4 dimensions helps the global marketers.

i) Cultural	• Language, ethnicities, religion, values, norms
ii) Administrative	• Laws, political risk, government structure
iii) Geographic	• Country size, infrastructure, climate, remoteness from neighboring countries.
iv) Economic	• Differences in national income, costs of doing business, prices, availability of human and natural resources

Global markets are characterized by:

a) Greater uncertainty in markets and environments.
b) Greater diversity and dynamism than domestic, internal markets.
c) Greater separation of geographical and psychological distances.

Geographic or Spatial Distance

- Spatial distances between domestic and global marketing have been reduced by the substitution of IT media for face-to-face contact between buyers and sellers
- However, in some instances face-to-face communication is preferable
- One of the most dramatic developments of the start of the new millennium was a shift of advertising expenditures from traditional media to the Internet

Psychic/Cultural Distance

- Cultural distance may be defined as some measure of the extent to which cultures are similar or different.
- Measured on a country level and cannot be controlled by management the psychic distance exists in the mind of the individual.
- The perceptual distance between the home country culture and the host country culture is measured on the individual, rather than the country, level.

The EPRG Framework explains the 4 approaches/orientations by which a firm is managed in foreign markets. They are

1. Ethnocentric- a focus on the home market
2. Polycentric – approach global markets with discrete strategies
3. Regiocentric – strategies target entire regions
4. Geocentric – the world is one market

The 3 Elements of Global Marketing Strategy are

a) Standardization vs. localization-adaptation

Standardization benefits include

- Economies of scale
- Lowered costs
- Uniform products
- Shorter learning curve

Localization is preferred:

- Different customer preferences
- Different performance requirements and standards across countries
- Different cultural perceptions

b) Configuration/Coordination

Configuration refers to where and how activities will be located

- Concentrated in one country or
- Dispersed throughout many countries

Coordination refers to the governance of the activities, how they are linked together throughout a chain which is dispersed geographically among many countries.

c) Integration of the Firm's Value Chain

A value chain is the sequence of activities required to make a product or provide a service.

Primary activities

- Inbound logistics
- Operations
- Marketing and sales
- Service

Summary

International consumer markets are described as all the individuals & households in international markets who buy or acquire goods & services for personal consumption. Markets (and those which they serve) have to be understood before marketing strategies can be developed. The consumer market buys goods and services for personal consumption. At present, the world consumer market consists of 6.2 billion people. With respect to the individuals in the consumer market, the behavior of the consumer is influenced by the buyer's decision process. Buyer characteristics include four major factors: cultural, social, personal, and psychological.

Each of these factors is to be explored in detail. Relationships are drawn between the factors (and factor subparts) and the consumption purchases made by consumers. Because many of these factors are deep and long lasting in their effect, the marketing manager should pay special attention to acquiring information about them with respect to the organization's target markets. Consumer purchases are strongly influenced by cultural, social, personal, and psychological characteristics.

For the most part, the marketer cannot control them, but they must be taken into account. The buyer decision process examines how consumers make buying decisions. There are five stages within the process: need recognition, information search, evaluation of alternatives, purchase decision, and post purchase behaviour. The model seems to imply that consumers pass through all five stages with every purchase. In more routine purchases, however, a person might skip or reverse some of the stages. Marketers need to focus on the entire buying process rather than on just the purchase decision.

Markets Are Becoming Global, Globalization is a process of interaction and integration among people, companies, and governments of many nations, is driven by international trade and investment and has resulted in what some call a global economy. Increasing mobile workforce, more informed customers, and rapidly changing technologies and business models are making the global marketing a tuff task. Marketing strategy is the key to attaining competitive advantage in the global marketplace.

Developing and sustaining a successful global marketing strategy requires the firm to focus its efforts world-wide, rather than developing marketing strategies on a country by country basis. The objective of the global marketing strategy must be coordination and integration of production, marketing and other functional activities across countries.

Self Assessment Questions

1. Identify the relationship between culture and business
2. Does a global marketer need to understand the culture of a host country? If so Why?
3. Explain the important variables of the culture
4. What are the different stages of consumer adaptation process?
5. Why EPRG frame work is necessary to international marketing?
6. Prepare a note on the elements of a global marketing strategy

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Lesson 2.2 - Scope and Challenges of International Marketing

Introduction

The modern world is organized on the theory that each nation state is sovereign and independent from other countries. In reality, however, no country can completely isolate its internal affairs from external forces. Even the most inward looking regimes have realized the limitations of their own resources as well as the benefits of opening up their borders. This major change in the orientation of most regimes has led to an enormous amount of activity in the international marketplace. A global economic boom, in the last decade of twentieth century has been one of the drivers for efficiency, productivity and open, unregulated markets that swept the world.

Never before in world history have businesses been so deeply involved in and affected by international global developments. Powerful economic, technological, industrial, political and demographic forces are converging to build the foundation of a new global economic order on which the structure of a world economic and market system will be built.

Whether or not a company wants to participate directly in international business, it cannot escape the effect of the ever-increasing number of domestic firms exporting, importing, and/or manufacturing abroad; the number of foreign-based firms operating in most markets; the growth of regional trade areas; the rapid growth of world markets; and the increasing number of competitors for global markets. Of all the trends affecting global business today, five stand out as the most dynamic and as the ones that are influencing the shape of international business:

1. The interdependence of the world economies.
2. The rapid growth of regional free trade areas such as EU, NAFTA, ASEAN and APEC.
3. The increase in wealth and growth in most parts of the world, causing enhanced purchasing.
4. The evolution of large emerging markets such as Brazil, China, India, Malaysia, Russia, etc..,
5. Availability of advanced methods of communication and transportation.

These forces affecting the international business have led to a dramatic growth in international trade and have contributed to a perception that world has become a smaller and interdependent place. If we look at the Swiss Multinational Company, Nestlé,

'The Food Company of the World', it claims its products are sold in every country in the world. It has factories in more than 80 countries and it has many brands that are recognized all over the world. Toyota and its subsidiaries sell their cars in more than 170 countries, giving it a presence in more countries than any other auto manufacturer.

Even companies that do not operate in the international arena are affected to some degree by the success of the European Union, the post 9-11 political economy and the economic changes taking place in China and India. The aftermath of 9-11 and the war in Afghanistan and Iraq have changed the political as well as economic scene. The interdependence among the nations and markets has however not been affected.

Companies have become even more aggressive to capture new markets to compensate recessions at home or in their traditional markets. As competition for world markets intensifies, the number of companies operating solely in domestic markets is decreasing. Or, to put it another way, it is increasingly true that the business of any business is international business. The challenge of international marketing is to develop strategic plans that are competitive in the intensifying global markets.

Global Orientation

"A global orientation means operating as if all the country markets in a company's scope of operations (including domestic market) are approachable as a single global market and to standardize the marketing mix where *culturally feasible* and *cost effective* or to adapt the marketing mix where culturally required and cost effective".

Three factors those are necessary to achieve global orientation

1) Objectivity: objective in assessing opportunities, evaluating potential, and responding to problems. Too often mistakes are made because companies are swept away with generalities and make investments only later to find out that their commitment or abilities were not sufficient to succeed.
2) Tolerance towards cultural differences: tolerance is understanding cultural differences and accepting and working with others whose behavior may be different from yours.

3) Knowledgeable: knowledgeable about cultures, history, world market potentials, and global economy and social trends is critical for a person to be culturally aware. To be successfully in international business and globally aware, a person needs to keep abreast of the enormous changes occurring throughout the world.

Conditions that have led to the Development of Global Markets Orientation

According to the Professor Levitt and others who suggest that there is a global market for goods, this phenomenon has resulted from new communications technology, travel and other factors which have led to the markets of the world being more aware of different products and processes.

As a result of this awareness, there are segments in each market that have had similar experiences and thus have common needs.

These common needs are described as a demand for high quality, reasonably priced, standardized products.

There is a strong feeling that within each country's market there is a growing segment that has been exposed to ideas from around the world and thus have had their tastes and perceived needs affected.

There is a strong feeling that world markets are being driven toward a converging commonality of taste and needs leading toward global markets.

Major Obstacles for Global Orientation

Key obstacles facing international marketers are not limited to environmental issues. Just as important are difficulties associated with the marketer's own self-reference criteria and ethnocentrism. Both limit the international marketer's abilities to understand and adapt to differences prevalent in foreign markets. A global awareness and sensitivity are the best solutions to these problems, and these should be nurtured in international marketing organizations.

Self-Reference Criterion (SRC) and Ethnocentrism

- SRC is an unconscious reference to one's own cultural values, experiences, and knowledge as a basis for decisions

- Ethnocentrism refers to the notion that one's own culture or company knows best how to do things
- Both the SRC and ethnocentrism impede the ability to assess a foreign market in its true light
- Reactions to meanings, values, symbols, and behavior relevant to our own culture are different from those of foreign
- Relying on one's SRC could produce an unsuccessful marketing program

Avoiding the Self Reference Criterion (SRC)

To avoid SRC following steps should be followed

1. Define the business problem or goal in home-country cultural traits, habits, or norms
2. Define the business problem or goal in foreign-country cultural traits, habits, or norms. Make no value judgments
3. Isolate the SRC Influence in the problem and examine it carefully to see how it complicates the problem
4. Redefine the problem without the SRC influence and solve for the optimum business goal situation

Scope of International Marketing

The scope of international marketing is identifying the needs and wants of customers in different markets and cultures, providing products, services, technologies and ideas to give the firm a competitive marketing advantage plus distributing and exchanging products and services internationally through one or a combination of foreign market entry modes.

Global marketing allows the marketer to reach consumers in a wide range of ways and enables them to offer a wide range of products and services. G-Marketing includes, among other things, information management, public relations, customer service and sales. With the range of new technologies becoming available all the time, this scope can only grow.

The Scope of International Marketing constitutes the following areas of business

Exports and Imports

International trade can be a good beginning to venture into international marketing. By developing international markets for domestically produced goods and services a company can reduce the risk of operating internationally, gain adequate experience and then go on to set up manufacturing and marketing facilities abroad.

Contractual Agreements

Patent licensing, turnkey operations, co – production, technical and managerial know – how and licensing agreements are all a part of international marketing. Licensing includes a number of contractual agreements whereby intangible assets such as patents, trade secrets, know – how, trademarks and brand names are made available to foreign firms in return for a fee.

Joint Ventures

A form of collaborative association for a considerable period is known as joint venture. A joint venture comes into existence when a foreign investor acquires interest in a local company and vice versa or when overseas and local firms jointly form a new firm. In countries where fully owned firms are not allowed to operate, joint venture is the alternative.

Wholly Owned Manufacturing

A company with long term interest in a foreign market may establish fully owned manufacturing facilities. Factors like trade barriers, cost differences, government policies etc. encourage the setting up of production facilities in foreign markets. Manufacturing abroad provides the firm with total control over quality and production.

Contract Manufacturing

When a firm enters into a contract with other firm in foreign country to manufacture assembles the products and retains product marketing with itself, it is known as contract manufacturing. Contract manufacturing has important advantages such as low risk, low cost and easy exit.

Management Contracting

Under a management contract the supplier brings a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership.

Third Country Location

When there is no commercial transactions between two countries due to various reasons, firm which wants to enter into the market of another nation, will have to operate from a third country base. For example, Taiwan's entry into China through a base in Hong Kong.

Mergers and Acquisitions

Mergers and Acquisitions provide access to markets, distribution network, new technology and patent rights. It also reduces the level of competition for firms which either merge or acquires.

Strategic alliances

A firm is able to improve the long term competitive advantage by forming a strategic alliance with its competitors. The objective of a strategic alliance is to leverage critical capabilities, increase the flow of innovation and increase flexibility in responding to market and technological changes. Strategic alliance differs according to purpose and structure.

Some Challenges that Firms Face in International Marketing

American companies have identified huge markets internationally for their products and services. The markets are huge in terms of population, in countries such as China and India. The purchasing power of consumers and businesses in many countries is also significant enough for American firms to want to compete in these markets. However, international marketing is not without pitfalls, and U.S. companies have made costly mistakes by not adequately researching international markets before they commit resources there.

Identifying a True Market Need

A key to success in business is offering products and services for which customers have a compelling need. The customer has a problem that needs to be solved, and the

product or service provides the solution in such an effective way that its benefits are not difficult to communicate. Identifying the true needs of large numbers of people in a foreign country is not easy. Not having lived in their culture experiencing their day-to-day lives, American marketing executives can err by assuming that what people in other countries want or need exactly matches the wants and needs of American consumers.

Dilution of Brand-Name Power

Due to the Internet, movies and other forms of entertainment, American culture and the corporate symbols of that culture--brand names--are well known across the globe. This does not mean the American companies & amp; rsquo; products will be popular when introduced in other countries.

Being aware of a brand name is n & amp; rsquo; the same as preferring it. It can be a long and expensive process to gain the trust of consumers who have used their own local companies & amp; rsquo; products for years or even generations. The American companies can be perceived as attempting to take over the position long held by local companies, causing resentment.

Cultural Nuance

Consumers are influenced to purchase products by marketing messages delivered through the media, including print media such as magazines. Humor is often used in commercial messages to get the consumer to pay attention. But what is considered extremely funny in one culture can be perceived as confusing or insulting in another.

To produce effective advertising requires more than accurate translation of the message from one language to another. It requires a deep understanding of the culture, customs, morals and even religious views that predominate in that country. What motivates consumers to buy products varies from country to country.

Communication Style

Business executives from different countries can encounter several barriers to effective communication besides obvious language differences. The traditional pace of business negotiations can be different. Americans sometimes want to hurry negotiations along, whereas in some other countries emphasis is placed on building relationships before a business deal is seriously considered. Executives from other countries may place a higher value on things such as facial expression instead of just the words that are being said.

Distance and Time

Even with technologies such as video conferencing, executives in other countries may prefer to establish relationships on a personal level. For a smaller American company, this can mean a significant investment in travel costs and having key executives out of the office for extended periods. Time zone differences can make it difficult to coordinate projects where collaboration is required. Executives on the West Coast of the U.S. are just getting to work in the morning when their European counterparts are winding down for the day.

Finding Reliable Partners

American firms often establish relationships with distributors located in the countries whose markets they are seeking to enter. They hire sales reps based in those countries. They may engage local marketing and public relations firms to assist them. Because the American firm might have no prior experience in that country, finding people who are trustworthy and competent can be a challenge.

Global Events of the Recent Past

1. **Information technology** boom
2. **Enron** scandals
3. September 11th attacks on the **World Trade Center** and Pentagon
4. **Wars** in Afghanistan and Iraq
5. **International conflict** among China, Taiwan, and the United States
6. 2003 **SARS** outbreak in Asia
7. **Global terrorism**, e.g., Indonesia, Israel, India, and Morocco
8. Transcending these events, **international commerce** continued

Global Business Trends

1. The rapid growth of the World Trade Organization and regional free trade areas, e.g., NAFTA, the European Union, SAARC
2. General acceptance of the free market system among developing countries in Latin America, Asia, and Eastern Europe
3. Impact of the Internet and other global media on the dissolution of national borders, and

4. Managing global environmental resources
5. Increasing globalization of markets
6. Firms face competition on all fronts
7. Changing ownership structure (example TATA CORUS),
8. Saturation of Demand in certain big market e.g. USA, UK & emergence of it in certain market (China, India)
9. Technology & Excess surplus
10. Global peace & Dependence (No world war- 3)

Driving Forces of International Marketing

1. Regional economic agreements
2. Market needs & Wants
3. Technology
4. Transportation & Communication
5. Product development Cost
6. Product quality
7. World economic trend

Restraining Forces of International Marketing

1. Management myopia
2. Organizational culture
3. National controls
4. International World Order
5. Fight against International terrorism

Summary

Today most business activities are global in scope. Finance, technology, research, capital and investment flows, production facilities, purchasing and marketing and distribution networks all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic environment, and all business people must be aware of the effects of these trends when managing a multinational conglomerate or a domestic company that exports. As one international expert noted, 'every company is international, at least to the extent that its business performance is conditioned in part by events that occur abroad.

Self Assessment Questions

1. Explain the scope of international marketing
2. Recognize the issues that are leading to the expansion of global marketing scope
3. Identify the requirements to have global orientation
4. State the important challenges to an international marketer
5. What is Self Reference Criterion and how to overcome it
6. Make list of driving and restraining forces of international marketing

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Lesson 2.3 - Assessing International/ Global Market Opportunities

Introduction

Over the last few decades internationalism has grown because of a number of market factors which have been driving development forward, over and above those factors which have been attempting to restrain it. These include market and marketing related variables.

Many global opportunities have arisen because of the clustering of market opportunities worldwide. Organizations have found that similar basic segments exist worldwide and, therefore, can be met with a global orientation. Cotton, as an ingredient in shirting's, suiting's, and curtain material can be globally marketed as natural and fashionable. One can see in the streets of New York, London, Kualalumpar or Harare, youth with the same style and brand of basketball shirts or American Football shorts. Coca Cola can be universally advertised as "Adds Life" or appeal to a basic instinct " You can't beat the Feeling" or "Come alive" as with the case of Pepsi. One can question "what feeling?", but that is not the point. The more culturally unbounded the product is, the more a global clustering can take place and the more a standardized approach can be made in the design of marketing programmes.

This standardized approach can be aided and abetted with technology. Technology has been one of the single most powerful driving forces to internationalism. Rarely is technology culturally bound. A new pesticide is available almost globally to any agricultural organization as long as it has the means to buy it. Computers in agriculture and other applications are used universally with IBM and Macintosh becoming household names. The need to recoup large costs of research and development in new products may force organizations to look at global markets to recoup their investment. This is certainly true of many veterinary products. Global volumes allow continuing investment in R & D, thus helping firms to improve quality. Farm machinery, for example, requires volume to generate profits for the development of new products.

Communications and transport are shrinking the global market place. Value added manufacturers like Cadbury, Nestlé, Kellogg's, Beyer, Norse Hydro, Massey Ferguson and ICI find themselves "under pressure" from the market place and distributors alike to position their brands globally. In many cases this may mean an adaption in advertising

appeals or messages as well as packaging and instructions. Nestle will not be in a hurry to repeat its disastrous experience of the "Infant formula" saga, whereby it failed to realize that the ability to find, boiled water for its preparations, coupled with the literacy level to read the instructions properly, were not universal phenomenon.

Marketing globally also provides the marketer with five types of "leverage" or "advantages", those of experience, scale, resource utilization and global strategy. A multi-product global giant like Nestle', with over £10 billion turnover annually, operates in so many markets, buys so much raw material from a variety of out growers of different sizes, that its international leverage is huge. If it consumes a third of the world's cocoa output annually, then it is in a position to dominate terms. This also has its dangers.

The greatest lift to producers of raw agricultural products has been the almost universal necessity to consume their produce. If one considers the whole range of materials from their raw to value added state there is hardly a market segment which cannot be tapped globally. Take, for example, oranges. Not only are Brazilian, Israeli, South African and Spanish oranges in demand in their raw state worldwide, but their downstream developments are equally in demand. Orange juice, concentrates, segments and orange pigments are globally demanded. In addition the ancillary products and services required to make the orange industry work, find themselves equally in global demand. So insecticides, chemicals, machinery, transport services, financial institutions, warehousing, packaging and a whole range of other production and marketing services are in demand, many provided by global organizations like Beyer, British Airways and Barclays Bank. Of course, many raw materials are at the mercy of world prices, and so many developing countries find themselves at the mercy of supply and demand fluctuations. But this highlights one important global lesson - the need to study markets carefully. Tobacco producing countries of the world are finding this out. With a growing trend away from tobacco products in the west, new markets or increasing volumes into consuming markets have to be prospected and developed. Many agricultural commodities take time to mature. An orange grove will mature after five years. By that time another country may plant or have its trees mature. Unless these developments are picked up by global intelligence the plans for a big profit may be not realized as the extra volume supplied depresses prices. This happened in 1993/94 with the Malawian and Zimbabwean tobacco companies. The unexpected release of Chinese tobacco depressed the tobacco price well below expectations, leaving farms with stock and large interest carrying production loans.

A number of suppliers of agricultural produce can take advantage of "off season" in other countries, or the fact that they produce specialty products. This is the way by which many East African and South American producers established themselves in Europe and

the USA respectively. In fact the case of Kenya vegetables to Europe is a classic, covering many of the factors which have just been discussed-improved technology, emerging global segments, shrinking communications gaps and the drive to diversify product ranges

Global Market Opportunity

Global market opportunity refers to favorable combination of circumstances, locations, or timing that offer prospects for exporting, investing, sourcing, or partnering in foreign markets.

Global business opportunities include:

- Marketing products and services;
- Establishing factories or other production facilities to produce its offerings more competently or cost- effectively;
- Procuring raw materials or components, services of lower cost or superior quality;
- Entering into collaborative arrangements with foreign partners

Global Market Opportunity Analysis (GMOA)

The Six Tasks of GMOA *(The source material for this analysis is from the book International Business Strategy, Management & the New Realities by Cavusgil, Knight and Riesenberge)*

1. Conduct an internal assessment of the firm's readiness to initiate international business activity.
2. Assess the suitability of the firm's products and services for foreign markets
3. Systematically identify the best markets to target with the chosen product(s) or service(s).
4. Estimate the industry market potential, or the "market demand", for the product(s) or service(s) in selected target markets.
5. Screen and select qualified business partners, such as distributors or suppliers.
6. Estimate the company sales potential for each target market.

Organizational Readiness Analysis

Objective: To provide an objective assessment of the company's preparedness to engage in international business activity.

Outcomes: A list of firm strengths and weaknesses, in the context of international business, and recommendations for resolving deficiencies that hinder achieving company goals.

Criteria: relevant financial and tangible resources; relevant skills and competencies; senior management commitment and motivation

Issues to be Resolved in Organizational Readiness Analysis

- What does the firm hope to gain from international business? E.g., increasing sales or profits, following key customers who locate abroad, challenging competitors in their home markets, or pursuing a global strategy of establishing production and marketing operations at various locations worldwide.
- Is international business expansion consistent with other firm goals, now or in the future?
- What demands will internationalization place on company resources, such as management, personnel, and finance, as well as production and marketing capacity? How will such demands be met?
- What is the basis of the firm's competitive advantage? Here, managers evaluate the reasons for the firm's current success.

CORE **as Diagnostic Tool**

- *One* can use diagnostic tools to facilitate a self- audit of the firm's readiness to internationalize. One of the best-known tools is CORE (Company Readiness to Export). See: globaledge.msu.edu
- CORE asks managers questions about their organizational resources, skills, and motivation to arrive at an objective assessment of the firm's readiness to successfully engage in exporting.
- CORE also generates assessments on both "Organizational Readiness" and "Product Readiness."

Product Suitability Analysis

Objective: To conduct a systematic assessment of the suitability of the firm's products and services for international customers; to evaluate the degree of the fit between the product or service and customer needs.

Outcomes: Determination of factors that may hinder product or service market potential in each target market; Identification of needs for the adaptations that may be required to initial and ongoing market entry.

Criteria: Assess the firm's products and services with regard to:

- Foreign customer characteristics and requirements
- Government mandated regulations
- Expectations of channel intermediaries
- Characteristics of competitors' offerings

Product Suitability

- Sell well in the domestic market. Those that are received well at home are likely to succeed abroad, especially where similar needs and conditions exist.
- Cater to universal needs. International sales may be promising if the product or service is relatively unique or has important features that are hard to duplicate by foreign firms.
- Address a need not well served in particular foreign markets.
- Potential may exist in developing countries or elsewhere where the product or service does not currently exist, or where demand is just beginning to emerge.
- Address a new or emergent need abroad. For some products and services, demand might emerge suddenly following a disaster or other large-scale or emergent trend. For example, a major earthquake in Turkey can create an urgent need for portable housing. Rising AIDS cases in South Africa can create a need for drugs or medical supplies.

Issues that Determine Potential Product Demand

- Who initiates purchasing? For example, homemakers are usually the chief decision makers for household products. Professional buyers make purchases on behalf of firms.
- Who uses the product or service? For instance, children consume various products, but their parents may be actual buyers.
- Why do people buy the product or the service? Honda sells gasoline-powered generators that customers in advanced economies use for recreational purposes; customers in developing economies may buy these for basic household heating and lighting.

- Where do consumers purchase the product or service? Once the researcher understands where the offering is typically purchased, it is useful to visit potential buyers to find out their potential interest.

- What economic, cultural, geographic, and other factors in the target market can limit sales? Countries vary substantially in terms of buyer income levels, preferences, climate, and other factors that can inhibit or facilitate purchasing behaviour.

Country Screening Analysis

Objective: To reduce the number of countries that warrant in-depth investigation as potential target markets to a manageable few.

Outcomes: Identification of 5 to 6 high potential country markets that are most promising for the firm.

Criteria: market size and growth rate; market intensity (that is, buying power of the residents in terms of income level); consumption capacity (that is, size and growth rate of the country's middle class); country's receptivity to imports; infrastructure appropriate for doing business; economic freedom; political risk.

Focus of Screening Varies with Entry Strategy

- Firms that seek to source from foreign suppliers need to identify countries where capable suppliers are located.
- Once a firm chooses a particular country, it needs to ensure that conditions for importing from the country are favorable.
- For firms looking to make a direct investment in foreign markets, it is best to focus on countries that promise long-term growth, substantial returns, while posing relatively low political risk.
- Exporting firms should target countries with low tariff barriers, steady demand, and qualified intermediaries

Cultural Similarity with Target Market may Matter

- Some firms target "psychically" similar countries, that is, countries similar to the home country in terms of language, culture, and other factors. These countries fit management's comfort zone.

- E.g., Australian firms often choose the United States as their first target market abroad. Many choose the U.K. rather than France or Italy, as their first target in Europe.
- The choice is logical because both the U.K. and the U.S. speak English and have cultures similar to that of Australia.
- As managerial experience, knowledge, and confidence increase, the firms expand into more complex, culturally distant markets, such as China or Japan.

Nature of Information Sought varies with Product/Industry

- For example, in marketing consumer electronics, the researcher would emphasize countries with large populations of people with adequate discretionary income, and ample energy production and consumption.
- For farming equipment, the researcher would consider countries with substantial agricultural land and farmers who enjoy relatively high incomes.
- For health care insurance, the researcher targets countries that have numerous hospitals and doctors. Criteria include: number of physicians per capita, number of surgeries, number of hospital beds, etc.

Targeting a Region may Make Sense

- Compared to targeting one country at a time, targeting a group of countries is more cost effective, particularly when the markets have similar demand conditions, business regulations, and culture.
- A good example is the European Union, which comprises some 27 countries that are relatively similar in terms of income level, regulations, and infrastructure.
- When entering Europe, companies often devise a pan-European strategy that considers many member countries of the EU rather than planning separate efforts in individual countries.

Gateway Countries and Regional Hubs

- Managers may target so-called gateway countries or regional hubs that serve as entry points to nearby or affiliated markets.
- E.g., Singapore has traditionally served as the gateway to Southeast Asian countries; Hong Kong is an important gateway to China; Turkey is a good platform for entering

the Central Asian republics; and Finland provides business- friendly access to the former Soviet Union.

- Firms base their operations in a gateway country so they can serve the larger, adjacent region.

Gradual Elimination Method for Screening Countries

- The manager starts with a large number of prospective target countries and then gradually narrows choices by examining increasingly specific information obtained via research.
- The objective is to reduce to a manageable few the number of countries that warrant in-depth investigation as potential target markets -- five or six high potential country markets that are most promising.
- To save time and money, it is essential to eliminate unattractive markets as quickly as possible.
- At the same time, it is wise to be open-minded and consider all reasonable markets. E.g., developing economies with a product that is not yet widely consumed may be more profitable than targeting more competitive markets in Europe, Japan, and the U.S.

Country Screening with Broad, Macro Level Variables

- In the early stages, market research proceeds in a step-wise manner in which the researcher follows a "funnel" approach of obtaining general information first, and then specific information last.
- The researcher initially obtains information on macro-level market potential indicators such as population or income-related measures to Identify a short list of countries that represent the most attractive markets.
- Broad screening data are readily available from sources such as global EDGE ™.

Industry Market Potential Analysis

Objective: To estimate the size of relevant industry sales within each target country; to investigate and evaluate any potential barriers to market entry.

Outcomes: 3 to 5- year forecasts of industry sales for each target market. Delineation of market entry barriers in industry

Criteria: Market size, growth rate, and trends in the industry; the degree of competitive intensity; Tariff and non-tariff trade barriers; Standards and regulations; Availability and sophistication of local distribution; Unique customer requirements and preferences; Industry-specific market potential indicators.

Industry Market Potential

- Industry market potential – an estimate of the likely sales that can be expected for all firms in the particular industry for a specific period of time. In other words, it is an aggregate of the sales that may be realized by all companies in the industry.
- Industry market potential is different from company sales potential, which refers to the share of industry sales the focal firm itself, can expect to achieve during a year.
- Most companies forecast sales at least three years into the future, of both industry market potential and company sales potential.

Indicators of Industry Market Potential

- Market size, growth rate, and trends in the specific industry
- Tariff and non-tariff trade barriers to enter the market
- Standards and regulations that affect the industry
- Availability and sophistication of local distribution
- Unique customer requirements and preferences
- Industry-specific market potential indicators

Practical Methods for Estimating Industry Market Potential

- Simple Trend Analysis. Likely industry market potential is derived from aggregate production for the industry as a whole, adding imports from abroad and deducting exports.
- Monitoring Key Industry-Specific Indicators. Caterpillar, examines announced construction projects, building permits, growth rate of households, infrastructure development, and other pertinent leading indicators.
- Monitoring Key Competitors. If Caterpillar is considering Chile as a potential market, it investigates the current involvement in Chile of its number-one competitor, the Japanese firm Komatsu.

- Following Key Customers around the World. Automotive suppliers can anticipate where their services will be needed next by monitoring the international expansion of their customers such as Honda or Mercedes Benz.
- Tapping into Supplier Networks. Firms can gain valuable leads from current suppliers by inquiring with them about competitor activities.
- Attending International Trade Fairs. Industry trade fairs and exhibitions are excellent venues for managers to obtain valuable information on foreign markets.

Foreign Partner Selection Analysis

Objectives: To decide on the type of foreign business partner; clarify ideal partner qualifications; and plan mode of entry.

Outcomes: Determination of most suitable types of foreign business partners. List of attributes desired of foreign business partners. Determination of value- adding activities foreign business partners contribute.

Criteria: manufacturing and marketing expertise in the industry; commitment to the international venture; access to distribution channels in the market; financial strength; quality of staff; technical expertise; infrastructure & facilities.

Foreign Business Partner Selection

- Foreign business partners include distribution channel intermediaries, facilitators, suppliers, and collaborative venture partners such as joint venture partners, licensees, and franchisees.
- The focal firm needs to decide on:
    - The types of partners it needs for its foreign market venture;
    - Identify suitable partner candidates;
    - Negotiate the terms of its relationship with chosen partners; and
    - Support as well as monitor the conduct of chosen partners.

Types of Foreign Business Partners

- Exporters tend to collaborate with foreign market intermediaries such as distributors and agents.

- Firms that sell intellectual property, such as know-how, trademarks, and copyrights, tend to work through foreign licensees. These licensing partners are independent businesses that apply intellectual property to produce products in their own country.
- In franchising, the foreign partner is a franchisee – an independent business abroad that acquires rights and skills from the focal firm to conduct operations in its own market.
- In an international collaborative venture, collaborations may be project based or involve equity investments.
- Other types of international business partnerships include global sourcing, contract manufacturing, and supplier.

Company Sales Potential Analysis/ Estimation

Objective: To estimate the most likely share of industry sales the company can achieve, over a period of time, for each target market.

Outcomes: 3 to 5-year forecast of company sales in each target market, understanding of factors that will influence company sales potential.

Criteria: Capabilities of partners; access to distribution; competitive intensity; pricing and financing; market penetration timetable of the firm; risk tolerance of senior managers.

Company Sales Potential

- Company sales potential is an estimate of the share of annual industry sales that the firm expects to generate in a particular target market.
- Estimating company sales potential is often much more challenging than earlier tasks. It requires the researcher to obtain highly refined information from the market.
- The researcher needs to make certain assumptions about the market, and project the firm's revenues and expenses for 3-5 years into the future. The estimates are never precise and require quite a bit of judgmental analysis.

Factors Determining Company Sales Potential

- Partner capabilities: The competencies and resources of foreign partners determine how quickly the firm can enter and generate sales in the target market.

- Access to distribution channels: The ability to establish and make best use of channel intermediaries and distribution infrastructure in the target market.
- Intensity of the competitive environment: Local or third- country competitors are likely to intensify their own marketing efforts when confronted by new entrants.
- Pricing and financing of sales: The degree to which pricing and financing are attractive to both customers and channel members is critical to initial penetration.
- Human and financial resources: Such resources are a major factor in determining the proficiency and speed with which success can be achieved.
- Market penetration timetable: Gradual entry gives the firm time to develop and leverage appropriate resources and strategies, but may cede some advantages to competitors in getting established in the market. Rapid entry may allow the firm to surpass competitors and obtain first-mover advantages, but it can tax the firm's resources and capabilities.
- Risk tolerance of senior managers: Management's tolerance for risk in the market.
- Special links, contacts, capabilities of the firm: The focal firm's network in the market – its existing relationships with customers, channel members, and suppliers.
- Reputation: The firm can succeed faster in the market if target customers are already familiar with its brand name and reputation.

Practical Approaches to Estimating Company Sales Potential

- Survey of end-users and intermediaries. The firm can survey a sample of customers and distributors to identify a potential market.
- Trade audits. Managers visit retail outlets and question channel members to assess relative price levels of competitors' offerings and perceptions of competitor strength. The trade audit can indicate opportunities for new modes of distribution, identify types of alternative outlets, and provide insights into relative competitive strength.
- Competitor assessment. The firm may benchmark itself against principal competitor(s) in the market and estimate the level of sales it can potentially attract away from them. What rival firms will have to be outperformed? Even in those countries dominated by large firms research may reveal market segments that are underserved or ignored altogether.

- Obtaining estimates from local partners. Collaborators such as distributors, franchisees, or licensees already experienced in the market are often best positioned to develop estimates of market share and sales potential.

- Limited marketing efforts to "test the waters." Some companies may choose to engage in a limited entry in the foreign market – a sort of 'test market' – as a way of gauging long-term sales potential or gaining a better understanding of the market. From these early results, it is possible to forecast longer-term sales.

Summary

Many global opportunities have arisen because of the clustering of market opportunities worldwide. Organizations have found that similar basic segments exist worldwide and, therefore, can be met with a global orientation. Cotton, as an ingredient in shirting's, suiting's, and curtain material can be globally marketed as natural and fashionable. One can see in the streets of New York, London, Kualalumpar or Harare, youth with the same style and brand of basketball shirts or American Football shorts. Coca Cola can be universally advertised as "Adds Life" or appeal to a basic instinct " You can't beat the Feeling" or "Come alive" as with the case of Pepsi. One can question "what feeling?", but that is not the point. The more culturally unbounded the product is, the more a global clustering can take place and the more a standardized approach can be made in the design of marketing programmes.

