MEKELLE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MARKETING MANAGEMENT

COURSE TITLE: INTERNATIONAL MARKETING

COURSE CODE:MKTM 3102

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INTERNATIONAL MARKETING: AN INTRODUCTION

Introduction

Dear student! Welcome to this course entitled "International Marketing

You are about to begin an exciting, important, and necessary task: the exploration of international marketing. International marketing is exciting because it combines the science and the art of business with many other disciplines. Economics, anthropology, cultural studies, geography, history, languages, statistics, demographics, and many other fields combine to help you explore the global market.

International marketing is important because the world has become globalized. International marketing takes place all around us every day, has a major effect on our lives, and offers new opportunities and challenges. After reading through this module, and observing international marketing phenomena, you will see what happens, understand what happens, and at some time in your future, perhaps even make it happen.

International marketing is necessary because, from a national standpoint, economic isolationism has become impossible. Failure to participate in the global marketplace assures a nation of declining economic capability and its citizens of a decrease in their standard of living. Successful international marketing, however, holds the promise of an improved quality of life, a better society, and, as some have stated, even a more peaceful world.

The module has ten units. At the beginning of each unit you will find learning objectives and in the middle and/or end of each unit there are self-test questions and checklists of key terms.

The checklists and self-test exercises will help you to evaluate your understanding of the course.

OBJECTIVES

At the end of this course you will be able to:

- Understand the meaning and tasks of international marketing.
- Identify the different environmental factors that affect international marketing.
- Understand how to plan and organize international marketing.
- Understand the international marketing mix elements.
- Identity the constraints on international marketing.
- Identify regional trading blocs and global institutions.
- Understand export documents and procedures.

Importance of International Marketing

There has never been a time in modern economic history when more change has occurred in so short a period than that which has occurred in the last decade of the 20th century. New markets are springing forth in emerging economies of the former Soviet Union, Common Wealth of Independent States CIS, Eastern Europe, China, India, Korea, Mexico, and Brazil – in short, globally.

The economic, political, and social changes that have occurred over the last decade have dramatically altered the landscape of global business.

The world is shrinking rapidly with the advent of faster communication, transportation, and financial flows.

International marketing takes place all around us every day, has a major effect on our lives, and offers new opportunities and challenges. International marketing is important because the world

has become globalized. Products developed in one country are finding enthusiastic acceptance in other countries.

International marketing has received increased attention from governments and business firms over the six decades since the end of World War II. International marketing is necessary because, from a national standpoint, economic isolationism has become impossible.

Failure to participate in the global market place assures a nation of declining economic capability and its citizens of a decrease in their standard of living. Successful international marketing, however, holds the promise of an improved quality of life, a better society, and, as some have stated, even a more peaceful world. Regarding the firm, today there is intensified global competition. Foreign firms are expanding aggressively into new international markets, and home markets are no longer rich in opportunity. Few industries are now safe from foreign competition. So the companies have to continuously improve their products at home and expand into foreign markets so as to face the global competition.

Companies that delay taking steps toward internationalizing their operations face the risk of being shut out of growing markets in Eastern Europe, South Asia, South America, and other places. Firms that concentrate only on domestic market for safety reasons may not only lose the opportunity of entering lucrative overseas markets but also may risk losing their home markets. Domestic marketers that never thought of competition from foreign marketers in their home market suddenly have found foreign competition in their base market.

How does international marketing benefit a firm or a nation?

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Section 1

1.1 Definition of International Marketing (What is International Marketing?)

Though international marketing has distinct characteristics, it is similar to domestic marketing in terms of technical factors. The marketing process consists of two factors such as technical and social. The technical factors cover non-human factors such as product, price, brand, etc. The basic principles regarding these factors are universally applicable.

On the other hand, social aspect of marketing is unique, because it associates with human elements such as behavior of consumers, characteristics of society which includes customs, attitudes, values, etc. It is true that marketing as a social process is not uniform in different environments.

Definition

International marketing can be better understood by the following definitions: According to Michael R. Czinkota and I. A. Ronkainen, 'International marketing is the process of planning and conducting transactions across national borders to create exchanges that satisfy the objectives of individuals and organizations.' International marketing has forms ranging from export-import trade to licensing, joint ventures, wholly owned subsidiaries, turnkey operations, and management contracts.

As this definition indicates, international marketing very much retains the basic marketing tenets of "satisfaction" and "exchange." The fact that a transaction takes place "across national borders" highlights the difference between domestic marketing and international marketing. The international marketer is subject to a new set of macro environmental factors, to different constraints, and to quite different conflicts resulting from different laws, cultures, and societies. The basic principles of marketing still apply, but their application, complexity, and intensity may vary substantially. It is in the international marketing field where one can observe most closely the

role of marketing as a key agent of societal change and as a key instrument for the development of societally responsive business strategy.

When one looks, for example, at the newly emerging market economies in the different parts of the world, one can see the many new challenges that international marketing is confronted with. How does the marketing concept fit into these societies? Ho can marketing contribute to economic development and the betterment of society? How can one get the price mechanism to work? How should distribution systems be organized? Similarly, in the international areas of social responsibility and ethics, the international marketer is faced with a multicultural environment with differing expectations and often inconsistent legal systems when it comes to monitoring environmental pollution, maintaining safe working conditions, copying technology to trademarks, or paying bribes. These are just a few of the issues that the international marketer needs to address. The capability to master these challenges successfully affords a company the potential for new opportunities and high rewards.

The above definition also focuses on international transactions. The use of the term recognizes that marketing internationally is an activity to be pursued, often aggressively.

According to Stuart Wall and B. Rees, 'International marketing can simply be defined as involving marketing activities that cross national borders.' According to Philip R. Cateora and John L. Graham, 'International marketing is the performance of business activities designed to plan, price, promote, and direct the flow of company's goods and services to consumers or users in more than one nation for a profit.' According to Vern Terpstra and Ravi Sarathy, 'International marketing consists of finding and satisfying global customer needs better than the competition, both domestic and international, and of coordinating marketing activities within the constraints of the global environment.' Simply said, the term international marketing refers to exchanges across national boundaries for the satisfaction of human needs and wants.

The only difference in the definitions of domestic marketing and international marketing is that marketing activities take place in more than one country. This apparently minor different "…*in more than one nation*…" accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes, and principles are universally applicable, and the marketer's task is the same whether doing business in a domestic market or international market. Businesses' goal is to make a profit by promoting, pricing, and distributing products for which there is a market. If this is the case, what is the difference between domestic and international marketing?

The answer lies not with different concepts of marketing but with the environment within which marketing plans must be implemented. The uniqueness of foreign marketing comes from the range of unfamiliar problems and the variety of strategies necessary to cope with different levels of uncertainty encountered in foreign markets.

Competition, legal restraints, government controls, weather, and any number of other uncontrollable elements can, and frequently do, affect the profitable outcome of good, sound marketing plans. Generally speaking, the marketer cannot control or influence these uncontrollable elements, but instead must adjust or adapt to them in a manner consistent with a successful outcome. What makes marketing interesting is the challenge of molding the *controllable elements* of marketing decisions (product, price, promotion, and distribution) within the framework of the *uncontrollable elements* of the marketplace (competition, politics, laws, consumer behavior, level of technology, and so forth) in such a way that marketing objectives are achieved. Even though marketing principles and concepts are universally acceptable, the environment within which the marketer must implement marketing plans can change dramatically from country to country or region to region. The difficulties created by different environments are the international marketer's primary concern.

Activity 1

Answer the following questions before continuing to the next section.

1. Define international marketing.

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2. How does international marketing differ from domestic marketing?

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3. What challenges does the international marketing manager face?

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Section 2

1.2 Why Firms go International / Reasons for International Marketing

Broadly speaking, firms go international when they can no longer achieve, to their satisfaction, their strategic objectives by operating solely in the domestic market. The reasons why firms commonly seek to extend the geographical scale of their marketing activities are:

1.2.1. Increasing the share of the market

Developing new markets abroad may permit the firm to fully exploit economies of scale, which is particularly important when these are substantial for that product. In some cases, the maximum efficient size for a firm's production may be greater than the total sales potential of the domestic

market. In this case the firm's average costs can only be reduced to their lowest level by finding extra sales in overseas markets.

1.2.2. Extending the Product Life Cycle

Finding new markets abroad may help extend the maturity stage of the product life cycle. This can be particularly important when domestic markets have reached "saturation point" for a product. Market saturation can provide a major incentive for firms to search for new opportunities. Foreign expansion may become a feasible strategy if the home market is stagnant or declining.

1.2.3. Supporting International Specialization

In an attempt to reduce overall production costs, separate elements of an overall product may be produced in large scale in different geographical locations worldwide. For example, labor-intensive components will often be produced in low-cost labor locations, whereas capital-intensive components are more likely to be produced in high technology locations. The final product, once assembled, must by definition be marketed internationally to achieve the huge sales volumes which are a pre-requisite for international specialization.

1.2.4. Helping Reduce Investment Pay-Back Periods

Finding overseas markets helps achieve high-volume sales early in the product life cycle, thereby reducing the pay-back period needed to return the initial capital outlay and making many investment projects more attractive. It also helps in compensating the modern trends towards shorter product life cycle which are tending to inhibit investment expenditures.

1.2.5. Reducing Stock-holding Costs

Overseas markets may provide new sales outlets for surplus stocks, thereby reducing warehousing and other stockholding costs.

1.2.6. Risk Diversification

Many, but not all, international marketing firms probably face less total market risk than domestic marketing firms by virtue of their having diversified geographical markets. Typically, countries do not face the same type and timing of business cycle. Selling in several markets (market spreading) reduces the risk associated with declining sales and profits in any one market.

1.2.7. Foreign Market Opportunities

Revealing market opportunities abroad has often exerted a strong influence upon the firm's willingness to undertake international marketing operations.

1.2.8. Small Domestic Market

A firm may be pushed to undertake international marketing because of small home market potential. For some firms, domestic marketing may be unable to sustain sufficient economies of scale and scope, and these firms automatically include international marketing.

1.2.9. Unique Product/ Technology Competence

There is definite role that unique products and/or unique technology competence plays in stimulating international marketing behavior. First, a firm producing superior products is more likely to receive inquiries from foreign markets because of perceived competence of its offerings. Second, if a firm has developed unique competences in its domestic markets, the possibilities to spread unique assets to foreign markets may be very high because the opportunity costs of exploiting these assets in foreign markets will be zero or low.

Activity 2

Give short answers to the following questions.

1. How can international marketing extend the life cycle of a product?

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2. Outline any four reasons for international marketing and briefly explain each.

a)____b)_________

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c) ____

d) ____

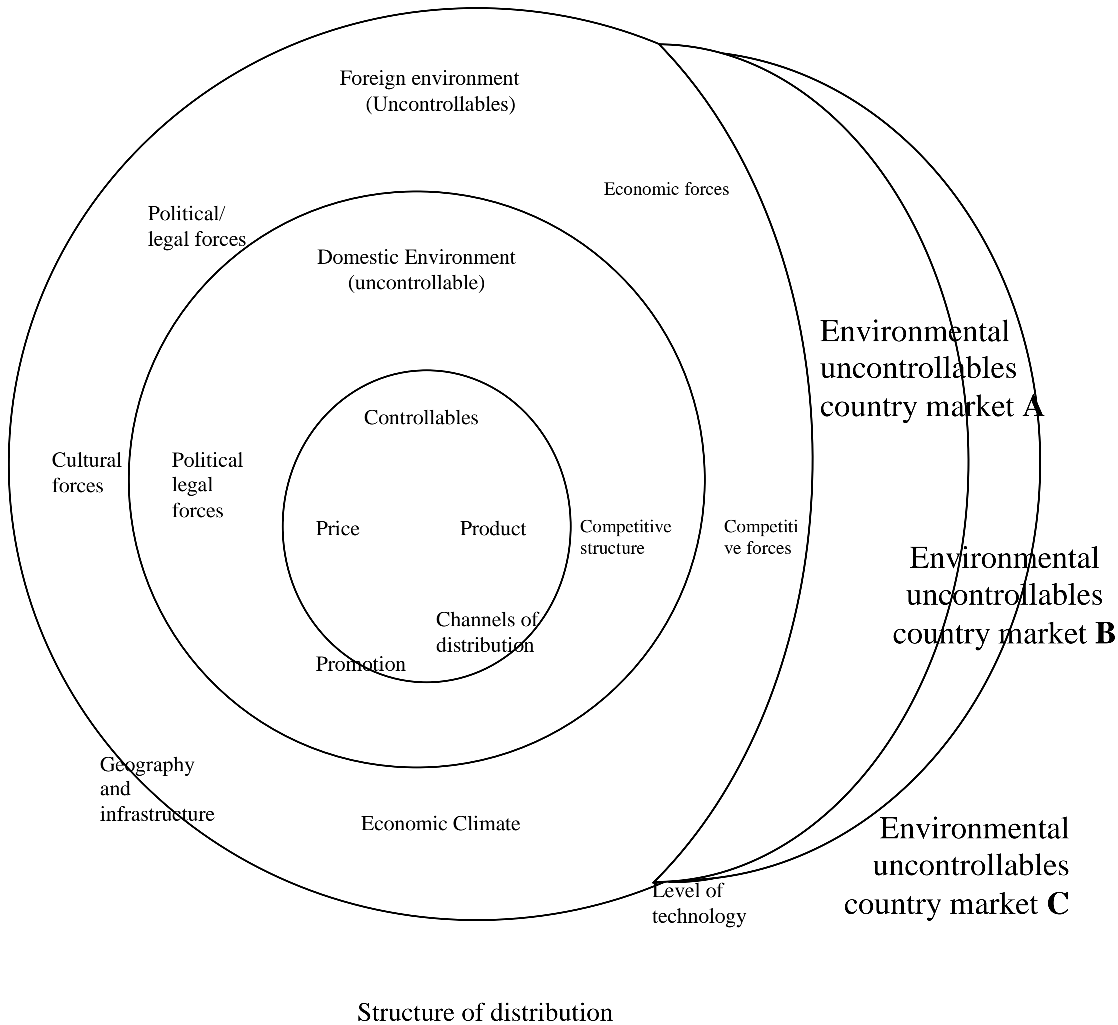
Section 3

1.3 The International Marketing Task

The international marketer's task is more complicated than that of the domestic marketer because the international marketer must deal with at least two levels of uncontrollable uncertainty instead of one. Uncertainty is created by the uncontrollable elements of all business environments like political and legal environment, social and cultural environment, competitive environment, economic environment, but each foreign country in which a company operates adds its own unique set of uncontrollable.

The following figure illustrates the total environment of an international marketer.

Figure 1. The International Marketing Task



The inner circle depicts the controllable elements that constitute a marketer's decision area, the second circle encompasses those environmental elements at home that have some effect on foreign-operations decisions, and the outer circles represent the elements of the foreign environment for each foreign market within which the marketer operates. As the outer circles illustrate, each foreign market in which the company does business can (and usually does) present separate problems involving some or all of the uncontrollable elements.

Thus, the more foreign markets in which a company operates, the greater the possible variety of foreign environmental uncontrollable with which to contend by the international marketer. Frequently, a solution to a problem in country market A is not applicable to a problem in country market B.

1.3.1 Marketing Controllable

The successful marketing manager constructs a marketing program designed for optimal adjustment to the uncertainty of the business climate. The inner circle in Figure 1 represents the area under control of the marketing manager. Assuming the necessary overall corporate resources, the marketing manager blends the controllable price, product, promotion, and channels of distribution activities to capitalize on anticipated demand.

The controllable elements (marketing mix) can be altered in the long run and, usually, in the short run, to adjust to changing market conditions, consumer tastes, or corporate objectives.

The outer circles surrounding the market controllable represent the level of uncertainty that are created by the domestic and foreign environments. Although the marketer can blend a marketing mix from the controllable elements the uncontrollable are precisely that and there must be active evaluation and, if needed, adaptation. That effort, the adaptation of the marketing mix to the uncontrollable, determines the ultimate outcome of the marketing enterprise

1.3.2 Domestic Uncontrollable

The second circle in Figure 1, representing the *domestic uncontrollable*, includes home-country elements that can have a direct effect on the success of a foreign venture and are out of the immediate control of the marketer: political and legal forces, economic climate, and competition.

A political decision involving domestic foreign policy can have a direct effect on a firm's international marketing success. For example, USA imposed a total ban on trade to Iraq when Iraq occupied Kuwait and this led to the restriction of international marketing programs of IBM and Exxon by these political decisions.

Conversely, positive effects occur when there are changes in foreign policy and countries are given favored treatment. Such were the cases when South Africa abolished apartheid and the embargo was lifted, and when the U.S. government decided to uncouple human rights issues from foreign trade policy and grant most favored nation status (MFN) to China. In both cases, opportunities were created for U.S. companies.

The domestic economic climate is another important home-based uncontrollable variable with far-reaching effects on a company's competitive position in foreign markets. The capacity to invest in plants and facilities, either in domestic or foreign markets, is to a large extent a function of domestic economic vitality. It is generally true that capital tends to flow toward optimum use; however, capital must be generated before it can have mobility. Furthermore, if internal economic conditions deteriorate, restriction against foreign investment and purchasing may be imposed to strengthen the domestic economy.

Competition within the home country can also have a profound effect upon the international marketer's task. Competition within their base/home nation affects a firm's domestic as well as international plans. Inextricably entwined with the effects of the domestic environment are the constraints imposed by the environment of each foreign country.

1.3.3 Foreign Uncontrollable

In addition to uncontrollable domestic elements, a significant source of uncertainty is the number of foreign *uncontrollable* (depicted in Figure 1 by the outer circles).

A business operating in its home country undoubtedly feels comfortable in forecasting the business climate and adjusting business decisions to these elements.

The process of evaluating the uncontrollable elements in an international marketing program, however, often involves substantial doses of cultural, political, and economic shock.

A business operating in a number of foreign countries might find polar extremes in political stability, class structure, and economic climate, which are critical elements in business decisions. The dynamic upheavals in some countries further illustrate the problems of dramatic change in cultural, political, and economic climates over relatively short periods of time. For example, China, Russia, etc. have moved from a communist legal system to a commercial legal system.

The more significant elements in the uncontrollable international environment, shown in the outer circles of Figure 1, include: 1) political/ legal forces, 2) economic forces, 3) competitive forces, 4) level of technology, 5) structure of distribution, 6) geography and infrastructure, and 7) cultural forces. They constitute the principal elements of uncertainty an international marketer must cope within designing a marketing program. Consider the level of technology and political/legal forces as illustrations of the nature of foreign uncontrollable.

The level of technology is an uncontrollable element that can often be misread because of the vast differences that may exist between developed and undeveloped countries. A marketer of USA cannot assume that the level of technical support is the same in other nations as in the USA.

Political and legal issues face a business whether operating at home or in a foreign country. However, the issues abroad are often amplified by the "alien status" of the company, which increases the difficulty of properly assessing and forecasting the dynamic international business climate. There are two dimensions to the alien status of a foreign business:

- alien in that foreigners control the business, and

- alien in that the culture of the host country is alien to the management.

The alien status of a business means that, when viewed as an outsider, it can be seen as an exploiter and receive prejudiced or unfair treatment at the hands of politicians and/or legal authorities.

Furthermore, in a domestic situation political details and the ramifications of political and/or legal events are often more transparent than they are in some foreign countries. For instance, political and legal events in USA are more transparent when compared to China or Russia. The point is that a foreign company is foreign and thus always subject to the political whims of the government to a greater degree than a local firm.

The uncertainty of different foreign business environments creates the need for a close study of foreign uncontrollable environment within each new country. Different solutions to fundamentally identical marketing tasks are often in order and are generally the result of changes in the environment of the market. Thus, a strategy successful in one country can be rendered ineffective in another by differences in political climate, stages of economic development, level of technology, or other cultural variation.

Activity 3

Answer the following questions before continuing to the next section.

1. Outline the marketing controllable.

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2. How are domestic uncontrollable similar to or different from foreign uncontrollable?

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3. How should a marketing manager of an international company handle the foreign uncontrollable?

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Section 4

1.4 Stages of International Marketing Involvement

Once a company has decided to be international, it has to decide the degree of marketing involvement and commitment it is prepared to make. These decisions should reflect considerable study and analysis of market potential and company capabilities – a process not always followed. Many companies begin tentatively in international marketing, growing as they gain experience and gradually changing strategy and tactics as they become more committed. Others enter international marketing after much research and with fully developed long-range plans, prepared to make investments to acquire a market position.

Regardless of the means employed to gain entry into a foreign market, a company may, from a marketing view point, make no market investment that is, its marketing involvement may be limited to selling a product with little or no thought given to development of market control. Or a company may become totally involved and invest large sums of money and effort to capture and maintain a permanent, specific share of the market.

In general, one of five but overlapping stages can describe the international marketing involvement of a company. Although the stages of international marketing involvement are presented here in a linear order, the reader should not infer that a firm progresses form one stage to another; quite to

the contrary, a firm may begin its international involvement at any one stage or be in more than one stage simultaneously.

1.4.1. No Direct Foreign Marketing

A company in this stage does not actively cultivate customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies as well as other foreign customers who come directly to the firm. Or products reach foreign markets via domestic wholesalers or distributors who sell abroad on their own without explicit encouragement or even knowledge of the producer.