Global market opportunity refers to favorable combination of circumstances, locations, or timing that offer prospects for exporting, investing, sourcing, or partnering in foreign markets. Global business opportunities include: Marketing products and services; Establishing factories or other production facilities to produce its offerings more competently or cost- effectively; Procuring raw materials or components, services of lower cost or superior quality; Entering into collaborative arrangements with foreign partners.

The Six Tasks of Global Marketing Opportunity Analysis (GMOA) are, conducting an internal assessment of the firm's readiness to initiate international business activity, assessing the suitability of the firm's products and services for foreign markets, systematically identifying the best markets to target with the chosen product(s) or service(s), estimate the industry market potential, or the "market demand", for the product(s) or service(s) in selected target markets, screening and selecting qualified business partners such as distributors or suppliers, and estimating the company sales potential for each target market.

Self Assessment Questions

1. Write about the global market forces and the global market development
2. Explain the international or global market opportunity
3. Describe the important steps of global market opportunity analysis
4. What is a gate way country
5. Identify various types of foreign business partners
6. High light the factors that determine company sales potential

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Lesson 2.4 - Global/ International Marketing Research

Introduction

Businesses preparing to compete in the 21st century are increasingly confronted with the task of crafting strategies that anticipate and respond to the rapid pace of change in global markets. As a result, their information needs are changing and becoming ever more complex and diverse. Timely, relevant information is essential to provide an adequate basis for day-to-day decision-making as well to chart the firm's path in an increasingly fast paced, turbulent and competitive environment. Information needs are changing in both developed and developing countries. Established markets in industrialized countries are becoming more geographically integrated as direct vertical links and information flows are established between customers, retailers and suppliers. As a result, there is a growing need to conduct research spanning country boundaries, in order to identify regional or global market segments, or to examine opportunities for integrating and better coordinating strategies across national boundaries. At the same time, speed in collection and interpretation of results from multiple and geographically diverse sources become imperative in order to anticipate market change and devise an effective response strategy.

As firms push the geographic frontiers of their operations to take advantage of growing opportunities, they need to collect information from a broader and more diverse range of markets. Increasingly, this entails conducting research in unfamiliar and distant markets in the Far East, the Middle East, Latin America and Africa. This in turn poses a number of challenges, not only in collecting accurate and reliable information on existing behaviour patterns in an expeditious and cost effective fashion, but also in predicting response to new and unfamiliar stimuli, and interpreting the implications for marketing strategy.

Advances in technology both facilitate and at the same time render more complex, the collection of data on a global basis. The growth and increasing technological sophistication of the communication infrastructure enables data collection on a much broader and diverse geographic scale and with rapidity previously unthinkable. Yet, at the same time, management has to master these tools and understand their inherent limitations and implicit biases.

Effective and timely market research is an essential tool for developing strategy in a rapidly changing global marketplace. The authors contend that international market research is increasingly needed to address a wide variety of global marketing challenges including correctly positioning new products, avoiding product formulation errors, accurately understanding cultural challenges, identifying appropriate promotion messages, being cognizant of geographical differences, and examining language and translation problems. In order to make effective marketing strategy decisions, marketers who are increasingly drawn to the global market place because of the opportunity it represents need a reliable and valid source of information.

The Marketing Research

Marketing research looks at

- The **products and services of the business.**
- The **products and services of the competition.**
- The **desires and wants of actual and potential consumers**, now and in the future.
- The **state of the market** and the **economy**, now and in the future.

The purpose of market research is to reduce risk by providing appropriate data to support market planning. Effective planning reduces the likelihood of unwanted products being launched into a market. The main tools of market research are based on data gathering and analysis.

Market research can be expensive, so the firm hopes it is cost effective by positively influencing sales and the 'bottom line'. However, markets and economies are dynamic and external environments volatile. Inevitably some predictions about the consumer behaviour and economic performance may prove to be inaccurate even if well funded and conducted by respected professionals.

The results of market research are available to the whole company, but are particularly useful for the marketing department. A firm does not have to do its own market research; it can use external market research firms that specialize in doing work under contract. They are often part of, or associated with advertising agencies.

Market research can be '**ad hoc**' in that it is conducted when it is required, such as following a product launch, or '**continuous**', when information is required on a regular and ongoing basis. Governments, for example, collect data on buying habits of the general public to allow them to identify 'the representative basket of good' used in the calculation

of inflation; broadcasters will collect listener or viewer details which they can use to attract advertisers and schools will collect data on attendance for the education authorities.

High quality market research will not guarantee corporate success, but it will be an important part of the information gathering process that assists those having to make strategic decisions. The quality of the statistical analysis and evaluation relies on the quality of the data collected; '*garbage in, garbage out'* is never more true than in market research.

The Purpose of Marketing Research

Marketing research provides the firm data on:

- Current market performance and predictions of future market trends
- Customer purchasing behaviour e.g. where and how often they buy and in what quantities
- Levels of current satisfaction with existing products
- Customer response to planned products and services
- Existing and future needs of its target market
- Required changes to elements of its marketing mix, especially in light of competitors marketing activities
- Information on the local, national and global economy

In particular the firm will seek information on the following:

The Market and the Customer

The firm will want to establish:

- The size of the total market and/or whether it is growing or contracting.
- The geography of the market e.g. certain countries present problems that are not applicable elsewhere.
- What customers want, so it can build ***customer*** **profiles**.
- Where future markets might be and information about these.
- How customer perceive our current products in terms of price, quality and value.
- Whether customers are likely to buy new product offerings and the frequency of purchase.
- Price and income sensitivity (elasticity) within the marketplace.

The Product

The firm needs to know:

- The possibility of extending and expanding the current product range.
- How customers view product pricing, quality, design and packaging.
- Where new markets are likely to emerge and whether the firm has existing products to serve these or will need to develop new ones.
- The strength and reputation of its ***brand.***

The Economy

The firm needs information on:

- Existing, and forecast, data on inflation, unemployment and economic growth.
- Potential government **macroeconomic policies**, such as tax and interest rate changes, to address economic problems.
- Predictions about future economic.
- For a multinational organization this data may be required at a local, national and international level. They will have particular regard to the countries where they trade.

The Firm's Competitors

The firm will want information on:

- Competitors' products and prices. Employees from rival retail outlets, such as supermarkets, frequently check out prices, and products of their competitors. This market intelligence forms the basis for the stocking or otherwise of certain product ranges and pricing levels for individual products or product groups.
- Why customers choose to shop in one store as opposed to another and, in particular, how they can be persuaded them to shop in its stores.
- Which firms have the highest market share and why?
- What **unique selling points** do the firm's rivals have and why?
- What weaknesses do competitors have and how might the firm take advantage of these to gain market share?

Costs and Benefits of Market Research

The purpose of market research should reduce the number of bad product decisions and as a consequence, minimize the risk of failure. It should increase company profits and help pinpoints strategies for increasing the reputation of the firm. However, the costs and benefits of market research involve a complex balancing of factors and is an area in the business and management syllabus that requires particular analytical and evaluative skills.

- Market research is expensive and time consuming. However, the less a firm does, the greater the risk involved as the less it will know about its market.
- Marketing research must be cost effective - the cost should be less than the gain. However, how are costs and returns actually measured? To what extent can the firm create a direct link between a particular piece of research and the success or failure of its marketing operations?
- To what extent can the firm trust its findings and reduce the problems of bias? It is often cheaper to use data produced by other organizations, but how reliable is this?

Primary and Secondary Research

Marketing information is widely available from a variety of sources both inside (**internal**) and outside (**external**) the firm. Sources of historical data can be classified as being:

- **Private to the firm itself** - the firm's own records. Its own sales records etc.
- **Externally purchased or private data** - market research firms will do surveys and will provide allow access for a fee. This may be more cost-effective than the firm conducting its research.
- **External public domain information** - government provided information about the economy. Publications of the National Statistical Office etc. Much of this information is free of charge.

Research can be classified as:

- **Primary** or **secondary**
- **Qualitative** or **quantitative**

Primary Research

Primary research is the gathering of new or 'first-hand' data specifically tailored to provide information on the firm's own products, customers and markets. Data is collected by fieldwork such as questionnaires, observation, experimentation and surveys and, as a result, is often expensive, but also directly relevant, accurate and up-to-date.

Primary data can be collected from *internal* or *external* sources. The firm can interview its own employees or it may collect external data through questionnaires and surveys.

Secondary Research

Secondary research, also known as desk research is the assembly, collation and analysis of existing or 'second-hand' marketing data. This process is cheaper than primary research, but the data may be less relevant as it was not collected for the specific needs of the firm and may already be out of date.

There is an immediate and obvious clash here between the two types of market research - cost versus time and accuracy!

Secondary data may be collected from some of the following existing sources:

- **Internal**: annual reports, sales data, customer records and survey, client databases, payment records.
- **External**: government data, national and local media, competitor reports, reports of marketing research companies, trade association data and reports, company websites

The following summarizes the advantages and disadvantages of secondary data in comparison to primary data

Advantages of secondary data	Disadvantages of secondary data
Quicker and cheaper to collect and analyze	Quickly out-of-date
Wide range of potential sources	Available to competitors
Provides data on the whole industry and/or economy rather than focused on the firm	Not specific to the needs of the firm and may not be in the format required for analysis

Qualitative Research

Qualitative research is in-depth research into the motivations behind customer purchasing behaviour and attitudes, providing information on preferences, tastes, and buying habits. Information is gathered through the use of detailed and often lengthy research methods often involving the use of discussion, or ‘focus’, groups.

Quantitative Research

Quantitative research concentrates on statistics and other numerical data such as market share, gathered through opinion polls and customer surveys.

Qualitative research asks ‘why’ customers buy and elicits their opinions - it can provide information of the strength of demand and on feelings. However, this type of information is difficult to present in a succinct form. Quantitative research asks questions about magnitude relating to who buys the product and how much they buy. This kind of data is much easier to graph and present visually.

So, as we can see the information for market research can be gathered by examining existing data, or going out and collecting new data. The two main methods for market research are defined as:

- **Desk research** - working in house or in the office, using existing, ‘secondary’, data. Gathering the information can be quick and inexpensive because the data already exists, but may be imprecise, inaccurate, out-of-date and not focused on the specific need of the firm. Desk research can be useful for screening or ‘first evaluation’ of a proposal simply, because it is quick and cheap.
- **Field research** - going out into the market, in one form or another, and collecting new, relevant information. It will be slower than desk research, and more expensive, but it should be far more accurate and directly relevant. It can often fill in the gaps left by desk research.

The firm is faced with a trade-off between cost and accuracy. The choice may be determined by the firm’s budget and/or the nature and size of the financial risks involved. Larger firms with significant research budgets will clearly be at an advantage over smaller firms. Most large firms are likely to use a combination of primary and secondary research.

Evolution of International Marketing Research

To understand the research needs of the 21st century it is important to consider how they have changed over the past four decades. In the 60s and 70s, many U.S. firms, faced by slackening rates of growth in their domestic markets, began to venture into international markets. Japanese and European firms with smaller domestic markets also expanded internationally in order to broaden the geographic scope of their operations and take advantage of potential economies of scale or to respond to foreign competition entering their domestic markets. In this initial phase of international market entry, firms were mostly concerned with collecting information to identify and assess market opportunities in other countries to determine which markets to enter, how to position products in these markets and how far to adapt different elements of the marketing mix to local market conditions.

At this phase of the firm's expansion, the country was typically used as the unit of analysis for the research design, for developing the sampling frame, as well as for data collection. Due to economic, political, linguistic and cultural barriers, the country was the focal point of entry decisions. Equally, the firm's international operations were often organized on a country-by-country basis. Marketing research agencies were also typically national organizations, with relatively few having the capability to conduct research on a multi-country basis. Most secondary data as well as sampling lists were available on a national basis.

As, however, firms have expanded internationally and product markets are becoming increasingly integrated worldwide, the key decision issues facing the firm in the 90s have changed dramatically. As a result, research and information needs have changed and broadened. In industrialized nations such as North America, Europe and Japan, regional market integration and the removal of barriers between countries, the growth of a regional and global market infrastructure as well as increased mobility of consumers have created pressures to consolidate and integrate marketing strategy across countries. Consequently, increased attention is focused on conducting studies which cover multiple countries examining differences and similarities in behaviour and response patterns across countries.

At the same time, as growth in these markets slows, future market potential lies in emerging market economies, with countries such as China and India accounting for over one-third of the world's population. The explosive population growth in these countries, together with the opening up of markets in the former Soviet Union makes entry into these markets mandatory for firms aspiring to be global leaders in the future. In entering these markets, as in initially entering international markets, firms need to collect information to assess potential opportunities, to determine how to position, price, promote and distribute their products and brands, whether to develop local variants, etc.

The Importance of International Marketing Research

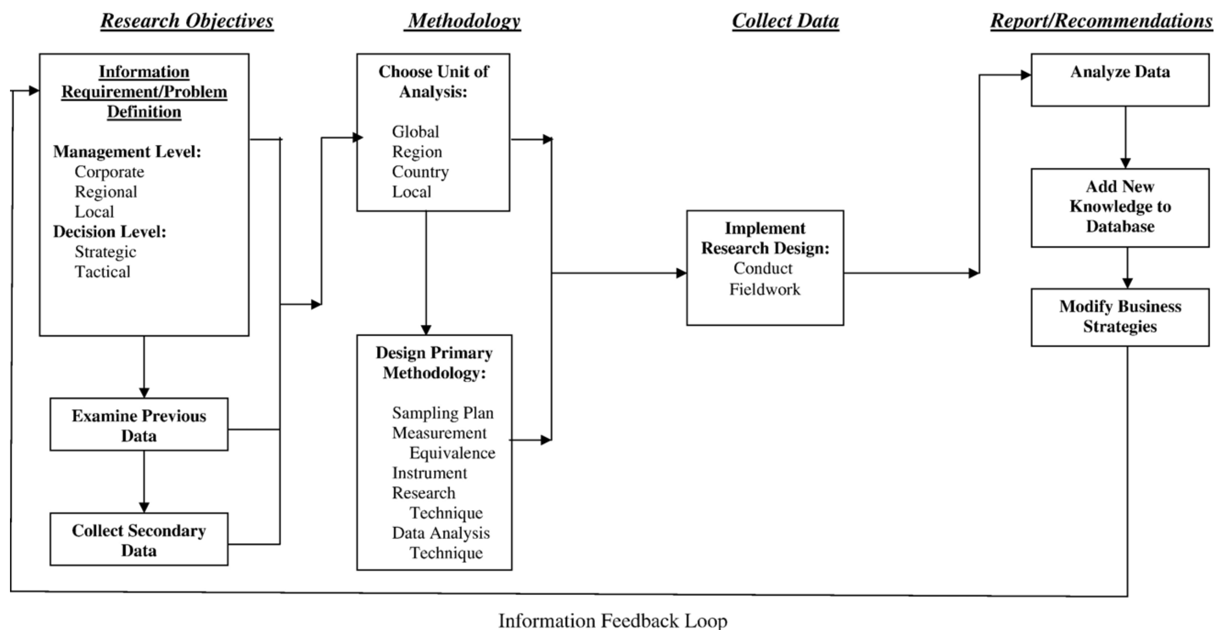
Marketing research is the vital link between the organization and its customers. The objective of sound marketing research is to help to interpret consumer behaviour and translate the perspective key customers into actionable by marketing strategies. Without this open dialog with customers, companies are unable to keep in touch with vital consumer behaviour trends and the many influences that affect the customers of an organization. In today's consumer environment of over-choice and over-communication, growth can only be realized by organizations that are very skilled at crafting well-targeted strategies directed at specific micro-niches of the larger macro market. Companies that go to market without first uncovering specific segment needs and perceptions risk facing the monumental cost of marketing failure. With new consumer product launches typically costing $25million or more, the risk of not incorporating Consumer behaviour into marketing strategy is considerable.

Since the mid-1990s, the international research business has grown tremendously. In1995, the top 25 global market research organizations had aggregate revenues of only $5.7billion, and 45% of their revenues came from outside the companies' home countries. By 2004, revenues had grown 133%, to $13.3 billion, while out-of-home-country share grew to 67% (Marketing News, 2005). As illustrated by these figures, it is clear that spending on international market research projects is on the rise in the U.S. and other countries.

It has been estimated that it costs six times as much to attract a new customer as it does to keep a current customer (Reichheld, 1996). This fact demands that organizations increasingly must stay in touch with their best customers. The most actionable method employed by market-driven organization s to keep pulse with their valued customers is the effective use of market research. Only by having an open dialog with their customers can companies learn about the subtle shifts in buying preferences that, without proper management, ultimately lead to company and/or brand defection.

As more organizations pursue global business strategies, they will require and demand international sources of market information. In order to compete effectively in the 21stcentury, these businesses will need specialized, targeted information about buyers in dispersed international markets. Connell (2002) argues that, in the business-to- business market, there is ample justification for conducting international market research in support of the design, execution, and interpretation of a wide variety of global marketing strategies. United States are much more problematic when deployed in developing foreign markets.

The International Marketing Research Framework



Challenges of Conducting International Marketing Research

Due to the complexities of conducting and managing market research projects across national boundaries, many factors exist that, if not adequately addressed, can negatively impact project management and, consequently, project deliverables. These factors can impact any and, for that matter, all of the traditional market research steps. For example, varying cultural norms across different countries or continents may impact research objectives, as well as pose significant challenges in the data collection phase of the project. Similarly, language barriers have a considerable impact on data collection and, ultimately, incorporating the new learning into the organization for maximum benefit. There are certain important considerations related to questionnaire construction and data collection methods that internal research managers must consider as they design and implement global research studies for their organizations. Failing to adequately understand and address these issues puts internal researchers at odds with their top management constituencies and risks conducting costly research projects that do not add value and improve the firm's competitive advantage.

Cultural Challenges

Conducting market research in an international market requires a great deal of new learning. From a managerial perspective, this includes a more comprehensive understanding of native culture. Cultural elements such as social institutions, gender roles, language,

religion, aesthetics, education, and time orientation are closely inter twined with national culture, and have a major impact on the acceptability and ad option of new products and services. The effect of culture is multi faceted in the sense that cultural values that are important to one group of people may mean little to another. Cultural differences deeply affect ad option of products and services and other forms of market behaviour. Clearly, cultural forces have taken on strategic importance that cannot be ignored when marketing new and/or existing products and services. Social factors embody a culture's fundamental organization, including its groups and institutions, its system of social infrastructure, and the process by which resources are distributed. Naturally, social structure affects market research decisions including the cost of conducting the research, reaching the target markets, collecting the data, etc.

The target market's knowledge of and familiarity with product service offerings also plays a critical role in conducting research. Market research specialists demand certain levels of educational and technological skills. Although a country may have a huge population, only a small segment of that population may be equipped with the knowledge necessary to employ research tools either at work or at home. In a technologically sophisticated domestic market, businesses have more opportunities to modify existing products/services to include new technological designs and features, and develop entirely new products/services and technologies. Research companies operating in a sophisticated market, where the customer group is large and profitable, have the advantage over companies operating in markets that lack such sophistication.

Sampling Issues/ Sampling Frame

Consider the process of conducting marketing research in China. China has a total population of 1.2 billion, 350million of which live in urban areas of 622 cities and scores of smaller towns. Of the cities, only 32 have populations of at least one million, while 42 have populations between 500,000 and one million, and the remaining 548 have populations of less than 500,000. Since almost no small towns or rural areas are included in market research projects, what constitutes a nationally representative sample of the Chinese market? Considering the framework in the unit of analysis in a complex single county like China varies widely between national, regional, and/or local.

Adding additional countries only makes the project more challenging for internal market research managers to administer. A logical means of reaching the largest sample possible, including individuals who don't live in major population centers, involves interview by telephone or computer. Unfortunately, technological capabilities are not equal across countries or regions. For example, in Germany, telephone penetration did not reach

the 80%level until the mid 1980s, long after that mile stone had been reached in the United States. Today, less than 10% of all households in India have telephones, and telephone penetration in Brazil is less than 50% in large cities. Considering the low computer usage in these nations, the sample representation problem is even more dramatically exacerbated when using Internet-based samples. Unless and until these nations increase their overall computer and Internet capacity, using the Internet to conduct international market research is not going to result in sound customer-based business strategies

Questionnaire Length

As consumers worldwide become increasingly sensitive to being interviewed, participation refusal rates keep trending upward. Of China's major cities, refusal rates are estimated at 32% in Guangzhou, 22% in Beijing, and 10% in Shanghai. A key driver of refusal rates is questionnaire length.

After approximately 20 minutes, most respondents become fatigued with the process and terminate the interview. This factor is exacerbated in international studies, as different languages can shorten or lengthen the amount of time it takes to get through a questionnaire. For example, translated into Italian, a 20 minute American questionnaire will last only approximately 18minutes. Translated into French, the same questionnaire will take 22 minutes. The difference in duration is attributable to the subtle nuances of both languages

Measurement Issues

In international market research, it is critical to establish the equivalence of scales and measures used to obtain data from different countries. One of the significant issues that must be dealt with early in the international market research process is the equivalence of data. This involves three considerations.

First, it has to be ascertained whether the constructs being studied are equivalent. In other words, are the same phenomena being studied in both countries?

Second, the equivalence of the measures of the concepts under study has to be determined. This means that the phenomena are being measured consistently in each country.

Finally, the equivalence of the sample being studied in each country or culture must be considered.

The issue here is that the samples used in each country are equivalent to each other (Kumar, 2000). These considerations involve substantial measurement issues that are increasingly critical in an international environment. The concepts of reliability, defined as consistency over time, and validity, which is concerned with what the instrument is actually measuring, are important to any market research effort, especially those that cross national boundaries.

Data Collection Challenges

The process of managing vendors in the international, rather than in the domestic, context is much more difficult, time consuming, and expensive. While taken for granted that mall intercept methodology, scanner data, and reliable postal delivery are all available in the U.S., this assumption is not true for many other parts of the world. Unreliable mail service in developing countries makes conducting international mail surveys problematic (Malhotra, 2004). Access issues in terms of locating the appropriate person and gaining their cooperation to participate in a market research study are also heightened in the international context (Craig &Douglas, 2005).Additionally, respondent and vendor confidentiality and trust are important considerations in the global context (Kumar, 2000). For example, a research study examining the functioning of a sovereign nation oriented company conflicts must have an assurance of confidentiality. These issues are more challenging in the global environment, where other barriers like language and culture play a larger role.

Legal Issues

Legal and privacy restrictions pose unique challenges in the international research arena. European countries with strict privacy regulations can potentially shut down marketing activities that profile or collect personal information. Gaining access to specific respondents can also be problematic in certain countries. Furthermore, the Chinese are monitoring questionnaire construction and even the approval of the final data. This is indirect conflict with the American approach of non-disclosure of proprietary client results.

Summary

Information needs are changing in both developed and developing countries. Established markets in industrialized countries are becoming more geographically integrated as direct vertical links and information flows are established between customers, retailers and suppliers. As a result, there is a growing need to conduct research spanning country boundaries, in order to identify regional or global market segments, or to examine opportunities for integrating and better coordinating strategies across national boundaries.

At the same time, speed in collection and interpretation of results from multiple and geographically diverse sources become imperative in order to anticipate market change and devise an effective response strategy.

As firms push the geographic frontiers of their operations to take advantage of growing opportunities, they need to collect information from a broader and more diverse range of markets. Increasingly, this entails conducting research in unfamiliar and distant markets in the Far East, the Middle East, Latin America and Africa. This in turn poses a number of challenges, not only in collecting accurate and reliable information on existing behaviour patterns in an expeditious and cost effective fashion, but also in predicting response to new and unfamiliar stimuli, and interpreting the implications for marketing strategy.

The purpose of market research is to reduce risk by providing appropriate data to support market planning. Effective planning reduces the likelihood of unwanted products being launched into a market. The main tools of market research are based on data gathering and analysis.

As, firms have expanded internationally and product markets are becoming increasingly integrated worldwide, the key decision issues facing the firm in the 90s have changed dramatically. As a result, research and information needs have changed and broadened. In industrialized nations such as North America, Europe and Japan, regional market integration and the removal of barriers between countries, the growth of a regional and global market infrastructure as well as increased mobility of consumers have created pressures to consolidate and integrate marketing strategy across countries. Consequently, increased attention is focused on conducting studies which cover multiple countries examining differences and similarities in behaviour and response patterns across countries.

At the same time, as growth in these markets slows, future market potential lies in emerging market economies, with countries such as China and India accounting for over one-third of the world's population. The explosive population growth in these countries, together with the opening up of markets in the former Soviet Union makes entry into these markets mandatory for firms aspiring to be global leaders in the future. In entering these markets, as in initially entering international markets, firms need to collect information to assess potential opportunities, to determine how to position, price, promote and distribute their products and brands, whether to develop local variants, etc.

Self Assessment Questions

1. Identify the importance of marketing research to business
2. Describe the evolution of international marketing research
3. Explain the process of international marketing research
4. High light the constraints of conducting research internationally
5. How marketing influences the global marketing decisions

CASE STUDY

Gold's Gym: A Western Health Club in Moscow

The move toward a free market economy has opened new opportunities for entrepreneurs in Russia. One such entrepreneur is 23-year- old Jake Weinstocks. After graduating from the University of Pennsylvania, Jake worked as a business consultant for Ernst & Young and moonlighted as marketing manager for Dynamo, the Red Army hockey team that is now a farm team for the Pittsburgh Penguins professional hockey team. Despite being very busy, Jake wanted to start his own business in sports or fitness.

He first developed a partnership with fellow American Paul Kuebler and Russian Vladimir Grumlik. The partners spent the winter of 1995 studying the successes and failures of new businesses in Moscow. This work generated the idea of starting a western-style health club. The concept was to bring a new level of service and management to health clubs in Moscow.

Because there is a limited middle class in Russia, the target market for the health club was determined to be people who had money to spend now. This included about 100,000 expatriates and 400,000 rich Muscovites, based on the best available information. The partners calculated they would need 1,000 members paying $1,500–$2,500 annually to break even and 3,000 to generate the profits needed to attract Western capital. Limited availability of capital in Russia led them to seek capital from American firms, such as Commonwealth Property Investors.

Once the capital was obtained, getting the needed fitness equipment to Moscow was addressed. The partners ordered 24 shipments of very expensive, high-tech Cybex fitness equipment and a basketball court supplied by Nike. Since the government levies heavy storage fees for each day that imported goods are not released, it was important

to get the equipment through customs as soon as possible. Vladimir Grumlik used his personal connections to facilitate the customs process. Relationships and alliances with other important people were also necessary to get the business established.

Gold's Gym opened in Moscow in February 1997. The gym balances Russian and American culture. The staff is entirely Russian, but they have all been trained to deliver high levels of Western service. Other clubs in Russia had the mentality "that they're doing you a favor by letting you use their club." Gold's Gym is much more customer oriented. The partners hope the mix of the best equipment and the best service will lead to success.

Questions

1. What aspects of the marketing environment in Russia made it difficult to open Gold's Gym?
2. What is the basic marketing strategy of Gold's Gym?
3. In what ways is a relationship perspective important to the success of Gold's Gym?
4. What future marketing environment trends do you think represent opportunities or threats to the success of Gold's Gym?

Source of the Case: Julia Vitullo-Martin, "Moscow Entrepreneurs Seize Golden Opportunity, The Wall Street Journal, January 20, 1997, A14.

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UNIT - III

Learning Objective

After going through this Lesson you should be able to:

- Understand the process of International Marketing Management
- Understand the Planning and Organizational frame work for Global Marketing
- Understand Global Market Entry Strategies

Unit Structure

Lesson 3.1 - The process of International Marketing Management

Lesson 3.2 - Planning and Organisation for Global Marketing

Lesson 3.3 - Global Market Entry Strategies

Lesson 3.1 - The Process of International Marketing Management

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Introduction

Managing marketing processes in an international environment is not simple. Complexity, diversity, and uncertainty pose real challenges when trying to market products globally. Success in the international markets may be substantial, but it requires the manager to take many complex decisions, and use the limited resources at his disposal wisely.

Many organizations face the complexities of international marketing process management, most of them without the expected success. The primary differentiating factor between success and failure in international marketing is professional process management. Many companies operating (or attempting to operate) in international markets often run into marketing problems and dilemmas, such as:

- Target market selection.
- Estimating real market potential.
- Differentiation and creating competitive advantage.
- Pressure to reduce prices.
- Inability to respond to market opportunities.
- Excessive marketing expenses in light of poor results.
- Difficulties to recruit channel partners.

Proxy provides professional, methodical consultancy services, which assist the organization to improve its international marketing processes. These relate to the following issues:

Research & Analysis: business / marketing problem focus, locating information sources, market potential analysis, industry & competition analysis, mapping marketing channels, market barriers & trends, new markets identification, internal analysis & marketing audit.

Strategy & Planning: setting objectives, formulating marketing and competitive strategies, marketing mix & operational marketing planning, budgeting and sales forecasting, preparation and critical review of Marketing & Business plans. Planning market entry and channel set up activities.

Marketing Organizing: planning organizational structure, improving inter-departmental interfaces, enhancing market / marketing orientation, implementing marketing reporting & control systems. Job description, recruiting, selection, training, motivating and compensating of human resources are HR activities in international marketing & sales.

Five Steps of the International Marketing Process

The international marketing process comprises of five steps which marketers have to take as part of their integrated marketing effort;

Analyzing international marketing opportunities to identify unfulfilled or under fulfilled needs that a marketer may satisfy through its products or services. This analysis can be done through information seeking and analysis or through market research (secondary or primary data collection and analysis).

A marketer may have a product or service concept developed first and looks for the needs in the market that can be satisfied by these products or services. The marketer may also first identify unfulfilled or under fulfilled needs in the market and then develop a suitable product or service offer to satisfy these identified needs.

Once the marketer has identified the potential opportunities in the first step now is the time to select the groups of potential international customers (target markets) to whom to sell the products or services. This step also involves identifying the potential buyers, demand measurement & forecasting, market segmentation, market targeting & market positioning. Segmentation involved identifying groups of potential customers from the total potential market that are homogeneous on certain aspects of identity and behavior and are heterogeneous on the same aspects from others in the target population. The aspects on which the segments are based must be relevant for the marketer to develop its products and services and the marketing programs. This step also requires the marketers to decide what key benefits in a product or service to offer to the selected target customers and on what aspects to differentiate from the competition.

Since a firm needs to offer best value to the potential customers to makes its products and services more salable compared with competitors, firms have to adopt appropriate business and marketing strategies. Many activities are to be undertaken in a firm by many people and in a number of departments to produce and deliver final products and services to its customers, this requires aligning and coordinating numerous activities and efforts. At the same time to achieve best value for the buyer and best profits for the firms, the firm needs to optimize all the activities, put efforts for optimum resource utilization. This requires the firm to adopt a coherent and appropriate logic or strategy to direct and control the alignment, coordination and optimization of its business and marketing effort. Various researchers have studied successful companies around the world and attempted to identify how these firms have aligned and coordinated their activities and efforts. Porter has concluded that successful firms have adopted one of the three strategies, i.e., cost leadership, differentiation or focus. Other scholars have identified that successful firms adopted strategies that were aligned with their market position, i.e., a market leader, challenger, follower & niche strategies. Other researchers have asserted that firms have achieved success in markets through adopting on of the three value discipline strategies, i.e., operational excellence, customer intimacy or product leadership. Details on these strategies may be found in strategy subject and books.

The fourth step in the marketing process is developing the international marketing mix, product, place, price & promotion. Marketing mix identifies four key areas for developing a well coordinated marketing strategy. To create a strong marketing impact

a firm needs to develop appropriate programs in these four key areas and also need to ensure that all these four aspects of a firms marketing program are well coordinated and in conformity with each other to give a clear image to the target market of the firm's brands and its products.

Developing a good marketing program is not good enough for success. A firm also needs to manage the international marketing effort properly. Quite often firms fail not because they did not have a viable marketing program, but that they failed in properly implementing their well designed plans. Firms also need proper analysis, planning, implementation and control of their marketing programs.

Nine Steps to an International Marketing Strategy

As technology breaks down geographic and cultural communication barriers, even small businesses can often tap into the global marketplace. If you think your business is too small to pursue international business opportunities, think again. Get a jump on those opportunities by following the 9 steps outlined below.

Research

Unless you spend excessive amounts of time in foreign countries or soak up knowledge like a Jeopardy Champion, you're probably not able to make an informed decision about a global strategy without doing your homework first. Start with the low-hanging fruit: talk to your coworkers, peers, family and friends.

Find out what you can about countries and markets with the greatest potential. Read relevant print and Web publications voraciously (I prefer e-Marketer journal, Economist, Wall Street Journal and Yahoo! for general business and market research). Compile information about various opportunities and determine which markets have the greatest overall potential (in case you've been hiding in a cave, here's an emerging and growth market cheat sheet for you: China, India, South America, Russia and The Middle East).

Build

Most small to medium-sized businesses do not have the resources on staff to undertake a global market strategy. Assuming there are sufficient opportunities abroad, it's time to determine how to develop appropriate resources (i.e. in-country sales and support, logistics and fulfillment). In the build vs. buy decision, many companies prefer to minimize financial risk by partnering with companies that have extensive experience within the target

market to provide those resources. While partnering minimizes risk, there are drawbacks, such as lack of direct management oversight. Those negatives can be alleviated by hiring employees who have the education, experience and native language skills relevant to your target market. International students are excellent resources: they are educated, affordable, multi-lingual and usually have some relevant work experience. The potential downside is that you'll probably have to navigate through a bushel of red tape in order to secure work visas.

Assess

As you're formulating partnerships or hiring strategies, it's critical to thoroughly assess current products and services for viability in foreign markets. The offering(s) must be intuitive and scalable. If the offering is not intuitive, that is, easily applicable to the target markets (i.e. there is no apparent need) you will fail. If the offering is not scalable (i.e. it can't be produced and delivered to the target markets profitably) you will fail. The new team should lead the assessment phase and outline a strategy to build or leverage existing infrastructure.

Modify

Once the offering is fine-tuned and ready for market, your sales collateral must be modified. Even if the global partner or new team has native speaking skills, there are reasons to hire professional translation and localization services (e.g. Via Language) to that ensure all cultural nuances are dealt with appropriately. The goal is to ensure that your sales documentation demonstrates that you feel your target market's pain – and that you are able to offer a relevant solution.

Partner

While your core business and marketing team may already be in place, there are a variety of reasons to explore additional partnerships. Companies specializing in marketing, logistics and customer service are excellent additions to the growing team.