As companies develop their own website on internet, many receive orders from international "web surfers/users." Often an unsolicited order from a foreign buyer motivates the company to seek additional international sales.

1.4.2. Infrequent Foreign Marketing

Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterized by their temporary nature; therefore, sales to foreign markets are made, as goods are available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is withdrawn. In this stage, there is little or no change in company organization or product lines.

1.4.3. Regular Foreign Marketing

At this level, the firm has permanent productive capacity devoted to the production of goods to be marketed on a continuing basis in foreign markets. A firm may employ foreign or domestic overseas middlemen or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus of operations and production is to service domestic market needs.

However, as overseas demand grows, production is allocated for foreign markets and products may be adapted to meet the needs of individual foreign markets.

Profit expectations move from being seen as a bonus to regular domestic profits to the position where the company becomes dependent on foreign sales and profits to meet its goals.

1.4.4. International Marketing

Companies at this stage are fully committed and involved in international marketing activities. Such companies seek markets all over the world and sell products that are a result of planned production for markets in various countries. This generally entails not only the marketing but also the production of goods outside the home market. At this point the company becomes an international or multinational marketing firm.

1.4.5. Global Marketing

At the global marketing level, the most profound change is the orientation of the company toward markets and its planning. At this stage, companies treat the world, including their home market, as one market.

In contrast to the multinational or international company that views the world as a series of country markets (including their home market) with unique sets of market characteristics for which marketing strategies must be developed, a global company develops a strategy to reflect the existing commonalities of market needs among many countries to maximize returns through global standardization of its business activities – whenever it is cost effective and culturally possible. The entire operations, its organization structure, sources of finance, production, marketing, and so forth, take on a global perspective.

Activity 4

Answer the following questions before continuing to the next section.

1. How is global marketing involvement different from international marketing involvement?

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2. State the distinguishing features of regular foreign marketing involvement.

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3. Outline the stages of international marketing involvement.

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Section 5

1.5 The International Marketing Concepts

The differences in the international orientation and approach to international markets that guide the international business activities of companies can be described by one of three orientations to international marketing management:

1. Domestic Market Extension Concept

2. Multi-domestic Market Concept

3. Global Marketing Concept

The differences in the complexity and sophistication of a company's marketing activity depend on which orientation guides its operations. The ideas expressed in each concept reflect the philosophical orientation that also can be associated with successive stages in the evolution of the international operations in a company.

Among the approaches describing the different orientations that evolve in a company in different stages of international marketing – from casual exporting to global marketing – is the often-quoted EPRG schema. The authors of this schema suggest that firms can be classified as having an *e*thnocentric, *p*olycentric, *region*-centric, *or g*eocentric orientation (EPRG), depending on the international commitment of the firm. Further, the authors state that " a key assumption underlying the EPRG framework is that the degree of internationalization to which management is committed or willing to move towards affects the specific international strategies and decision rules of the firm." The EPRG schema is incorporated into the discussion of the three concepts that follows in that the philosophical orientations described by the EPRG schema help explain management's view when guided by one of the concepts.

1.5.1. Domestic Marketing Extension Concept

The domestic company seeking sales extension of its domestic products into foreign markets illustrates this orientation to international marketing. It views its international operations as secondary to and an extension of its domestic operations; the primary motive is to market excess domestic production. Domestic business is its priority and foreign sales are seen as profitable extension of domestic operations. Even though foreign markets may be vigorously pursued the firm's orientation remains basically domestic.

Minimal, if any, efforts are made to adapt the marketing mix to foreign markets; the firm's orientation is to market to foreign customers in the same manner the company markets to domestic customers. The firm seeks markets where demand is similar to the home market and its domestic product will be accepted. This domestic market extension concept strategy can be very profitable;

large and small exporting firms approach international marketing from this perspective. Firms with this marketing approach are classified as *ethnocentric* in the EPRG schema.

1.5.2. Multi-domestic Market concept

Once a company recognizes the importance of differences in overseas markets and the importance of offshore business to the organization, its orientation toward international business may shift to a multidomestic market strategy.

A company guided by this concept has a strong sense that country markets are vastly different and that market success requires an almost independent program for each country. Firms with this orientation market on a country-by-country basis, with separate marketing strategies for each country.

Subsidiaries operate independently of one another in establishing marketing objectives and plans and the domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adapted for each market without coordination with other country markets; advertising campaigns are localized, as are the pricing and distribution decisions.

A company with this concept does not look for similarity among elements of the marketing mix that might respond to standardization; rather, it aims for adaptation to local country markets. Control is typically decentralized to reflect the belief that the uniqueness of each market requires local marketing input and control. Firms with this orientation would be classified in the EPRG schema as *polycentric*.

1.5.3. Global Marketing Concept

A company guided by this orientation or philosophy is generally referred to as global company, its marketing activity is global marketing, and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies of scale by developing a

standardized product, of dependable quality, to be sold at a reasonable price to a global market, that is, the same country market set throughout world.

Important to the global marketing concept is the premise that world markets are being " driven toward a converging commonality" seeking in much the same ways to satisfy their needs and desires. Thus, they constitute significant market segments with similar demands for the same product the world over. With this orientation a company attempts to standardize as much of the company effort as is practical on a worldwide basis.

Some decisions are viewed as applicable worldwide, while others require consideration of local influences. The world as a whole is viewed as the market and the firm develops global marketing strategy. The global marketing company would fit the *regiocentric* or *geocentric* classifications of EPRG schema. Examples of those companies which could be classified as a 'global company' include Coca-cola, General Motors, and Ford Motors.

The global marketing concept views an entire set of country markets as a unit, identifying groups of prospective buyers with similar needs as a global market segment and developing a marketing plan that strives for standardization wherever it is cost and culturally effective. This might mean a company's global marketing plan has a standardized product but country-specific advertising. The point is, to be global is a mindset, a way of looking at the market for commonalities.

Section 6

1.6 Challenges of International Marketing

The most cost-effective method to market products or services worldwide is to use the same program in every country, provided environmental conditions favor such an approach. However, invariably (as we have seen in the previous section), local market characteristics exist that may require some form of adaptation to local conditions. One of the challenges of international marketing is to be able to determine the extent to which a standardized approach may be used for any given local market. To do this, the international marketing manager must become aware of any factors that limit standardization. Such factors can be categorized into four major groups:

market characteristics, competitive conditions, marketing infrastructure, and regulatory conditions.

The debate over the amount or extent of standardization is one of the longest in the field of international marketing. Some see markets as becoming more similar and increasingly more global while others point out the difficulties in using a standardized approach, as experienced by many companies and the research of many academics.

A. Market Characteristics

Market characteristics can have a profound effect on an international marketing strategy.

The physical environmental conditions: of any country-determined by climate, product use conditions, and population size-often force marketers to make adjustments to products to fit local conditions. Many cars in Canada come equipped with a built-in heating system that is connected to an electrical outlet to keep the engine from freezing while turned off. Cars manufactured for warmer climates are not equipped with such a heating unit but are likely to feature air conditioning.

A country's population: It affects the market size in terms of volume, allowing for lower prices in larger markets. Market size, or expected sales volume, greatly affects channel strategy. Company-owned manufacturing and sales subsidiaries are often possible in larger markets, whereas independent distributors are often used in smaller countries.

Macroeconomic factors: Income level, or gross national product (GNP) per capita, varies widely among nations-from below $100 per year for some of the world's poorest nations to above $20,000 per year for rich countries such as Kuwait, Sweden, and the United States. As can be expected, marketing environments will differ considerably according to income level. If the population's level of technical skill is low, a marketer may be forced to simplify product design to suit the local market. Pricing may be affected to the extent that countries with lower income levels show a higher price elasticity for many products, compared with more developed countries. Furthermore, convenient access to credit is often required of buyers in developing countries. This has negative impact on the sale of capital goods and consumer durables.

Cultural and social factors: are less predictable influences on the marketing environment, and they have frustrated many international marketers. Customs and traditions have the greatest effect on product categories when a country's population has had prior experience with a given product category. Although Coca-Cola has been very successful transferring its Coke brand into many countries, it has also run into difficulties with other products. Its canned coffee drink, Georgia Coffee, which met with success in Japan, did not find any acceptance elsewhere. And a soy drink that did very well in Hong Kong did not take off in the United States. Nestle, which wanted to capitalize on the cold-coffee-drink opportunity in the United States, stopped marketing its Nescafe

blended cold-coffee drinks because the size of the iced-coffee category in the United States had not met its expectation.

Language: can be another hurdle for international marketing, and international marketers are focusing their attention on this problem. Few areas have been as affected by language as the software industry. One of the most frightening tasks for western software companies was to enter the Asian markets with products using Chinese characters. Neither IBM nor IBM-compatible PCs could make a major dent in the Japanese PC market until 1991, when IBM developed DOS/V, a bilingual operating system for use with the Japanese language. A different challenge faced Microsoft. A pair of Chinese-language characters in Microsoft's translation of its Windows 95 operating system resulted in unexpected difficulties. Among the large selection of available characters were two that could form the term "communist bandit," which was clearly unacceptable to the Chinese government. The problem stemmed in part from programs written for the more complex characters in Taiwan and Hong Kong that had also found their way onto the mainland. Microsoft, eager to meet local market requirements, had to promise to exchange all disks and to eliminate offensive terms. Such a move is definitely worthwhile: it is expected that the Chinese market for PCs will become the world's third-largest market behind the United States and Japan. With China's PC penetration rate at about 10 percent of households in major cities such as Beijing, and as low as 2 percent in smaller cities, there is still considerable room for growth in that market.

Different language environments affect even the Internet. Although most people consider English to be the language of the Internet community, when it comes to on-line shopping, data show that the majority of consumers may browse the web in more than one language, such as speakers of English as a second language. Consumers also prefer to buy products and services in their own native tongue. With some 60 percent or more of Internet users and 40 percent of e-commerce users coming from outside the United States within the next few years, many e-commerce merchants will be forced to maintain multiple sites for different languages.

B. Industry Conditions

Industry conditions often vary by country because products frequently are in varying stages of the product life cycle in different markets. Also, a company may find that one country's limited awareness of or prior experience with a product requires a considerable missionary sales effort and primary demand stimulation, whereas in more mature markets the promotional strategy is likely to concentrate on brand differentiation. The level of local competition can be expected to vary substantially by country. The higher the technological level of the competition, the more an international company must improve the quality level of its products. In countries where competitors control distribution channels and maintain a strong sales force, the strategy of a multinational company may differ significantly from that in a country where the company holds a competitive advantage.

C. Marketing Infrastructure

For historical and economic reasons, the marketing infrastructure assumes different forms in different countries. Practices in distribution systems often entail different margins for the same product, requiring a change in company pricing strategy. Availability of outlets is also likely to vary by country. Mass merchandisers such as supermarkets, discount stores, and department stores are widely available in the United States and other industrialized countries but are largely absent in less developed nations in southern Europe, Latin America, and other parts of the world. Such variations may lead to considerably different distribution strategies. Likewise, advertising agencies and the media are not equally accessible in all countries, and the absence of mass media channels in some countries makes a "pull" strategy less effective.

Eastern Europe is an area where many companies found they had to adapt to a much less developed marketing infrastructure. Xerox, in expanding its business in Czechoslovakia following the economic and political liberalization, found it difficult to increase its sales to independent copy shops. All copying was previously done by government-owned shops, where customers had to show identification. Sales were transacted through only three government-owned sales outlets. Although a sufficient number of government-employed service technicians existed in the country, the company found it very difficult to find independent people willing to start copy shops, or even independent dealers for local sales. The opening of eastern Europe during 1991 completely changed this situation, resulting in opportunities for numerous independent dealers.

D. Regulatory Environment

The regulatory environment also requires consideration for the development of an international marketing strategy. Product standards issued by local governments must be observed. To the extent that they differ from one country to another, unified product design often becomes a challenge. Tariffs and taxes may require such adjustments in pricing that a product can no longer be sold on a high-volume basis. Specific restrictions may also be problematic. In Europe, restrictions on advertising prohibit the mention of a competitor's name, despite the fact that such an approach may be an integral part of the advertising strategy in the United States.

Under the auspices of the World Trade Organization (WTO), the international trade body based in Geneva, efforts are under way to deal with the multitudes of patent law interpretations. Indonesia and India were traditionally two countries that had adhered to the rule of patenting processes for pharmaceutical drugs, rather than the products themselves. As a result, a local firm could copy the products of international pharmaceutical firms as long as it used a different manufacturing process to arrive at the final product. With India now joining the WTO, its old patent rules will have to change by the year 2005, and its local firms will also have to apply for product patents, substantially impacting India's twenty-four thousand local pharmaceutical firms. In Jordan,

another country where patents for drugs are issued on the process, U.S. pharmaceutical firms estimate that they are losing substantial sums to the lack of patent protection, with some 70 percent of the Jordanian firms' output sold on export markets. Again, Jordan aspires to join the WTO, which will force an eventual change in this country's patent practices.

To carry out the international marketing task successfully, international managers have to be cognizant of all the factors that influence the local marketing environment. Frequently, they need to target special marketing programs for each country. With newly emerging institutions such as the WTO, however, the world is moving closer to a level playing field with fewer differences in regulations, and the opportunity for firms and governments to bring a lawsuit if they believe they have suffered under undue protection or unfair trade practices.

Self-Test Exercises

Choose the best answer for each of the following questions

Answer key for multiple-choice questions are provide at the end of the module.

____1. Which one of the following statements is correct?

a) Failure to participate in the global market can lead a nation to declining economic capability.

b) Firm that concentrate only on domestic market for safety reasons have no risk of losing their home markets.

c) Economic isolationism is increasing from time to time.

d) The challenges in domestic marketing are much more complicated than in the international marketing.

_____2. Firms go international for the following reasons except

a) to extend the maturity stage of the product life cycle

b) to reduce stock-holding costs.

c) to limit international specialization.

d) to diversify risk

_____3. Which one of the following is not an element of marketing controllable?

a) channels of distribution

b) Promotion

c) Competition

d) Price

_____4. A stage in the international marketing involvement that comparatively involves the highest commitment is:

a) international marketing
b) regular foreign marketing
c) infrequent foreign marketing
d) no direct marketing

_____5. An international marketing concept in which products are adapted for each market without coordination with other country markets and in which advertising campaigns are localized, as are the pricing and distribution decisions is

a) domestic marketing extension concept
b) miltidomestic market concept
c) global marketing concept
d) ethnocentric concept

Questions for Discussion

1. Define:
   a. international marketing
   b. controllable elements
   c. uncontrollable elements
   d. domestic uncontrollable
   e. foreign uncontrollable.
2. Discuss the five stages of international marketing involvement
3. Discuss the conditions that have led to the development of global markets.
4. Differentiate between a global company and a multinational company.
5. Differentiate among the three international marketing concepts.

CHAPTER TWO

THE ENVIRONMENT OF INTERNATIONAL MARKETING

OBJECTIVES

After studying this unit, you should be able to:

- Understand how the economic environment affects international marketing.
- Explain the importance of the political environment to international marketing.
- Understand
  - Local law and international marketing
  - International law and international marketing
  - Foreign laws and international marketing
- Understand the impact of socio-cultural environment on international marketing.

Section 1

2.1 The Economic Environment

Marketing is an economic activity affected by the economic environment in which it is conducted. A major characteristic of the international marketer's world is the diversity of marketing environments in which business may be done. In particular, the economic dimensions of the world market environment are of prime importance.

Economic forces, affect the international marketer by the impact that they have on market potential and, at any point in time, market actualization. The economic environment includes factors and trends related to income levels and the production of goods and services.

In international marketing a firm must closely examine the economic conditions in a particular country. The international marketer must study each country's economy. A nation's infrastructure and stage of economic development are key economic factors that affect the attractiveness of a market and suggest what may be an appropriate strategy.

Infrastructure

A country's ability to provide transportation, communications, and energy is its infrastructure. The economic forces in a country may be influenced strongly by the infrastructure that exists, including the communications, energy, and transportation facilities. Infrastructure is a critical consideration in determining whether to try to market to a country's consumers and organizations.

Depending on the product and the method of marketing, an international marketer will need certain levels of infrastructure development. For example, an internet marketer such as **etoys.com** selling low-priced toys requires a warehouse and transportation system that will permit widespread distribution.

Regarding communications, many firms may require telephone essential for conducting their business and some other firms may require print media for advertisements so as to contact their customers. The international marketer should never take infrastructure in foreign markets for granted and assume that they would get the same infrastructure abroad as is provided in the domestic market. The international marketer must assess what infrastructure is needed for efficient operations and whether that infrastructure is available in that overseas market.

Level of economic development

The level of development in a country is a general indication of the types of products that are likely to be in demand. On a broader scale, the extent of economic development of a market influences the methods by which the business can be carried out in a country. Foreign markets may be at different stages of economic development, each stage having different characteristics.

The most common criterion for assessing economic development is ***gross domestic product*** (**GDP**), a measure of the value of all goods and services produced in a country during a year. Or the ***gross domestic product*** (**GDP**) represents the total size of a country's economy measured in the amount of goods and services produced. Changes in GDP indicate trends in economic activity.

Foreign markets may be at different stages of economic development, each stage having different characteristics. The most common way of classifying nations regarding stage of economic development is as ***developed*** (for example, United States, Japan, United Kingdom) or ***developing*** (for example, Malaysia Egypt, India).

Developed countries have somewhat mixed economies. Private enterprise dominates, although they have substantial public sectors as well. The United States, Canada, Japan, France, and most of Western Europe can be considered developed. Developing countries are in the process of moving from an agricultural to an industrial economy. There are two subgroups within the developing category; (1) those that have already made the move and (2) those that remain locked in a preindustrial economy. Countries such as Poland, Hungary, Australia, Israel, Venezuela, and

South Africa fall into the first group. In the second group are Pakistan, Sri Lanka, Tanzania, and Chad, where living standards are low and improvement will be slow.

Another way of classifying countries according to economic development is as ***less developed***, ***newly industrialized***, and ***highly industrialized*** countries. Among the world's approximately 190 independent nations, about 115 are categorized as ***less developed countries*** because they have a GDP of less than $1,700 per capita. These nations lack most or all resources for growth and often rely heavily on foreign aid. They frequently have unstable governments and overpopulation problems. Countries in this category include Ethiopia, Cambodia, Sudan, Afghanistan, Myanmar, Haiti, and Bangladesh. These less developed countries are not attractive markets for most consumer goods or for highly technical products. However, they should not be totally ignored. Less developed countries are very eager to acquire technology that will, for example, allow them to increase agricultural output.

In the next level are countries that have an average GDP between $1,700 and $ 5,500. This group of about 40 nations, including Chile, Thailand, Malaysia, and Mexico, are described as ***newly industrialized countries***. They combine an eager workforce, low wages, and reasonably stable governments to produce high rates of economic growth. They typically export manufactured goods and import technology and consumer goods. These are highly attractive markets for firms that have a technological advantage.

Finally, there are the ***highly industrialized countries***, which have an average per capita income GDP over $5,500. About 35 nations fall into this category, including the U.S., Canada, Japan, Taiwan, Germany, France, and U.K.

They have well-developed infrastructures, high levels of education and literacy, stable governments, constantly advancing technology, and well-trained work forces. These countries are heavily involved in exporting a wide variety of goods.

Although these are the wealthiest countries, they are also the ones in which the foreign firm is likely to face the stiffest competition.

The World Bank has a different classification for categorizing countries regarding economic development. The World Bank (1996) groups countries on the basis of gross national product per capita as follows:

1. Low- income economies (for example, Vietnam, Ethiopia, Haiti) *$490*

2. Lower middle- income economies (for example, Guatemala, Philippines, Turkey*) $1740*
3. Upper middle- income economies (for example Mexico, Malaysia, Greece) $4600
4. Upper – income economies (for example. USA, Japan, Germany) $25,870

As a separate class, the newly industrialized countries (NICs) of Asia such as Singapore and Taiwan are recognized.

Use of Classifications

These types of classification are only of limited usefulness to an international marketer and should not be used as the sole basis for deciding whether or not to enter foreign markets and how to market to such markets. Any classification scheme assumes certain homogeneity among markets in the same category, which often is not correct. Even the more traditional countries may have groups of people who, due to their income and other sets of values will be a market for sophisticated products and services, while some of the developed countries still have portions of their population to some extent outside the of active involvement in the economy.

Note that a classification like the above can be useful, but its simplicity may make it misleading. Some smaller countries, such as the United Arab Emirates and Kuwait, have large GDPs relative to their small populations, although their overall level of economic activity is small in comparison with the larger countries. Consumers in these countries may have a lot of purchasing power, but there are not that many of them.

Conversely, many developing countries have large populations relative to their economic strength; that is, individual customers do not have much purchasing power. However, subgroups within these countries may have substantial purchasing power, or economic growth may offer substantial opportunities in the future. India, for example, has a large and growing population but a low per capita income. Within this relatively poor country, however, are 250 million middle-class consumers. This is larger than the total U.S. market.

Many companies including Coca-Cola, Walt Disney, and Motorola have recently started operations in India to take advantage of this opportunity. Thus, when analyzing a given foreign market, management must also consider other indications of development. Common economic indicators include the (1) ***distribution of income***, (2) ***rate of growth of buying power***, and (3) ***extent of available financing***.