Partners within the target market may have relationships with your potential customers that can be leveraged for business development. For instance, we've partnered with a homeland security and business consultancy, Eminent Logic, to help penetrate into the Middle Eastern markets. In return, we introduce them to local companies we know that can further their business objectives.

Network

Alternative business development strategies include attending, sponsoring, and participating in industry networking events and conferences. Look into joining industry associations that have a footprint in your target markets, or that are native to the target market. Web-based networking groups (e.g. LinkedIn) can also help expand your network.

Market

Now that you've built out your infrastructure, trained and deployed a team, and modified your offering and marketing collateral, you're ready to turn on the fire hose. Two of the most effective forms of outreach are search engine and email marketing. Internet access is everywhere, which means everyone has access to search engines and email. The best way to build a house list of potential customers in your target market is to optimize your international Web site for search engines and offer visitors an incentive to provide their email address. Once you've got their permission to contact them regularly, build a relationship and convert site visitors and email subscribers into customers.

Travel

Over time, cold leads will become hot, and those hot leads will want face-to-face meetings. Its decision time: are you ready to invest in a global travel expense account? If so, be prepared to reel in the business, as most of the world works on a handshake and face time is critical. Turn your business trips into tax-deductible vacations and see the world while you're at it.

Review

On a quarterly basis, it's very helpful to take a close look at your progress. Assess the effectiveness of your process, strategies and tactics and determine if you're on the right track. If not, look for ways to fine-tune by breaking down the entire process. If you've seen success thus far, understand what is working well for you and decide whether or not you want to scale further. When that is the case, just start over at the research phase and begin searching for your next market opportunity.

Managing International Marketing Requires Subtle Handling Too

If you impose worldwide or European-wide marketing programmes on all countries, you'll crush the creativity and will to succeed of in-country marketing people. And, if you

don't have some degree of discipline and cohesion, your marketing won't communicate your company's messages adequately, and it will cost you more than it should.

So, effective marketing across several countries, product types or brands, is all about finding the right balance – learning how to hold a butterfly.

What Do You Need to Achieve?

Let's say that you're responsible for marketing across several countries – for example across Europe. Here are some of the things that will probably be uppermost in your mind.

- Ensure that strong company branding is used, with consistent use of logos, colours, and key messages.
- Get the most out of your people, harnessing their creativity and ingenuity, whether they are designing programmes for use across Europe, or running localized campaigns in a single country.
- Achieve economies of scale from marketing programmes that have the widest possible use.
- Make sure that local sales activity is supported effectively.
- Give potential customers in each country reassurance that, while you are an international company, you have a strong local presence, and you are in tune with the issues current in that market.

What happens if you get the balance wrong?

Let's look at the probable results of the extreme cases of too much centralization, and too much localization.

(a) Too Much Centralization

- Your company's key messages are not well understood in each country. Sometimes, it's just a nuance that needs to be altered in order for you to communicate your message effectively in another country, culture and language. At other times, substantial revisions would have to be made to a centrally designed programme, to be able to communicate its underlying message accurately.

- In-country marketing and sales don't operate in a creative, problem-solving manner. They wait to see what's delivered from the centre and blame the centre for all the failures of marketing.

- Your marketing is insensitive to trends and issues in each country.

(b) Too Much Localization

- Your company's key messages are not well understood in each country. Sometimes, it's just a nuance that needs to be altered in order for you to communicate your message effectively in another country, culture and language. At other times, substantial revisions would have to be made to a centrally designed programme, to be able to communicate its underlying message accurately.

- In-country marketing and sales don't operate in a creative, problem-solving manner. They wait to see what's delivered from the centre and blame the centre for all the failures of marketing.

- Your marketing is insensitive to trends and issues in each country.

- Your marketing is expensive, with no economies of scale achieved, because every programme is designed in-country and is not re-used elsewhere.

- You have a strong local presence, but you lose the strength of being an international company because your branding is inconsistently used in the country. These days, everything is visible on the web, and it's easy to find examples of companies that don't take care to ensure that their branding is consistently used across their web sites. The impression given by this is that the company is not as well managed as it could be: customers like to see their suppliers have a consistent company image.

When You Get the Balance Right

The good news is that an **appropriate balance can be found** – you can hold that marketing butterfly. The balance point I'm talking about is that of appropriate decisions being made about:

- What each person's **responsibilities** are, when they are involved in marketing?
- Who holds the **budget** for which activity?
- What are the appropriate **processes** for creating and approving marketing programmes – who needs to be involved, and who needs to approve the programme and be responsible for its success.

It is possible to have wonderfully creative marketing programmes designed in-country that can be re-used elsewhere with little or no modification. And it's possible to design pan-European marketing programmes that achieve economies of scale, and yet with tiny modifications to the programme being made for each country, be entirely in-step with what your potential customers in each country need to hear.

Do You Want the Good News, Or the Bad News?

The bad news is that, firstly, this takes a lot of work to manage. And secondly, **there isn't one way of doing this that is suitable for all organizations**, or even for all types of marketing activity within one company. You may need to find a different balance point for public relations from the one you have for lead generation, for example.

But the good news is that when you get it right, it is very satisfying and cost-effective. And the **impact of your marketing is much, much greater**.

If you face these issues, be encouraged that it is possible to hold that marketing butterfly without crushing it or letting it escape. Perhaps you can use this analogy to explain to the people around you that you need their help in finding the appropriate balance: include them in forming the solution rather than leave them as part of the problem. Then you can work with them to ensure that your resources are used effectively to achieve clear objectives for all the stakeholders involved

Summary

Many organizations face the complexities of international marketing process management, most of them without the expected success. The primary differentiating factor between success and failure in international marketing is professional process management. The international marketing process comprises of five steps which marketers have to take as part of their integrated marketing effort. Analyzing international marketing opportunities to identify unfulfilled or under fulfilled needs that a marketer may satisfy through its products or services. This analysis can be done through information seeking and analysis or through market research. Once the marketer has identified the potential opportunities in the first step now is the time to select the groups of potential international customers (target markets) to whom to sell the products or services. This step also involves identifying the potential buyers, demand measurement & forecasting, market segmentation, market targeting & market positioning. Since a firm needs to offer best value to the potential customers to makes its products and services more salable compared with competitors, firms have to adopt appropriate business and marketing strategies. Many

activities are to be undertaken in a firm by many people and in a number of departments to produce and deliver final products and services to its customers, this requires aligning and coordinating numerous activities and efforts. At the same time to achieve best value for the buyer and best profits for the firms, the firm needs to optimize all the activities, put efforts for optimum resource utilization. The fourth step in the marketing process is developing the international marketing mix, product, place, price & promotion. Marketing mix identifies four key areas for developing a well coordinated marketing strategy. Developing a good marketing program is not good enough for success. A firm also needs to manage the international marketing effort properly. Quite often firms fail not because they did not have a viable marketing program, but that they failed in properly implementing their well designed plans. Firms also need proper analysis, planning, implementation and control of their marketing programs.

Self Assessment Questions

1. Explain the process of International Marketing Management
2. Write short notes on Value creation by an International Marketer
3. What is the need of balancing Centralization and Localization?
4. Describe the steps to be followed in formulating an International Marketing Strategy

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Lesson 3.2 - Planning and Organisation for Global Marketing

Introduction

Marketing planning is simply a logical sequence and series of activities leading to the setting of marketing objectives and the formulation of plans for achieving them. *Malcolm McDonald*

The key to good organizing, planning and controlling in global marketing is to create a flexible structure or framework which enables organizations to respond to relevant differences in the markets in which they operate, but, at the same time, delineates relationships clearly between parts and personnel of the company. There are no prescriptive solutions to the questions of what is the most appropriate organizational structure, planning framework and form of control.

One thing is clear though organizations can only work effectively if structure is defined, standards of performance are designed and communicated, and the control framework is fair, clear to all and agreeable. This is not to say that once the structure is defined, it cannot be changed. In fact, modern marketing thought is that formal structure is just not the order of the day. Many informal structures develop within formal frameworks. Many organizations make the mistake of setting a structure first, long before they have decided on a strategy. This is a recipe for disaster as it forces organizations to fit the strategy to the structure, with all the inherent dangers of such rigidity.

The capstone of a company's global marketing activities will be its strategic marketing plan. To implement its global plans effectively, a company needs to reflect on the best organizational setup that enables it to successfully meet the threats and opportunities posed by the global marketing arena. Organizational issues that the global marketer must confront cover questions like: What is the proper communication and reporting structure? Who within our organization should bear responsibility for each of the functions that need to be carried out? How can we as an organization leverage the competencies and skills of our individual subsidiaries? Where should the decision-making authority belong for the various areas? We consider the major factors that will influence the design of a global organizational structure. Multinational companies (MNCs) can choose from a wide variety of organizational structures.

The form of appropriate organization depends on a number of factors including company goals, size of business, the number of markets operated in, the level of involvement in the market, international experience, the nature of the product, the width and range of the product line, the nature of the marketing task and the risk involved. Many organizational forms in developing countries are relatively unsophisticated. Many are "domestic" based, that is, they may have a small export division within the domestic based operation. Most organizations deal through agents or other merchant houses which have their own organization. Flowers and vegetables, exported from Eastern and Southern Africa, are generally sold through agents, auction systems or distributors in the country of destination.

Organizational Structures

Eventually, the organization grows in complexity and extent of operations, which then gives rise to an International Division structure, with its own personnel. The next stage of evolution is the development of regional headquarters or regional management centers. Differences between regions are a pressure to create the regional centers. Regional centers can be costly, so they must be developed with care.

As the organization continues to evolve, the international division may be replaced by a variety of structures like a **geographical, product, function or strategic business unit** approach.

The area or **geographical organization**al form is used by highly orientated organizations with stable products. The advantages and disadvantages of this form are as follows.

Advantages

- Growth of regional groupings
- Expertise grouping
- Ease of communications
- Knowledge of areas

Disadvantages

- Sub optimal product and functional expertise allocation
- Duplication
- Lack of coordination.

A second organizational form is the **product organization** structure. These product groups have global marketing responsibility .The advantages and disadvantages of this form are as follows

Disadvantages

- Flexibility shortage of area knowledge can miss marketing opportunities difficult to coordinate.

A third organizational form is the **functional organization**al structure. Here executives on functional areas have global responsibility. The advantages and disadvantages of this form are as follows:

Advantages

- Good for firms with narrow, homogeneous product line, good where regional variations are not too great

Disadvantages

- May miss market opportunities because of narrow focus.

A familiar of organizational structure in the recent past is **Strategic Business Units** (SBUs). SBUs are defined as a group of products or technologies that serve an identified market and compete with identified competitors. In many ways an SBU is not part of a formal structure but represents a process or system overlay for the purpose of developing a business strategy.

The final organizational form is that called a **Matrix organization**al structure. Matrix organizations are the most sophisticated form of organization and bring together four competencies -geographic knowledge, product knowledge and know-how, functional competence in such fields as finance, production and marketing, and knowledge of the customer industry and its needs. Management's task in a matrix organization is to bring together all the above perspectives and skills to achieve particular objective(s). Matrix structures require a fundamental change in management behaviour, organizational culture and technical systems. One of the important things to remember is that structure must always follow strategy. Too often structures are developed long before a strategy is worked out. This can cause "straitjacketing" and lead to an inflexibility which is both unnecessary and stifling.

It is likely to be quite a while before less developed countries have developed a number of the organizational forms described above. The important thing is to keep an arrangement which allows the company to grow, control and manage its destiny.

Global Marketing Planning

Planning involves where the organization would like to be and how to get there, which involves goal setting and strategy determination. Planning involves three main activities:

a) Situation analysis - where are we now?
b) Objectives - where do we want to be?
c) Strategy and tactics - how can we best reach our goals?

Planning gives a number of advantages:

- Gives rise to systematic thinking
- Helps coordinate activities
- Helps prepare for exigencies
- Gives activity continuity
- Integrates functions and activities
- Helps in a continuous review of operations.

The planning task depends on the level of involvement in a country. Exporting and licensing give minimum country involvement but joint ventures involve more in-country activity and give a greater degree of integration and control. Wholly owned subsidiaries give the organization almost total control. Because of the "external uncontrollable" international planning is rather more difficult than domestic planning. Planning can be standardized, decentralized or interactive.

Standardized Plans

These offer a number of advantages:

- Cost savings on limited product range and economies of scale both in production and marketing, for example fertilizers.
- Uniformity of consumer choice across the world.

There are disadvantages

- Different market characteristics make uniform products inappropriate, for example, fresh milk products.
- Environmental obstacles disallow standardization; for example lack of refrigerated transport in developing countries.

Decentralized Plans

Decentralized plans take into account the subtleties of local conditions; however they are usually very costly and resource consuming.

Interactive Plans

In this approach headquarters devises branch policy and a strategic framework, and subsidiaries interpret these under local conditions, for example Nestlé. Headquarters coordinates and rationalizes advertising, pricing and distribution. Within any of the above approaches plans can be either long or short term, increasingly planning is becoming fairly routine. Most companies operate “annual operating plans” although these are often “rolled forward” to cover a few years hence.

Domestic vs. International Planning

Domestic Planning	International Planning
1. Single language and nationality	1. Multilingual/multinational/multicultural factors
2. Relatively homogeneous market	2. Fragmented and diverse markets
3. Data available, usually accurate and collection easy	3. Data collection a large task requiring significantly higher budgets and personnel allocation
4. Political factors relatively unimportant	4. Political factors frequently vital
5. Relative freedom from government interference	5. Involvement in national economic plans; government influences business decisions
6. Individual corporation has little effect on environment	6. “Gravitational” distortion by large companies
7. Chauvinism helps	7. Chauvinism hinders
8. Relatively stable business environment	8. Multiple environments, many of which are highly unstable (but may be highly profitable)

9.	Uniform financial climate	9.	Variety of financial climates ranging from over-conservative to wildly inflationary
10	Single currency	10.	Currencies differing in stability and real value
11	Business "rules of the game" mature and understood	11.	Rules diverse, changeable and unclear
12	Management generally accustomed to sharing responsibilities and using financial controls	12.	Management frequently un autonomous and unfamiliar with budgets and controls

Planning Concepts

In order to operate any type of plan, three types of information is essential:

a) Knowledge of the market - customers, competitors and government
b) Knowledge of the product - the formal product, its technology and its core benefit
c) Knowledge of the marketing functions.

In many cases LDCs have found it difficult to make real international inroads often because they lack the information required. "Country grouping" is an effective way to plan. Hence countries are grouped according to a number of criteria and treated alike. Such criteria include market size, market accessibility (market or commercial economies), stage of market development, prospects for growth, and promise for future growth and development. Zimbabwe may be a "promising" country for investment, but Somalia may not be "promising". Other concepts for planning are "competence centers". The mission of a competence centre is to formulate a global business strategy for a new business. Competence centers are not those developed through "leadership" ability but involve a number of factors like strategic location and skills.

In marketing planning, ultimately, the decision on the type of plan rests entirely on the size of the task, type of task and competence to achieve the task. In exporting flowers, say, to Europe, Zimbabwe would be well advised, with the small quantities involved, to leave the task to those experts in Holland and Germany whose knowledge and competence is far superior. The downside is that some market opportunities may be overlooked.

Global Marketing Control

Factors like distance, culture, language and practices create barriers to effective control. Yet without control over international operations, the degree to which they have or have not been successful cannot be judged. Plans are the prerequisite to control, yet these are

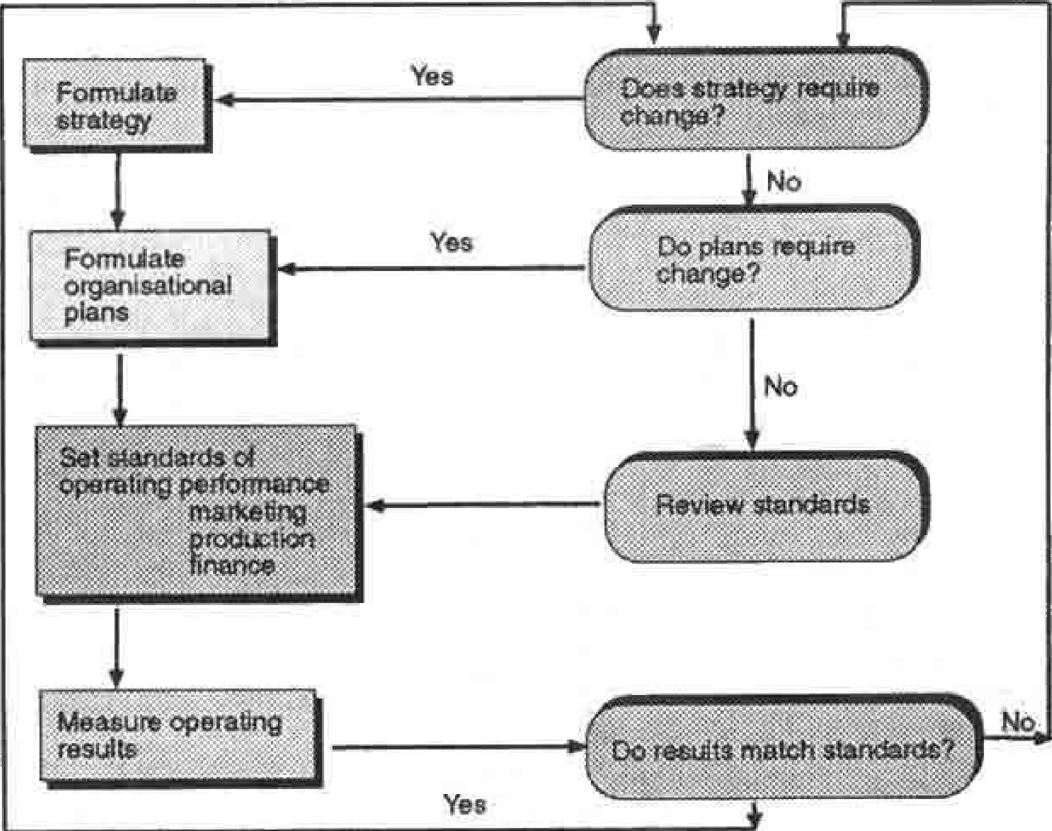
developed in the midst of uncertain forces both internal and external to the firm. Basically control involves the establishment of standards of performance, measuring performance against standards and correcting deviations from standards and plans. In international marketing the ability to control is disturbed by the distance, culture, political and other factors. In well developed international operations headquarters may seek to achieve control over subsidiaries by three types of mechanism - data management mechanisms, merge mechanisms, which shift emphasis from subsidiary to global performance, and conflict resolution mechanisms that resolve conflicts triggered by necessary trade-offs. The method of export control in many less developed countries takes the form of direct organization by government.

Formal Control Methods

Planning and Budgeting

Planning and budgeting are the main formal control methods. The budget spells out the objectives and necessary expenditures to achieve these objectives. Control consists of measuring actual sales against expenditures. If there is tolerable variance then no action is usually taken.

The Planning and Control Cycle



Evaluating Performance

Performance is evaluated by measuring actual against planned performance. The problem is setting a performance standard. Usually it is based on historical performance with some kind of industry average. Problems of international comparison inevitably occur like how does one plan in an environment where exchange rates fluctuate quite often during the budget period.

Influences on Marketing Budgets

In preparing a budget or plan, the following factors are important:

a) Market potential - how large, can it be tested?
b) Competition - what is the competitive level?
c) Impact of substitute products - packaging can be substituted in many ways
d) Process - headquarters may impose an "indicative planning" method or guidance.

Other Performance Measures

Other measures of performance include share of market, image, position or corporate acceptance. Often these are difficult to obtain where data or data collection is difficult.

Informal Control Methods

When staff is transferred from market to market, they often take their standards of performance with them and these can be assessed. Other methods include face-to-face contact and evaluation.

Variables Influencing Control

A number of factors may influence the control methods. These include:

a) Domestic practices and values of standardization - these may not be appropriate
b) Communication systems - have a heavy influence on control mechanisms - electronic control measures may not always be available
c) Distance - the greater the distance, the bigger the physical and psychological differences

d) The product - the more technological the product the easier it is to implement uniform standards

e) Environmental differences - the greater the environmental differences the greater the delegation of responsibility and the more limited the control process

f) Environmental stability - the greater the instability in a country the less relevance a standardized measure of performance has

g) Subsidiary performance - the more a subsidiary does, or reports, a non variance, the less likely is there to be headquarters interference

h) Size of international operators - the bigger and greater the specialization of headquarters staff the more likely will extensive control is applied.

Obviously the ability to control any international operation, whether it is very sophisticated or relatively unsophisticated, and the process will break down without adequate face-to-face and/or electronic communications.

Global Strategic Marketing Planning

The vast majority of multinational companies prepare a global strategic marketing plan to guide and implement their strategic and tactical marketing decisions. Such plans are usually developed on an annual basis and look at policies over multiple years. The content of a global strategic marketing plan can be very broad in scope but usually covers four areas:

1. Market situation analysis. A situation analysis has to be done on a global basis of the company's customers (market segments, demand trends, etc.), the competition (SWOT analysis), the company itself, and the collaborators (e.g., suppliers, distribution channels, alliance partners).
2. Objectives. For each country, management states goals that are achievable and challenging at the same time.
3. Strategies. Once the objectives have been determined, management needs to formulate marketing strategies for each country to achieve the set goals, including resource allocation.
4. Action plans. Strategies need to be translated into concrete actions that will implement those strategies. Specific actions are to be spelled out for each marketing mix element.

Although these are the core areas of a global strategic marketing plan, such a plan will also discuss anticipated results and include contingency plans. International planning can be top-down (centralized) or bottom-up (decentralized).

Obviously, hybrid forms that combine both options are also possible. With top-down planning, corporate headquarters guides the planning process. Bottom-up planning is the opposite. Here, the planning process starts with the local subsidiaries and is then consolidated at headquarters level. The bottom-up approach has the advantage of embracing local responsiveness. Top-down planning, on the other hand, facilitates performance monitoring. A centralized approach also makes it easier to market products with a global perspective. One survey of large multinational corporations found that pure bottom-up planning was most popular used by 66 percent of the companies. Only 10 percent of the companies, on the other hand, relied on a pure top down planning process. The balance used a hybrid format or no planning at all cent). Marketing plans can go awry.

One survey identified the following obstacles as the main problems in preparing strategic plans for global markets:

1. Lack of information of the right kind
2. Too few courses of action; too little discussion of alternatives
3. Unrealistic objectives
4. Failure to separate short/long-term plans
5. Lack of framework to identify strengths/weaknesses
6. Too many numbers
7. Lack of framework to define marketplace threats and opportunities

Control of Global Marketing Efforts

To make global marketing strategies work, companies need to establish a control system. The main purpose of controls is to ensure that the behaviors of the various parties within the organization are in line with the company's strategic goals. We will first concentrate on formal control methods. We will then also turn to less formal means to implement control: establishing a corporate culture and management development.

Any formal control system consists of basically three building blocks: (1) the establishment of performance standards, (2) the measurement and evaluation of performance against standards, and (3) the analysis and correction of deviations from standards.

Establishing Performance Standards (Metrics): Establishing performance standards (metrics) is the first step of the global marketing control process. These standards should be driven by the company's corporate goals. There are essentially two types of standards: behavior- and outcome-based. Behavior- based control involves specifying the actions that are necessary to achieve good performance. Managers are told through manuals/ policies how to respond to various scenarios. Rewards are based on whether the observed behavior matches the prescribed behavior. Examples of behavior-based standards include distribution coverage, branding policies, pricing rules, and R&D spending. Output-based control depends on specific standards that are objective, reliable, and easy to measure. Outcome standards focus on very specific outcome-oriented measures such as profit and loss statements, return on investment (ROI), market share, sales, and customer satisfaction.

When applied too rigorously, behavior-based standards restrain local management's ability to respond effectively to local market conditions. An example is Johnson & Johnson's experience in the Philippines.48 In the early 1990s; J&J's managers found out that young Philippine woman used J&J's baby talcum to freshen their makeup. To cater toward their needs, local management developed a compact holder for the talcum powder. However, a few days before the planned launch of the new product, corporate headquarters asked the local managers to drop the product, claiming that the cosmetics business is not a core business for J&J. Only after the local marketing head made a personal plea for the product at J&J's headquarters was the subsidiary given the green light. The product became a big hit, though it was never launched in other markets since J&J did not want to run the risk of being perceived as a cosmetics maker.

Output-based standards such as profits can also create problems. For instance, a change in the company's transfer pricing rules49 could distort profits of the local subsidiary even though its performance does not change.50 Likewise, a high sales volume target could encourage a country subsidiary to get involved with the gray market in order to boost its numbers.

For most companies, the two types of standards matter. Let us show you why with a simple illustration. Imagine that headquarters wants country A to increase its market share by 3 percentage points over a one-year period. Country A could take different approaches to achieve this target. One path is to do a lot of promotional activities— couponing, price promotions, trade deals, and so on. Another route is to spend more on advertising. Both paths could achieve the desired outcome. However, with the first option, heavy dealing, the company risks tarnishing its brand image. With the second option, the subsidiary would invest in brand equity. Thus, the same outcome can be realized through two totally different behaviors, one of which can ruin the long-term viability of the company's brand assets.

Ideally, standards are developed via a bottom-up and top-down planning process of listening, reflecting, dialoguing, and debating between headquarters and the local units. Standards should also strike a delicate balance between long and short term priorities.

Measuring and Evaluating Performance

Formal control systems also need mechanisms to monitor and evaluate performance. The actual performance is compared against the established standards. In many instances, it is fairly straightforward to measure performance, especially when the standards are based on within country results. To make global or pan-regional strategies work, MNCs also need to assess and reward individual managers' contributions to the "common good." For example, two- thirds of the bonuses payable to Unilever's senior executives in Europe are driven by Unilever's performance in that region.52 In practice, however, it is tremendously hard to gauge managers' contributions to the regional or global well-being of the firm.

Analyzing and Correcting Deviations

The third element is to analyze deviations from the standards and, if necessary, make the necessary corrections. If actual performance does not meet the set standard, the company needs to analyze the cause behind the divergence. If necessary, corrective measures will be taken. This part of the control system also involves devising the right incentive mechanisms—checks and balances—that make subsidiary managers "tick." While proper reward systems are crucial to motivate subsidiary managers, one study has shown the key role played by the presence of due process.

Due process encompasses five features:

(1) The head office should be familiar with the subsidiaries' local situation;
(2) Global strategy development should involve a two-way communication;
(3) Head office is relatively consistent in making decisions across local units;
(4) Local units can legitimately challenge head- quarters' strategic views and decisions; and
(5) Subsidiary units receive explanations for final strategic decisions.

Apart from formal control mechanisms, most MNCs also establish informal control methods. Below we cover the two most common informal control tools, namely, corporate culture and human resource development.

Corporate Culture

For many MNCs with operations scattered all over the globe, shared cultural values are often a far more effective "glue" to bond subsidiaries than formal bureaucratic control tools. Corporate cultures can be clan-based or market- based. Clan cultures have the following distinguishing features: they embody a long socialization process; strong, powerful norms; and a well-defined set of internalized controls.

Market cultures are the opposite: norms are loose or absent; socialization processes are limited; and control systems are purely based on performance measures. For most global organizations where integration is an overriding concern, a clan-like culture is instrumental in creating a shared vision.

Corporate values are more than slogans that embellish the company's annual report. To shape a shared vision, cultural values should have three properties:

1. Clarity. The stated values should be simple, relevant, and concrete.
2. Continuity. Values should be stable over time, long-term oriented, not flavor-of-the- month type values.
3. Consistency. To avoid confusion, everyone within the organization should share the same vision. Everybody should speak the same language. Everyone should pursue the same agenda.

Human Resource Development

Another major informal control tool is a company's program for management development. These programs have three critical roles. First and foremost, training programs can help managers worldwide in understanding the MNC's mission and vision and their part in pursuing them. Second, such programs can speed up the transfer of new values when changes in the company's environment dictate a "new" corporate mentality. Finally, they can also prove fruitful in allowing managers from all over the world to share their best practices and success stories.

"Soft" versus "Hard" Levers

A joint research project conducted by the Stanford Business School and McKinsey aimed to uncover what sort of tools multinationals rely on to resolve the global vs. local tensions.57 The project, dubbed the "Globe Project," studied 16 multinational companies

through in-depth interviews, questionnaires, and network analysis. Based on company interviews, the researchers identified seven management tools or "levers" that companies use to resolve the global/local trade-offs:

Organizational structure. It is creating formal positions and lines of authority.

Process. This refers to defining work flows and procedures.

Incentives. The reward systems that encourage the outcomes in line with the desired balance between global and local priorities.

Metrics. Measurement systems that focus on desired outcomes.

Strategy. The extent to which the central strategy guides local decisions.

Networks. Building personal relationships that help resolve disputes and encourage sharing of knowledge and resources.

Culture. Shared values that encourage a common approach among all members of the organization.

As one can see, there is some overlap between these levers and the control methods discussed earlier. Three of the tools—process, incentives, and metrics— are hard levers; three other tools—strategy, networks, and culture—are soft levers (formal versus informal methods). Structure is a hybrid.

Summary

In every marketing plan there must be provision for organizing, implementing and controlling marketing organizations. This is particularly important when marketing globally, due to the many possible pitfalls which can occur, described in the previous lesson. Depending on the size of the export or global operations a decision has to be made on the type of organization, whether it be area, product, function or matrix based; on what type of marketing plan, be it standardized or decentralized and on what method of control to install. Formal methods of control include budgets and informal methods include elements of auditing but this depends to a great extent on environmental differences, distance of the market to the seller, the product and other characteristics, not least of which is the size of the international organization. Planning involves where the organization would like to be and how to get there, which involves goal setting and strategy determination. Factors like distance, culture, language and practices create barriers to effective control. Yet without control over international operations, the degree to which they have or have not been successful cannot be judged. Plans are the prerequisite to control, yet these are developed in the midst of uncertain forces both internal and external to the firm. Basically control

involves the establishment of standards of performance, measuring performance against standards and correcting deviations from standards and plans. In international marketing the ability to control is disturbed by the distance, culture, political and other factors.

The vast majority of multinational companies prepare a global strategic marketing plan to guide and implement their strategic and tactical marketing decisions. Such plans are usually developed on an annual basis and look at policies over multiple years. To make global marketing strategies work, companies need to establish a control system. The main purpose of controls is to ensure that the behaviors of the various parties within the organization are in line with the company's strategic goals.

Self Assessment Questions

1. Explain how planning helps the organizations
2. What is the importance of an organization structure?
3. How to control the global marketing operations
4. Write about global strategic marketing planning
5. Describe the global strategic marketing control mechanisms

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Lesson 3.3 - Global Market Entry Strategies

Introduction

A *mode of entry* into an international 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 consider modes of entry into international markets such as *Exporting, Licensing, International Agents, International Distributors, Strategic Alliances, Joint Ventures, Overseas Manufacture, International Sales Subsidiaries and the Internet..*

Finally strategic analysis that has to be done also explained. 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 standalone 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.

Global Market Entry Considerations

Paliwood **(International Marketing 1993)** suggests that before a business makes the final decision to start trading in an overseas country it should consider six factors:

1. **Speed** how quickly does the business wish to enter the selected market (country). Due to country specific laws, rules and regulations it will take longer to (obtain the necessary permits and permissions and) set up in some countries compared to others.
2. **Costs** the business should carry out a full assessment of the likely costs of entering the selected market. Otherwise the business could end up losing money and affecting its current business set up.
3. **Flexibility** How easy is it to enter/leave the chosen market. As discussed above some countries may have rules and regulations that make it difficult to enter that market. Conversely if the decision to trade in an overseas country is unsuccessful the businesses need to be able to leave quickly and limit business losses.

4. **Risk Factors** what are the political risks of entering the overseas market? Political relations between the country that the business is based in and the one the business would like to enter may affect what the business can do in the selected market. For example the country you wish to enter may have international trading sanctions against it. What are the competitive risks of entering the market? How competitive is the market? If the market is already very competitive this will make it difficult to obtain a profitable market share.

5. **Payback Period** what deadline has the business set for securing a profitable return from entering the market? If there are pressures to breakeven and return a profit within a certain period the business needs to carefully consider their decision to trade globally, as international trade is unpredictable.

6. **Long Term Objectives** what does the organization wish to achieve in the long term by operating in the foreign market? Does the long term plan involve establishing a presence in one market and then moving onto others? A long term plan will help the business establish its strategy and ensure that it grows at a sustainable pace.

Global Market Entry Strategies

Exporting as an Entry Strategy

Exporting represents the least commitment on the part of the firm entering a foreign market. Exporting to a foreign market is a strategy many companies follow for at least some of their markets. Since many countries do not offer a large enough opportunity to justify local production, exporting allows a company to centrally manufacture its products for several markets and therefore to obtain economies of scale. Furthermore, since exports add volume to an already existing production operation located elsewhere, the marginal profitability of such exports tends to be high.

A firm has two basic options for carrying out its export operations. The form of exporting can be directly under the firm`s control or indirect and outside the firm`s control. It can contact foreign markets through a domestically located (in the exporter`s country of operation) intermediary- an approach called indirect exporting. Alternatively, it can use an intermediary located in the foreign market - an approach termed direct exporting.

Indirect Exporting

Indirect exporting includes dealing through export management companies’ off shoring agents, merchants or distributors. Several types of intermediaries located in the

domestic market are ready to assist a manufacturer in contacting international markets or buyers. The major advantage for managers using a domestic intermediary lies in that individual`s knowledge of foreign market conditions. Particularly, for companies with little or no experience in exporting, the use of a domestic intermediary provides the exporter with readily available expertise. The most common types of intermediaries are brokers, combination export and manufacturers` export agents. Group selling activities can also help individual manufacturers in their export operations.

Direct Exporting

Direct exporting includes setting up an export department within the firm or having the firm`s sales force sell directly to foreign customers or marketing intermediaries. A company engages in direct exporting when it exports through intermediaries located in the foreign markets. Under direct exporting, an exporter must deal with a large number of foreign contacts, possibly one or more for each country the company plans to enter. Although a direct exporting operation requires a larger degree of expertise, this method of market entry does provide the company with a greater degree of control over its distribution channels than would indirect exporting. The exporter may select from two major types of intermediaries: agents and merchants. Also, the exporting company may establish its own sales subsidiary as an alternative to independent intermediaries. Successful direct exporting depends on the viability of relationship built up between the exporting firm and the local distributor or importer. By building the relationship well, the exporter saves considerable investment costs. The independent distributor earns a margin on the selling price of the products. Although the independent distributor does not represent a direct cost to the exporter, the margin the distributor earns represents an opportunity that is lost to the exporter. By switching to a sales subsidiary to carry out the distributor`s tasks, the exporter can earn the same margin. With increasing volume, the incentive to start a sales subsidiary grows. On the other hand, if the anticipated sales volume is small, the independent distributor will be more efficient since sales are channeled through a distributor who is maintaining the necessary staff for several product lines. The lack of control frequently causes exporters to shift from an independent distributor to wholly owned sales subsidiaries.