Useful noneconomic indicators are (1) ***infant mortality rate***, (2) ***percent of the population that lives in urban areas***, and (3) ***the number of daily newspapers***.

Income distribution

The income and wealth of the people are relevant because they determine purchasing power. A country's income distribution is important because it gives a more reliable picture of a country's purchasing power. Generally speaking, as the proportion of middle-income class households in a country increases, the greater a country's purchasing power tends to be.

That income is a major determinant of ownership of consumer durable goods is very much documented. But, sales of some durable goods are affected by other factors such as climate and geography. Countries with subsistence economies may consist mostly households with very low family incomes. In contrast, industrialized nations may have low-, medium-, and high-income households. Still other countries may have households with only either very low or very high incomes.

However, in many cases, poorer countries may have small but wealthy segments of upper-income consumers. So even in a society with low average income, there may be a population segment with a high-income level and the desire to purchase luxury goods. Also, even in low-income and developing economies, people may find ways to buy products that are important to them. Income growth in developing countries of Asia, Latin America, and Central and Eastern Europe is expected to stimulate world trade in the first century of this millennium. Thus, international marketers face many challenges in understanding how the economic environment will affect decisions about which foreign markets to enter and how.

Activity 1

Answer the following questions before continuing to the next section

1. What is the significance of the level of economic development to international marketing?

____

2. Outline the grouping of countries by the world Bank on the basis of GNP.

____

3. How does the distribution of the income of people affect international marketing?

____

Section 2

2.2 The Political Environment

The political environment of international marketing includes any national or international political factor that can affect its operations. A factor is political when it derives from the government sector.

The political environment comprises three dimensions: (1) the host-country environment, (2) the international environment, and (3) the home-country environment.

Surveys have shown that dealing with problems in the political arena is the number one challenge facing international managers, and occupies more of their time than any other management function. Yet international managers' concerns are different from those of the political scientist. Managers are concerned primarily about ***political risk*** – the possibility of any government action affecting adversely (or favorably) their operations.

2.2.1 Host-Country Political Environment

By definition, the international firm is a guest, a foreigner in all of its markets abroad. Therefore, international managers are especially concerned with nationalism and dealings with governments in host countries.

i) Host-Country National Interests

One way to get a feeling for the situation in a foreign market is to see how compatible the firm's activities are with the interests of the host country. Nationalism and patriotism refer to citizens' feelings about their country and its interests. Such feelings exist in every country.

All countries wish to maintain and enhance their national sovereignty. Foreign firms, individually or collectively, may be perceived as a threat to that sovereignty.

The larger and more numerous the foreign firms, the more likely they are to be perceived as a threat – or at least an irritant. In times of turmoil, foreign firms – or foreign embassies – may be targets.

Countries wish to protect their national security. Although the foreign firm is not a military threat as such, it may be considered as potentially prejudicial to national security. Governments generally prohibit foreign firms from involvement in "sensitive" industries, such as defense, communications, and perhaps energy and natural resources. If the firm is from a country deemed unfriendly to the host country, it may have difficulty operating or even be denied admission.

All countries want to enhance economic welfare. Generally, this means increasing employment and income in the country. Foreign firms contribute to this by the employment they generate. They can contribute further by using local suppliers and having local content in their products. They can contribute further still by exporting from the country and generating foreign exchange. They can contribute in a different way by supplying products, services, and / or training that enhances productivity.

ii) Host – Country Controls

Host countries don't depend entirely on the goodwill of the foreign firm to help them achieve their national goals. To achieve their goals, the host countries use a variety of tools/controls over the firm, such as entry restrictions, price controls, quotas & tariffs, exchange control, and even expropriation. These national interests and controls constitute the political environment of an international marketing firm.

iii) Political – Risk Assessment

The international marketing firm needs to evaluate the host- country environment and assess its own political risk there. Then it needs a plan for managing host-country relations, both before and after entering the country. While evaluating the political environment of the foreign market, the

firm can include a preliminary analysis of its political vulnerability in a particular host country. Elements in such an analysis include ***External*** and ***Company*** factors.

a) External Factors

1. ***The firm's home country.*** Other things being equal, a firm has a better reception in a country that has good relations with its own county.
2. ***Product or industry.*** Sensitivity of the industry is an important consideration. Generally, raw materials, public utilities, communications, pharmaceuticals, and defense- related products are most sensitive.
3. ***Size and location of operations.*** The larger the foreign firm, the more threatening it is perceived to be. This is especially true if the firm has large facilities and is located in a prominent urban area, such as the capital. This serves as a constant reminder of the foreign presence.
4. ***Visibility of the firm.*** The greater the visibility of the foreign firm, the greater is its vulnerability. Visibility is a function of several things. Two are the **size and location of the firm's operations in the country**. Another is the **nature of its products**. Consumer products are more visible than industrial products. Finished goods are more visible than components or inputs that are hidden in the final product. Heavy advertisers are more visible than non-advertisers. International brands are more provocative than localized brands.
5. ***Host-country political situation.*** The political situation in the host country can affect the firm. The country's political risk should be evaluated before starting marketing operations in that host country.

b) Company Factors

1. ***Company behavior.*** Each firm develops some record of corporate citizenship based on its practices. Some firms are more sensitive and responsive to the situation in the host country than others. Goodwill in this area is a valuable asset.

2. ***Contributions of the firm to the host country.*** Many of these contributions are objective and quantifiable. Contributions could be regarding how much tax has been paid, how much employment created, how many exports generated or what new skills or resources the firm brought in.
3. ***Localization of operations.*** Generally, the more localized the firm's operations, the more acceptable it is to the host country. There are several dimensions to localization, including having local equity, hiring local managers and technical staff, using local content in the products, including local suppliers of goods and services, and developing local products and local brand names.
4. ***Subsidiary dependence.*** This factor is somewhat in contradiction to the preceding point. The more the firm's local operation depends on the parent company, the less vulnerable it is. If it cannot function as a separate, self-contained unit but is dependent on the parent for critical resources and/or for markets, it will be seen as a less rewarding takeover target. This is so because it cannot operate on its own without support of its parent for critical resources and so would be seen as a less rewarding takeover target.

   Political environment and analysis are continuing tasks for the firm. The information that these analyses provide must be used to manage the firm's political relations.

Table 2-1 suggests some approaches to managing host country relations both before and after entering the country

Table 2-1 Managing Host – Country Relations

Pre- Entry Planning

1. Avoid threatening countries.
2. Negotiate with host government.
3. Buy insurance – for overseas investment risks.
4. Adjust entry method.

Post-Entry Operations

1. Have a monitoring system.
2. Develop corporate communications program.
3. Have appropriate national executives and advisory board.
4. Develop local stake holders (employees, suppliers, customers).
5. Change operations over time as perceived host – country cost − benefit ratio changes. Examples: new products and processes, more local equity and management, new exports, local R&D
6. Have contingency plans

2.2.2 International Political Environment

The international political environment involves political relations between two or more countries. The international firm almost inevitably becomes somewhat involved with the host country's international relations, no matter how neutral it may try to be. It does so, first because it is a foreigner from a specific home country, and second, because its operations in a country are frequently related to operations in other countries, either on the supply or demand side or both. One aspect of a country's international relations is its relationship with the firm's home country. For example, US firms abroad are affected by the host nation's attitude toward the United States. A second critical element affecting the political environment is the host- country's relations with other countries. For example, if a country is a member of a regional group, such as EU, that fact influences the firm's evaluation of the country. If a nation has particular friends or enemies among other nations, the firm must modify its international logistics to comply with how that market is supplied and to whom it can sell. For example, the United States limits trade with various countries. Another clue to a nation's behavior is its membership in international organizations. Memberships in international organizations affect a country's behavior. Membership in WTO reduces the likelihood that a country will impose new trade barriers. Membership in IMF or the World Bank also puts constraints on the country's behavior. Many other international agreements impose rules on their members. These agreements may affect patents, communication, transportation, and other

items of interest to the international marketer. As a rule, the more international organizations a country belongs to, the more regulations it accepts, and the more dependable is its behavior.

2.2. 3 Home - Country Political Environment

The firm's home-country political environment can constrain its international operations as well as its domestic operations. Home-country political environment can limit the countries that the international marketing firm may enter. The United States for example, prohibits its firms from dealing with North Korea. Sometimes, restrictions are even occasionally exercised against foreign firms, such as Toshiba, which was penalized by U.S. for selling to the Russians technology that allowed their submarines to move more quietly.

The best – known example of the home-country political environment affecting international operations used to be South Africa. Home-country political pressures induced more than 200 American firms to leave South Africa altogether.

A more recent example occurred when pressure from American human rights groups induced some American firms to leave Myanmar. Pepsico, for example, pulled out of a joint venture even though it had 85 percent of the soft drinks market there.

One challenge facing multinational companies is that they have a triple – threat political environment. Even if the home country and the host country give them no problems, they can face threats in third markets. Firms that do not have problems with their home government or the host government, for example, can be bothered or boycotted in third countries. For example, Nestlé's problems with its instant formula controversy were most serious, not at home, in Switzerland, or in African host countries, but in a third market – the United States.

Activity 2

Answer the following questions before continuing to the next section

1. The political environment comprises three dimensions. Outline them

____

2. What are the company factors that must be considered in the political risk assessment by an international firm?

   ____

3. Sensitivity of the industry is an important consideration in political – risk assessment. Explain.

   ____

4. How does membership of a country in international organizations affect its behavior in international marketing?

   ____

Section 3

2.3 The Legal Environment

In addition to the political environment in a nation, the *legal environment – that is,* the nation's laws and regulations pertaining to business – also influences the operations of a foreign firm. A firm must know the legal environment in each market because these laws constitute the "rules of the game." At the same time, the firm must know the political environment because it determines how the laws are enforced and indicates the direction of new legislation. The legal environment of international marketing is complicated, having three dimensions. For a domestic/ Ethiopian firm, these are (1) local / Ethiopian laws, (2) international law, and (3) domestic laws in each of the firm's foreign markets.

2.3.1 Local Law and International Marketing

The local laws that affect international marketing operations of a local firm differ from country to country. These local laws may relate to exporting, antitrust / monopoly, and organization and ownership arrangements.

For example, USA has export controls, antitrust controls, and laws against bribery by US firms.

2.3.2 International Law and International Marketing

International law could be defined as the collection of treaties, conventions, and agreements between nations that have, more or less, the force of law. International law involves some

mutuality, with two or more countries participating in the drafting and execution of laws or agreements.

IMF and WTO

The agreements in both IMF and WTO identify acceptable and nonacceptable behavior for member nations. Their effectiveness lies in their power to apply sanctions. The IMF can withhold its services from members who act "illegally," that is, contrary to the agreement. WTO allows injured nations to retaliate against members who have broken its rules.