Many companies export directly to their own sales subsidiaries abroad, side stepping independent intermediaries. The sales subsidiary assumes the role of the independent distributor by stocking the company's products and/or services, sometimes jointly advertising and promoting the products, selling to buyers and assuming the credit risk. The sales subsidiary offers the manufacturer full control of selling operations in a foreign market. Such control may be important if the company`s products require the use of special marketing skills such as advertising or selling. The exporter finds it possible to

transfer or export not only the product but also the entire marketing program that often makes the Product a success. The operation of a subsidiary adds a new dimension to a company`s international marketing operation. It requires the commitment of capital in a foreign country, primarily for the financing of account receivables and inventory. Also, the operation of a sales subsidiary entails a number of general administrative expenses that are essentially fixed in nature. As a result, a commitment to a sales subsidiary should not be made without careful evaluation of all the costs involved.

Foreign Production as an Entry Strategy

Many companies realize that to open a new market and serve local customers better, exporting into that market is not a sufficiently strong commitment to realize strong local presence. As a result, these companies look for ways to strengthen their base by entering into one of several ways to manufacture.

Licensing

Licensing is similar to contract manufacturing, as the foreign licensee receives specifications for producing products locally, but the licensor generally receives a set fee or royalty rather than finished products. Licensing may offer the foreign firm access to brands, trademarks, trade secrets or patents associated with products manufactured. Under licensing, a company assigns the right to a patent (which protects a product, technology or process) or a trade mark (which protects a product name) to another company for a fee or royalty. Using licensing as a method of market entry, a company can gain market presence without an equity (capital) investment. The foreign company or licensee gains the right to commercially exploit the patent or trademark on either an exclusive (the exclusive right to ascertain geographic region) or an unrestricted basis. Due to advantages of low risk and low investment, licensing is a particularly attractive mode for small and medium-sized firms. Licensing also is an effective mode for testing the future viability of more active involvement with a foreign partner.

Licenses are signed for a variety of time periods. Depending on the investment needed to enter the market, the foreign licensee may insist on a longer licensing period to pay off the initial investment. Typically, the licensee will make all necessary capital investments (machinery, inventory and so forth) and market the products in the assigned sales territories, which may consist of one or several countries. Licensing agreements are subject to negotiation and tend to vary considerably from company to company and from industry to industry.

Companies use licensing for a number of reasons. For one, a company may not have the knowledge or the time to engage more actively in international marketing. The market potential of the target country may also be too small to support a manufacturing operation. A licensee has the advantage of adding the licensed product`s volume to an ongoing operation there by reducing the need for a large investment in new fixed assets.

A company with limited resources can gain advantage by having a foreign partner market its products by signing a licensing contract. Licensing not only saves capital because no additional investment is necessary but also allows scarce managerial resources to be concentrated on more lucrative markets. Also, some smaller companies with a product in high demand may not be able to satisfy demand unless licenses are granted to other companies with sufficient manufacturing capacity.

In some countries where the political or economic situation appears uncertain, a licensing agreement will avoid the potential risk associated with investments in fixed facilities. Representing an export of technology rather than goods (as in exporting) or capital, licensing is an attractive mode in markets where political and economic uncertainties make a greater involvement risky. Both commercial and political risks are absorbed by the licensee. In other countries governments favor the granting of licenses to independent local manufacturers as a means of building up an independent local industry. In such cases, a foreign manufacturer may prefer to team up with capable licensee despite a large market size, because other forms of entry may not be possible.

A major disadvantage of licensing is the company`s substantial dependence on the local licensee to produce revenues and thus royalty i.e. usually paid as a percentage on sales volume only. Once a license is granted, royalties are paid only if the licensee is capable of performing an effective marketing job. Since the local company`s marketing skills may be less developed, revenues from licensing may suffer accordingly.

Another disadvantage is the resulting uncertainty of product quality. A foreign company`s image may suffer if a local licensee markets a product of substandard quality. Ensuring a uniform quality requires additional resources from the licenser that may reduce the profitability of the licensing activity. Thus, the producer loses some control in certain situations. The risk of losing control of intellectual property and/or technological advantages can also be mentioned as another disadvantage of licensing.

Another potential problem is that the licensee may adapt the licensed product and compete head on with the licensor. The possibility of nurturing a potential competitor is viewed by many companies as a disadvantage of licensing. With licenses usually limited to

a specific time period, accompany has to guard against the situation in which the licensee will use the same technology independently after the license has expired and therefore turn into a competitor.

Although there is a great variation according to industry, licensing fees in general are substantially lower than the profits that can be made by exporting or local manufacturing. Depending on the product, licensing fees may range anywhere between 1 percent and 20 percent of sales, with 3to5 percent being more typical for industrial products. Conceptually, licensing should be pursued as an entry strategy if the amount of the licensing fees exceeds the incremental revenues of any other entry strategy such as exporting or local manufacturing. A thorough investigation of the market potential is required to estimate potential revenues from any one of the entry strategies under consideration.

Franchising

Franchising is a special form of licensing in which the franchiser makes a total marketing program available including the brand name, logo, products and method of operation. Usually the franchise agreement is more comprehensive than a regular licensing agreement in as much as the total operation of the franchisee is prescribed. It differs from licensing principally in the depth and scope of quality controls placed on all phases of the franchisee`s operation.

The franchise concept is expanding rapidly beyond its traditional businesses (such as service stations, restaurants and real-estate brokers) to include less traditional formats such as travel agencies, used car dealers, the video industry and professional and health improvement services. About 80 percent of all McDonald`s restaurants are franchised in 116countries.

Local Manufacturing

A common and widely practiced form of market entry is the local manufacturing of a company`s products. Many companies find it to their advantage to manufacture locally instead of supplying the particular market with products made elsewhere. Numerous factors such as local costs, market size, tariffs, laws and political considerations may affect a choice to manufacture locally. The actual type of local production depends on the arrangements made; it may be contract manufacturing, assembly or fully integrated production. Since local production represents a greater commitment to a market than other entry strategies, it deserves considerable attention before a final decision is made.

Under contract manufacturing, a company arranges to have its products manufactured by an independent local company on a contractual basis. This is an entry mode in which a firm contracts with a foreign firm to manufacture parts or finished products or to assemble parts in to finished products. The manufacturer`s responsibility is restricted to production. Afterward, products are turned over to the international company which usually assumes the marketing responsibilities for sales, promotion and distribution. In a way, the international company rents the production capacity of the local firm to avoid establishing its own plant or to circumvent barriers set up to prevent the import of its products.

Contract manufacturing differs from licensing with respect to the legal relationship of the firms involved. The local producer manufactures based on orders from the international firm but the international firm gives virtually no commitment beyond the placement of orders. Typically, the contracting firm supplies complete product specifications to the foreign firm, sets production volume and guarantees purchase. Lower labor costs abroad are the major incentive for using this entry mode.

Typically, contract manufacturing is chosen for countries with a low volume market potential combined with high tariff protection. In such situations, local production appears advantageous to avoid the high tariffs, but the local market does not support the volume necessary to justify the building of a single plant. These conditions tend to exist in the smaller countries in Central America, Africa and Asia. Of course, whether an international company avails itself of this method of entry also depends on its products. Usually, contract manufacturing is employed where the production technology involved is widely available and where the marketing effort is of crucial importance in the success of the product.

By moving to an assembly operation, the international firm locates a portion of the manufacturing process in the foreign country. Typically, assembly consists only of the last stages of manufacturing and depends on the ready supply of components or manufactured parts to be shipped in from another country. Assembly usually involves heavy use of labor rather than extensive investment in capital out lays or equipment. Motor vehicle manufacturers and electronics industries have made extensive use of assembly operations in numerous countries.

Often, companies want to take advantage of lower wage costs by shifting the labor intensive operation to the foreign market, this results in a lower final price of the products. In many cases, however, the local government forces the setting up of assembly operations either by banning the import of fully assembled products or by charging excessive tariffs on imports. As a defensive move, foreign companies begin assembly operations to protect

their markets. However, successful assembly operations require dependable access to imported parts. This is often not guaranteed and in countries with chronic foreign exchange problems, supply interruptions can occur.

To establish a fully integrated local production unit represents the greatest commitment a company can make for a foreign market. Since building a plant involves a substantial outlay in capital, companies only do so where demand appears assured. International companies may have any number of reasons for establishing factories in foreign countries.

Often, the primary reason is to take advantage of lower costs in a country, thus providing a better basis for competing with local firms or other foreign companies already present. Also, high transportation costs and tariffs may make imported goods uncompetitive.

Some companies want to build a plant to gain new business and customers. Such an aggressive strategy is based on the fact that local production represents a strong commitment and is often the only way to convince clients to switch suppliers. Local production is of particular importance in industrial markets where service and reliability of supply are main factors in the choice of product or supplier.

Many times, companies establish production abroad not to enter new markets but to protect what they have already gained through exporting. Changing economic or political factors may make such a move necessary. The Japanese car manufacturers who had been subject to an import limitation of assembled cars imported from Japan, began to build factories in United States in the 1980s to protect their market share.

As mentioned above, Japanese manufacturers` reasons for the local production were partly political as the United States imposed import targets for several years. Also, with the value of the yen increasing to one hundred yen per US dollar, exports from Japan became uneconomical compared with local production. Thus, to defend market positions, Japanese car companies instituted a longer-term strategy of making cars in the region where they are sold.

Moving with an established customer can also be a reason for setting up plants abroad. In many industries, important suppliers want to keep a relationship by establishing plants near customer locations, when customers build new plants elsewhere, suppliers move too. Another reason can also be shifting production abroad to save costs.

Ownership Strategies

Companies entering foreign markets have to decide on more than the most suitable entry strategy. They also need to arrange ownership, either as a wholly owned subsidiary, in a joint venture, or more recently in strategic alliance.

Joint Ventures

In a joint venture, an investing firm owns roughly 25 to 75 per cent of a foreign firm, allowing the investing firm to affect management decisions of the foreign firm. Under a joint venture (JV) arrangement, the foreign company invites an outside partner to share stock ownership in the new unit. The particular participation of the partners may vary, with some companies accepting either a minority or majority position.

In most cases, international firms prefer wholly owned subsidiaries for reasons of control, once a joint venture partner secures part of the operation, the international firm can no longer function independently, which sometimes lead to in efficiencies and disputes over responsibility for the venture.

If an international firm has strictly defined operating procedures, such as for budgeting, planning and marketing, getting the JV company to accept the same methods of operation maybe difficult. Problems may also arise when the JV partner wants to maximize dividend payout instead of reinvestment or when the capital of the JV has to be increased and one side is unable to raise the required funds.

Experience has shown that JVs can be successful if the partners share the same goals with one partner accepting primary responsibility for operations matters. Despite the potential for problems, joint ventures are common because they offer important advantages to the foreign firm. By bringing in a partner the company can share the risk for a new venture. Furthermore, the JV partner may have important skills or contacts of value to the international firm. Sometimes, the partner may be an important customer who is willing to contract for a portion of the new unit`s output in return for an equity participation. In other cases, the partner may represent important local business interests with excellent contacts to the government.

A firm with advanced product technology may also gain market access through the JV route by teaming up with companies that are prepared to distribute its products. Many international firms have entered Japan, China and Eastern Europe with JVs. But, not all joint ventures are successful and fulfill their partners expectations.

Despite the difficulties involved, it is apparent that the future will bring many more joint ventures. Successful international and global firms will have to develop the skills and experience to manage JVs successfully often in different and difficult environmental circumstances, and in many markets, the only viable access to be gained will be through JVs.

Strategic Alliances

A more recent phenomenon is the development of a range of strategic alliances. Alliances are different from traditional joint ventures in which two partners contribute a fixed amount of resources and the venture develops on its own. In an alliance, two entire firms pool their resources directly in a collaboration that goes beyond the limits of a joint venture. Although a new entity may be formed, it is not a requirement. Sometimes, the alliance is supported by some equity acquisition of one or both of the partners.

In an alliance, each partner brings a particular skill or resource usually they are complementary and by joining forces, each expects to profit from the other`s experience. Typically, alliances involve distribution access, technology transfers or production technology with each partner contributing a different element to the venture. Alliances can be in the forms of technology based alliances, production based alliances or distribution based alliances.

Although many alliances have been forged in a large number of industries, the evidence is not yet in as to whether these alliances will actually become successful business ventures. Experience suggests that alliances with two equal partners are more difficult to manage than those with a dominant partner. In particular, it is important to recognize that the needs and aspirations of partners may change over the life of an alliance and do so in divergent ways.

Predicting what the goals and incentives of the various parties will be under various circumstances is a critical part of effective planning? Furthermore, many observers question the value of entering alliances with technological competitors, such as between western and Japanese firms. The challenge in making an alliance work lies in the creation of multiple layers of connections or webs that reach across the partner organizations. Eventually such connections will result in the creation of new organizations out of the cooperating parts of the partners. In that sense, alliances may very well be just an intermediate stage until a new company can be formed or until the dominant partner assumes control.

Entering Markets through Mergers and Acquisitions

Although international firms have always made acquisitions, the need to enter markets more quickly than through building a base from scratch or entering some type of collaboration has made the acquisition route extremely attractive. This trend has probably been aided by the opening of many financial markets, making the acquisition of publicly traded companies much easier. Most recently even unfriendly takeovers in foreign markets are now possible. Nevertheless, international mergers and acquisitions are difficult to make work.

A major advantage of acquisitions is that they can quickly position a firm in a new business. By purchasing an existing player, a firm does not have to take the time to establish its presence or develop for it the resources it does not already possess. This can be particularly important when the critical resources are difficult to imitate or accumulate. Acquiring an existing firm also takes a potential competitor out of the market. Despite these advantages, acquisitions can have serious drawbacks.

First and foremost, acquisitions can be a very expensive way to enter a market. In addition to the likelihood of over bidding, acquisitions pose a number of other challenges. Most targets contain bundles of assets and capabilities, only some of which are of interest to the acquirer.Disposingofunwantedassetsormaintainingthemintheportfolio is often done at significant cost, either in real terms or in management time. Although these obstacles are serious, a number of acquisitions fail on another account; the post acquisition integration process fails. Integrating an acquired company in to a corporation is probably one of the most challenging tasks confronting top management.

Preparing an Entry Strategy Analysis

Of course, assembling accurate data is the corner stone of any entry strategy analysis. The necessary sales projections have to be supplemented with detailed cost data and financial need projections on assets (managerial, financial, etc. resources). The data need to be assembled for all entry strategies under consideration. Financial data are collected not only on the proposed venture but also on its anticipated impact on the existing operations of the international firm. The combination of the two sets of financial data results in incremental financial data incorporating the net overall benefit of the proposed move for the total company structure.

For best results, the analyst must take a long-term view of the situation. Asset requirements, costs and sales have to be evaluated over the planning horizon of the proposed

venture, typically three to five years for an average company. Furthermore, a thorough sensitivity analysis must be incorporated. Such an analysis may consist of assuming several scenarios of international risk factors that may adversely affect the success of the proposed venture. The financial data can be adjusted to reflect each new set of circumstances.

One scenario may include 20 percent devaluation in the host country, combined with currency control and difficulty of receiving new supplies from foreign plants. Another situation may assume a change in political leadership to a group less friendly to foreign investments. With the help of a sensitivity analysis approach, a company can quickly spot the key variables in the environment that will determine the outcome of the proposed market entry.

The international company then has the opportunity to further add to its information on such key variables or at least to closely monitor their development. It is assumed that any company approaching a new market is looking for profitability and growth. Consequently, the entry strategy must support these goals. Each project has to be analyzed for the expected sales level, costs and asset levels that will eventually determine profitability. Sales, costs and assets levels have to be estimated before.

Also, profitability has to be estimated (past sales analysis, market test method). In order to do this, assessing international risk factors, maintaining flexibility and assessing total company impact are required. Market research that focuses on buying patterns, customer segmentation on ability to pay especially in developing countries, etc. (survey of buyers` intentions, composite of sales force opinion, expert opinion) (SWOT Analysis-strengths, weaknesses, opportunities, threats)

Entry Strategy Configuration

In reality, most entry strategies consist of a combination of different formats. We refer to the process of deciding on the best possible entry strategy mix as entry strategy configuration. Rarely do companies employ a single entry mode per country. A company may open up a subsidiary that produces some products locally and imports others to round out its product line. The same foreign subsidiary may even export to other foreign subsidiaries, combining exporting, importing and local manufacturing in to one unit. Furthermore, many international firms grant licenses for patents and trademarks to foreign operations, even when they are fully owned. This is done for additional protection or to make the transfer of profits easier. In many cases, companies have bundled such entry forms in to a single legal unit, in effect layering several entry strategy options on top of each other. Bundling of entry strategies is the process of providing just one legal unit in a given

country or market. In other words, the foreign company sets up a single company in one country and uses that company as a legal umbrella for all its entry activities. However, such strategies have become less typical particularly in larger markets, many firms have begun to unbundle their operations.

When a company unbundles, it essentially divides its operations in a country into different companies. The local manufacturing plant may be incorporated separately from the sales subsidiary. When this occurs, companies may select different ownership strategies, for instance, allowing a JV in one operation while keeping full ownership in another part. Such unbundling becomes possible in the larger markets such as the United States, Germany and Japan. It also allows the company to run several companies or product lines in parallel. Global firms granting global mandates to their product divisions will find that each division will need to develop its own entry strategy for key markets.

Web Portal or E-Business Entry Strategies

The technological revolution of the Internet with its wide range of connected and net worked computers has given rise to the virtual entry strategy. Using electronic means, primarily web pages, e-mail, file transfer and related communications tools, firms have begun to enter markets without ever touching down. A company that establishes a server on the Internet and opens up a web page can be connected from anywhere in the world. Consumers and industrial buyers who use modern Internet browsers, such as Netscape, can search for products, services or companies and in many instances even make purchases on line. Whatever the forecasts, most experts agree that the opportunity for Internet-based commerce will be huge.

The Internet will eliminate some of the hurdles that plagued smaller firms from competing beyond their borders. Given the low cost of the Internet, it is very likely that many more established firms will use the Internet as the first point of contact for countries where they do not yet have a major base. However, there are many challenges to would be Internet-based global marketers. One of the biggest is language. The second big challenge is the fulfillment side of the e-business. Here, we are dealing with completing a sale, shipping, collecting funds and providing after sales service to customers all over the world.

Summary

One of the most important strategic decisions in international business is the mode of entering the foreign market. On the one extreme, a company may do the complete manufacturing of the product domestically and export it to the foreign market. On the

other extreme, a company may do, by itself, the complete manufacturing of the product to be marketed in the foreign market there itself. There are several alternatives in between these two extremes.

The choice of the most suitable alternative is based on the relevant factors related to the company and the foreign market. In some cases, the alternatives available may also be limited. For example, the policy of some governments may not be very positive towards foreign investments. Several governments have a definite preference for joint ventures over complete foreign ownership. In some cases, the government may prefer foreign investment leading to import substitution to perpetual import of a product. Thus, in some cases, government policies may rule out the best alternative if the environment were free.

The following table provides a summary of the possible modes of foreign market entry

Comparison of Foreign Market Entry Modes

Mode	Conditions Favoring this Mode	Advantages	Disadvantages
Exporting	➢ Limited sales potential in target country; little product adaptation required ➢ Distribution channels close to plants ➢ High target country production costs ➢ Liberal import policies ➢ High political risk	➢ Minimizes risk and investment. ➢ Speed of entry ➢ Maximizes scale; uses existing facilities.	➢ Trade barriers & tariffs add to costs. ➢ Transport costs ➢ Limits access to local information ➢ Company viewed as an outsider
Licensing	➢ Import and investment barriers ➢ Legal protection possible in target environment. ➢ Low sales potential in target country. ➢ Large cultural distance ➢ Licensee lacks ability to become a competitor.	➢ Minimizes risk and investment. ➢ Speed of entry ➢ Able to circumvent trade barriers ➢ High ROI	➢ Lack of control over use of assets. ➢ Licensee may become competitor. ➢ Knowledge spillovers ➢ License period is limited

Joint Ventures	➢ Import barriers ➢ Large cultural distance ➢ Assets cannot be fairly priced ➢ High sales potential ➢ Some political risk ➢ Government restrictions on foreign ownership ➢ Local company can provide skills, resources, distribution network, brand name, etc.	➢ Overcomes ownership restrictions and cultural distance ➢ Combines resources of 2 companies. ➢ Potential for learning ➢ Viewed as insider ➢ Less investment required	➢ Difficult to manage ➢ Dilution of control ➢ Greater risk than exporting a & licensing ➢ Knowledge spillovers ➢ Partner may become a competitor.
Direct Investment	➢ Import barriers ➢ Small cultural distance ➢ Assets cannot be fairly priced ➢ High sales potential ➢ Low political risk	➢ Greater knowledge of local market ➢ Can better apply specialized skills ➢ Minimizes knowledge spillover ➢ Can be viewed as an insider	➢ Higher risk than other modes ➢ Requires more resources and commitment ➢ May be difficult to manage the local resources.

Self Assessment Questions

1. Why the mode of entry in to international markets is strategically important
2. Considering export as an entry strategy to foreign markets is good or bad
3. Explain different ownership strategies to enter global markets
4. Prepare a note on mergers and acquisitions
5. Describe the entry strategy analysis
6. Recognize the contemporary trends to enter abroad markets

CASE STUDY

Zambezi Nuts

Zambezi nuts is a small agricultural cooperative, recently developed in the Zambezi Valley in Zimbabwe. In previous years much time had been spent selecting and clearing a site and putting in cashew nut trees and a service road. The trees had now reached maturity. Although the domestic market was attractive, the cost of production and the quality of the nuts meant that far higher returns could be gained by selling the nuts on the international market.

The cooperative provided employment for about twenty small scale growers with a hectare each. Irrigation was in place. The coop itself had collection, grading and bulk packing facilities but no packaging facilities. It employed ten workers, a supervisor and general manager. It had two one tone trucks which collected from farms and distributed from the coop. The company had no experience at all in selling its produce overseas.

Task

What should Zambezi nuts consider before deciding on an exporting operation?

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UNIT – IV

Learning Objective

After going through this Lesson you should be able to:

- Understand the importance of Product Management
- Understand the scope and importance of International Products and Services
- Understand the nature and technique of Pricing mechanism in International Market

Unit Structure

Lesson 4.1 - Product Management

Lesson 4.2 - International Products and Services

Lesson 4.3 - Pricing for International Market

Lesson 4.1 - Product Management

Introduction

A Product is often considered in a narrow sense as something tangible that can be described in terms of physical attributes. Such as sample, dimension, components form, color and so on. This is a misconception that has been extended to international marketing because many people believe that only tangible product can be exported. But actually in tangible products is a significant part of the American export market. For example, American movies are distributed worldwide and business consulting services. In the financial market, Japanese and European banks have been internationally active in providing financial assistance. In many situations both tangible and intangible products must be combined to create a single, total product. Product describes it as a bundle of utilities or satisfaction.

A product can be defined as a collection of physical, psychological, services and symbolic attributes that collectively yield satisfaction, a benefits, to a buyer or user.

Marketing Industrial Products and Services Globally

Industrial Marketing Consists of all activities involved in the marketing of products and services to organizations i.e., commercial enterprises, profit and not – for profit institutions, government agencies and resellers that use products and services in the production of consumer or individual goods and services, and to facilitate the operation of their enterprises.

The critical issue facing industrial marketing is to remain competitive in what has become an increasingly competitive world. Today all nations compete with one another for markets, capital, technology supplies and raw materials.

Products: Local, National, International, & Global

Many companies find that, as a result of expanding 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 sale of each was too small to justify heavy expenditures on R&D, let alone marketing, production, and financial management from international headquarters. An important question regarding any product is whether it has the potential for expansion into other markets. The answer will depend on the company's goals and objectives and on perceptions of opportunity.

Managers run the risk of committing two types of errors regarding product decisions in global marketing. One error is to fall victim to "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 policy outside the home-country market. The other error has been to impose 'product decision policy' on all affiliate companies on the assumption that what is right for customers in home market must also be right for customers everywhere.

The four product categories in the local-to-global continuum—local, national, international, and global—are described in the following sections.

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.

National Products

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 noncarbonated, ginseng-flavoured beverage for sale only in Japan and a yellow, carbonated flavoured drink called Pasturina to compete with Peru's favourite 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.

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 multiregional 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 multiregional 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.

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 countries 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.

Examples: Marlboro, Coke

Sony, Avon, Mercedes, BMW, Volvo

Product Positioning

Product positioning is a communications strategy based on the notion of mental "space". *Positioning* 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.

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, high-tech and high-touch have been suggested for global products.

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.

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.

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 its 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.

Can global positioning work for all products? One study suggests that global positioning is most effective for product categories that approach either end of a "high-touch / high-tech"continuum. Both ends of the continuum are characterized by high levels of customer involvement and by a shared language among consumers.

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- I 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 also are characterized by a shared experience and high involvement among users, although they are less technical and more 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.

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 prob-

lem, 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 centre 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 travelled 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 American ness 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 products, by virtue of their design elegance, are perceived as both high-tech and high-touch.

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.

Preferences

There are marked and important differences in preferences around the world for factors such as colour and taste. 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 honoured by their competition.

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. The cost of repair services varies around the world and has an impact on product design. Another example of how labour cost affects product decisions is seen in the contrasting approaches to aircraft design adopted by the British and the Americans. The British approach, which resulted in the Comet, was to place the engine inside the wing. This design meant lower wind resistance and, therefore, greater fuel economy. The American approach to the question of engine location was to hang the engines from the wings at the expense of efficiency and fuel economy to gain a more accessible engine and, therefore, to reduce the amount of time required for engine maintenance and repair. Both approaches to engine location were rational. The British approach took into account the relatively lower cost of the labour required for engine repair, and the American approach took into account the relatively high cost of labour for engine repair in the United States.

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. 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 labelling 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.

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 incompatible 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 switch for proper operation with any system. Companies that are not aiming far the global market design products that comply with a single type of technical requirements. Cell phones manufactures encounter the GSM standard which has been adapted in Europe and in many other countries. However, the United States has three different cell technologies, and Japan has yet another CCU Standard. Measuring systems do not demand compatibility, but the absence of compatibility in measuring systems can create product resistance.

Labelling and Instructions

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

In which languages should labelling 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 booklets and more space on labels for information.

Coke Bottle in Different Countries

Brands in International Markets

Hand in hand with global products and services are global brands. A **global brand** is defined as the worldwide use of a name, term, sign, symbol (visual and/or auditory), design, or combination thereof intended to identify goods or services of one seller and to differentiate them from those of competitors.

A successful brand is the most valuable resource a company has. The brand name encompasses the years of advertising, good will, quality evaluation, product experience, and other beneficial attributes the market associates with-the product. Brand image is at the very core of business identity and strategy. Customers everywhere respond to images, myths, and metaphors that help them define their personal and national identities within a global context of world culture and product benefits. Global brands play an important role in that process. The value of Kodak, Sony, Coca-Cola, McDonald's, Toyota, and Marlboro is indisputable. One estimate of the value of Coca-Cola is that it is the world's most valuable brand.

Global Brands

Naturally, companies with such strong brands strive to use those brands globally. In fact, it appears that even perceived "global-ness" leads to increases in sales. The Internet and other technologies are accelerating the pace of the globalization of brands. Even for products that must be adapted to local market conditions, a global brand can be successfully used with careful consideration.

Ideally a global brand gives a company a uniform worldwide image that enhances efficiency and cost savings when introducing other products associated with the brand name, but not all companies believe that a single global approach is the best. Indeed we know that the same brand does not necessarily hold the same meanings in different countries. In addition to companies such as Kodak, Kellogg, Coca-Cola, Caterpillar, and Levi's that use the same brands worldwide, other multinationals such as Nestle, Mars, Procter & Gamble, and Gillette have some brands that are promoted worldwide and other that are country specific. Among companies that have faced the question of whether or not to make all their brands global, not all have followed the same path.

National Brands

A different strategy is followed by the Nestle Company, which has a stable of global and country-specific national brands in its product line. The Nestle name itself is promoted

globally, but its global brand expansion strategy is two-pronged. In some markets it acquires well-established national brands when it can and builds on their strengths-there are 7,000 local brands in its family of brands. In other markets where there are no strong brands to be local, people to be regional, and technology to be global, it does, however, own some of the world's largest global brands; Nescafe is one example.

Multinationals must also consider rises in nationalistic pride that occur in some countries and their impact on brands. In India, for example, Unilever considers it critical that its brands, such as Surf detergent and Lux and Lifebuoy soaps, are viewed as Indian brands. Just as is the case with products, the answer to the question of when to go global with a brand is, "It depends—the market dictates." Use global brands where possible and national brands where necessary.

Private Brands

Private brands owned by retailers are growing as challenges to manufacturers' brands, whether global or country specific. In the food-retailing sector in Britain and many European countries, private labels owned by national retailers increasingly confront manufacturers' brands. From blackberry jam and vacuum-cleaner bags to smoked salmon and sun-dried tomatoes, private-label products dominate grocery stores in Britain and in many of the hypermarkets of Europe. Private brands captured nearly 30 percent of the British and Swiss markets and more than 20 percent of the French and German markets. In some European markets, private-label market share doubled in just the past five years.

As it stands now, private labels are formidable competitors. They provide the retailer with high margins; they receive preferential shelf space and strong in-store promotion; and, perhaps most important for consumer appeal, they are quality products at low prices. Contrast that with manufacturers' brands, which traditionally are premium priced and offer the retailer lower margins than they get from private labels.

Employ Global Brand-Planning Process

Companies that follow good global brand management practices, use a well-defined planning process. The planning process is similar across markets and products. The similarity can be seen in terms of vocabulary, strategic analysis inputs such as competitor positions and strategies and brand strategy models, and outputs such as brand building programs.

A brand strategy model must make clear which person or group is responsible for the brand and brand strategy. The strategy model must also involve a process template

(or outline). The process template must mention the target segment, the brand identity or vision, brand equity goals and measures, and brand-building programs.

Effective brand planning programs must·

- Involve an analysis of customers, competitors, and the brand.
- Avoid an exclusive focus on product attributes.
- Involve programs that communicate the brand's identity.
- Include brand equity measurement and goals.
- Include a mechanism to the global brand strategies to country brand strategies.

Brilliant Brand Building Strategies

Attaining global brand leadership needs appropriate brand building strategies. The firm has to first consider what type of brand building strategy to adopt. It can follow advertising, sponsorship, increasing retail presence, and promotions for its brand building efforts. The firm has to decide which one serves its requirements best.P&G comes up with exceptional ideas by giving enough freedom to its country teams in developing breakthrough brand building programs.

Another way to stimulate creative ideas is to have more than one advertising agency as the service provider. As mentioned earlier, a single agency can better oversee a campaign.

Brand measurement is necessary to see that brand building is actually going on. The measurement system must be designed in such a way that it measures not only financial performance but also customer awareness, customer loyalty, the brand's personality, and the brand associations that resonate with the public.

Brand Piracy

Creation of brand in itself is not enough. The brand also should be protected from piracy through registrations. Various forms of piracy are: outright piracy, reverse engineering, counterfeiting, and passing off.

Counterfeiting

Counterfeiting means diluting the product quality and selling under the same trademark. This is quite prevalent in clothing industry. For example, counterfeited version

of Levi's branded jeans is available in market at Rs 250 when the original product costs more than three times this price.

Passing Off

Sometimes products are modified, and trademarks are adapted. The pirated product is similar in appearance, phonetic quality or meaning (of its name) to the original product. Immediately after Sony introduced "Walkman" in the market, many other electronic goods manufacturing companies released similar products.

Reverse Engineering

Reverse engineering involves dismantling another firm's product to learn about its special features. This form of piracy is prevalent in the electronic goods industry.

Outright Piracy

When a false product is sold in the same form and same trademark as the original, is referred to as Outright Piracy. Music records and tapes are often sold in this way.

Single Brands VS Multiple Brands

A company can market a single brand or multiple brands the same time. It chooses to market a single brand when the brand needs full attention and multiple brands when the market is heterogeneous and needs to be segmented. (Refer Exhibit 11.3 for P&G's global branding strategy). Each brand is then targeted at a separate segment. A company uses the strategy of multiple brands when it wants to move up or down the segment it is serving. A firm with multiple brands can position some brands in lower price segments and some brands in premium segments.

New Products in Global Marketing

What is a 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 Reiner, 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.

New Product Development

There are six distinct steps in new product development.

The *first step* is the *generation of new product ideas.* Such ideas can come from any number of sources (e.g., salespersons, employees, competitors, governments, marketing research firms, customers, etc.). A 3M Company chemist, after spilling some liquid on her tennis shoes, found that they had become capable of repelling water and dirt, and that is how Scotch-guard fabric protector was born.

The *second step* involves the *screening of ideas.* Ideas must be acknowledged and reviewed to determine their feasibility. To determine suitability, a new product concept may simply be presented to potential users, or an advertisement based on the product can be drawn and shown to focus groups to elicit candid reactions. As a rule, "corporations usually have predetermined goals that a new product must meet. Kao Corporation, a major Japanese manufacturer of consumer goods, is guided by the following five principles of product development: (1) a new product should be truly useful to society, not only now but also in the future, (2) it should make use of Kao's own creative technology or skill, (3) it should be superior to the new products of competitors, from the standpoint of both cost and performance, (4) it should be able to stand exhaustive product tests at all stages before it is commercialized, and (5) it should be capable of delivering its own message at every level of distribution.

The *third step* is *business analysis,* which is necessary to estimate product features, cost, demand, and profit. Xerox has small so-called product synthesis teams to test and weed out unsuitable ideas. Several competing teams of designers produce a prototype, and the winning model that meets preset goals then goes to the "product development" team.

The fourth step is *product development,* which involves lab and technical tests as well as manufacturing pilot models in small quantities. At this stage the product is likely to be handmade or produced by existing machinery rather than by any new specialized equipment. Ideally, engineers should receive direct feedback from customers and dealers.

The *fifth step* involves *test marketing* to determine potential marketing problems and the optimal marketing mix.

Finally, assuming that things go well, the company is ready for *full-scale commercialization* by actually going through with full-scale production and marketing.

It should be pointed out that not all of these six steps in new product development will be applicable to all products and countries. Test marketing, for example, may be irrelevant in countries where most major media are more national than local. If the television medium has a nationwide coverage, it is not practical to limit a marketing campaign to one city or province for test marketing purposes.

Unfortunately, it is easier for a new product to fail than to succeed. Naturally, so many things can go wrong (-see Marketing-Strategy 10-1). Therefore, it is just as critical for a company to know when to retreat as when to launch a product. Coca-Cola's Ambasa Whitewater, a lactic-based drink, was removed from the market after eighteen months when sales started to decline.

Standardization Vs Differentiation

Standardization

Standardized marketing mix involves developing a standard product and marketing it across the national border with the same communication, pricing, and distribution strategy. With the advent and standardization of technology and **more** specifically that of communications, customer needs are globally getting homogenized. This process or homogenization of needs is getting accelerated as trade barriers come down one after another leading to globalization of markets.

Worldwide communication has raised customers' expectations and demands for better living standards, work life, and entertainment. This cuts across cultures and religions. Nothing confirms this better than the success of brands like Coke, Pepsi, Levis, Benetton readymade garments, Sony and Panasonic electronic items, and even Hollywood films and soap operas made in the US and different parts of the world that have diverse cultures and religions. These commonalities in customer preferences lead conclusively to the standardization route in corporate strategy.

Standardization helps the firm not only reduce its costs but also to ensure superior quality and consistent brand image across the world market. It helps the firm achieve economies of scale which is not possible in any other approach.[4] Japanese firms have relentlessly pursued this strategy and gained substantial scale economies, often at the expense of their rivals.

Global firms compete in different national markets through a standardization strategy and offer appropriate volume—the best combination of price, quality, reliability, and delivery of products.

However, there are pitfalls in this decision. A study shows that the success of a global firm is based on how global decisions are conceptualized, refined, internally communicated, and implemented across the world market. It concludes that firms which lose out in the global marketing warfare are the ones that used marketing research insufficiently, had a tendency to over standardize, did poor follow-up, and had a narrow global perspective.

Differentiation

Opposed to standardization is the differentiation strategy. This involves responding to differences in customer preferences arising out of cultural, social, and religious barriers that divide nations. This strategy does help in building up sales volumes, but the cost is prohibitive when done at a global level. Imagine Levis, Benetton, Coke, McDonald's, Burger King, and Tacobell having to differentiate their marketing mix to suit different cultural preferences. They will not be able to derive economies of scale and hence their cost of operations in a market will be much higher. This will push up prices for consumers or else they will be out of business. Further, these global firms will never be able to ensure identical brand image across the world market. This goes against the thesis of globalization.

Nonetheless, local preferences and conditions will need to be woven into the marketing mix. The more acceptable route is that of localizing the marketing mix. This

involves decentralizing decision making at the local affiliate level. This is useful especially when it comes to areas like marketing communication, distribution, and to a limited extent, in the packaging area.

For example, Sunsilk shampoo from Unilever could achieve a higher penetration in the toiletries market in South Asia only when it introduced sachet packs for single use and priced it at an affordable level of Re 1 in India and comparable level in other South Asian countries as well. Maggie noodles, marketed by Nestle, could achieve a resounding success only when it included cooking instructions in its TV commercials and on the pack and also added taste makers to suit Indian taste buds. However, these and other successful global firms do not leave critical decisions like brand image, brand identity, product focus or positioning to local affiliates.

A study showed that two successful global firms, Nestle and Coca-Cola, standardized their product decisions but adapted their advertising, sales promotion, distribution, and customer service to suit local country preferences and conditions. The authors of this study maintain that local aspirations and strong managements in major country markets must be respected and persuaded to accept standardized products.

Even the headquarters needs to listen to local managers and do not rigidly implement their standardized marketing mix in countries showing distinctive customer preferences or needs. The success of global marketing is based on gaining cooperation from affiliates' managers in implementing the strategy. The approach of the headquarters towards affiliates has to focus on both the means and the ends.

McAloo Tikki, India

Bulbogi Burger, Korea

McDonald's: Product Adaptation

Self Assessment Questions

1. What is product management?
2. What are the factors to be considered while designing a product?
3. What is a new product? How will you launch a new product in global market?
4. Write down the diference between Standardisation vs differentiation?

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Lesson 4.2 - International Products & Services

What is Included in Services Marketing?

We have seen how HDFC bank in India has emerged as India's best bank in a very short period of time. It has taken less than seven years for the bank to emerge as India's leading bank leaving the State Bank of India, the largest bank in the country, far behind. Service marketing is based on very different paradigms. Since services are highly intangible, its benefits are felt over a period of time and not immediately. The task of the marketer becomes one of creating confidence in the customer's mind that the delivered benefits will, at the least, be the same as that of the promised ones. Two categories of products are included in the range of services marketing. These are:

(a) Products which are 100 percent intangible and truly fall in the category of services. Typical examples of these are baking, health care, insurance, airlines, hospitality, restaurants, management consultancy, education, and so forth.

(b) Services in manufactured products are different from the services industry as here the emphasis is more on providing a range of services which the customer is looking for when he buys a manufacture's product. Services here help is in augmenting the product and, hence, creates a new set of values for the customer.

Viewed, therefore, from the tangible and intangible perspectives, products can be put on a continuum. At the one end are products which are bought principally for their tangible benefits. Here the customer is not willing to compromise. Typical examples of this category are in industrial products like plant and machinery, equipments, and high value products like aircrafts or a limousine (luxury car). At the other end are products that primarily offer intangible benefits, like medical care. In between the two ends of this continuum are products and services which have both tangible and intangible and components. For example, consumer durables are products that are bought for both tangible and intangible benefits. Hence services in such a category assume a very different meaning.

Similarly, the hospitability sector in the service industry offers both tangible and intangible benefits to the customer. The tangible features are property equipped rooms matching the life style of the target customer, air-conditioning, facilities like television,

internet connectivity, facsimile machines, bar refrigerator, and other benefits like health care service, swimming pool, and so on. The intangible dimensions are the services provided by the people in housekeeping, room service, engineering, and / or restaurant services, on the one end of the continuum are services in the manufactured products segment and on the other are the pure services.

Today, the service industry plays a significant role in both the global and domestic economies.

Services Defined

Adriyan Payne has defined service as an activity that has an element of intangibility associated with it and which involves the service provider's integration either with the customers or with the property belonging to the customer. The service activity does not involve the transfer or ownership of the output.

According to Philip Kotler, service is "any activity of benefits that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product."

Therefore, it can be said that services are those activities which satisfy wants. Some services are offered individually while some services are offered as a supplement to a product purchased or a major service consumed by the customer. Essentially, services are intangible but sometimes they may involve the use of some tangible goods. In such case, the title of goods doesn't change from the service provider to the customer.

Characteristics of Services

The major characteristics of services are intangibility, inseparability, heterogeneity and perishability. They are discussed below:

A product is a physical entity, which can be touched. It can be seen, heard, touched, smelt, tasted and tested even before purchasing it or consuming it. For example, when a consumer decides to buy a bike, he can see it, touch it and test drive it to understand its performance. Therefore, he has a better idea of the product before deciding whether to buy it or not. But a service is not tangible unless it is experienced or consumed. The quality of a service cannot be established as clearly as it could be done in the case of a product. For example, when a customer decides to employ the services of a bank in obtaining a loan for the first time, he definitely has an idea about the services offered by the bank, but he can

really assess the services only after he avails them. A bike can be defined in terms of its HP and mileage, but a service cannot always be defined in absolute terms.

Heterogeneity

When service is offered by a human being, there is a high probability that the same level of service may not be delivered all the time. The service offered by one employee may differ from the service offered by another although they may belong to the same company. Even the service offered by the same employee may differ in the different times of the day.

After serving customers continuously for several hours during the day, an employee may not be able to offer the same level of service towards the end of the day. Also, the quality of service offered by employees at tone branch of a service organization may differ greatly from the service offered at another branch. But if the variation in service quality becomes extremely obvious, customers may be dissatisfied and switch over to a competing firm. Hence, service organization should try to maintain consistency in the services they offer by taking special care in recruitment, selection and training of employees.

Inseparability

A service is consumed by the customer as soon as it is delivered by the employee. Thus, production and consumption occur simultaneously in case of services as opposed to products which are manufactured, inventoried and then consumed. Services cannot be inventoried and need to be consumed immediately.

Since the delivery and consumption of a service are inseparable, there has to be interaction between customers and employees of a service are inseparable, there has to be interaction between customers and employees of a service organization. For example, the interaction between patients and doctor is essential if the patient has to be treated for an illness. In the case of a hotel, the interaction between a server and the customer is essential for the former to take the order for food and serve it to the customer for consumption.

Perishability

Unlike products, services cannot be inventoried or stored for future consumption. Let us assume that a hotel has 40 rooms. But on a particular day, only 10 rooms are occupied. The hotel has an idle capacity of 30 rooms on that day. This is a lost business opportunity for the hotel owner. The fact that it may be fully booked the next day does not compensate for the idle capacity on that day. It cannot be recovered as it is lost for all time. Thus, the

perishability of services is another factor that leads to complexity in management in the service sector. Service organizations need to be extremely cautious in their demand and supply plans.

Factors Influencing Globalization of Services

Many factors drive globalization. In the Indian scenario, the economic reforms that were introduced in 1991 have paved the way for the free flow of goods and services across the borders. This has benefited the country in many ways, such as creating new business opportunities like in the area of business process outsourcing. Some of the changes that have boosted globalization worldwide include

- Change in social factors
- Changes in technology
- Changes in political and legal conditions
- Competition in the market
- Competitive advantage

Changes in Social Factors

Today, people in one country know more about people in other countries, their culture, lifestyle, food habits, etc. because of their exposure to the media as well as personal experience gained by travelling to those places. We can see that the needs and wants of people across the world are converging, at least in a few services areas. For example, people in the East enjoy western music, while the West relishes the cuisines of India and China. Apart from visiting new places on a holiday, people also travel across the world for higher education, research, and jobs. Business people from all over the world expect similar facilities and services on flights and in hotels. With limited extent, service providers are finding it easier to offer their services on a global scale. Though this homogenization is superficial, it offers opportunities for local players to go global.

Changes in Technology

Advances in technology have made it possible for even high contact services like healthcare and technical support to be offered to remote customers. For example, if a client based in the US faces a problem with the application installed by a software solution provider from India, the latter can access the client's system and rectify the problem through a server. Similarly, a specialist surgeon can guide another surgeon operating on a patient,

virtually from anywhere in the world. This is an advanced form of telemedicine, which enables patients to consult doctors online and be treated. For example, a senior surgeon at London health Science Centre (LHSC) guided surgeons performing a heart surgery at LHSC from a far off location.

Changes in Political Condition

In some countries, political changes have facilitated globalization of services. In China, strict communist principles were followed until the 1970s. The government owned most of the assets and organization in the country. These were strong restrictions on the inflow of foreign goods and services. However, the political leaders of the '70s recognized the need for a policy change and lifted the restrictions on trade, facilitating a free flow of goods and services. Russia erstwhile USSR), was also a staunch communist country. However, it underwent some major changes during them tenures of Michael Gorbachev and Boris Yeltsin to discover its economic strengths. India too, with introduction of economic reforms in 1991, became a global economy and a force to reckon with. With more and more economies opening their gates to the free flow of goods and services across borders, the world has become a unified global market.

Competition in the Market

Within a country, there may be intense competition among the domestic players, forcing some of them to venture outside in search of better fortunes. When there is no scope for any expansion within the country, a service provider may seek opportunities in other countries in order to utilize its unused potential. It identifies new markets that have a potential demand for its services and exploits the opportunity.

Competitive Advantage

Intense competition in the market forces service providers to develop competencies that give them a competitive advantage over others. In addition, service organizations need to offer superior quality services at attractive prices to customers. To have a completive cost advantage, companies try to cut down on the cost of operations by choosing places where the cost of production is minimized.

They look for places where there is an abundant supply of people with the desired skills and the cost of labour and other services is lower. Therefore, organizations have their headquarters at one place, some operations at another and a few others at yet another place. And this leads to globalization. For example, general Motors have based its advertising and

marketing service operations in Great Britain, data processing services in Ireland and legal, banking, and insurance services in the US. Many IT firms like IBM, Microsoft, Dell, and Oracle have set up their operations in India, because of the availability of skilled people and the infrastructure and support offered by the state governments. GE has customer service, technical support and data processing operations in India.

Regulations in Home Country

Sometimes, too many regulations imposed by the government in the home country encourage national players to set up operations in countries where such regulations do not exist. India had a strong licensing system in place after independence. As a result, no Indian company could start any new business, if it was over a certain size. As a result, innovative businessmen like Aditya Birla opened companies in countries like Malaysia and Thailand. Thus, the Birla L\company became one of the first global companies from India.

Lack of Demand in Home Country

Sometimes, organizations may find that the demand for their services within their own country is either non-existent or too low to gain enough of a margin. For example, IT firms India like Infosys, Satyam, and Mastek concentrated on the global market in their initial stages primarily because Indian companies did not come forward to purchase the advanced IT solutions that they offered.

Overseas Market Entry Decisions

Different organizations enter different markets for different reasons and in different ways. Some of the modes of entry chosen by organizations to venture into foreign markets include exporting, taking up turnkey projects, licensing franchising, getting into joint ventures, and starting a wholly owned subsidiary. Each of these methods has its own advantages and disadvantages. The choice of a company depends on a variety of factors including the nature of the particular product or service and the political, social and competitive scenario in the target market.

Exporting

Most firms begin their global expansion operations with exports. During the 1990s, the volume of exports in the world economy increased significantly due to the demolition of trade barriers in many countries. However, exporting services remained a challenge owing to their inseparability characteristic. Firms planning to export goods/services must

identify opportunities in the foreign market, familiarize themselves with the mechanics of exports and learn to deal with the foreign exchange risk.

Firms can avoid the investment required on technology, infrastructure, and manpower in the host country by adopting the channel of exports. For example, an IT firm in India can export the services of its software engineers to overseas customers.

Exporting benefits firms by enabling them to enter foreign markets at minimum cost. It reduces the dependence of an organization on market demand in the home country. It also protects the business from being adversely affected by seasonal fluctuations in the local market.

Turnkey Projects

In a turnkey project, the contractors handle every aspect of the project for a foreign client, from the planning and inception stage to completion and hand over. At the completion of the contract, the system or plant is handed over to the foreign client. Turnkey projects are common in the IT, chemical, pharmaceutical, and petroleum redefining industries.

The main advantage of turnkey projects is the high financial returns from the built and installed assets. Turnkey projects are useful in cases where the foreign direct investment (FDI) is regulated by the host government. For example, many oil rich countries in the Middle East decided to invest and build their own petroleum refining industry, thus restricting FDIs in their oil and refining sectors.

However, since many of these countries did not have the technological knowledge for petroleum refining, they entered into turnkey projects with foreign firms that had the technology. Thus, foreign firms export their process technology to the host country. Turnkey projects are desirable in countries where the political and economic environments do not favour long-term investment.

Licensing

Licensing is an arrangement through which an organization (licenser) grants the rights to intangible property like patents, inventions, formulas, processes, designs, copyrights and trademarks to another company (licenser) for a specified period. The licenser in return receives a royalty fee from the licensee for the rights. For example, an organization may transfer its technical expertise to another organization for a specific time, in return for a royalty fee.

Franchising

Franchising is similar to licensing except that it requires a long-term commitment on the part of both the franchiser and the franchisee. The franchiser allows the franchisee to use its intangible property like the brand name and the operating procedures, but insists that the franchisee follows the standards and rules of the business specified by it. The franchiser has an important role to play in a franchise business in terms of marketing and promoting the service as well as training and supporting the franchisee employees. The franchiser receives a royalty payment that is usually a percentage of the franchisee's revenues. With the franchising strategy, a service firm can build a global presence faster and cheaper and lower its financial and operational risks.

Joint Ventures

In contrast to licensing and franchising arrangements, joint ventures allow companies to own a stake and simultaneously play a role in the management of foreign operations. Joint ventures require more direct investment, training, management assistance and technology transfer. For example, in India, many joint ventures exist between global insurance firms and Indian banks. Joint ventures exist between ICICI Bank and Prudential Insurance; Vysya Bank and ING insurance and the GMR Group; and HDFC and the Chuub Corporation (global non-life insurer)

Strategic Alliance

A strategic alliance is an understanding or arrangement among the players in a market. Firms form strategic alliances to expand to new markets, gain quick access to new technology, extend the product portfolio or avoid competition. In this case, the partnership can last for a fixed tenure, depending on the agreement between the parties involved. Strategic alliances may or may not involve financial commitment. The partners work together on predetermined goals and objectives, and are free to separate once these goals are achieved or when the agreement ends. For example, TCS entered into a strategic alliance with NEC Singapore in 2002 to travel and explore new opportunities in the global market.

Wholly Owned Subsidiaries

In a wholly owned subsidiary, the corporate owns 100% equity in the local subsidiary. Wholly owned subsidiaries can be established in a foreign country in two ways. A firm can set up new operations in the foreign country or it can acquire a local firm with an established business and promote its products through that firm.

A wholly owned subsidiary is the preferred mode of entry into foreign countries for firms with strong financial muscle and technological competence. A wholly owned subsidiary allows an organization to have tight control over operations, which is not possible in the case of licensing and franchising. The firm also does not risk letting go of its competitive advantage. However, a wholly owned subsidiary calls for huge investments and the company has to bear the complete risk while learning from its own experiences.

Mergers and Acquisitions

Mergers and acquisitions (M&As) are also one of the adventures for service organizations to enter foreign markets. M&As became quite popular in the '90s as more and more MNCs expanded their operations across different countries. In a merger, two organizations come together as one, with mutual consent, in a view to synergize their operations and gain more. However, in the absence of effective planning and management, mergers fail to realize the expected benefits. It is important for two merging firms to have some synergies and common features that strengthen the merger. In some cases an acquisition can be hostile, and some, friendly. The acquisition of Daksh e-services by IBM in 2004 has been explained in exhibit.

Piggyback

In this method, an organization takes the help of another organization to market its products/services in a foreign market. The piggyback method is used by organization as a method of entry for various reasons. The organization which carries the product/service into the foreign market through its channel is called the carrier. The organization that uses the partner's channel is called the rider. When an organization believes that it has a product/service that has immense potential in the new market, but does not want to risk investing large amounts in building the distribution channels, it goes in for the piggybacking method of entry. The partner organization i.e., the carrier) agrees to the arrangement when the product/service offered by the rider complements its own products/services and enhances its growth.

Sometimes, the carrier may even offer his brand name to the rider's products/services. This, in turn, may help in quick acceptance of the new products/services. If the rider's services are well received by customers, the carrier's image will also be enhanced and his own business may grow. The carrier may also help the rider by taking the responsibility for promotion and pricing of products/services. The rider can gain access to information on the foreign market and target customer's, without actually entering the market.

Challenges in the Global Market

Service organizations that operate globally face various challenges. The special characteristic of services like intangibility, inseparability, heterogeneity and perishability pose specific challenges to global service providers. The intangible nature of services requires service providers to add tangibility to the services they offer, inseparability forces them to train employees to offer impeccable service, heterogeneity requires organizations to ensure consistency in delivering service and perishability requires them to balance demand and capacity effectively. Apart from these challenges, international service organizations face other challenges too like the following:

Legal Barriers

Legal barriers include discriminating laws, subsides, restrictions on Foreign Service provider's operations, infringement of copyrights and trademarks, etc., specific to each country of operation. For example, in Tanzania, an organization that seeks to establish its banking operations has to face many legal restrictions. It has to satisfy all the terms and conditions laid down by the central bank of Tanzania to earn a license. The proposals for setting up a banking institution should include plans to offer financial services in the rural sectors and training and employment programs for citizens. The approval to any proposal depends on these plans. Further, banks cannot open a new branch or close an existing branch or declare dividends, without prior approval from the central bank.

Discriminating Laws

Some countries have a legal system with polices that favour domestic firms and discriminate against foreign firms. For example, the branch offices of a foreign company in India are treated as a foreign company and declare liable for higher income tax of 48%, as against 35.7% for companies set up in India.

Subsidies

Some countries offer subsidies and low interest loans to domestic organizations and protect them against foreign competition. For example, IT firms were given tax holidays by the government a few years ago when the industry was still in the nascent stages in India. The firms were not required to pay taxes for some years from the date of their establishment. Conversely, some countries offer sops to foreign players to encourage foreign investment that can aid development in the country.

Restrictions on Foreign Company's Entry

Some countries do not allow foreign companies to establish wholly owned subsidiaries. Some impose a ceiling on the investment than can be made by foreign companies. In some cases, some of the industries or sectors can be closed to foreign players. For example, foreign companies cannot invest in the agriculture and plantation sector in India. Similarly, a foreign company is not allowed to hold more than a 24% stake in a small-scale industrial unit in India.

Infringement of Copyrights and Trademarks

Apart from these barriers, Foreign Service organizations also face the problem of violation of copyrights by local firms. Some local firms market their services using the trademark of a well-known Foreign Service organization. This is primarily because of the failure of the local government to strictly enforce copyrights laws. Firms like Microsoft, Oracle, etc., face problems with the sale of pirated copies of their software in many countries.

Cultural Barriers

Though convergence of tastes and preferences can be seen in some developing and developed countries, it is limited. There is a still a large cultural gap between the vast population of the eastern part of the world and that of the western countries. People in developing countries from the high-income group or socio-economic class, who get exposed to western culture, are influenced by it. There is still a large section of the society in developing countries, which is unexposed to and uninfluenced by the western culture. Therefore, differences still do exist in cultures, posing challenges to international; service organizations. The cultural barriers arise from differences in language, customs and beliefs, values and attitudes, lifestyle, etc.

Language

People in different countries speak different languages and this poses difficulties to service organizations in effectively communicating with customers. Communication with internal as well as external customers, as we have already studied, is very important for services business to survive and flourish. In the absence of proper translation of messages from one language to another, service organizations can communicate unintended messages and land up in trouble.

Customs

Different countries have different customs and manners. "Customs are established practices, while manners are behaviours that are regarded as appropriate in a particular society." In some countries, people value time immensely and expect others to do the same. For example, say two parties from two different countries have an appointment at 5.00pm., the first party from country A values time immensely and is there at the appointed venue five minutes before the scheduled the time. The second party of country B however, does not value time and reaches the venue 10 minutes late. This will naturally annoy the first party, and he would cancel the business dealing.

In some countries, it is customary to make or avoid some gestures to show their respect to the other party. The management of a service firm should learn this business etiquette to maintain positive relations with clients and partners.

Values and Attitudes

Values and attitudes differ from society to society. For example, most Muslims consider the pig as inauspicious. Hindus revere the cow as a holy animal. Therefore, international service organizations involved in the hospitality industry should take special care not to offer beef or pork so as not to hurt religious sentiments of the people. McDonald's for example, takes special care to avoid beef in its menu in India.

Lifestyle

Lifestyle varies across countries. The way people spend their money, leisure time, etc., differs from one country to another. For example, earlier, people in India emphasized saving. There were not many who spent lavishly. However, things have changed and more and more Indians are willing to spend more on lifestyle and luxury items. The status symbols used by people to reflect their status, also differ from one country to another. For example, in India, most people value assets like jewellery.

They try to accumulate as much silver and gold as possible. However, in the west, people prefer to buy luxury products like expensive cars. The way people spend their leisure time is also different. People's perception of beauty and aesthetics also varies across countries. The knowledge of these differences will help services organizations choose the right dress code for employees, the right architecture for buildings and design proper service offerings and marketing programs.

Financial Barriers

Global service organization also faces financial barriers. Organizations planning to expand globally need more funds than those operating locally. Even though the returns are higher, they have to bear higher costs. These costs include the costs due to exchange rates and taxes, investment in a new business in terms of set-up costs, logistics solutions, communication systems, travelling etc.,

Changes in Currency Exchange Rates

Different countries have different currencies. Depending on the economic condition of a country, the value of its currency keeps changing and so does its exchange rate. This poses problems in payments and collections for global service organizations. Any appreciation in the currency of the host country will result in the service provider receiving fewer of home country currency units from clients. Sometimes, they may also face double taxation, in both the exporting and importing country or the host and the home country. This will obviously affect the profitability of the organization. Before making an investment, service organizations should look for countries, which have double tax avoidance treaties with their own countries.

Problems with Logistics

Service organizations need to invest in various resources to run their operations successfully in a country. For instance, package carrier companies have to invest heavily in setting up warehouses at appropriate locations. DHL invested about $200million to expand its facility in the US near Kentucky international airport in Cincinnati in 2002. BPO centres need to make a huge investment on people, equipment and infrastructure.

Fast food outlets like McDonald's have to procure the best quality raw materials and other inputs to serve quality food to customers. McDonald's has to get bread, bun, batter mixes, meat, cheese, sauce, potatoes and other vegetables from the best suppliers, which means a lot of investment.

Factors Influencing Success of a Global Service Firm

Many factors such as innovation, excellence in customer service, efficient operations, etc., contribute to the success of an organization at the global level. A service firm needs to conduct a complete SWOT analysis before taking any major strategic decision. The success and survival of a company depends on its understanding of the differences among

its countries of operation in terms of culture, consumer behaviour, etc., and its ability to accommodate the differences.

Select the Right Entry Mode

An organization can enter a foreign market through several modes, as discussed earlier. However, it should choose its entry mode carefully so that it does not affect its competitive advantage. If it chooses to enter through a strategic alliance, for example, it should ensure that the partner has a strong hold in the market and can support it in gaining a strong foot hold. Moreover, the partnership should not conflict with the business interest of either party and should benefit both. If the partnership terms favour one party, then the relationship may not last long because the losing partner will be on the constant lookout for exit from the partnership. Similarly, if an organization decides to enter a foreign market through merger or acquisition, it might face different kinds of difficulties. It might have difficulties in merging the operations of both firms, changing the culture of the workforce, leveraging synergies etc. if an organization wants to establish a wholly owned subsidiary in a foreign country, it should look for the right location to gain benefits like cheap infrastructure, governments support, educated work force, low salaries, political stability, security, favourable laws and regulations, etc.

Select the Right Marketing Research Methods

In some countries, people do not want to answer personal questions and dislike being monitored. It would be difficult for organizations to conduct marketing research in such countries. Therefore, service organizations should use indirect measurement techniques, which do not involve approaching customers directly. Rather, they may have to collect information from service providers who can provide reliable data and information on consumer behaviour.

Customize the Service Offering

Global service providers should customize their services to suit the tastes and preference of customers in different countries. For example, in some countries, people do not like invasion of privacy. In such situations, service personnel do not take the initiative to try and entertain customers. However, in some countries people may expect the service personnel to keep enquiring about their needs and taking care of them. In such cases, the front-line personnel should be pro-active and approach customers before they feel they are not being attended to. Similarly, during a financial downturn, companies might need to customize their service offering to suit the existing needs of the customers.

Train the Service Personnel

Service personnel should be educated about the differences in the culture of the customers they serve. For example, the service personnel in a Chinese restaurant need to realize that they have to treat an Indian customer and an American customer differently. The service personnel should be trained to customize their service offering and delivery to suit the customer's preference. In some countries, people are not comfortable talking to a salesperson o the phone. They expect the salesperson to visit their home/office and explain the service offer to them in person. Service personnel need to feel trained to catch the pulse of the customer immediately and change their approach strategy accordingly.

Select the Right Promotion Strategy

In some countries like Japan, comparative and aggressive advertising is unacceptable. So, in these countries, service firms should emphasize the benefits of their service offering rather than point out the drawbacks of the competitor's service offerings. In countries like the US and India, where such advertising is allowed, at least in some sectors, service organizations should use the opportunity to explain to customers how their service offers out weight those of their competitors. For example, in India, ICICI bank advertises that it does not charge any processing fee from customers who apply for home loans. HDFC claims that it charges a processing fee for home loans, but provides many valuable supplementary services unlike its competitors, who might not charge any processing fee, but include hidden costs for customers.

Self Assessment Questions

1. Define services. What are the characteristics of services?
2. What are the factors influencing globalization of services?
3. What are the challenges in the global market?
4. What are the factors influencing success of a global service firm?

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Lesson 4.3 - Pricing for International Market

Pricing for International Marketing

Price is an integral part of a product-a product cannot exist without a price. It is difficult to think or talk about a product without considering its price. Setting the right price for a product can be the key to success or failure. Even when the international marketer produces the right product, promotes it correctly, and initiates the proper channel of distribution, the effort fails if the product is not properly priced. A product's price must reflect the quality and value the consumer perceives in the product. The company operating in international markets have to identify the best approach for setting price worldwide.

Environmental Influences on Pricing Decisions

Global marketers must deal with a number of environmental considerations when making pricing decisions. Among these are currency fluctuations, inflation, government controls and subsidies, competitive behaviour, and market demand. Some of these factors work in conjunction with others; for example, inflation may be accompanied by government controls. Each consideration is discussed in detail next.

Currency Fluctuations

Fluctuating currency values are fact of life in international business. The marketer must decide what to do about this fact. When currency fluctuations result in appreciation in the value of the currency of a country that is an exporter, wise companies do two things: They accept that currency fluctuations may unfavourably impact operating margins.

	When Domestic Currency Is Weak		*When Domestic Currency Is Strong*
1.	Stress price benefits.	1.	Engage in non price competition by improving quality, delivery, and after-sale service.
2.	Expand product line and add more costly features.	2.	Improve productivity and engage in cost reduction.
3.	Shift sourcing to domestic market.	3.	Shift sourcing outside home country.

4.	Exploit market opportunities in all markets.	4.	Give priority to exports to countries with stronger currencies.
5.	Use full-costing approach but employ marginal-cost pricing to penetrate new or competitive markets.	5.	Trim profit margins and use marginal-cost pricing.
6.	Speed repatriation of foreign-earned income and collections.	6.	Keep the foreign-earned income in host country; slow down collections.
7.	Minimize expenditures in local or host-country currency.	7.	Maximize expenditures in local or host-country currency.
8.	Buy advertising, insurance, transportation, and other services in domestic market.	8.	Buy needed services abroad and pay for them in local currencies.
9.	Bill foreign customers in their own currency.	9.	Bill foreign customers in the domestic currency.

They double their efforts to reduce costs. In the short run, lower margins enable them to hold prices in target markets, and in the longer run, driving down costs enables them to improve operating margins.

For companies that are in a strong, competitive market position, price increase can be passed on to customers without significant decreases in sales volume. In more competitive market situations, companies in a strong-currency will often absorb any price increase by maintaining international market prices at pre-revaluation levels. In actual practice, a manufacturer and its distributor may work together to maintain market share in international market.

If a country's currency weakens relative to a trading partner's currency, a producer in a weak-currency country can cut export prices to hold market share or leave prices alone for healthier profit margins.

- *Purpose:* To protect parties from unforeseen large swings in currencies.
- Exchange rate review is made quarterly to determine possible adjustments for the next period.
- Comparison basis is the three-month daily average and the initial average.

Exchange Rate Clauses

Many sales are contracts to supply goods or services over time. When these contracts are between parties in two countries, the problem of exchange rate fluctuations and exchange risk must be addressed.

An exchange rate clause allows the buyer and seller to agree to supply and purchase at fixed prices in each company's national currency. If the exchange rate fluctuates within a specified range, say plus or minus 5 percent, the fluctuations do not affect the pricing agreement that is spelled out in the exchange rate clause. Small fluctuations in exchange rates are not a problem for most buyers and sellers. Exchange rate clauses are designed to protect both the buyer and the seller from unforeseen large swings in currencies.

Pricing In an Inflationary Environment

Inflation, or a persistent upward change in price levels, is a worldwide phenomenon. Inflation requires periodic price adjustments. These adjustments are necessitated by rising costs that must be covered by increased selling prices. An essential requirement when pricing in an inflationary environment is the maintenance of operating profit margins.

In particular, it is worth noting that the traditional FIFO (first-in, first-out) costing method is hardly appropriate for an inflationary situation. A more appropriate accounting practice under conditions of rising prices is the LIFO (last-in, first-out) method, which takes the most recent raw material acquisition price and uses it as the basis for costing the product sold. In highly inflationary environments, historical approaches are less appropriate costing methods than replacement cost.

Government Controls and Subsidies

If government action limits the freedom of management to adjust prices, the maintenance of margins is definitely compromised. Under certain conditions, government action is a real threat to the profitability of a subsidiary operation.

Government control can also take the form of prior cash deposit requirements imposed on importers. This is a requirement that a company has to tie up funds in the form of a non-interest-bearing deposit for a specified period of time if it wishes to import products. Such requirements clearly create an incentive for a company to minimize the price of the imported product; lower prices mean smaller deposits.

Other government requirements that affect the pricing decision are profit transfer rules that restrict the conditions under which profits can be transferred out of a country. Under such rules, a high transfer price paid for imported goods by an affiliated company can be interpreted as a device for transferring profits out of a country. Government subsidies can also force a company to make strategic use of sourcing to be price competitive in Europe.

Competitive Behaviour

Pricing decisions are restricted not only by cost and the nature of demand but also by competitive action. If competitors do not adjust their prices in response to rising costs, management—even if acutely aware of the effect of rising costs on operating margins—will be severely constrained in its ability to adjust prices accordingly. Conversely, if competitors are manufacturing or sourcing in a lower-cost country, it may be necessary to cut prices to stay competitive.

Global Pricing Objectives and Strategies

A number of different pricing strategies are available to global marketers. An overall goal must be to contribute to company sales and profit objectives worldwide. Customer oriented strategies such as market skimming, penetration, and market holding can be used.

Other Constraints on International Pricing

International pricing is also influenced by factors such as the size of the company and the cultural background of parent company executives.

Size of the Company

Large multinational companies generally use cost-based systems. Such companies have the advantages of size and reach. As their operations or activities spread across different countries they have more opportunities or advantages in manipulating prices. Operating in markets that are monopolistic or oligopolistic in nature can lend protection to these companies from competitive pressures, which can bring down their profitability levels. The advantages these companies enjoy by operating in these markets allow them to offer their products at low prices in some other markets, and gain market shares. Thus their size turns out to be a huge advantage when competing with companies of smaller size.

Cultural Background of Firms

Pricing decisions are also influenced by the cultural background of the parent company. For example, firms from the US use cost as the basis in determining the prices. Similarly, firms from Britain, France, and Japan prefer a cost-based approach in deciding the prices. On the other hand, Firms with a Scandinavian or Canadian background use market-based pricesl6. The Germans, Dutch, and Italian firms use a combination of these.

The French firms prefer cost-based prices because this forms of transfer pricing permits them to transfer their income to regions where the tax rates are lower. The British firms prefer a cost-based approach to prices because the British banking community expects a specific return on the investment made by them in the firms, and also they pay great attention to real rate of return at the year-end. The Germans are more concerned about the fixed asset position and stability of the firm in the long run. Their pricing decisions reflect this concern.

Company Controls and Information Systems

Transfer pricing mechanism has to be well understood by people managing control and evaluation functions. Lack of clear understanding might lead to unexpected and undesired distortions. Managers might show exceptional performance on account of the benefits incurred through transfer pricing rather than the real growth they generated for their company. Thus the transfer pricing mechanism should not distort the control system and evaluation criteria. Properly designed information systems can ensure this.

Duty and Tariff Constraints

High duty and tariff rates provide an incentive to reduce transfer prices. On the other hand, low tax rate motivates the Finn to increase transfer price to show income in the low-tax environment. Thus the level of duty, tariff and tax rate influence the transfer price levels.