International marketers are interested in both IMF and WTO because of a shared concern in the maintenance of a stable environment conducive to international trade. The legal reach of WTO and the IMF does not extend to the international marketer's behavior but rather to the behavior of the nations within which the firm is marketing. The environment for international marketing is more dependable because of these two organizations

UNCITRAL

The United Nations established a Commission on International Trade Law (UNCITRAL) with a goal to promote a uniform commercial code for the whole world. The commission works with government and private groups, such as the International Chamber of Commerce. Its first output (in 1983) was the Convention on Contracts for the International Sale of Goods. The purpose of the convention is to bridge the communications gap between countries having different legal systems as well as minimize contract disputes and facilitate the task of selling goods between countries.

ISO

Intentional Standards Organization (ISO) has been working through its technical committees to develop uniform international standards. ISO is creating standards for international products that the firm must incorporate into its product planning. But standardization is a slow task because changing national standards often hurts vested interests.

Patent Protection System

Many firms have patented products to sell. When selling outside their home market, they want to protect their patent right. Generally patents must be registered separately in each country where the firm wants protection.

The purpose of patent protection is to prevent others from selling the patented product wherever the patent is registered. This element of monopoly protection allows higher prices and encourages Research & Development (R&D) activity by the firm.

Trademark Conventions

Trademarks are another form of intellectual property. Like patents, trademarks or brands must go through a national registration process to be protected; registration is less time-consuming and costly, though.

Regional Groupings and International Law

Many nations have felt the need for larger market groupings to accelerate their economic growth. Such regional groupings have developed on all continents. With regional groupings the body of international (regional) law grows. Because these groupings are primarily *economic* alliances, the international law that develops is primarily to economic and business questions. Therefore regional groupings provide a development of international law of interest to multinational companies.

2.3.3 Foreign Laws and International Marketing

Ethiopian local laws play a ubiquitous / ever-present/ role in Ethiopian business practice. The laws of other nations play a similar role regarding the activities of business within their boundaries.

The importance of foreign laws to the international marketer lies primarily in domestic marketing in each foreign market. Problems arise from the fact that the laws in each market tend to be somewhat different from those in every other market.

Differing Legal Systems

Most countries derive their legal system from either the common law or the civil code law traditions.

i) Common Law

Common law is English in origin and is found in the United States and other countries (about **26**) that have had a strong English influence, usually a previous colonial tie. Common law is tradition oriented; that is, the interpretation of what the law means on a given subject is heavily influenced by previous court decisions as well as by usage and custom. If there is no specific legal precedent or statute, common law requires a court decision. To understand the law in a common law country,

one must study the previous court decisions in matters of similar circumstance, as well as the statutes.

ii) Civil or Code Law

Civil or code law is based on an extensive and, presumably, comprehensive set of laws organized by subject matter into a code. The intention in civil law countries is to spell out the law on all possible legal questions rather than to rely on precedent or court interpretation. The **'letter of the law'** is very important in code law countries. However, these needs to be all–inclusive may lead to some rather general and elastic provisions, permitting an application to many facts and circumstances.

Because code law countries do not rely on previous court decisions, various applications of the same law may yield different interpretations. This can lead to some uncertainty for the marketer. Code law is a legacy of Roman law and is predominant in Europe and in nations of the world that have not had close ties with England. Thus, code law nations (about **70**) are more numerous than common law nations.

iii) Islamic Law

Islamic law represents the third major legal system. About **27** nations follow Islamic law in varying degrees, usually mixed with civil common, and / or indigenous law. The Islamic resurgence in recent years has led many nations to give Islamic law, Shari' a, a more prominent role. Shari'a governs all aspects of life in areas where it is the dominant legal system, as in Saudi Arabia. Rules not defined by Shari'a are left to decision by government regulations and Islamic judges. Although it has harsh penalties for adultery and theft, Islamic law is not dramatically different from other legal systems insofar as business is concerned.

Concluding comments on different legal systems

The differences among legal systems are important to the international marketer. Because the legal systems of no two countries are exactly the same, each market must be studied individually and appropriate legal advice sought when necessary.

Foreign Laws and Marketing Mix

Foreign laws influence the four P's of marketing of the international marketer.

i) Product

The international marketer will find many regulations affecting the product. The foreign laws affect all aspects of product policy, including the physical product itself, the package and the label, the brand name, and the use of warranty. The physical and chemical aspects of the product are affected by laws designed to protect national consumers with respect to its purity, safety, or performance. Although consumers should be protected, different safety requirements are not necessary for the consumers of every country. One reason nations persist in particular legal requirements is that they protect their own producers. For example, German noise standards kept British lawnmowers off German lawns.

Labeling is subject to more legal requirements than the package in international marketing. Labeling items covered include (1) the name of the product, (2) the name of the producer or distributor, (3) a description of the ingredients or use of the product, (4) the weight, either net or gross, and (5) the country of origin. As to warranty, the firm has relative freedom to formulate a warranty in all countries.

Brand names and trademarks also face different national requirements. Most of the larger nations are members of the Paris Union or some other trademark convention, which ensures a measure of international uniformity. However, differences exist between code law countries (ownership by **priority in registration** of a brand) and common law countries (ownership by **priority in use**) in their treatment of the brand or trademark.

ii) Pricing

Price controls are pervasive in the world economy. **Resale – price maintenance** is a common law relating to pricing. Many nations have some legal provisions for resale-price maintenance, but with numerous variations. Another variable is the fact that some countries allow price agreements among competitors.

Some form of government price control is another law in a majority of nations. The price controls may be economy wide or limited to certain sectors. Generally, price controls are limited to "essential" goods, such as foodstuffs. The pharmaceutical industry is one of the most frequently controlled. Control here sometimes takes the form of controlling profit margins.

iii) Distribution

Distribution is an area with relatively few constraints on the international marketer.

The firm has a high degree of freedom in choosing distribution channels among those available in the market. Of course, one cannot choose channels that are not available. One major question is the legality of exclusive distribution. Fortunately, this option is allowed in most markets.

iv) Promotion

Advertising is one of the most controversial elements of marketing and is subject to more control than some of the others. Many nations have some law regulating advertising. Advertising regulations take several forms. One form pertains to the message and its truthfulness. In Germany, for example, it is difficult to use comparative advertising and the words *better* or *best.*

Another form of restriction relates to control over the advertising of certain products. For example, Britain does not allow no cigarette or liquor advertising on television. In many nations there are restrictions on sales promotion techniques like discounts, contests, deals, or premiums.

Enforcement of the Laws

The firm needs to know how foreign laws will affect its operations in a market. For this it is not sufficient to know only the laws; one must also know how the laws are enforced. Most nations have laws that have been forgotten and are not enforced. Others may be enforced haphazardly, and still others may be strictly enforced.

An important aspect of enforcement is the degree of impartiality of justice. Does a foreign subsidiary have as good a standing before the law as a strictly national company? Courts have been known to favor national firms over foreign subsidiaries. In such cases, biased enforcement makes it one law for the foreigner and another for the national. Knowledge of such discrimination is helpful in evaluating the legal climate.

2.3.4 The Firm in the International Legal Environment

Whose Law? Whose Courts?

Domestic laws govern marketing within a country. Questions of the appropriate law and the appropriate courts may arise, however, in cases involving international marketing.

When commercial disputes arise between principals of two different nations each would probably prefer to have the matter judged in its own national courts under its own laws.

By the time the dispute has arisen, however, the question of jurisdiction has usually already been settled by one means or another. One way to decide the issue before hand is by inserting *jurisdictional clause* in to the contract. Then when the contract is signed each party agrees that the laws of a particular nation governs.

Arbitration or Litigation?

The international marketer must be knowledgeable about laws and contracts. Contracts identify two things: (1) the responsibilities of each party and (2) the legal recourse to obtain satisfaction. Actually, however, international marketers consider litigation a last resort and prefer to settle disputes in some other way. For several reasons, litigation is considered a poor way of settling disputes with foreign parties. Litigation usually involves long delays, during which inventories may be tied up and trade halted. Further, it is costly, not only in money but also in customer goodwill and public relations. Firms also frequently fear discrimination in a foreign court. Litigation is thus seen as an unattractive alternative to be used only if all else fails.

Arbitration is the process by which both parties to the conflict agree to submit their cases to a private individual or body whose decision they will honor. Arbitration generally overcomes the disadvantages of litigation. Decisions tend to be faster and cheaper. Arbitration is less damaging to good will because of the secrecy of the proceedings and their less hostile nature.

Activity 3

Answer the following questions before continuing to the next section

1. The legal environment of international marketing has three dimensions. Outline them.

____

2. Explain how WTO creates an environment more favorable to international marketing.

   ____

3. The differences among legal systems are important to the international marketer. Explain.

   ____

4. Explain how foreign laws influence the four P's of marketing in the international marketing

   ____

   ____

5. Between litigation & arbitration which one is better option for settling commercial disputes arising in international marketing? Jusitify.

   ____

Section 4

2.4 The Socio – Cultural Environment

The socio - cultural environment influences the behavior of customers who comprise markets, the managers who plan and implement international marketing programs, and the marketing intermediaries who participate in international marketing process. Culture should not be simply considered as an obstacle to doing business across cultures. Culture can provide tangible benefits and can be used as a competitive tool or as a basis of a competitive strategy. In short, cultural differences can, and should be managed. It is when they are mismanaged that problems arise and profits are adversely affected.

The buying decision process of buyers whether consumer or industrial is influenced by the socio-cultural characteristics of buyers, and these socio - cultural characteristics are influenced by external stimuli. The set of factors included in socio-cultural characteristics are such things as material culture, language, education, values and attitudes, social organization, political-legal

structure, and philosophy. This set of factors found in socio-cultural characteristics is very important.

On a more general level, consumer in each nation is different from consumers in every other country. There are major cultural differences among these consumers of different nations which affect purchase behavior. International marketing managers all too often lack cultural awareness which can lead to errors or loss of potential gains in marketing process. The process of acculturation – adjusting and adapting to a specific culture other than one's own – is one of the keys to success in international marketing.

2.4.1 The Nature of Culture

Cultural factors exert the major influence on consumer behavior as it is the most fundamental determinant of a person's wants and behavior. The success of international marketing operations depends upon the understanding of culture.

So what is culture!

Culture can be defined as the specific learned norms of the society, based on attitudes, values, and beliefs. In a real sense, culture is human-made. It is learned and, as such, is communicated from one generation to another. To understand a culture one must understand its origins, history, structure, and functioning.

Culture undergoes change over time, with change typically being slow to occur.

Sometimes "rapid changes" occur due to outside pressures like government, but not due to natural reasons. For example, Iran after the fall of Shah changed into theocratic culture from that of earlier liberal culture.