Government Controls

Government controls often influence the transfer-pricing levels. Governments also force importers to make cash deposits. Tins types of controls make companies reduce the price of their products. They reduce the price because, lower price means they can get away by making smaller mandatory deposits. Governments also restrict the way firms transfer their profits.

Joint Ventures

Companies participating in joint ventures have to reach transfer pricing agreements on different aspects such as:

- Fixing transfer prices when there is a change in exchange rate.
- Changes in transfer prices when manufacturing costs come down due to the learning-curve effect.
- Fixing of royalty rates when the parties of the joint venture build new technology or source it from other sources.
- When the competition impacts volume and overall margins.

Such agreements would avoid conflict between joint venture partners and promote coordination)

Global pricing can also be based on other external criteria such as the escalation in costs when goods are shipped long distances across national boundaries. The issued global pricing can also be fully integrated in the product design process, an approach widely used by Japanese companies. Prices in global markets are not carved in stone; they must be evaluated at regular intervals and adjusted if necessary. Similarly, pricing objectives may vary, depending on a product's life-cycle stage and the country-specific competitive situation.

Market Skimming

The market skimming pricing strategy is a deliberate attempt to reach a market segment that is willing to pay a premium price for a product. In such instances, the product must create high value for buyers. This pricing strategy is often used in the introductory phase of the product life cycle, when both production capacity and competition are limited by setting a deliberately high price; demand is limited to early adopters who are willing and able to pay the price.

One goal of this pricing strategy is to maximize revenue on limited volume and to match demand to available supply. Another goal of market skimming pricing is to reinforce customers' perceptions of high product value. When this is done, the price is part of the total product positioning strategy.

Penetration Pricing

Penetration pricing uses price as a competitive weapon to gain market position. The majority of companies using this type of pricing in international marketing are located in the Pacific Rim. Scale-efficient plants and low-cost labour allow these companies to blitz the market.

It should be noted that a first-time exporter is unlikely to use penetration pricing. The reason is simple: Penetration pricing often means that the product may be sold at a loss for a certain length of time. Companies that are new to exporting cannot absorb such losses. They are not likely to have the marketing system in place (including transportation, distribution, and sales organizations) that allows global companies such as Sony to make effective use of a penetration strategy. However, a company whose product is not patentable may wish to use penetration pricing to achieve market saturation before the product is copied by competitors.

When Sony developed the portable compact disc player, the cost per unit at initial sales volumes was estimated to exceed $600. Since this was a "no-go" price in the United States and other target markets, Akio Morita instructed management to price the unit in the $300 range to achieve penetration. Because Sony was a global marketer, the sales volume it expected to achieve in these markets led to scale economies and lower costs.

Market Holding

The market holding strategy is frequently adopted by companies that want to maintain their share of the market. In single-country marketing, this strategy often involves reacting to price adjustments by competitors. For example, when one airline announces special bargain fares, most competing carriers must match the offer or risk losing passengers. In global marketing, currency fluctuations often trigger price adjustments.

Market holding strategies dictate that source-country currency appreciation will not be automatically passed on in the form of higher prices. If the competitive situation in market countries is price sensitive, manufacturers must absorb the cost of currency appreciation by accepting lower margins in order to maintain competitive prices in country markets.

A strong home currency and rising costs in the home country may also force a company to shift its sourcing to in-country or third-country manufacturing or licensing agreements, rather than exporting from the home country, to maintain market share.

Cost Plus/Price Escalation

Companies new to exporting frequently use a strategy known as cost-plus pricing to gain a toehold in the global marketplace. There are two cost-plus pricing methods: The older is the historical accounting cost method, which defines cost as the sum of all direct and indirect manufacturing and overhead costs. An approach used in recent years is known as the estimated future cost method.

Cost-plus pricing requires adding up all the costs required to get the product to where it must go, plus shipping and ancillary charges, and a profit percentage. The obvious advantage of using this method is its low threshold: It is relatively easy to arrive at a selling price, assuming that accounting costs are readily available. The disadvantage of using historical accounting costs to arrive at a price is that this approach completely ignores demand and competitive conditions in target markets. Therefore, historical accounting cost-plus prices will frequently be either too high or too low in the light of market and competitive conditions. If historical accounting cost-plus prices are right, it is only by chance. Price escalation is the increase in a product's price as transportation, duty, and distributor margins are added to the factory price.

Using Sourcing As a Strategic Pricing Tool

The global marketer has several options when addressing the problem of price escalation described in the last section. The choices are dictated in part by product and market competition. Marketers of domestically manufactured finished products may be forced to switch to lower-income, lower-wage countries for the sourcing of certain components or even of finished goods to keep costs and prices competitive.

Gray Market Goods

Gray market goods are trademarked products that are exported from one country to another, where they are sold by unauthorized persons or organizations. Sometimes, gray marketers bring a product produced in one country—French champagne, for example into a second-country market in competition with authorized importers. The gray marketers sell at prices that undercut those set by the legitimate importers. This practice, known as *parallel importing,* may flourish when a product is in short supply or when producers attempt to set high prices.

In another type of gray marketing, a company manufactures a product in the home-country market as well as in foreign markets. In this case, products manufactured abroad

by the company's foreign affiliate for sales abroad are sometimes sold by a foreign distributor to grey marketers. They later bring the products into the producing company's home-country market, where they compete with domestically produced goods.

Dumping

Dumping is an important global pricing strategy issue. GATT's 1979 Antidumping Code defined dumping as the sale of an imported product at a price lower than that normally charged in a domestic market or the country of its origin. In addition, many countries have their own policies and procedures for protecting national companies from dumping. The U.S. Antidumping Act of 1921, which is enforced by the U.S. Treasury, did not define dumping specifically but instead referred to unfair competition. However, Congress has defined dumping as an unfair trade practice that result in "injury, destruction, or prevention of the establishment of American industry." Under this definition, dumping occurs when imports sold in the U.S. market are priced either at levels that represent less than the cost of production plus, an 8 percent profit margin or at levels below those prevailing in the producing country.

Transfer pricing refers to the pricing of goods and services bought and sold by operating units or divisions of a single company. In other words, transfer pricing concerns intra corporate exchanges—transactions between buyers and sellers that have the same corporate parent. For example, Toyota subsidiaries sell to, and buy from, each other. The same is true of other companies operating globally. As companies expand and create decentralized operations, profit centres become an increasingly important component in the overall corporate financial picture.

There are three major alternative approaches to transfer pricing. The approach used will vary with the nature of the firm, products, markets, and the historical circumstances of each case. The alternatives are

(1) Cost-based transfer pricing,
(2) Market-based transfer pricing, and
(3) Negotiated prices.

Cost-Based Transfer Pricing

Because companies define costs differently, some companies using the cost-based approach may arrive at transfer prices that reflect variable and fixed manufacturing costs only. Alternatively, transfer prices may be based on full costs, including overhead costs

from marketing, research and development (R&D), and other functional areas. The way costs are defined may have an impact on tariffs and duties on sales to affiliates and subsidiaries by global companies.

Market-Based Transfer Price

A market-based transfer price is derived from the price required to be competitive in the international market. The constraint on this price is cost. However, as noted previously, there is a considerable degree of variation in how costs are defined. Because costs generally decline with volume, a decision must be made regarding whether to price on the basis of current or planned volume levels. To use market-based transfer prices to enter a new market that is too small to support local manufacturing, third-country sourcing may be required. This enables a company to establish its name or franchise in the market without committing to a major capital investment.

Negotiated Transfer Prices

A third alternative is to allow the organization's affiliates to negotiate transfer prices among themselves. In some instances, the final transfer price may reflect costs and market prices, but this is not a requirement. The gold standard of negotiated transfer prices is known as an arm's-length price: the price that two independent, unrelated entities would negotiate.

Global Pricing Alternatives

Finns operating in international markets follow three pricing approaches, predominantly: ethnocentric, polycentric, and geocentric.

Ethnocentric Approach

A company following an ethnocentric approach follows the same pricing policy throughout the world. The importer of the product will bear the freight and import duties. This approach is convenient to adopt because there is no need to make any modifications to price based on competitive or market conditions. The firm need not put in efforts to collect information on these market conditions. But by adopting tins approach, a firm might fail to make optimum profits by not fixing the prices of the products based on regional market conditions.

Polycentric Approach

A firm following this approach allows its regional managers to fix the product prices based on the circumstances in which they operate. Tins approach might prove to be not so good, when the disparity in product prices from one region to another is higher than transportation costs and duties. When this condition prevails, customers will buy the products in markets where they are available at low price and ship them to where the prices are relatively high. This will result in loss of revenue for the firm following this approach.

Geocentric Approach

A firm adopting this approach takes a medium position between fixing a single price worldwide and fixing different prices based on the requirements of subsidiaries. One of the fundamental assumptions underlying tins approach is that markets are unique, and specific factors related to them have to be taken into account while making a pricing decision. Also the approach takes into consideration tire price coordination necessary at headquarters to deal with international accounts and product arbitrage. This approach is the most practical of all because it takes into consideration both global competition and local rivalry in establishing prices.

Self Assessment Questions

1. What do you understand by pricing in international market?
2. What are the environmental factors influencing on pricing decisions?
3. What are the different types of pricing in global market?

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.
- Selecting 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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UNIT – V

Learning Objective

After going through this Lesson you should be able to:

- Understand Define Logistics in Global Marketing
- Understand the strategies of Logistics in Global Market
- Appreciate the importance of Marketing Service in Global Market
- Understand the Marketing Strategies for Global Market.

Unit Structure

Lesson 5.1- Global Logistics and Distribution

Lesson 5.2 - Global Marketing Services

Lesson 5.3 - Global Promotional Strategy

Lesson 5.1 - Global Logistics & Distribution

Global Logistics Management

The cost and efficiency of the distribution have direct relationship with the logistics. Logistics, therefore, is a factor which affects the competitiveness of a firm.

International logistics is defined as “the designing and managing of a system that contracts the flow of materials into, through, and out of the international corporation. It encompasses the total movement concept by covering the entire range of operations concerned with product movement”. It follows from the above definition that logistics comprises of

(i) Management of movement of raw materials, parts and supplies into and through the firm; and

(ii) Management of movement of finished products to the consumer.

The major objective of the logistics management is to make the physical distribution as effective as required at the lowest cost possible. Attempts to increase the effectiveness of the distribution may sometimes tend to increase the cost and attempts to cut costs may impair distribution effectiveness. The trade off and optimization, therefore is often a complex problem.

Components of Logistics Management

Logistics management comprises of five major interdependent areas.

Fixed Facilities Location

The major consideration is the location of fixed facilities like production and warehousing in such a way as to maximise the total efficiency of the logistics system. Factors like future potentials of the markets, future plans of the company, competitive factors, political stability etc. are also important considerations.

Transportation

The modes of transportation, frequency of shipping etc. are determined on consideration of several factors such as the cost, speed, safety, lead time, transit time, type of product, natural environmental factors etc.

Inventory Management

The main objective of inventory management is to minimise the cost of the inventory while ensuring smooth supplies. Developments in inventory management by the customers, order processing and in the total logistics system have made inventory management both challenging and efficient.

Order Processing

The efficiency of order processing by the client as well as the company has important implications for inventory levels and other aspects of the logistics. Rapid order processing

shortens the order cycle and allows for lower safety stocks on the part of the client. Exporters from developing countries like India face the challenge of coping up with such situations.

Materials Handling and Warehousing

Materials handling and warehousing is also an important part of the logistics management. The technologies in use in materials handling and transportation may be different in different countries. Differences in natural factors like climatic and weather conditions may also make warehousing requirements varied.

International Distribution Strategies

International Distribution System

The primary goal of international marketing is achieving wider distribution. E just as in the United States, distribution involves more than physically moving a product. It involves handling, storage, inventorying, sometimes assembling, protective packaging, paperwork, and forecasting.

Channel of Distribution Structures

In every country and in every market, urban or rural, rich or poor, all consumer and industrial products eventually go through a distribution process. The distribution process includes the physical handling and distribution of goods, the passage of ownership (title), and most important from the standpoint of marketing strategy the buying and selling negotiations between producers and middlemen and between middlemen and customers.

A host of policy and strategy channel-selection issues confronts the international marketing manager. These issues are not in themselves very different from those encountered in domestic distribution, but the resolution of the issues differs because of different channel alternatives and market patterns.

Each country market has a distribution structure through which goods pass from producer to user. Within this structure are a variety of middlemen whose customary functions, activities, and services reflect existing competition, market characteristics, tradition, and economic development. In short, the behaviour of channel members is the result of the interactions between the cultural environment and the marketing process. Channel structure ranges from those with little developed marketing infrastructure found in many emerging markets to the highly complex, multilayered system found in Japan.

Import-Oriented Distribution Structure

Traditional channels in developing countries evolved from economies with a strong dependence on imported manufactured goods. In an import-oriented distribution structure, generally an importer controls a fixed supply of goods and the marketing system develops around the philosophy of selling a limited supply of goods at high prices to a small number of affluent customers. In the resulting seller's market, market penetration and mass distribution are not necessary since demand exceeds supply and, in most cases, the customer seeks the supply. This produces a channel structure with a limited number of middlemen.

Contrast this with the mass consumption-distribution philosophy which prevails in the United States and other industrialized nations. In these markets, one supplier does not dominate supply, supply can be increased or decreased within a given range, and profit maximization occurs at or near production capacity. Generally a buyer's market exists and the producer strives to penetrate the market and push goods out to the consumer, resulting in a highly developed channel structure that includes a variety of intermediaries.

Business attitudes in an import-oriented market system are often the direct opposite of what you would expect. As one observer notes:

Consumers, retailers, and other intermediaries always seek goods. This results from the tendency of importers to throttle the flow of goods, and from this sporadic and uneven flow of imports, inventory hoarding as a means of checking the market can be achieved at relatively low cost, and is obviously justified because of its lucrative and speculative yields.

Japanese Distribution Structure

Distribution in Japan has long been considered the most effective non tariff barrier to the Japanese market. The Japanese distribution structure is different enough from its United States or European counterparts that it should be carefully studied by anyone contemplating entry. The Japanese system has four distinguishing features:

(1) A structure dominated by many small middlemen dealing with many small retailers;
(2) Channel control by manufacturers;
(3) A business philosophy shaped by a unique culture; and
(4) Laws that protect the foundation of the system - the small retailer.

High Density of Middlemen

There is a density of middlemen, retailers, and wholesalers in the Japanese market unparalleled in any Western industrialized country. The traditional Japanese structure serves consumers who make small, frequent purchases at small, conveniently located stores. An equal density of wholesalers supports the high density of small stores with small inventories. It is not unusual for consumer goods to go through three or four intermediaries before reaching the consumer-producer to primary, secondary, regional, and local wholesaler, and finally to retailer to consumer. The contrast is between shorter U.S. channels and the long Japanese channels.

Channel Control

Manufacturers depend on wholesalers for a multitude of services to other members of the distribution network. Financing, physical distribution, warehousing, inventory, promotion, and payment collection are provided to other channel members by wholesalers.

The system works because wholesalers and all other middlemen downstream are tied to manufacturers by a set of practices and incentives designed to ensure strong marketing support for their products and to exclude rival competitors from the channel. Wholesalers typically act as agent middlemen and extend the manufacturer's control through the channel to the retail level.

Control is maintained by: (1) inventory financing—sales made on consignment with credits extending for several months; (2) cumulative rebates—rebates given annually for any number of reasons, including quantity purchases, early payments, achieving sales targets, performing services, maintaining specific inventory levels, participating in sales promotions, loyalty to suppliers, maintaining manufacturer's price policies, cooperation, and contribution to overall success; (3) merchandise returns-all unsold merchandise may be returned to the manufacturer; and (4) promotional support—intermediaries receive a host of displays, advertising layouts, management education programs, in-store demonstrations, and other dealer aids which strengthen the relationship among middlemen and the manufacturer.

Business Philosophy

Coupled with the close economic ties and dependency created by trade customs and the long structure of Japanese distribution channels is a unique business philosophy that emphasizes loyalty, harmony, and friendship. The value system supports long-term dealer/

supplier relationships that are difficult to change as long as each party perceives economic advantage. The traditional partner, the insider, generally has the advantage.

A general lack of price competition, the provision of costly services, and other inefficiencies render the cost of Japanese consumer goods among the highest in the world; for example, a bottle of 96 aspirin tablets sells for $20. Yet the system is slow to change. The Japanese consumer contributes to the continuation of the traditional nature of the distribution system through frequent buying trips, small purchases, favouring personal service over price, and the proclivity for loyalty to brands perceived to be of high quality.

Additionally, Japanese law gives the small retailer enormous advantage over the development of larger stores and competition. All these factors support the continued viability of small stores and the system; although changing attitudes among many Japanese consumers are beginning to weaken the hold traditional retailing has on the market

Large-Scale Retail Store Law

Competition from large retail stores has been almost totally controlled by Daitenho the Large-Scale Retail Store Law. Designed to protect small retailers from large intruders into their markets, the law requires that any store larger than 5,382 square feet (500 square meters) must have approval from the prefecture government to be "built, expanded, stay open later in the evening, or change the days of the month they must remain closed."

All proposals for new "large" stores are first judged by MITI (Ministry of International Trade and Industry). Then, if local retailers unanimously agree to the plan, it is swiftly approved. However, without approval at the prefecture level (all small retailers in the area must agree), the plan is returned for clarification and modification that may take several years (10 years is not unheard of) for approval. Designed to protect small retailers against competition from large stores, the law has been imposed against both domestic and foreign companies. It took 10 years for one of Japan's largest supermarket chains to get clearance for a new site. Toys "R" Us fought rules and regulations for over three years before it gained approval for a store.

Besides the Large-Scale Retail Store Law, there are myriad licensing rules. One investigation of the regulations governing the opening of retail stores uncovered 39 different laws, each with a separate license that had to be met to open a full-service store.

Business people in Japan and the United States see the Japanese distribution system as a major non tariff barrier and, by many Japanese, as a major roadblock to improve-

ment of the Japanese standard of living. However, pressure from the United States and the Structural Impediments Initiative (SII) negotiations to pry open new markets for American companies is producing strong cracks in the system. As of this writing, it is reported the Japanese government will repeal the Large-Scale Retail Store Law as early as the end of fiscal 1998.

Changes in the Japanese Distribution System

Agreements between the United States and Japan under the SII have had a profound impact on the Japanese distribution system by leading to deregulation of retailing and by strengthening rules on monopoly business practices. The retailing law has been relaxed to permit new outlets as large as 1,000 square meters without prior permission. Limits on store hours and business days per year have also been lifted. Officially relaxing laws and regulations on retailing is but one of the important changes signalling the beginning of profound changes in how the Japanese shop.

SII and deregulation will undoubtedly have a part in changing Japanese distribution practices, but those merchants willing to challenge traditional ways and give the consumer quality products at competitive, fair prices will bring about the demise of the way department stores and small shops wedded to the traditional distribution system operate. Specialty discounters are sprouting up everywhere and entrepreneurs are slashing prices by buying direct and avoiding the distribution system altogether. For example, Kojima, a consumer electronics discounter, practices what it calls "global purchasing" and buys merchandise anywhere in the world as long as it can be done as cheaply as possible. Kojima's tie-up with General Electric enables it to offer a 410-liter GE refrigerator for $640, down from the typical price of $1,925, and the 550-liter model from $3,462 to $1,585.

Japanese consumers, described as brand loyal and more interested in services and quality than price, seem to be willing accomplices to the changes taking place, if the prices are really justified. Japanese consumers have traditionally paid the highest prices in the world for the goods they buy. Before Toys "R" Us changed price levels, toys in Japan cost four times as much as toys in any other country. Japanese-made products imported to the United States can be purchased in the U.S. for less than they cost in Japan. Such inequities did not seem to matter to Japanese consumers when they had no other alternatives. But, more often now, the Japanese consumer has a choice of prices for everything from appliances to beer. Before price competition, a can of Coors beer would cost 240 yen; now it costs 240 yen in a neighbourhood liquor store, 178 yen in a supermarket, and 139 yen in a discount store.

Trends: From Traditional to Modern Channel Structures

Today, a few countries are so sufficiently isolated that they are unaffected by global economic and political changes. These currents of change are altering all levels of economic fabric, including the distribution structure. Traditional channel structures are giving way to new forms, new alliances, and new processes—some more slowly than others, but all changing. Pressures for change in a country come from within and without. Multinational marketers are seeking ways to profitably tap market segments that are served by costly, traditional distribution systems. Direct marketing, door-to-door selling, hypermarkets, discount houses, shopping malls, catalogue selling, e-commerce via the Internet, and other distribution methods are being introduced in an attempt to provide efficient distribution channels.

Some important trends in distribution will eventually lead to greater commonality than disparity among middlemen in different countries. Wal-Mart, for example, is expanding all over the world—from Mexico to Brazil and from Argentina to Asia. Amway and Avon are expanding into Eastern Europe, Mary Kay Cosmetics in China, and L. L. Bean and Lands' End have made successful entry into the Japanese market.

In Spain, the Southland Corporation's 7-Eleven Stores are replacing many of the traditional mom-and-pop stores. Hypermarkets have developed in France, and their many spin-offs are expanding all over Europe, Latin America, and Asia. These huge stores, supplied with computerized inventories, may spell a slow death for small shops and midsize retailers in urban areas. The effect of all these intrusions into the traditional distribution systems is a change that will make discounting, self-service, supermarkets, and mass merchandising concepts common all over the world and elevate the competitive climate to a level not known before.

Distribution Patterns

International marketers need a general awareness of the patterns of distribution that confront them in world marketplaces. Nearly every international trading firm is forced by the structure of the market to use at least some middlemen in the distribution arrangement. It is all too easy to conclude that, because the structural arrangements of foreign and domestic distribution seem alike, foreign channels are the same as or similar to domestic channels of the same name. This is misleading. Only when the varied intricacies of actual distribution patterns are understood can the complexity of the distribution task be appreciated. The following description should convey a sense of the variety of distribution patterns.

General Patterns

Generalizing about internal distribution channel patterns of various countries is almost as difficult as generalizing about behavioural patterns of people. Despite similarities, marketing channels are not the same throughout the world. Marketing methods taken for granted in the United States are rare in many countries.

Middlemen Services

Service attitudes of trades' people vary sharply at both the retail and wholesale levels from country to country. In Egypt, for example, the primary purpose of the simple trading system is to handle the physical distribution of available goods.

On the other hand, when margins are low and there is a continuing battle for customer preference, both wholesalers and retailers try to offer extra services to make their goods attractive to consumers. When middlemen are disinterested in promoting or selling individual items of merchandise, the manufacturer must provide adequate inducement to the middlemen or undertake much of the promotion and selling effort. Such is the case in China, where wholesalers see their function as storing the goods and waiting for their customers to come to them.

Line Breadth

Every nation has a distinct pattern relative to the breadth of line carried by wholesalers and retailers. The distribution system of some countries seems to be characterized by middlemen who carry or can get everything; in others, every middleman seems to be a specialist dealing only in extremely narrow lines. Government regulations in some countries limit the breadth of line that can be carried by middlemen and licensing requirements to handle certain merchandise are not uncommon.

Costs and Margins

Cost levels and middleman margins vary widely from country to country, depending on the level of competition, services offered, efficiencies or inefficiencies of scale, and geographic and turnover factors related to market size, purchasing power, tradition, and other basic determinants. In India, competition in large cities is so intense that costs are low and margins thin; but in rural areas, the lack of capital has permitted the few traders with capital to gain monopolies with consequent high prices and wide margins.

Channel Length

Some correlation may be found between the stage of economic development and the length of marketing channels. In every country channels are likely to be shorter for industrial goods and for high-priced consumer goods than for low-priced products. In general, there is an inverse relationship between channel length and the size of the purchase. Combination wholesaler-retailers or semi wholesalers exist in many countries, adding one or two links to the length of the distribution chain. In China, for example, the traditional distribution system for over-the-counter drugs consists of large local wholesalers divided into three levels. First-level wholesalers supply drugs to major cities such as Beijing and Shanghai. The second-level services medium-sized cities, while the third level distributes to counties and cities with 100,000 people or less. It can be profitable for a company to sell directly to the two top-level wholesalers and have them sell to the third level which is so small that it would be unprofitable to seek out.

Nonexistent Channels

One of the things companies discover about international channel-of-distribution patterns is that in many countries adequate market coverage through a simple channel of distribution is nearly impossible. In many instances, appropriate channels do not exist; in others, parts of a channel system are available but other parts are not. In Peru, for example, the informal distribution network accounts for almost a quarter of all retail cash sales. The ubiquitous street markets and ambulatory sellers offer far wider market penetration than formal distribution companies. Further, their prices are generally lower than traditional retailers, partly because of lower overhead costs compared with the higher costs generated by the overextended formal distribution chain of the traditional retailer. Thus, several distinct distribution channels are necessary to reach different segments of a market; channels suitable for distribution in urban areas seldom provide adequate rural coverage.

Blocked Channels

International marketers may be blocked from using the channel of their choice. Blockage can result from competitors' already-established lines in the various channels and trade associations or cartels having closed certain channels. The classic example of blocked channels is Japan, as discussed above, but it is by no means the only example. Associations of middlemen sometimes restrict the number of distribution alternatives available to a producer. Druggists in many countries have inhibited distribution of a wide range of goods through any retail outlets except drugstores.

The drugstores, in turn, have been supplied by a relatively small number of wholesalers who have long-established relationships with their suppliers.

Thus, through a combination of competition and association, a producer may be kept out of the market completely. In the U.K., simple magnifying reading glasses that can be purchased in a dozen different types of stores in the United States can only be purchased by prescription through registered optical stores, which are controlled by a few large companies.

Stocking

The high cost of credit, danger of loss through inflation, lack of capital, and other concerns cause foreign middlemen in many countries to limit inventories. This often results in out-of-stock conditions and sales lost to competitors. Physical distribution lags0 intensify their problem so that in many cases the manufacturer must provide local warehousing or extend long credit to encourage middlemen to carry large inventories. Often large inventories are out of the question for small stores with limited floor space. Considerable ingenuity, assistance, and, perhaps pressure are required to induce middlemen in most countries to carry adequate or even minimal inventories.

Power and Competition

Distribution power tends to concentrate in countries where a few large wholesalers distribute to a mass of small middlemen. Large wholesalers generally finance middlemen downstream. The strong allegiance they command from their customers enables them to effectively block existing channels and force an outsider to rely on less effective and more costly distribution.

Retail Patterns

Retailing shows even greater diversity in its structure than does wholesaling. In Italy and Morocco, retailing is composed largely of specialty houses which carry narrow lines, while in Finland; most retailers carry a more general line of merchandise. Retail size is represented at one end by Japan’s giant Mitsukoshi Ltd., which reportedly enjoys the patronage of more than 100,000 customers every day. The other extreme is represented in the market of Iberian, Nigeria, where some 3,000 one- or two-person stalls serve not many more customers.

Size Patterns

The extremes in size in retailing are similar to those that predominate in wholesaling. Exhibit 14-3 dramatically illustrates some of the variations in size and number of retailers per person that exist in some countries. The retail structure and the problems it engenders causes real difficulties for the international marketing firm selling consumer goods.

Large dominant retailers can be sold direct, but there is no adequate way to directly reach small retailers who, in the aggregate, handle a great volume of sales. In Italy, official figures show there are 865,000 retail stores or one store for every 66 Italians. Of the 340,000 food stores, fewer than 1,500 can be classified as large. Thus, middlemen are a critical factor in adequate distribution in Italy.

Underdeveloped countries present similar problems. Among the large supermarket chains in South Africa there is considerable concentration. One thousand of the country's 31,000 stores control 60 percent of all grocery sales, leaving the remaining 40 percent of sales to be spread among 30,000 stores. It may be difficult to reach the 40 percent of the market served by those 30,000 stores. Predominantly in Black communities, retailing is on a small scale-cigarettes are often sold singly, and the entire fruit inventory may consist of four apples in a bowl.

Retailing around the world has been in a state of active ferment for several years. The rate of change appears to be directly related to the stage and speed of economic development, and even the least-developed countries are experiencing dramatic changes. Supermarkets of one variety or another are blossoming in developed and underdeveloped countries alike. Discount houses that sell everything from powdered milk and canned chilli to Korean TVs and VCRs are thriving and expanding worldwide. Wal-Mart, already in Mexico, is expanding into Brazil, Argentina, Thailand, Hong Kong, and China.

Direct Marketing

Selling directly to the consumer through the mail, by telephone, or door-to-door is becoming the distribution-marketing approach of choice in markets with insufficient and/or underdeveloped distribution systems. Amway, operating in 42 foreign countries, has successfully expanded into Latin America and Asia with its method of direct marketing.

Companies that enlist individuals to sell their products are proving to be especially popular in Eastern Europe and other countries, where many people are looking for ways to become entrepreneurs. In the Czech Republic, for example, Amway Corporation signed up

25,000 Czechs as distributors and sold 40,000 starter kits at $83 each in its first two weeks of business

Direct sales through catalogues have proved to be a successful way to enter foreign markets. In Japan, it has been an important way to break the trade barrier imposed by the Japanese distribution system. For example, a U.S. mail-order company, Shop America, has teamed up with 7-Eleven in Japan[21] to distribute catalogues in its 4,000 stores. Shop America sells items such as compact disks, Canon cameras, and Rolex watches for 30-50 percent less than Tokyo stores. For example, a Canon Auto boy camera sells for $260 in Tokyo and $180 in the Shop America catalogue, and a Lady Remington shaver sells for $86 in Tokyo versus $46 in the catalogue.

Resistances to Change

Efforts to improve the efficiency of the distribution system, new types of middlemen, and other attempts to change traditional ways are typically viewed as threatening and thus resisted. Laws abound that protect the entrenched in their positions. In Italy, a new retail outlet must obtain a license from a municipal board composed of local trades' people. In a two-year period, some 200 applications were made and only 10 new licenses granted. Opposition to retail innovation prevails everywhere, yet in the face of all the restrictions and hindrances, self-service, discount merchandising, liberal store hours, and large-scale merchandising continue to grow because they offer the consumer convenience and a broad range of quality product brands at advantageous prices. Ultimately the consumer does prevail.

World Wide Web

The use of the Internet is rapidly becoming an important distribution method for multinational companies and a source of products for businesses and consumers. 'Computer hardware and software companies' and book and music retailers are ".well trained in e-marketing. Technically, e-commerce is a form of direct selling; however, because of its newness and the unique issues associated with this form of distribution, it is important to differentiate it from the other types of direct marketing. E-commerce is used to market business-to-business services, consumer services, and consumer and industrial products via the World Wide Web on the Internet. It involves the direct marketing from a manufacturer, retailer, or some other intermediary to a final user.

Some examples of e-marketers that have an international presence include Dell Computer Corporation, which generates revenues of more than $3 million per day; in the

U.K., 10 percent of its sales are online. Cisco Systems Inc. generated $1 billion in sales in 1997. Cisco's Web site appears in 14 languages and has country-specific content for 49 nations. Gateway 2000 has global sites in Japan, France, the Netherlands, Germany and Sweden, Australia, the U.K., and the United States. Sun Microsystems and its after marketing company, Sun Express, have local language information on more than 3,500 aftermarket products. Sun Plaza enables visitors in North America, Europe, and Japan to get information on-line on products and services, and place orders directly and securely in their native languages.

Web Malls

The E-Christmas mall created to counter Christmas gift sales that have been going to the U.S is an indication of the impact the U.S. e-retailers have had on retail sales in the U.K. In an attempt to provide more opportunity for European e-customers to stay at home, a group of 15& of Europe's best-known retailers organized E-Christmas on-line in time for the Christmas selling season. E-Christmas shoppers can choose from one of six languages and 11 currencies. They are presented with prices that include duty when applicable and delivery charges for the 25 countries served by UPS worldwide. Germany also has an e-mail that operates year-around; it is, however, only in German. Both of these shopping malls have U.S. stores included in their line up.

Home-Country Middlemen

Home-country middlemen, or domestic middlemen, located in the manufacturing firm's country, provide marketing services from a domestic base. By selecting domestic middlemen as intermediaries in the distribution processes, companies relegate foreign-market distribution to others. Domestic middlemen offer many advantages for companies with small international sales volume, those inexperienced with foreign markets. They also offer advantage to those who do not want to become immediately involved with the complexities of international marketing, and those do not want to sell abroad with minimum financial and management commitment. A major trade-off for using home-country middlemen is limited control over the entire process. Domestic middlemen are most likely to be used when the marketer is uncertain about the process or when he desires to minimize financial and management investment. A brief discussion on the use of domestic middlemen follows.

Global Retailers

As global retailers like Costco, Sears Roebuck, Toys "R" Us, and Wal-Mart expand their global coverage; they are becoming major domestic middlemen for international

markets. Wal-Mart, with 603 stores in nine foreign markets, is an attractive entry point to international markets for U.S. suppliers if they can meet Wal-Mart's stringent shipping requirements. For those that can meet the test, Wal-Mart offers an effective way to enter international markets with a minimum of experience.

Pacific Connections, for example, a California manufacturer of handbags with $70 million in sales in 1997, ventured into overseas markets in Argentina, Brazil, Canada, and Mexico through its ties to Wal-Mart. Wal-Mart executives say that many U.S. vendors lack global expertise and seem ill prepared to supply the retailer in places like China and Brazil.

Export Management Companies

The export management company (EMC) is an important middleman for firms with relatively small international volume or for those unwilling to involve their own personnel in the international function. EMCs range in size from one person upward to 100 and handle about 10 percent of the manufactured goods exported. An example of an EMC is a Washington, D.C.-based company that has exclusive agreements with 10 U.S. manufacturers of orthopaedic equipment and markets these products on a worldwide basis.

The major disadvantage is that EMCs can seldom afford to make the kind of market investment needed to establish deep distribution for products because they must have immediate sales payout to survive. Such a situation does not offer the market advantages gained by a company that can afford to use company personnel.

Carefully selected EMCs can do an excellent job, but the manufacturer must remember the EMC is dependent on sales volume for compensation and probably will not push the manufacturer's line if it is spread too thinly, generates too small a volume from a given principal, or cannot operate profitably in the short run. Then the EMC becomes an order taker and not the desired substitute for an international marketing department.

Trading Companies

Trading companies have a long and honourable history as important intermediaries in the development of trade between nations. Trading companies accumulate, transport, and distribute goods from many countries. In concept, the trading company has changed little in hundreds of years.

The British firm, Gray MacKenzie and Company, is typical of companies operating in the Middle East. It has some 70 salespeople and handles consumer products ranging

from toiletries to outboard motors and Scotch whiskey. The key advantage to this type of trading company is that it covers the entire Middle East.

Large, established trading companies generally are located in developed countries; they sell manufactured goods to developing countries and buy raw materials and unprocessed goods. Japanese trading companies (sogo shosha), dating back to the early 1700s, operate both as importers and exporters.

Some 300 are engaged in foreign and domestic trade through 2,000 branch offices outside Japan and handle over $1 trillion in trading volume annually. Japanese trading companies account for 61 percent of all Japanese imports and 39 percent of all exports or about a fifth of Japan's entire GDP

U.S. Export Trading Companies

The Export Trading Company (ETC) Act allows producers of similar products to form export trading companies. A major goal of the ETC Act was to increase U.S. exports by encouraging more efficient export trade services to producers and suppliers in order to improve the availability of trade finance and to remove antitrust disincentives to export activities. By providing U.S. businesses with an opportunity to obtain antitrust pre clearance for specified export activities, the ETC Act creates a more favourable environment for the formation of joint export ventures.

Through such joint ventures, U.S. firms can take advantage of economies of scale, spread risk, and pool their expertise. In addition, through joint selling arrangements, domestic competitors can avoid inter-firm rivalry in foreign markets. Prior to the passage of the ETC Act, competing companies could not engage in joint exporting efforts without possible violation of antitrust provisions. The other important provision of the ETC Act is to permit bank holding companies to own ETCs. Prior to the ETC Act, banks could not own commercial enterprises.

Manufacturer's Export Agent

The manufacturer's export agent (MEA) is an individual agent middleman or an agent middleman firm providing a selling service for manufacturers. Unlike the EMC, the MEA does not serve as the producer's export department but has a short-term relationship, covers only one or two markets, and operates on a straight commission basis. Another principal difference is that MEAs do business in their own names rather than in the name of the client. Within a limited scope of operation, the MEAs provide services similar to those of the EMC.

Home Country Brokers

The term broker is a catch-all for a variety of middlemen performing low-cost agent services. The term is typically applied to import-export brokers who provide the intermediary function of bringing buyers and sellers together and who do not have a continuing relationship with their clients. Most brokers specialize in one or more commodities for which they maintain contact with major producers and purchasers throughout the world.

Buying Offices

A variety of agent middlemen may be classified simply as buyers or buyers for export. Their common denominator is a primary function of seeking and purchasing merchandise on request from principals; as such, they do not provide a selling service. In fact, their chief emphasis is on flexibility and the ability to find merchandise from any source. They do not often become involved in continuing relationships with domestic suppliers and do not provide a continuing source of representation.

Selling Groups

Several types of arrangements have been developed in which various manufacturers or producers cooperate in a joint attempt to sell their merchandise abroad. This may take the form of complementary exporting or of selling to a business combine such as a Webb-Pomerene export association. Both are considered agency arrangements when the exporting is done on a fee or commission basis.

Webb-Pomerene Export Associations (WPEA)

Webb-Pomerene Export Associations (WPEA) is another major form of group exporting. The Webb-Pomerene Act of 1918 made it possible for American business firms to join forces in export activities without being subject to the Sherman Antitrust Act. WPEAs cannot participate in cartels or other international agreements that would reduce competition in the United States, but can offer four major benefits:

(1) Reduction of export costs,
(2) Demand expansion through promotion,
(3) Trade barrier reductions, and
(4) Improvement of trade terms through bilateral bargaining.

Additionally, WPEAs set prices, standardize products, and arrange for disposal of surplus products. Although they account for less than 5 percent of U.S. exports, WPEAs include some of America's blue-chip companies in agricultural products, chemicals and raw materials, forest products, pulp and paper, textiles, rubber products, motion pictures, and television.

Foreign Sales Corporation (FSC)

A Foreign Sales Corporation (FSC) is a sales corporation set up in a foreign country or U.S. possession that can obtain a corporate tax exemption on a portion of the earnings generated by the sale or lease of export property. Manufacturers and export groups can form FSCs. A FSC can function as a principal, buying and selling for its own account, or as a commissioned agent. It can be related to a manufacturing parent or can be an independent merchant or broker.

Norazi Agent

Norazi agents are unique middlemen specializing in shady or difficult transactions. They deal in contraband materials, such as hazardous waste products or war materials, and in providing strategic goods to countries closed to normal trading channels. The Norazi is also likely to be engaged in black-market currency operations, untaxed liquor, narcotics, industrial espionage, and other illicit traffic. The Norazi exists because tariffs, import taxes, import/export regulations, and excise taxes make illegal movements of goods more profitable than legal movements. Because of high tariffs, the amount of contraband entering Brazil from Paraguay is estimated to be between $4 and $12 billion annually. Cigarette smuggling accounts for over one-fourth of all cigarettes sold abroad according to one estimate. In the last few years, money laundering has become a major activity of Norazi agents; some estimate that $500 billion is laundered worldwide annually.

Export Merchants

Export merchants are essentially domestic merchants operating in foreign markets. As such, they operate much like the domestic wholesaler. Specifically, they purchase goods from a large number of manufacturers, ship them to foreign countries, and take full responsibility for their marketing. Sometimes they utilize their own organizations, but, more commonly, they sell through middlemen. They may carry competing lines, have full control over prices, and maintain little loyalty to suppliers, although they continue to handle products as long as they are profitable.

Export Jobbers

Export jobbers deal mostly in commodities; they do not take physical possession of goods but assume responsibility for arranging transportation. Because they work on a job-lot basis, they do not provide a particularly attractive distribution alternative for most producers.

An attempt has been made to impart information pertaining to the major kinds of domestic middlemen operating in foreign markets. No attempt is made to generalize about rates of commission, mark-up, or pay because so many factors influence compensation. Services offered or demanded, market structure, volume, and product type are some of the key determinants. The data represent the predominant patterns of operations; however, individual middlemen of a given type may vary in their operations.

Foreign-Country Middlemen

The variety of agent and merchant middlemen in most countries is similar to those in the United States. An international marketer seeking greater control over the distribution process may elect to deal directly with middlemen in the foreign market. They gain the advantage of shorter channels and deal with middlemen in constant contact with the market. As with all middlemen, particularly those working at a distance, effectiveness is directly dependent on the selection of middlemen and on the degree of control the manufacturer can and or will exert.

Manufacturer's Representatives

Manufacturer's representatives are agent middlemen who take responsibility for a producer's goods in a city, regional market area, entire country, or several adjacent countries. When responsible for an entire country, the middleman is often called a sole agent. As in the United States, the well-chosen, well-motivated, well-controlled manufacturer's representative can provide excellent market coverage for the manufacturer in certain circumstances. The manufacturer's representative is widely used in distribution of industrial goods overseas and is an excellent representative for any type of manufactured consumer goods.

Distributors

A foreign distributor is a merchant middleman. This intermediary often has exclusive sales rights in a specific country and works in close cooperation with the

manufacturer. The distributor has a relatively high degree of dependence on the supplier companies, and arrangements are likely to be on a long-run, continuous basis. Working through distributors permits the manufacturer a reasonable degree of control over prices, promotional effort, inventories, servicing, and other distribution functions. If a line is profitable for distributors, they can be depended on to handle it in a manner closely approximating the desires of the manufacturer.

Foreign-Country Brokers

Like the export broker discussed in an earlier section, foreign-country brokers are agents who deal largely in commodities and food products. The foreign brokers are typically part of small brokerage firms operating in one country or in a few contiguous countries. Their strength is in having good continuing relationships with customers and providing speedy market coverage at a low cost.

Managing Agents and Compradors

A managing agent conducts business within a foreign nation under an exclusive contract arrangement with the parent company. The managing agent in some cases invests in the operation and in most instances operates under a contract with the parent company. Compensation is usually on the basis of cost plus a specified percentage of the profits of the managed company. In some countries, managing agents may be called compradors and there are some differences in duties performed.

Dealers

Generally speaking, anyone who has a continuing relationship with a supplier in buying and selling goods is considered a dealer. More specifically, dealers are middlemen selling industrial goods or durable consumer goods direct to customers; they are the last step in the channel of distribution. Dealers have continuing, close working relationships with their suppliers and exclusive selling rights for their producer's products within a given geographic area. Finally, they derive a large portion of their sales volume from the products of a single supplier firm. Usually a dealer is an independent merchant middleman, but sometimes the supplier company has equity in its dealers.

Import Jobbers, Wholesalers, and Retailers

Import jobbers purchase goods directly from the manufacturer and sell to wholesalers and retailers and to industrial customers. Large and small wholesalers and retailers engage

in direct importing for their own outlets and for redistribution to smaller middlemen. The combination retailer-wholesaler is more important in foreign countries than in the United States. It is not uncommon to find large retailers wholesaling goods to local shops and dealers.

Government-Affiliated Middlemen

Marketers must deal with governments in every country of the world. Products, services, and commodities for the government's own use are always procured through government purchasing offices at federal, regional, and local levels. As governments undertake more and more social services, the level of government purchasing activity escalates. In The Netherlands, the state's purchasing office deals with more than 10,000 suppliers in 20 countries. About one-third of the products purchased by that agency are produced outside The Netherlands; 90 percent of foreign purchases are handled through Dutch representatives. The other 10 percent are purchased directly from producing companies.

Factors Affecting the Choice of Channels

The international marketer needs a clear understanding of market characteristics and must have established operating policies before beginning the selection of channel middlemen. The following points should be addressed prior to the selection process.

1. Identify specific target markets within and across countries.
2. Specify marketing goals in terms of volume, market share, and profit margin requirements.
3. Specify financial and personnel commitments to the development of international distribution.
4 Identify control, length of channels, terms of sale, and channel ownership.

Cost

There are two kinds of channel cost: (1) the capital or investment cost of developing the channel and (2) the continuing cost of maintaining it. The latter can be in the form of direct expenditure for the maintenance of the company's selling force or in the form of margins, mark-up, or commissions of various middlemen handling the goods. Marketing costs (a substantial part of which is channel cost) can be termed as the entire difference between the factory price of the goods and the price the customer ultimately pays for the merchandise. The costs of middlemen include transporting and storing the goods, breaking bulk, providing credit, and local advertising, sales representation, and negotiations.

Capital Requirement

The financial ramifications of a distribution policy are often overlooked. Critical elements are capital requirement and cash-flow patterns associated with using a particular type of middleman. Maximum investment is usually required when a company establishes its own internal channels, that is, its own sales force. Use of distributors or dealers may lessen the capital investment, but manufacturers often have to provide initial inventories on consignment, loans, floor plans, or other arrangements. Coca-Cola initially invested in China with majority partners that met most of the capital requirements. However, Coke soon realized that it could not depend on its local majority partners to distribute its product aggressively in the highly competitive, market-share-driven business of carbonated beverages. To assume more control of distribution it had to assume management control and that meant greater capital investment from Coca-Cola. One of the highest costs of doing business in China is the capital required to maintain effective distribution.

Control

The more involved a company is with the distribution, the more control it exerts. A company's own sales force affords the most control but often at a cost that is not practical. Each type of channel arrangement provides a different level of control and, as channels grow longer, the ability to control price, volume, promotion, and type of outlets diminishes. If a company cannot sell directly to the end user or final retailer, the amount of control the marketer can maintain should be an important selection criterion of middlemen

Coverage

Another major goal is full-market coverage to (1) gain the optimum volume of sales obtainable in each market, (2) secure a reasonable market share, and (3) attain satisfactory market penetration. Coverage may be assessed on geographic and/or market segments. Adequate market coverage may require changes in distribution systems from country to country or time to time. Coverage is difficult to develop both in highly developed areas and in sparse markets; the former because of heavy competition and the latter because of inadequate channels.

Character

The channel-of-distribution system selected must fit the character of the company and the markets in which it is doing business. Some obvious product requirements, often the first considered, relate to perish ability or bulk of the product, complexity of sale, sales service required, and value of the product.

Channel commanders must be aware that channel patterns change; they cannot assume that once a channel has been developed to fit the character of both company and market, no more need be done. Great Britain, for example, has epitomized distribution through specialty-type middlemen, distributors, wholesalers, and retailers; in fact, all middlemen have traditionally worked within narrow product specialty areas.

In recent years, however, there has been a trend toward broader lines, conglomerate merchandising, and mass marketing. The firm that neglects the growth of self-service, scrambled merchandising, or discounting may find it has lost large segments of its market because its channels no longer reflect the character of the market.

Continuity

Channels of distribution often pose longevity problems. Most agent middlemen firms tend to be small institutions. When one individual retires or moves out of a line of business, the company may find it has lost its distribution in that area. Wholesalers and especially retailers are not noted for their continuity in business either. Most middlemen have little loyalty to their vendors. They handle brands in good times when the line is making money, but quickly reject such products within a season or a year if they fail to produce during that period. Distributors and dealers are probably the most loyal middlemen, but even with them, manufacturers must attempt to build brand loyalty downstream in a channel lest middlemen shift allegiance to other companies or other inducements.

Locating, Selecting, and Motivating Channel Members

The actual process of building channels for international distribution is seldom easy, and many companies have been stopped in their efforts to develop international markets by their inability to construct a satisfactory system of channels.

Locating Middlemen

The search for prospective middlemen should begin with study of the market and determination of criteria for evaluating middlemen servicing that market. The company's broad policy guidelines should be followed, but expect expediency to override policy at times. The checklist of criteria differs according to the type of middlemen being used and the nature of their relationship with the company.

Basically, such lists are built around four subject areas: (1) productivity or volume, (2) financial strength, (3) managerial stability and capability, and (4) the nature and reputation of the business. Emphasis is usually placed on either the actual or potential productivity of the middleman.

Setting policies and making checklists are easy; the real task is implementing them. The major problems are locating information to aid in the selection and choice of specific middlemen, and discovering middlemen available to handle one's merchandise.

Firms seeking overseas representation should compile a list of middlemen from such sources as:

(1) The U.S. Department of Commerce;
(2) Commercially published directories;
(3) Foreign consulates;
(4) Chamber-of-commerce groups located abroad;
(5) Other manufacturers producing similar but non-competitive goods;
(6) Middlemen associations;
(7) Business publications;
(8) Management consultants;
(9) Carriers particularly airlines; and
(10) Internet-based services such as Unibex, a global business centre.

Selecting Middlemen

Finding prospective middlemen is less a problem than determining which of them can perform satisfactorily. Low volume or low potential volume hampers most prospects, many are underfinanced, and some simply cannot be trusted. In many cases, when a manufacturer is not well known abroad, the reputation of the middleman becomes the reputation of the manufacturer, so a poor choice at this point can be devastating.

Screening

The screening and selection process itself should follow this sequence: (1) a letter including product information and distributor requirements in the native language to each prospective middleman; (2) a follow-up to the best respondents for more specific information concerning lines handled, territory covered, size of firm, number of salespeople, and other background information; (3) check of credit and references from other clients and customers of the prospective middleman; and (4) if possible, a personal check of the most promising firms. It has become easier to obtain financial information on prospective middlemen via such Internet companies as Unibex (Exhibit 14—8), which provides access to Deloitte & Touches International and Dun & Bradstreet client information resources.

The Agreement

Once a potential middleman has been found and evaluated, there remains the task of detailing the arrangements with that middleman. So far the company has been in a buying position; now it must shift into a selling and negotiating position to convince the middleman to handle the goods and accept a distribution agreement that is workable for the company. Agreements must spell out specific responsibilities of the manufacturer and the middleman, including an annual sales minimum. The sales minimum serves as a basis for evaluation of the distributor, and failure to meet sales mini-mums may give the exporter the right of termination.

Motivating Middlemen

Once middlemen are selected, a promotional program must be started to maintain high-level interest in the manufacturer's products. A larger proportion of the advertising budget must be devoted to channel communications than in the United States because there are so many small middlemen to be contacted. Consumer advertising is of no value unless the goods are actually available. Furthermore, few companies operating in international business have the strong brand image in foreign environments that they have in their own country. In most countries, retailers and wholesalers are only minimally brand conscious, and yet, to a large degree, they control the success or failure of products in their countries.

Terminating Middlemen

When middlemen do not perform up to standards or when market situations change, requiring a company to restructure its distribution, it may be necessary to terminate relationships with certain middlemen or certain types of middlemen. In the United States, it is usually a simple action regardless of the type of middlemen; they are simply dismissed. However, in other parts of the world, the middleman typically has some legal protection that makes it difficult to terminate relationships. In Colombia, for example, if you terminate an agent, you are required to pay 10 percent of the agent's average annual compensation, multiplied by the number of years the agent served, as a final settlement. In some countries, an agent cannot be dismissed without arbitration to determine whether the relationship should be ended. Some companies make all middlemen contracts for one year to avoid such problems.

However, there have been cases where termination under these contracts has been successfully contested. Competent legal advice is vital when entering distribution contracts with middlemen. But as many experienced international marketers know, the best rule

is to avoid the need to terminate distributors by screening all prospective middlemen carefully. A poorly chosen distributor may not only fail to live up to expectations but may also adversely affect business and prospects in the country.

Controlling Middlemen

The extreme length of channels typically used in international distribution makes control of middlemen particularly difficult. Some companies solve this problem by establishing their own distribution systems; others issue franchises or exclusive distributorships in an effort to maintain control through the first stages of the channels. Until the various world markets are more highly developed, most international marketers cannot expect to exert a high degree of control over their international distribution operations. Although control is difficult, a company that succeeds in controlling distribution channels is likely to be a successful international marketer. Indeed, the desire for control is a major reason why companies initiate their own distribution systems in domestic as well as in international business.

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Lesson 5.2 - Global Promotional Strategy

International Promotional Strategy

In the international industrial market, the primary element of the promotional mix is personal selling, for only through personal selling can the coordination so essential to the industrial buyer-seller interface be effectively achieved.

Sales promotion in the form of trade fairs is playing an increasingly important role in international marketing because so many prospects can be contacted in one place and because they enable quick comparisons of products. Direct mail is also becoming popular, although mailing lists are usually difficult to obtain. The use of publicity, although growing in popularity, is limited due to language difficulties and media coverage. Advertising is given little attention in the international industrial market, perhaps because of the difficulties in determining media coverage and numerous, widely varying, governmental regulations. Here our discussion concerns personal selling.

Global Advertising

Intense competition for world markets and the increasing sophistication of foreign consumers have led to a need for more sophisticated advertising strategies. Increased costs, problems of coordinating advertising programs in multiple countries, and a desire for a common worldwide company or product image have caused Multinational Companies (MNCs) to seek greater control and efficiency without sacrificing local responsiveness. In the quest for more effective and responsive promotion programs, the policies covering centralized or decentralized authority, use of single or multiple foreign or domestic agencies, appropriation and allocation procedures, copy, media, and research are being examined.

Pattern Advertising: Plan Globally, Act Locally

As discussed in the chapter on product development, a product is more than a physical item; it is a bundle of satisfactions the buyer receives. This package of satisfactions or utilities includes the primary function of the product along with many other benefits imputed by the values and customs of the culture. Different cultures often seek the same

value or benefits from the primary function of a product; for example, the ability of an automobile to get from point A to point B, a camera to take a picture, or a wristwatch to tell time. But while agreeing on the benefit of the primary function of a product, other features and psychological attributes of the item can have significant differences.

Consider the different market-perceived needs for a camera. In the United States, excellent pictures with easy, foolproof operation are expected by most of the market; in Germany and Japan, a camera must take excellent pictures but the camera must also be state-of-the-art in design. In Africa, where penetration of cameras is less than 20 percent of the households, the concept of picture-taking must be sold. In all three markets, excellent pictures are expected (i.e., the primary function of a camera is demanded) but the additional utility or satisfaction derived from a camera differs among cultures. There are many products that produce such different expectations beyond the common benefit sought by all. Thus, many companies follow a strategy of pattern advertising, a global advertising strategy with a standardized basic message allowing some degree of modification to meet local situations.[5] As the popular saying goes, "Think Globally, Act Locally." In this way, some economies of standardization can be realized while specific cultural differences are accommodated.

Levi Strauss and Company has changed from all localized ads to pattern advertising where the broad outlines of the campaign are given but the details are not. Quality and Levi's American roots are featured worldwide. In each country market, different approaches will express these two points.

In Japan, the Blue Diamond brand of almonds was an unknown commodity until Blue Diamond launched its campaign of exotic new almond-based products that catered to local tastes. Such things as almond tofu, almond miso soup, and Clarhond—a nutritional snack concocted from a mixture of dried small sardines and slivered almonds—were featured in magazine ads and in promotional cooking demonstrations. Television ads featured educational messages on how to use almonds in cooking, their nutritional value, the versatility of almonds as a snack, and the California mystique and health benefits of almonds. As a result, Japan is now the Association's largest importer of almonds.

In Korea, the emphasis was on almonds and the West. Commercials featured swaying palms, beach scenes, and a guitar-playing crooner singing "Blue Diamond" to the tune of "Blue Hawaii." And so it goes in the 94 countries where Blue Diamond sells its almonds. Blue Diamond assumes that no two markets will react the same, that each has its own set of differences—be they "cultural, religious, ethnic, dietary, or otherwise"— and that each will require a different marketing approach, a different strategy. The wisdom of adapting

its product advertising for each market is difficult to question since two-thirds of all Blue Diamond's sales are outside the United States.

Global Advertising and World Brands

Global brands generally are the result of a company that elects to be guided by a global marketing strategy. Global brands carry the same name, same design, and same creative strategy everywhere in the world; Coca-Cola, Pepsi-Cola, McDonald's, and Revlon are a few of the global brands. Even when cultural differences make it ineffective to have a standardized advertising program or a standardized product; a company may have a World brand. Nescafe, the world brand for Nestle Company's instant coffee, is used throughout the world even though advertising messages and formulation (dark roast and light roast) vary to suit cultural differences.

In Japan and the United Kingdom, advertising reflects each country's preference for tea; in France, Germany, and Brazil, cultural preferences for ground coffee call for a different advertising message and formulation. Even in this situation, however, there is some standardization; all advertisements have one common emotional link: "Whatever good coffee means to you and however you like to serve it, Nescafe has a coffee for you." The debate between advocates of strict standardized advertising and those who support locally modified promotions will doubtless continue.

Pan-European Advertising

The attraction of a single European market will entice many companies to standardize as much of their promotional effort as possible. As media coverage across Europe expands, it will become more common for markets to be exposed to multiple messages and brands of the same product. To avoid the confusion that results when a market is exposed to multiple brand names and advertising messages, as well as for reasons of efficiency, companies will strive for harmony in brand names, advertising, and promotions across Europe.

Global Market Segmentation and Promotional Strategy

Rather than approach a promotional strategy decision as having to be either standardized or adapted, a company should first identify market segments. A market segment consists of consumers with more similarities in their needs, wants, and buying behaviour than differences, and thus more responsive to a uniform promotional theme. Market segments can be defined within country boundaries or across countries. Global market segmentation involves identifying homogeneous market segments across groups of countries.

Customers in a global market segment may come from different cultural backgrounds with different value systems and live in different parts of the world, but their commonalities in life-styles and their needs are fulfilled by similar product benefits. Further, while segments in some countries may be too small to be considered, when aggregated across a group of countries, they make a very lucrative total market.

Procter & Gamble has identified mass market segments across the world and designed brand and advertising concepts that apply to all. The company's shampoo positioning strategy, "Pro-V vitamin formula strengthens the hair and makes it shine," was developed for the Taiwan market, and then successfully launched in several Latin American countries with only minor adaptation for hair type and language. L'Oreal's "It's expensive and I'm worth it" brand position also works well worldwide. Unilever's fabric softener's teddy bear brand concept has worked well across borders, even though the "Snuggle" brand name changes in some countries; it's Kuschelweich in Germany, Coc-colino in Italy, and Mimosin in France.

Creative Challenges

The growing intensity of international competition, coupled with the complexity of multinational marketing, demands that the international advertiser function at the highest creative level. Advertisers from around the world have developed their skills and abilities to the point that advertisements from different countries reveal basic similarities and a growing level of sophistication. To complicate matters further, boundaries are placed on creativity by legal, linguistic, cultural, media, production, and cost limitations.

Legal Considerations

Laws that control comparative advertising vary from country to country in Europe. In Germany, it is illegal to use any comparative terminology; you can be sued by a competitor if you do. Belgium and Luxembourg explicitly ban comparative advertising, whereas it is clearly authorized in the U.K., Ireland, Spain, and Portugal. The directive covering comparative advertising will allow implicit comparisons that do not name competitors, but will ban explicit comparisons between named products.

The European Commission has issued several directives to harmonize the laws governing advertising. However, member states are given substantial latitude to cover issues under their jurisdiction. Many fear that if the laws are not harmonized, member states may close their borders to advertising that does not respect their national rules.

Language Limitations

Language is one of the major barriers to effective communication through advertising. The problem involves different languages of different countries, different languages or dialects within one country, and the subtler problems of linguistic nuance and vernacular.

Cultural Diversity

The problems associated with communicating to people in diverse cultures present one of the great creative challenges in advertising. Communication is more difficult because cultural factors largely determine the way various phenomena are perceived. If the perceptual framework is different, perception of the message it differs.

Knowledge of cultural diversity must encompass the total advertising project. General Mills had two problems with one product. When it introduced instant cake mixes in the United States and England, it had the problem of overcoming the homemaker's guilt feelings. When General Mills introduced instant cake mixes in Japan, the problem changed; cakes were not commonly eaten in Japan. There was no guilt feeling but the homemaker was concerned about failing. She wanted the cake mix as complete as possible. In testing TV commercials promoting the notion that making cake is as easy as making rice, General Mills learned it was offending the Japanese homemaker who believes the preparation of rice requires great skill.

Media Limitations

Media are discussed at length later, so here we maintain only that limitations on creative strategy imposed by media may diminish the role of advertising in the promotional program and may force marketers to emphasize other elements of the promotional mix.

A marketer's creativity is certainly challenged when a television commercial is limited to 10 showings a year with no two exposures closer than 10 days, as is the case in Italy. Creative advertisers in some countries have even developed their own media for overcoming media limitations. In some African countries, advertisers run boats up and down the rivers playing popular music and broadcasting commercials into the bush as they travel.

Production and Cost Limitations

Creativity is especially important when a budget is small or where there are severe production limitations, poor-quality printing, and a lack of high-grade paper. For example,

the poor quality of high-circulation glossy magazines and other quality publications has caused Colgate-Palmolive to depart from its customary heavy use of print media in the West for other media in Eastern Europe. Newsprint is of such low quality in China that a colour advertisement used by Kodak in the West is not an option. Kodak's solution has been to print a single-sheet colour insert as a newspaper supplement. The necessity for low-cost re- 1 production in small markets poses another problem in many countries. For example, hand-painted billboards must be used instead of printed sheets because the limited number of billboards does not warrant the production of printed sheets. In Egypt, static-filled television and poor-quality billboards have led companies such as Coca-Cola and Nestle to place their advertisements on the sails of feluccas, boats that sail along the Nile. Feluccas, with their triangle sails, have been used to transport goods since the time of the pharaohs and serve as an effective alternative to attract attention to company names and logos.

Media Planning and Analysis

Tactical Considerations

Although nearly every sizable nation essentially has the same kinds of media, there are a number of specific considerations, problems, and differences encountered from one nation to another. In international advertising, an advertiser must consider the availability, cost, and coverage of the media. Local variations and lack of market data require added attention.

Imagine the ingenuity required of advertisers confronted with these situations:

- In Brazil, TV commercials are sandwiched together in a string of 10 to 50 commercials within one station break.
- National coverage in many countries means using as many as 40 to 50 different media.
- Specialized media reach small segments of the market only. In the Netherlands, there are Catholic, Protestant, socialist, neutral, and other specialized broadcasting systems.
- In Germany, TV scheduling for an entire year must be arranged by August 30 of the preceding year, with no guarantee that commercials intended for summer viewing will not be run in the middle of winter.
- In Vietnam, advertising in newspapers and magazines is limited to 10 percent of space, and to 5 percent of time, or three minutes an hour, on radio and TV.

Availability

One of the contrasts of international advertising is that some countries have too few advertising media and others have too many. In some countries, certain advertising media are forbidden by government edict to accept some advertising materials. Such restrictions are most prevalent in radio and television broadcasting. In many countries there are too few magazines and newspapers to run all the advertising offered to them. Conversely, some nations segment the market with so many newspapers that the advertiser cannot gain effective coverage at a reasonable cost. Gilberto Sozzani, head of an Italian advertising agency, comments about his country: "One fundamental rule. You cannot buy what you want."

Hi China the only national TV station, CCTV, has one channel that must be aired by the country's 27 provincial/municipal stations. In 1997 CCTV auctioned off the most popular break between the early evening news and weather; a secured yearlong, daily five-second billboard ad in this break went for $38.5 million. For this price, advertisers are assured of good coverage—over 70 percent of households have TV sets and the government's goal is 90 percent by 2000. One of the other options for advertisers is with the 2,828 TV stations that provide only local coverage. For a comparison on how much of the advertising dollar is spent on different media in the top 10 global markets.

Cost

Media prices are susceptible to negotiation in most countries. Agency space discounts are often split with the client to bring down the cost of media. The advertiser may find that the cost of reaching a prospect through advertising depends on the agent's bargaining ability. The per-contract cost varies widely from country to country. One study showed the cost of reaching one thousand readers in 11 different European countries ranged from $1.58 in Belgium to $5.91 in Italy; in women's service magazines, the page cost per thousand circulations ranged from $2.51 in Denmark to $10.87 in Germany. Shortages of advertising time on commercial television in some markets have caused substantial price increases. In Britain, prices escalate on a bidding system. They do not have fixed rate cards; instead there is a pre-empt system in which advertisers willing to pay a higher rate can bump already scheduled spots.

Coverage

Closely akin to the cost dilemma is the problem of coverage. Two points are particularly important: one relates to the difficulty of reaching certain sectors of the

population with advertising and the other to the lack of information on coverage. In many world marketplaces, a wide variety of media must be used to reach the majority of the markets. In some countries, large numbers of separate media have divided markets into uneconomical advertising segments.

With some exceptions, a majority of the population of less-developed countries cannot be reached readily through the medium of advertising. In India, Video Vans are used to reach India's rural population with 30-minute infomercials extolling the virtues of a product. Consumer goods companies deploy vans year-round except in the monsoon season. Colgate hires 85 vans at a time and sends them to villages that research has shown to be promising.

Lack of Market Data

Verification of circulation or coverage figures is a difficult task. Even though many countries have organizations similar to the Audit Bureau of Circulation, accurate circulation and audience data are not assured. For example, the president of the Mexican National Advertisers Association charged that newspaper circulation figures are grossly exaggerated. He suggested that as a rule, agencies divide these figures in two and take the result with a grain of salt. The situation in China is no better; surveys of habits and market penetration are available only for the cities of Beijing, Shanghai, and Guangzhou. Radio and television audiences are always difficult to measure, but at least in most countries, geographic coverage is known. Research data are becoming more reliable as advertisers and agencies demand better quality data.

Specific Media Information

An attempt to evaluate specific characteristics of each medium is beyond the scope of this discussion. Furthermore, such information would quickly become outdated because of the rapid changes in the international advertising media field. It may be interesting, however, to examine some of the particularly unique international characteristics of various advertising media. In most instances, the major implications of each variation may be discerned from the data presented.

Newspapers

The newspaper industry is suffering in some countries from lack of competition and choking because of it in others. Most U.S. cities have just one or two major daily newspapers, but in many countries, there are so many newspapers an advertiser has

trouble achieving even partial market coverage. Uruguay, population three million, has 21 daily newspapers with a combined circulation of 553,000. Turkey has 380 newspapers and an advertiser must consider the political position of each newspaper so the product's reputation is not harmed through affiliations with unpopular positions. Japan has only five national daily newspapers, but the complications of producing a Japanese-language newspaper are such that they each contain just 16 to 20 pages. Connections are necessary to buy advertising space; Asahi, Japan's largest newspaper, has been known to turn down over a million dollars a month in advertising revenue.

Magazines

The use of foreign national consumer magazines by international advertisers has been notably low for many reasons. Few magazines have a large circulation or provide dependable circulation figures. Technical magazines are used rather extensively to promote export goods but, as with newspapers, paper shortages cause placement problems. Media planners are often faced with the largest magazines accepting up to twice as many advertisements as they have space to run them in then they decide what advertisements will go in just before going to press by means of a raffle.

Radio and Television

Possibly because of their inherent entertainment value, radio and television have become major communications media in most nations. Most populous areas have television broadcasting facilities. In some markets, such as Japan, television has become almost a national obsession and thus finds tremendous audiences for its advertisers. In China, virtually all homes in major cities have a television and most adults view television and listen to radio daily. For number of households covered and rates for TV advertising. Radio has been relegated to a subordinate position in the media race in countries where television facilities are well developed. In many countries, however, radio is a particularly important and vital advertising medium when it is the only one reaching large segments of the population.

Television and radio advertising availability varies between countries. Three patterns are discernible: competitive commercial broadcasting, commercial monopolies, and non commercial broadcasting. Countries with free competitive commercial radio and television normally encourage competition and have minimal broadcast regulations. Elsewhere, local or national monopolies are granted by the government and individual stations or networks may then accept radio or TV commercials according to rules established by the government. In some countries, commercial monopolies may accept all the

advertising they wish; in others, only spot advertising is permissible and programs may not be sponsored. Live commercials are not permitted in some countries; in still others, commercial stations must compete for audiences against the government's non commercial broadcasting network.

Satellite and Cable TV

Of increasing importance in TV advertising is the growth and development of satellite TV broadcasting. Sky Channel, a United Kingdom-based commercial satellite television station, beams its programs and advertising into most of Europe via cable TV subscribers. The technology that permits households to receive broadcasts directly from the satellite via a dish the "size of a dinner plate" costing about $350 is adding greater coverage and the ability to reach all of Europe with a single message. The expansion of TV coverage will challenge the creativity of advertisers and put greater emphasis on global standardized messages.

Direct Mail

Direct mail is a viable medium in many countries. It is especially important when other media are not available. As is often the case in international marketing, even such a fundamental medium is subject to some odd and novel quirks. For example, in Chile, direct mail is virtually eliminated as an effective medium because the sender pays only part of the mailing fee; the letter carrier must collect additional postage for every item delivered. Obviously, advertisers cannot afford to alienate customers by forcing them to pay for unsolicited advertisements. Despite some limitations with direct mail, many companies have found it a meaningful way to reach their markets. The Reader's Digest Association has used direct-mail advertising in Mexico to successfully market its magazines.

In Southeast Asian markets, where print media are scarce, direct mail is considered one of the most effective ways to reach those responsible for making industrial goods purchases, even though accurate mailing lists are a problem in Asia as well as in other parts of the world. In fact, some companies build their own databases for direct mail.

Other Media

Restrictions on traditional media or their availability cause advertisers to call on lesser media to solve particular local-country problems. The cinema is an important medium in many countries, as are billboards and other forms of outside advertising. Billboards are especially useful in countries with high illiteracy rates.

In Haiti, sound trucks equipped with powerful loudspeakers provide an effective and widespread advertising medium. Private contractors own the equipment and sell advertising space much as a radio station would. This medium overcomes the problems of illiteracy, lack of radio and television set ownership, and limited print media circulation. In Ukraine, where the postal service is unreliable, businesses have found that the most effective form of direct business-to-business advertising is direct faxing.