International marketing managers need to know how the culture changes, and also how their decisions interact with and sometimes serve as a change agent in the culture. Learning about cultures is made even more difficult because societies or groups may share certain common cultural traits, but there are many possible subcultures with characteristics that explain variations in behavior within cultures.

Major subcultures may be based on nationality, religion, race, and location.

With regards to international marketing management, it seems best to study cultures not only from a broad perspective to learn about relevant patterns and themes, but also from a narrow perspective as behavior relates specifically to certain products or marketing efforts. This approach to studying culture can lead to information that will guide international marketing efforts.

2.4.2 Culture and Communication

Every culture reflects in its language what is of value to the people.

Language – whether written, spoken, or silent – becomes the embodiment of culture and is a means whereby people communicate to other people, either within their own culture or in other cultures. The language capability serves four distinct roles in international marketing. First, language is important in information gathering and evaluation efforts. Second, language provides access to local society. Third, language capability is increasingly important in company communications whether within the corporate family or with channel members.

Finally, language provides more than the ability to communicate. It extends beyond mechanics to the interpretation of contexts. Behavior itself is a form of communication, and is known as silent language.

Broadly, communication includes any behavior that another person perceives and interprets. As such, it is one person's understanding of what another person means.

The major dimensions of the silent language as they operate within international marketing as being: (1) Time; (2) Space; (3) Material Things; (4) Friendships, and; (5) Agreements. These five dimensions can form the basis of real understanding of foreign cultures.

Finally, the international marketer needs to recognize that doing business in foreign markets involves cross- cultural communication in all aspects of the relationship. When the person from the other culture does not receive the sender's message in the manner intended, cross- cultural miscommunication occurs. The greater the differences between the cultures of the seller and the buyer, the greater the probability for cross- cultural miscommunication to occur or to take place. Miscommunication involves misunderstanding due to misperception, misinterpretation, and

misevaluation. Thus, in becoming involved in cross- cultural situation, the international marketer should heed the advice: '*assume difference until similarity is proven.*'

2.4.3 Self – Reference Criterion

James Lee coined the term 'Self-Reference Criterion' as a useful concept to avoid cultural bias. He suggested that problems should be first defined in terms of the cultural traits, habits, or norms of the home society. Then they should be redefined without value judgments, in terms of the foreign cultural traits, habits, and norms. He indicated that the difference between these two specifications is an indication of the likely cultural bias, or self-reference criterion effect. Self-reference criterion effect can then be isolated and carefully examined to see how it influences the problem. Following this examination, the problem is redefined with the bias removed.

Concluding Comments

Culture is a pervasive environmental element affecting all international marketing activity. Of concern to the international marketing manager are the influences of the religious, family, educational, and social systems of a society. Often these are manifested in the values, attitudes, and motivations of people, and can affect business customs such as personal manners, colors, advertising, "gift" giving and receiving, pride and status, and other aspects.

All too often, in domestic market situations there is tendency to take culture for granted and not explicitly incorporate its effect into the decision. So when dealing with foreign markets, where there is not much cultural distance, taking culture for granted should not be done.

Self – Test Exercise

Write "True" if the statement is correct or "false" if it is incorrect. Answer key for the True or False questions is provided at the end of the module.

_________1. The level of development in a country is a general indication of the types of products that are likely to be in demand.

_________2. Since the less developed countries are not attractive markets for most consumer goods or for highly technical products the marketing manager of an international firm can ignore such markets.

___________3. Countries with large GDP per capita always create a great market potential for an international firm.

___________4. Nationalism and patriotism can be sources of concern to an international firm's marketing manager.

___________5. Generally, the more localized the firm's operation the less acceptable it is to the host country.

___________6. Memberships of a country in international organizations makes its behavior on international marketing more predictable.

____________7. Labeling is subject to more legal requirements than the package in international marketing.

____________8. Price controls are nonexistent in the free market world economy.

____________9. All kinds of products can be advertised through mass media in the international market.

___________10. Doing business in foreign markets involves cross- cultural communication.

CHAPTER THREE

ANALYZING INTERNATIONAL MARKETING OPPORTUNITIES

Indicators of International Marketing Opportunity

Broadly speaking, international marketing opportunities could be identified by recognizing the existence of unfulfilled demand in a foreign country that your company can effectively service; or, by recognizing the existence of goods and services in foreign markets that your company can obtain to fulfill domestic demand. In other words, international marketing opportunities exist in one of these two forms:

1. *Existing, latent, or incipient* demand in foreign countries that a firm can effectively fulfill through its product-service offerings;
2. An opportunity to source goods and services from foreign countries to fulfill demand in domestic markets and/or other foreign countries.

In the first case, the managerial task is to assess the nature of foreign market demand and your company's ability to serve that demand. In the second case, you need to assess the supply position of the foreign country and, your ability to acquire the foreign goods and services to fulfill demand in domestic markets and other foreign countries. As an international marketing manager you should be cognizant of both types of opportunities because a global orientation to business connotes that we look for opportunities to serve world markets by obtaining resources from around the world.

Existing Demand in foreign Countries

The primary indicators of international marketing opportunity are the demand and supply situation for goods and service; in foreign country, moderated by the international marketer's ability to effectively service those markets. When there is already existing demand for certain products and services in foreign countries, you may choose to serve that market by offering products and services that meet the current demand. Your marketing task, in this context, is to offer superior value to the

customers, whereby their preferences can be channeled in favor of your company's offerings. Such existing demand is manifested in local shortage of goods, substantial imports, or higher prices charged for these goods in local markets. To identify existing demand, we will therefore consider methods that capture such manifestations.

Latent Demand and International marketing Opportunity

Latent demand may exist in foreign markets because of unavailability of certain products and services that will fulfill the need or want of a substantial number of people in the country. Such unavailability of products could be due to the lack of technological solutions for certain problems. In many countries, we can see this, in the need for drugs or vaccines to cure AIDS or prevent cancer. In other cases, latent demand may exist when technological solutions are available but marketers have not as yet developed liable products to meet customer needs. For example, in most parts of the world there is latent demand for efficient automobiles that can operate without expensive gasoline. In still other situations, latent demand is prevalent because those markets have either not been serviced by the existing marketers or because the government of that country has imposed barriers that restrict products from elsewhere to come into these markets. This has been true in many developing countries that followed an import-substitution policy and controlled the influx of goads and services into the country. In order to benefit your company of the opportunities in latent markets, you must study the needs and wants of people in foreign markets and then be prepared to *undertake market development activities to stimulate the latent demand* into 'ready demand' for products and services that you will offer to these markets.

Incipient Demand

One of the most exciting opportunities for international marketing arises when there is incipient demand for some products and services in foreign markets. *Incipient markets are usually characterized by emerging demand for certain products and services.* They provide early signals for a high market growth that one would expect *to* follow in the near future. Since most marketers like to be in growth markets, they are likely to be attracted to incipient markets. Incipient demands usually correspond with the emerging and growth stages of market evolution. International marketers interested in identifying such opportunities often look for trends in recent growth rates and consumption patterns of certain products. It is not the volume of the market which is important but

the rate of growth and potential interest in the product among a country's population. Servicing incipient demand is both challenging and exciting as it involves market development activities as well as the threat of new entrants into the marketplace.

Sourcing as an international marketing opportunity

The following factors are indicative of international sourcing opportunities.

- when the price of a product or service- is significantly lower in a foreign country than in domestic or third country markets for comparable quality goods or services;

- where superior quality goods are available in another country and have the potential to better meet the needs of domestic and/or third country markets, given comparable prices;

- if there is shortage of supply in domestic market or another foreign country. This has to be complemented by available capacity or short *term* elasticity of supply in the foreign country from where you wish to source the goods; or

Among the indicators of sourcing opportunities are the changing preference of people towards foreign goods and services. These could be a favorable image regarding a particular country's products in general, or it may be related to specific products and designs of foreign countries. For example, Japanese automobiles and electronic products are favorably viewed in most countries of the world. Similarly, French perfumes, Italian dress designs, Swiss engineering of moving parts, and computer software capabilities of engineers from India are amongst the better known in their class of products and services around the world.

Existing products, modified products and new products for international marketing

When international marketing opportunities are recognized as unfulfilled demand in foreign countries, a company can choose to fulfill that demand by offering existing products or services to the foreign market; modify them to suit local requirements; acquire products and services from other sources that appropriately match customer requirements abroad; or the company may choose to develop new products or services to meet the foreign market needs. Similarly, when international marketing opportunity is recognized based on a foreign source of supply, a company

may acquire and market the products or services in their existing form to fulfill domestic or third country market needs, modify the foreign products and services to suit the customer requirements, or transform them into new products and services for domestic or third country markets. Thus, it is critical to know the nature of market needs as well as the product/ service requirements to fulfill them. A proper assessment of international marketing opportunities includes an investigation into how to fulfill international needs and wants.

Screening International Marketing Opportunities

Assessment of market opportunities is an important aspect of international marketing. Every time a company decides to expand into foreign markets, it must systematically evaluate possible markets to identify the country or group of countries with the greatest opportunities. This process of evaluating worldwide opportunities is complicated for several reasons including

- There are between 175 – 200 countries in the world making it difficult to examine all these opportunities.
- Initial screening process is usually limited to the analysis of published data because of resource limitations and quite large number of countries.
- Many possible markets are small, with little data available about specific consumer, business or government needs.

Selection Stages

The assessment of international marketing opportunities usually begins with a screening process that involves gathering relevant information on each country and filtering out the less desirable countries. Model for selecting foreign markets is shown the figure below.

The model includes a series of four filters to screen out countries. It is necessary to break the process down into a series of steps due to the large number of market opportunities. Although a firm does not want to miss a potential opportunity, it cannot conduct extensive market research studies in every country of the world. The screening process is used to identify good prospects.

Stage 1: Macro variables are used to discriminate between countries that represent basic opportunities and countries with little or no opportunity or with excessive risk. Macro variables describe the total market in terms of economic, social, and political information. Often macro-economic statistics indicates that the country is too small, as described by the gross national (or domestic) product.

Possibly the gross national product seems large enough, but the personal disposable income per household may be too low. Political instability can also be used to remove a country from the set of possible opportunities.

Stage 2: Variables that indicate the potential market size and acceptance of the product or similar products are used. Often proxy variables are used in this screening. A proxy variable is a similar or related product that indicates a demand for your product. For example, if you are attempting to measure the potential market size and receptivity of satellite television reception equipment, possible proxy variables may be the number of televisions per household, total sales of VCRs, or total sales of microwave ovens. The number of televisions and VCRs indicates the potential for home entertainment, and the sales of microwave ovens indicate the propensity to use advanced technologies in place of traditional appliance technology. Te year-to-year growth rates and the total sales of similar or proxy products are good predictors of market size and growth. Other factors in the second stage of the selection process can also be used to screen out countries, such as the stage of economic development, taxes, and duty requirement. If you do not plan to manufacture locally, a high import duty may eliminate a country from consideration in the second stage of the screening process.