In Spain, a new medium includes private cars that are painted with advertisements for products and serve as moving billboards as they travel around. This new system, called Publicoche (derived from the words publicidad, meaning advertising, and coche, meaning car), has 75 cars in Madrid. Car owners are paid $230 a month and must submit their profession and "normal" weekly driving patterns. Advertisers pay a basic cost of $29,000 per car per month, and can select the type and colour of car they are interested in and which owners are most suited to the campaign based on their driving patterns.

The Internet—A Media Mix Alternative

Though still evolving, the Internet is emerging as a viable medium for advertising and should be included as one of the media in a company's possible media mix. Its use in business-to-business communications and promotion via catalogues and product descriptions is rapidly gaining in popularity. Since a large number of businesses have access to the Internet, the Internet can reach a large portion of the business-to-business market.

Another company that is using the Internet as an advertising medium is Levi Strauss & Company. Levi's is using its Web site as an integral part of a global advertising campaign. Customers can surf through North American or European sites, sampling products and brand campaigns. When a new European jeans ad campaign was launched, an accompanying interactive game, and mystery story appeared on the European site. In all there are five different games based on one of five Levi's "brand truths," as established in Levi's mainstream advertising campaign. The company has also launched a specific site for Japan, using kanji, the Japanese language characters.

For consumer products the major limitation of the Internet is coverage. In the United States only a small portion of households have access to a computer, but there are even fewer in other countries. Nevertheless, the small number of Internet households accessible outside the United States generally constitutes a younger, better-educated market segment with higher than average incomes. For many companies, that group is an important market niche. Furthermore, this limitation is only temporary, as the new technology enables access to the Internet via television. Lower prices for personal computers expand the household

base. Net Channel, a new subscription Internet service provider which offers its service via domestic TV sets, will be available initially in the U.K. and the U.S., followed by a rollout across Europe and ultimately into Asia. As an advertising medium it may be the ideal tool for pan-regional areas that cover various languages and cultures. A company's Web site can have as many cultural, linguistic options as it needs. If someone in Thailand lands on the Procter & Gamble site, they can read an ad in Thai for the company's products available in Thailand.

As the Internet grows and countries begin to assert control over what is now virtually a medium without restrictions, limitations will be set. Besides control of undesirable information, issues such as taxes, unfair competition, import duties, and privacy are being addressed all over the world. In Australia, local retailers are calling for changes in laws because of loss of trade to the Internet; under current law Internet purchases do not carry regular import duties. The Internet industry is lobbying for a global understanding on regulation to avoid a crazy quilt of confusing and contradictory rules. As the director of the Asia-Pacific Internet Association commented, "Internationally 1997 has been the year that the Internet has finally been recognized as requiring globally coordinated policy and regulatory understanding and development."

Another limitation that needs to be addressed soon is the competition for Web surfers. The sheer proliferation of the number of Web sites makes it increasingly difficult for a customer to stumble across a particular page. Banners or interceptive sites advertising the site can help but that venue is also becoming crowded. As discussed earlier, serious Internet advertisers or e-marketers will have to be more effective in communicating the existence of their Internet sites via other advertising media. Some companies are coupling their traditional television spots with a Web site; IBM, Swatch Watches, AT&T, and Samsung electronics are among those going for a one-two punch of on-air and online. TV spots are used to raise brand awareness of product regionally, and to promote the company's Web site. Additionally, the company buys ad banners on the Web that will lead enthusiastic consumers to the company's Web that also promotes the product. Some TV networks offer a package deal, a TV spot and ad banners on the network's Web site. For example, the EBN (European Business News) channel offers cross-media program that includes TV spots and the advertiser's ad banner on the EB Interactive page for $15,000 a quarter.

Sales Promotion

Sales are marketing activities that stimulate consumer purchases and improve retailer or middlemen effectiveness and cooperation. Cents-off, in-store demonstrations, samples, coupons, gifts, product tie-ins, contests, sweepstakes, sponsorship of special events such

as concerts and fairs, and point-of-purchase displays are types of sales promotion devices designed to supplement advertising and personal selling in the promotional mix.

Sales promotions are short-term efforts directed to the consumer and or retailer to achieve such specific objectives as

(1) Consumer-product trial and or immediate purchase;
(2) Consumer introduction to the store;
(3) Gaining retail point-of-purchase displays;
(4) Encouraging stores to stock the product; and
(5) Supporting and augmenting advertising and personal sales efforts.

An example of sales promotion is the African cigarette manufacturer who, in addition to regular advertising, sponsors musical groups and river explorations and participates in local fairs in attempts to make the public aware of the product. Procter & Gamble's introduction of Ariel detergent in Egypt included the "Ariel Road Show." The puppet show was taken to local markets in villages, where more than half of the Egyptian population still lives. The show drew huge crowds, entertained people, told about Ariel's better performance without the use of additives, and sold the brand through a distribution van at a nominal discount. Besides creating brand awareness for Ariel, the road show helped overcome the reluctance of the rural retailers to handle the premium-priced Ariel.

In markets where the consumer is hard to reach because of media limitations, the percentage of the promotional budget allocated to sales promotions may have to be increased. In some less-developed countries, sales promotions constitute the major portion of the promotional effort in rural and less-accessible parts of the market. In parts of Latin America, a portion of the advertising-sales budget for both Pepsi-Cola and Coca-Cola is spent on carnival trucks, which make frequent trips to outlying villages to promote their products. When a carnival truck makes a stop in a village, it may show a movie or provide some other kind of entertainment; the price of admission is an unopened bottle of the product purchased from the local retailer.

The unopened bottle is to be exchanged for a cold bottle plus a coupon for another bottle. This promotional effort tends to stimulate sales and encourages local retailers, who are given prior notice of the carnival truck's arrival, to stock the product. Nearly 100 percent coverage of retailers in the village is achieved with this type of promotion. In other situations, village stores may be given free samples, have the outsides of their stores painted, or receive clock signs in attempts to promote sales.

An especially effective promotional tool when the product concept is new or has a very small market share is product sampling. Nestle Baby Foods faced such a problem in France in its attempt to gain share from Gerber, the leader. The company combined sampling with a novel sales promotion program to gain brand recognition and to build goodwill.

Since most Frenchmen take off for a long vacation in the summertime, piling the whole family into the car and staying at well-maintained campgrounds, Nestle provides rest-stop structures along the highway where parents can feed and change their babies. Sparkling clean Le Relais Bebes are located along main travel routes. Sixty-four hostesses at these rest stops welcome 120,000 baby visits and dispense 600,000 samples of baby food each year. There are free disposable diapers, a changing table, and high chairs for the babies to sit in while dining.

As is true in advertising, the success of a promotion may depend on local adaptation. Major constraints are imposed by local laws, which may not permit premiums or free gifts to be given. Some countries' laws control the amount of discount given at retail, others require permits for all sales promotions, and in at least one country, no competitor is permitted to spend more on a sales promotion than any other company selling the product. Effective sales promotions can enhance the advertising and personal selling efforts and, in some instances, may be effective substitutes when environmental constraints prevent full utilization of advertising.

Global Advertising and the Communications Process

Promotional activities (advertising, personal selling, sales promotion, and public relations) are basically a communications process. All the attendant problems of developing an effective promotional strategy in domestic marketing plus all the cultural problems just discussed must be overcome for a successful international promotional program. A major consideration for foreign marketers is to determine that all constraints (cultural diversity, media limitations, legal problems, and so forth) are controlled so the right message is communicated to and received by prospective consumers.

International communications may fail for a variety of reasons: a message may not get through because of media inadequacy; the message may be received by the intended audience but not be understood because of different cultural interpretations; or the message may reach the intended audience and be understood but have no effect because the marketer did not correctly assess the needs and wants of the target market.

The effectiveness of promotional strategy can be jeopardized by so many factors that a marketer must be certain no controllable influences are overlooked. Those international executives who understand the communications process are better equipped to manage the diversity they face in developing an international promotional program.

In the international communications process, each of the seven identifiable segments can ultimately affect the accuracy of the process. The process consists of

(1) An information source—an international marketing executive with a product message to communicate;

(2) Encoding the message from the source converted into effective symbolism for transmission to a receiver;

(3) A message channel the sales force and/or advertising media that conveys the encoded message to the intended receiver;

(4) Decoding the interpretation by the receiver of the symbolism transmitted from the information source;

(5) Receiver consumer action by those who receive the message and are the target for the thought transmitted;

(6) Feedback information about the effectiveness of the message which flows from the receiver (the intended target) back to the information source for evaluation of the effectiveness of the process; and, to complete the process,

(7) Noise uncontrollable and unpredictable influences such as competitive activities and confusion detracting from the process and affecting any or all of the other six steps.

Unfortunately, the process is not as simple as just sending a message via a medium to a receiver and being certain that the intended message sent is the same one perceived by the receiver. The communications-process steps are encased in Cultural Context 'A' and-Cultural Context 'B' to illustrate the influences complicating the process when the message is encoded in one culture and decoded in another. If not properly considered, the different cultural contexts can increase the probability of misunderstandings. As one researcher notes, "Effective communication demands that there exist a psychological overlap between the sender and the receiver"; otherwise a message falling outside the receiver's perceptual field may transmit an unintended meaning. It is in this area that even the most experienced companies make blunders.

Most promotional misfires or mistakes in international marketing are attributable to one or several of these steps not properly reflecting cultural influences and/or a general lack of knowledge about the target market. A review of some of the points discussed in this chapter serves to illustrate this. The information source is a marketer with a product to sell to a specific target market. The message to be conveyed about the product should reflect the needs and wants of the target market; however, the marketer's perception of market needs and actual market needs do not always coincide. This is especially true when the marketer relies more on the self-reference criterion (SRC) than on effective research. It can never be assumed that "if it sells well in one country, it will sell in another." For instance, bicycles designed and sold in the United States to consumers fulfilling recreational-exercise needs are not sold as effectively for the same reasons in a market where the primary use of the bicycle is transportation.[53] Cavity-reducing fluoride toothpaste sells well in the United States, where healthy teeth are perceived as important, but it has limited appeal in markets such as Great Britain and the French areas of Canada, where the reason for buying toothpaste is breath control. From the onset of the communications process, if basic needs are incorrectly defined, communications fail because an incorrect or meaningless message is received even though the remaining steps in the process are executed properly.

The encoding step causes problems even with a proper message. At this step such factors as colour, values, beliefs, and tastes can cause the international marketer to symbolize the message incorrectly. For example, the marketer wants the product to convey coolness so the colour green is used; however, people in the tropics might decode green as dangerous or associate it with disease. Another example of the encoding process misfiring was a perfume presented against a backdrop of rain which, for Europeans, symbolized a clean, cool, refreshing image, but to Africans was a symbol of fertility. The ad prompted many viewers to ask if the perfume was effective against infertility.

DeBeers, the South African diamond company, found that its stylish ads depicting shadow figures conveying engagement, wedding, and anniversary gifts of diamonds failed among Chinese consumers, some of whom associate shadows with ghosts and death. A totally different ad was developed for the Chinese market. In some Muslim countries the ads had to be altered so that the shadows show silhouettes of women wearing veils, rather than the barefaced women whose shadows are shown in Western markets.

Problems of literacy, media availability, and types of media create problems in the communications process at the encoding step. Message channels must be carefully selected if an encoded message is to reach the consumer. Errors such as using television as a medium when only a small percentage of an intended market is exposed to TV, or using print media for a channel of communications when the majority of the intended users

cannot read or do not read the language in the medium, are examples of ineffective media channel selection in the communications process.

Decoding problems are generally created by improper encoding, which caused such errors as Pepsi's "Come Alive" slogan being decoded as "Come out of the grave." Chevrolet's brand name for the Nova model (which means star) was decoded into Spanish as No Va!, meaning "it doesn't go." In another misstep, a translation that was supposed to be decoded as "hydraulic ram" was instead decoded as "wet sheep." In a Nigerian ad, a platinum blonde sitting next to the driver of a Renault was intended to enhance the image of the automobile but she was perceived as not respectable and so created a feeling of shame. An ad used for Eveready Energizer batteries with the Energizer bunny was seen by Hungarian consumers as touting a bunny toy, not a battery.

Decoding errors may also occur accidentally. Such was the case with Colgate-Palmolive's selection of the brand name Cue for toothpaste. The brand name was not intended to have any symbolism; nevertheless, it was decoded by the French into a pornographic word. In some cases, the intended symbolism has no meaning to the decoder. In an ad transferred from the United States, the irony of a tough-guy actor Tom Selleck standing atop a mountain with a steaming mug of Lipton tea was lost on Eastern Europeans.

Errors at the receiver end of the process generally result from a combination of factors: an improper message resulting from incorrect knowledge of use patterns, poor encoding producing a meaningless message, poor media selection that does not get the message to the receiver, or inaccurate decoding by the receiver so that the message is garbled or incorrect.
Finally, the feedback step of the communications process is important as a check on the effectiveness of the other steps. Companies that do not measure their communications efforts are apt to allow errors of source, encoding, media selection, decoding, or receiver to continue longer than necessary. In fact, a proper feedback system allows a company to correct errors before substantial damage occurs.

In addition to the problems inherent in the steps outlined, the effectiveness of the international communications process can be impaired by noise. Noise comprises all other external influences such as competitive advertising, other sales personnel, and confusion at the receiving end that can detract from the ultimate effectiveness of the communications. Noise is a disruptive force interfering with the process at any step and is frequently beyond the control of the sender or the receiver. The overlapping cultural contexts, noise can emanate from activity in either culture or be caused by the influences of the overlapping of the cultural contexts. The significance is that one or all steps in the process, cultural factors,

or the marketer's SRC, can affect the ultimate success of the communication. For example, the message, encoding, media, and the intended receiver can be designed perfectly but the inability of the receiver to decode may render the final message inoperative. In designing an international promotional strategy, the international marketer can effectively use this model as a guide to help ensure all potential constraints and problems are considered so that the final communication received and the action taken correspond with the intent of the source.

The Advertising Agency

Just as manufacturing firms have become international, U.S., Japanese, and European advertising agencies are expanding internationally to provide sophisticated agency assistance worldwide. Local agencies also have expanded as the demand for advertising services by MNCs has developed. Thus, the international marketer has a variety of alternatives available. In most commercially significant countries, an advertiser has the opportunity to employ (1) a local domestic agency, (2) its company-owned agency, or (3) one of the multinational advertising agencies with local branches. There are strengths and weaknesses with each.

A local domestic agency may provide a company with the best cultural interpretation in situations where local modification is sought, but the level of sophistication can be weak. However, the local agency may have the best feel for the market, especially if the multinational agency has little experience in the market. Eastern Europe has been a problem for the multinational agency that is not completely attuned to the market. In Hungary, a U.S. baby-care company advertisement of bath soap showing a woman holding her baby hardly seemed risky. But where Westerners saw a young mother, scandalized Hungarians saw an unwed mother. The model was wearing a ring on her left hand; Hungarians wear wedding bands on the right hand. It was obvious to viewers that this woman wearing a ring on her left hand was telling everybody in Hungary she wasn't married. This is a mistake a local agency would not have made.

The best compromise is the multinational agency with local branches because it has the sophistication of a major agency with local representation. Further, the multinational agency with local branches is better able to provide a coordinated worldwide advertising campaign. This has become especially important for firms doing business in Europe. With the interest in global or standardized advertising, many agencies have expanded to provide worldwide representation. Many companies with a global orientation employ one, or perhaps two, agencies to represent them worldwide.

Compensation arrangements for advertising agencies throughout the world are based on the U.S. system of 15 percent commissions. However, agency commission patterns throughout the world are not as consistent as they are in the United States; in some countries, agency commissions vary from medium to medium. Companies are moving from the commission system to a reward by results system, which details remuneration terms at the outset. If sales rise, the agency should be rewarded accordingly. This method of sharing in the gains or losses of profits generated by the advertising is gaining in popularity and it may become the standard. Services provided by advertising agencies also vary greatly but a few foreign agencies offer the full services found in U.S. agencies.

Even a sophisticated business function such as advertising may find it is involved in unique practices. In some parts of the world, advertisers often pay for the promotion with the product advertised rather than with cash. Kickbacks on agency commissions are prevalent in some parts of the world and account in part for the low profitability of international advertising agencies. In Mexico, India, and Greece, the advertiser returns half the media commissions to the agencies. In many of the developing countries, long-term credit is used to attract clients.

The global firm with branches and/or joint ventures with local firms dominate advertising globally. Over the last two decades most of the major ad agencies in the United States, the U.K., and Japan have expanded globally and can easily represent a global company almost anywhere in the world. The top agency in the world in 1995 and 1996 was a Japanese firm, Dentsu, Inc., followed by the U.S. firm McCann-Erickson Worldwide. If you visit the Web site of some of these agencies you will see how extensive their range is. These companies represent the consolidation of advertising agencies that has been going on over the last decade or so.

International Control of Advertising

Consumer criticisms of advertising are not a phenomenon of the U.S. market. Consumer concern with the standards and believability of advertising may have spread around the world more swiftly than have many marketing techniques. A study of a representative sample of European consumers indicated that only half of them believed advertisements gave consumers any useful information, 6 out of 10 believed that advertising meant higher prices (if a product is heavily advertised, it often sells for more than brands that are seldom or never advertised); nearly 8 out of 10 believed advertising often made them buy things they did not really need, and that ads often were deceptive about product quality. Advertising fared much better in Hong Kong, Colombia, and Brazil than in Europe.

The non-Europeans praised advertising as a way to obtain valuable information about products; most Brazilians consider ads entertaining and enjoyable.

European Community officials are establishing directives to provide controls on advertising as cable and satellite broadcasting expands. Deception in advertising is a thorny issue since most member countries have different interpretations of what constitutes a misleading advertisement. The demand for regulation of advertisements aimed at young consumers is a trend appearing in both industrialized and developing countries.

Decency and the blatant use of sex in advertisements also have received public attention. One of the problems in controlling decency and sex in ads is the cultural variations around the world. An ad perfectly acceptable to a Westerner may be very offensive to someone from the Middle-east, or, for that matter, another Westerner. Standards for appropriate behaviour as depicted in advertisements vary from culture to culture. Regardless of these variations, there is growing concern about decency, sex, and ads that demean women and men. International advertising associations are striving to forestall laws by imposing self-regulation, but it may be too late; some countries are passing laws that will define acceptable standards.

The difficulty that business has with self-regulation and restrictive laws is that sex can be powerful in some types of advertisements. European advertisements for Haagen-Dazs, a premium U.S. ice-cream marketer, and LapPower, a Swedish laptop computer company, received criticism for their ads as being too sexy. Haagen-Dazs' ad shows a couple, in various stages of undress, in an embrace feeding ice cream to one another. Some British editorial writers and radio commentators were outraged. One commented that "the ad was the most blatant and inappropriate use of sex as a sales aid." The ad for LapPower personal computers that the Stockholm Business Council on Ethics condemned featured the co-owner of the company with an "inviting smile and provocative demeanour displayed." (She was bending over a LapPower computer in a low-cut dress.)

The advertising industry is sufficiently concerned with the negative attitudes and skepticism of consumers and governments and with the poor practices of some advertisers that the International Advertising Association and other national and international industry groups have developed a variety of self-regulating codes.[61] Sponsors of these codes feel that unless the advertisers themselves come up with an effective framework for control, governments will intervene. This threat of government intervention has spurred interest groups in Europe to develop codes to ensure that the majority of ads conform to standards set for "honesty, truth, and decency." In those countries where the credibility of advertising is questioned and in those where the consumerism movement exists, the creativity of the

advertiser is challenged. The most egregious control, however, may be in Myanmar (formerly Burma), where each medium has its own censorship board that passes judgement on any advertising even before it is submitted for approval by the Ministry of Information. There is even a censorship board for calendars. Content restrictions are centred on any references to the government or military, other political matters, religious themes, or images deemed degrading to traditional culture.[63] In many countries, there is a feeling that advertising, and especially TV advertising, is too powerful and persuades consumers to buy what they do not need, an issue that has been debated in the United States for many years. South Korea, for example, has threatened to ban advertising of bottled water because the commercials may arouse public mistrust of tap water.

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Lesson 5.3 - Global Marketing Strategies

Introduction

Global strategies do not mean huge companies operating in a single world market. They are much more complex. Global competitive strategies are a bit like supernatural creatures: they can be imagined by each individual to suit his or her own reality while evoking a common concern. The best illustrations are the slogans companies use to describe themselves. These range from "Think Local, Act Global" all the way to its opposite "Think Global Act Local, with everything in between,"

Defining Global Strategies

Some 15 years have gone by since the term "global strategy" entered our vocabulary, enough time to bring some clarity to its definition. We now know what it is and what it is not.

Consider first what it is not. Global strategies are not standard product-market strategies that assume the world to be a single, homogeneous, border-free marketplace. The Uruguay Round of trade and investment liberalization notwithstanding, the world is still a collection of different independent economies, each with its own market characteristics. Each, moreover, has its own societal aspirations that occasionally find expression in protectionist policies of one form or another.

Global strategies are also not about global presence or about large companies. A company can very well operate in all countries of the world; but if what it does in one country has no meaning for what it does in another country, it is no different from the domestic companies it competes with in each location.

To qualify as pursuing a global strategy, a company needs to be able to demonstrate two things: that it can contest any market it chooses to compete in, and that it can bring its entire worldwide resources to bear on any competitive situation it finds it in, regardless of where that might be.

Selective Contestability

Just as companies possessing a certain set of technologies and business competencies choose particular market segments to concentrate on, a global company can be selective about the countries in which it operates.

Many small, high-technology companies and luxury goods manufacturers do just that. They compete where there is adequate demand to justify the investments needed to access the market; they focus their investments to achieve critical mass only in those markets they are interested in.

The important thing is that they can and are prepared to contest any and all markets should circumstances warrant. They constantly scour the world for market openings, they process information on a global basis, and they constitute a "potential" threat even in places they have not yet entered.

Markets where such contestability exists, as a corollary, start to behave almost as if the company had already entered—provided, of course, the threat of entry is a credible one. This explains why telecom markets the world over are so fiercely competitive from the day they are no longer government or private monopolies. The handful international players in the equipment business are not only waiting in the wings but also has products that conform to international standards and resources that they can deploy for market access as soon as opportunity arises.

Global Resources for Each Main Street

The corner shop that carries products by IBM, Philips, Coca-Cola, or Du Pont knows from experience that there is something special about these products compared with those supplied by a small local company. In comparison, products from companies such as Nestle, Unilever, or even Procter & Gamble did not seem so special—in the past at least. Their names, formulations, and the way they were produced and marketed were not too different from domestic ones.

Just being present in several countries, in other words, does not constitute a global strategy. Globalism is an earned notion rather than being an entitlement created by the fact of operating in several countries.

A basic characteristic of a global company is its ability to bring its entire worldwide capabilities to bear on any transaction anywhere regardless of the products it makes. This

underlies the importance of organizational integration in global strategies. Transporting capabilities across borders on an as-needed basis requires all local units to be connected and permeable, not isolated from one another.

This is also what allows global strategies to be "within-border" strategies while, at the same time, being "cross-border" ones. They are manifest on each Main Street, with local companies sensing they are dealing with a worldwide organization even while the latter employs a local competitive formula.

Main Attributes of Global Strategy

This dual notion of market contestability and bringing global resources to bear on competition wherever a company is present is really what global strategies are about. Industries where such strategies are prevalent assume a character of their own in which strategies that are geared to one country alone cannot be adopted. What companies do in one country has an inevitable consequence for what they do in others.

There is, of course, nothing absolute about global strategies. Being near-cousins of multi-domestic strategies, the best way to judge them is in terms of "degrees of globalness." At the risk of oversimplification, the more a company scores in each of the following five attributes, the more it can be considered a global competitor based on the definition just given. These include possessing a standard product (or core) that is marketed uniformly across the world; sourcing all assets, not just production, on an optimal basis; and achieving market access in line with the break-even volume of the needed infra structure.

- Standard products and marketing mix. While the advantages of having a standard product and marketing mix are obvious, this attribute involves several trades-offs in practice.

Economies of scale in design, production, and promotion need to be compared to the greater market acceptance that local adaptation often provides.

If a general conclusion can be drawn, it would be the need at least to aim for a standard "core" in the product and limiting marketing adaptations to those absolutely necessary. The more integrated countries become economically, the less latitude there is any way for things such as price discrimination and channel selection. The same applies to situations where buyers themselves are global and expect similar products and terms on a worldwide basis.

- Sourcing assets, not just products. Sourcing products and components internationally based on comparative advantage and availability has long been a feature of international business. What is new is the possibility to source assets or capabilities related to any part of the company's value chain. Whether it is capital from Switzerland or national credit agencies, software skills from Silicon Valley or Bangalore, or electronic components from Taiwan, global companies now have wider latitude in accessing resources from wherever they are available or cost-competitive.

The implication of this is that global strategies are as much about asset deployment for market access purposes as they are about asset accumulation abroad. The latter include local capital, technical skills, managerial talent, and new product ideas, as well as the host competencies that local partners and institutions can provide. Also, whereas previously assets accumulated locally were mainly to support a local business, it is increasingly possible—and desirable—to separate those needed for local market access from those intended to support the company's business elsewhere.

It is here that we associate partnerships and alliances with global strategy. They can supplement what a company already possesses by way of assets or complement what is missing, thereby speeding up the creation of the needed infrastructure as well as reducing costs and risks.

- Market access in line with break-even. For a company to be a credible global competitor it does not need to be among the biggest in its industry. But it has to be big enough to generate the volume of sales the required infrastructure demands and to amortize up-front investments in R&D and promotion.

Today, it is the latter investments that count most. In the pharmaceutical industry, for example, it now costs around US$400 million to come up with a successful new drug, This puts a natural floor on the amount of sales to be generated over the life of the drug. The greater the presence of a company in all of the large markets, and the greater its ability to launch the drug simultaneously in them, the higher the likelihood of profiting from the investment made.

The same argument applies to other investments in intangibles such as brands. If we associate global competitiveness with size, it is chiefly on account of these types of investments. Unlike investments in plants and physical infrastructure, which can result in diminishing returns to scale, intangibles almost always translate into "big is better."

- Contesting assets. Another distinguishing feature of a global company is its ability to neutralize the assets and competencies of its competitors. If a competitor switches its supply from a high-cost to a low-cost factory it too can do so; if a competitor gains access to a critical technology it can do the same. Similarly, if a competitor is using one market to generate excess cash flow in order to "invest" in another, it is able to neutralize this advantage by going to the relatively more profitable market itself.

Purely domestic companies and even those that are run on a multi domestic basis, lack such arbitrage possibilities. Just as in sourcing, to exploit these requires a global view of the business and the capacity to manage it in an integrated fashion.

- All functions have a global orientation. As much of the foregoing suggests, global competition today is a lot more than simple cross-border competition at the product or service level. It is equally about building and managing a multinational infrastructure. Frequently, the latter means internationalizing all of the competencies and functions of a company: its R&D, procurement, production, logistics, and marketing, as well as human resources and finance.

These functions are all geared to providing customers with superior products and services on a worldwide basis. The more they have a global orientation of their own, the greater their contribution to the overall effort. Hence, even if their focus may be primarily national in scope, supporting a local business with no trade, for example, any contribution they can make to other units of the company helps.

These five attributes, taken together, operationalize a global strategy. The degrees of globalness in a strategy are the extent to which each is fulfilled in practice. The fact of not having a standard global product, for example, diminishes the scope of a global strategy but does not entirely destroy it, provided the company scores high on the other attributes. If anything, stressing one attribute to the exclusion of others can even be counterproductive and unfeasible. A good balance between all of them is needed.

Local Adaptation

Another important point to make about these attributes is that they do not assume a single, open global marketplace. Trade and investment liberalization coupled with improvements in transportation and communications are what have made global strategies possible. Trade protection, labour policies, investment incentives, and a host of regulations continue to force a country-by-country adaptation of strategies.

It is also these realities, along with the socio-cultural differences between countries that have caused many companies to stress the "local" dimension in their business. And rightly so, If all companies confront the same set of market conditions, advantage goes to those that adapt their strategies best. The best way to reconcile these local differences with the attributes required of a global strategy is to see them as constraints to global optimization. Localness, in other words, is another variable to incorporate in decision making. Considering it as the basis for the strategy itself, however, is to deny all of the advantages a global company possesses. This is perhaps the biggest conundrum companies face today.

While adapting strategies to local conditions offers greater opportunities for revenue generation, it has two main impacts: it causes overinvestment in the infrastructure needed to serve markets, and brings about a lack of consistency in whatever strategy is being pursued.

Neither is intrinsically bad. They can even contribute positively to the end result if approached correctly. All that is needed is to factor them in as variables to be considered, without losing sight of the overall objective of competing effectively both within and across borders. Consider the issue of overinvestment, especially in capital-intensive businesses such as semiconductors.

Companies such as Texas Instruments, NEC, and Mitsubishi Electric have consciously located abroad. This not only permits them to benefit from generous investment incentives provided by local governments that want such facilities, but also means they can mobilize local companies as co-investors to share the capital burden and help with market access.

More contentious is the issue of strategic focus. Should local subsidiaries be allowed to modify products and diversify into businesses that make sense for them only? Or should they be consistent with what the parent company focuses on? The answer to this depends on several things: a company's definition of its business scope and growth vectors; the subsidiary's domain within the overall organization; and the locus of its strategy-making process.

Business scope and growth vectors pertain to a company's attitude to diversification generally. If its products and technologies provide adequate growth opportunities on a worldwide basis, it is probably better off restricting each subsidiary to just those. If, on the other hand, growth is primarily driven through exploring and creating new market opportunities, then local initiatives are usually welcome.

Logitech SA, a world leader in pointing devices for the personal computer industry, for example, permitted and even encouraged its Taiwanese company to develop special software products for the Chinese market because that would be an additional product to fuel its growth, reduce its dependence on the mouse and, incidentally, facilitate access to a new market. A company that comes up with a new cancer treatment, on the other hand, is likely to want to invest all its resources in commercializing that worldwide as quickly as possible.

The more a company's infrastructure and skills become dispersed and the more global responsibilities individual subsidiaries take on, the greater the need to see the initiation of strategies as a global process. What the parent knows and sees may not be the same as subsidiary management. Giving subsidiaries too narrow a mission based on a centralized notion of between-country competition not only constrains their potential for accumulating local resources but diminishes their potential for competing within their country.

Organizational Implications

How companies ought to structure and manage their international operations has been debated. Because organizations need to reflect a wide range of company-specific characteristics—such as size, diversity, age, culture, technology—in addition to their global posture, it has proven hard to be normative, There are, however, certain key design considerations related to global posture that have dominated thinking and practice in recent years. The most important consideration has to do with the greater need for organizational integration that global strategies require.

Hence, when companies first tried to adapt their structures in the 1970s and early 1980s, most of them created elaborate matrix organizations giving equal status to products, geography, and functions. While such organizations worked well for some companies, ABB being the leading example, they did not do for others. ABB succeeded because of the nature of its business, its superior information system (called Abacus), its investment in developing a number of globally minded managers, and a small but highly effective top management team. What ABB was able to do was to balance finely the need for local autonomy in decision making with the strategic and organizational integration that managing the business on a global basis demanded.

Others that were not able to achieve this balance opted for tilting their matrix in favour of one or the other dimension. Most often, the dominant dimension became product groups or strategic business units, the assumption being that integrating each product's

business system on a worldwide basis was the best way to optimize strategy and achieve coherence among different local units.

Where these "product headquarters" were located mattered less and many companies consciously spread them around as a better way to integrate country organizations, give particular local managers a broader domain to look after, and exploit country-specific assets or competencies. Such dispersal had the attendant benefit of also reducing the role (and size) of corporate headquarters.

This fine-tuning of structures continues today. To the extent one can discern a trend for the 1990s it would be consisting of three things: reverting to a single focus of direction and control, giving greater emphasis to functional strategies instead of business-by-business ones, and creating simple line organizations based on a more decentralized "network" of local companies. The move to a single focus is partly on account of the difficulty companies have experienced in managing dispersed product headquarters. The complex interactions between units they gave rise to, the lack of global reach on the part of some country organizations, and the potential for confusion between corporate roles and business unit functions were apparently not compensated by whatever advantage they offered, But it is equally on account of the recognition of the importance of a coherent set of values, goals, and identity, as well as the need to avoid duplication of functions across the world.

Having functions as the primary dimension to coordinate global strategies also reflect the dual nature of the latter, combining asset deployment for market-access reasons and asset accumulation for sourcing purposes. Another virtue of a functional orientation is that it is usually at this level that global alliances and asset accumulation takes place—the R&D function cooperating with other companies' R&D departments, procurement with suppliers, finance with local finance companies, and so on.

While marketing can and should be managed nationally or regionally, R&D, finance, and manufacturing lend themselves better to global coordination, Texas Instruments Inc., for example, used to manage its business, including manufacturing, on a regional basis. Four years ago, it introduced the notion of the "virtual fab," linking all its 17 manufacturing sites around the world into a single organization.

In addition to standardizing equipment and procedures across plants, this allows the company to transfer expertise across units efficiently, allocate production optimally, and interact with development on a global basis. Whereas previously the company had country-by-country sales forces, it now has market-based teams with global responsibility

for a product's success. The latter has proved particularly effective in serving the needs of global customers who expect similar conditions worldwide.

Whether to have a single set of global functions or to have them specialized by business unit depends on how diverse the latter are. The lesson companies have learned, however, is to avoid overly complex matrix structures and to allow local units sufficient autonomy at the business level.

The last point refers to the way individual units in a global company need to be treated. Based on the arguments made earlier, what one is seeing is an upgrading of their role, both as a locus for independent entrepreneurial effort and as contributors to the business worldwide.

To perform this expanded role coherently they need greater empowerment coupled with all the things that a network organization possesses: a commonly shared knowledge base, common values and goals, a common understanding of priorities and pre-commitments others have made, and a common set of measures to judge performance.

Self Assessment Questions

1. Distinguish between indirect and direct marketing channels in international market.
2. Explain the criteria for selection of channel members in international markets
3. Explain the process of marketing communication in international context.
4. Examine the factors influencing the decisions for having a standardized vis-à-vis customized advertisement with suitable examples. Which one would you prefer and why?
5. There is a recent trend that Indian firms are becoming multinationals. Indicate possible changes in strategic marketing behaviour they should follow for a smooth sailing in the global market.
6. A medium-sized Indian beauty products firm is facing international competition for the first time as its government opens up its national market to foreign competitors. What are its competitive options?

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 execution 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 practices, if not the policy, to look next to you at the lead office and pick someone (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 executives from 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 consumer needs as 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 and really do not trust foreign executives, even those in key positions.

Question

1. Which company is truly multinational and Why?

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