Stage 3: It uses micro level variables such as competitors, ease of entry, cost of entry, and profit potential. Micro level factors influence the success of failure of a specific product in a market. At this stage of the process, markets may be considering only a small number of countries, so it is feasible to get more detailed, up-to-date information about a given country from government, non-government organizations or other companies operating in that country. Also, customs brokers and freight forwarders can help at this stage of the process.

The focus of the screening process switches from total market size to profitability. Some of the concerns would be

How much would you need to invest to gain a particular market share?

Given the prices currently charged in the market, what margin can your company expect?

Given the cost of entry and the expected sales, what is the expected profit

This stage of the analysis focuses on the quantitative profit expected, but many subjective judgments are made to arrive at the expected profit.

Stage 4: The potential target countries would be evaluated and ranked based on corporate resources, objectives, and strategies. For example, although South Africa may have the same expected potential as Venezuela, Venezuela may be given a higher priority because successful entry into Venezuela can later be followed by entry into Colombia and Bolivia.

Criteria for Selecting Target Countries

The process of selcting target coutries through the screening process requriesthat the companies identify the creiteria to be used to differentiate desirable countreis from less desirable countries. The following four critiacal factors affecting market selection have been identified by a research conducted on international invstemetn decisions:

Market Size and Growth: The larger the potential demand for a product in a country, the more attractive it will be to a company. Measures of market size and growth can be on both a macro and micro basis. On macro basis, it may be determined that country needs a minimum set of potential resources to be worith furtner consideration. Summary of potential macroindicators of market size are shown on table 3.2 below. There are variety of readiliy availabe statistics that are mcroindicators of market size. If you are screening countries for a firm that sells microwave overns, you may decide not to consider any country with a personal disposable income per household of less than $10,000 peryear. The logic of this criterion is that if the average household has less than $10,000, the potential market of a luxury item such as microwave oven will not be greate. However, a single statistic can sometimes be decptive. For example, a country may have an average household inome of $8,000, but ther emy be one million households with an income of over $10,000. These one million housholds will be potential buyers of microwaves. One commerically available report on the attractiveness of different countries for business is the World

Competitiveness Report. Published annually, this report analyzes three hundred criteria to determine the overall competitiveness of the country and its strength by industry.

Table 3.2 Macro indicators of Market Size

Geographic Indicators

Size of the country, in terms of geographic area Climatic conditions

Topographical characteristics

Demographic Characteristics	Economic Characteristics
	Total gross national product
Total population	Per capita gross national product
Population growth rate	Per capita income (also income growth rate)
Age distribution of the population	Personal or household disposable income
Degree of population density	Income distribution

The macro indicators of market potential and growth are usually used in the first stage of the screening process, because the data are readily available and can be used to quickly eliminate countries with little or no potential demand. The macro indicators focus on the total potential demand (population) and ability to afford a product (per capita income). However, because the macro indicators of market size are general and crude, they do not necessarily indicate a perceived need for the product. For example, a country such as Iraq may have the population and income to indicate a large potential for razors, but the consumers, many of whom are Moslems, may not feel a perceived need for the product. In the third stage of the screening process, it is recommended that micro indicators of market potential be used.

Micro indicators usually indicate actual consumption of a company's product or a similar product, therefore indicating a perceived need. Table 3.3 shows an example of micro indicators of market size.

These micro indicators can be used to estimate market size. The number of households with televisions indicates the potential market size for televisions if every household purchased a new television. Depending on the life of the average television in use, one can estimate the annual demand. Although the actual consumption statistics may not be available for a certain product category, often the consumption of similar or substitute products are used as proxy variables. For example, in determining the market size for surgical sutures, marketers may use the number of hospital beds or doctors as a proxy variable. The number of farms may indicate the potential demand for tractors.

The macro- and micro indicators of market size allow the marketer to determine or infer the potential market size. Next, the marketer needs to evaluate the risk associated with each market opportunity.

TABLE 3.3 Micro indicators of Market Size

Radios	Gasoline consumption
Televisions	Hotel beds
Cinema seats	Telephones
Scientists and engineers	Tourist arrivals
Hospitals	Passenger cars
Hospital beds	Civil airline passengers
Physicians	Steel production
Alcohol consumption	Rice production
Coffee consumption	Number of farms Land under cultivation
	Electricity consumption

Political Conditions The influence of the host country's political environment was described in detail in Chapter 2. Though political risk tends to be more subjective than the quantitative indicators of market size, it is equally important.

Any company can be hurt by political risk, from limitations on the number of foreign company officials and on the amount of profits paid to the parent company, to outright takeovers. There are a number of indicators that can be used to assess political risk.' Table 3.4 shows some indicators of political risk that may be used in country selection. Industrial disputes (strikes) can be a major disruption to business, and incidences vary greatly from country to country. For example, from 1988 to 1992, Spain lost 660 working days per 1,000 employees, whereas Japan and Switzerland each lost less than 5 days.

Table 3.4 Indicators of Political Risk

Probability of nationalization	Percentage of the voters who are Communist
Bureaucratic delays	Restrictions on capital movement
Number of expropriations	Government intervention
Number of riots or assassinations	Limits on foreign ownership
Political executions	Soldier/civilian ratio
Number of Socialist seats in the legislature	

Historically, extractive industries such as oil and mining have been susceptible to the political risk of expropriation. More recently, the financial, insurance, communication, and transportation industries have been targets of expropriation. As shown in Table 3.4, many aspects of political risk assessment can be analyzed based on historical data. Unfortunately, historical indicators are not always that accurate, because political conditions can change radically with a new government. Some of the organized services that rate political risk are

- World Political Risk Forecast by Frost & Sullivan;
- Business International Rating of 57 Countries;

- Business Environment Risk Index and Political Risk Index of BERI, Ltd.;
- Economist Intelligence Unit.

In addition to these major sources of information, international companies often consult banks, accounting firms, and domestic government agencies for political risk information. The risk assessment services provided by Business International, Frost & Sullivan, BERI, and others are all useful long-term measures of risk. These do not exclude the need to be familiar to the current events of the day as they usually have profound effect on business.

Competition The number, size, and quality of the competition in a particular country affect a firm's ability to enter and compete profitably. In general, it is more difficult to determine the competitive structure of foreign countries than to determine the market size or political risk. Because of the difficulty of obtaining information, competitive analysis is usually done in the last stages of the screening process, when a small number of countries are being considered.

Some secondary sources are available that describe the competitive nature of a marketplace. The *Findex Directory* publishes a listing of the most readily available research reports. Such research reports usually cost between $500 and $5,000, with the average report being about $1,200. In some cases, there may not be a research report covering a specific country or product category, or it may be too expensive. Some sources of information include Chambers of Commerce in the country of interest, government bodies, embassy commercial attaches, and embassies of foreign countries. Other sources of competitive information ovary widely, depending on the size of the country and the product. Many of the larger countries have chambers of commerce or other in-country organizations that may be able to assist potential investors. The final and usually most expensive way to assess the market is to go to the country and interview potential customers and competitors to determine the size and strength of the competition. As a trip to a potential market is always required before a final decision is made.

Market Similarity: Strong evidence exists that market similarity can be sued for country selection. As study of 954 product introductions by fifty-seven U.S. firms found a significant correlation between market selection and market similarity

The concept of market similarity is simple. A firm tends to select countries based on their similarity to the home market. Therefore, when a company decides to enter foreign markets, it will first enter the markets that are most similar. For example, a U.S. firm will enter Canada, Australia, and the United Kingdom before entering less similar markets such as Spain, South Korea, or India. Measures of similarity include:

- Aggregate production and transportation
- Personal consumption patterns
- Trade relations
- Health and education systems

The premise behind the selection of similar markets is the desire of a company to minimize risk in the face of uncertainty. Entering a market that has the same language, a similar distribution system, and similar customers in less difficult than entering a market in which all these variables are different.

CHAPTER FOUR

INTERNATIONAL MARKET ENTRY MODES

Introduction

When a firm is considering entering a foreign market, the question arises as to the best means of achieving it. There are basically seven ways to enter a foreign market: exporting, turnkey projects, licensing, franchising, management contracts, joint venturing with a host-country firm, and setting up a wholly owned subsidiary in the host country. Each entry mode has advantages and disadvantages. Managers need to consider these carefully when deciding which entry mode to use.

A. Entry Modes

1. Exporting

Most manufacturing firms begin their global expansion as exporters and only later switch to another mode for serving a foreign market. We take a close look at the mechanics and processing of exporting in the chapter that deals with export process. Here we focus on the advantages and disadvantages of exporting as an entry mode.

Advantages:

Exporting has two distinct advantages. It avoids the costs of establishing manufacturing operations in the host country, which are often substantial. Exporting also may help a firm achieve and exporting it to other national markets, the firm may be able to realize substantial scale of economies [1] from its global sales volume.

Disadvantages:

On the other hand, exporting has a number of drawbacks. First, exporting from the firm's home base may not be appropriate if there are lower-cost locations for manufacturing the product abroad (i.e. if the firm can realize location economies [2] by moving production elsewhere). Thus, particularly for firms pursuing global or transnational strategies, it may be preferable to manufacture in a location where the mix of factor conditions is most favorable from a value-

creation perspective and to export to the rest of the world from that location. This is not so much an argument against exporting as an argument against exporting from the firm's home country.

A second drawback to exporting is that high transport costs can make exporting uneconomical, particularly for bulk products. One way of getting around this is to manufacture bulk products regionally. This strategy enables the firm to realize some economies from large-scale production and at the same time to limit its transport costs.

Another drawback to exporting is that tariff barriers can make it uneconomical. Similarly, the threat of tariff barriers by the host-country government can make it very risky.

A fourth drawback to exporting arises when a firm delegates its marketing in each country where it does business to a local agent. (This is common for firms that are just beginning to export). Foreign agents often carry the products of competing firms and so have divided loyalties. In such cases the foreign agent may not do as good a job as the firm would if it managed its marketing itself. There are ways around this problem, however. One way is to set up a wholly owned subsidiary in the country to handle local marketing. Then the firm can exercise tight control over marketing in the country while reaping the cost advantages of manufacturing the product in a single location.

[1] ***Experience curve:*** refers to the systematic reductions in production costs that have been observed to occur over the life of a product i.e. a products production cost decline by some characteristics about each time accumulated output doubles. The cost reduction could be a result of:

Learning effect: which refers to cost savings that come with learning by doing; Labor productivity increases over time as individuals learn the most efficient ways to perform particular tasks and management also learns how to manage the new operation more efficiently over time. Therefore, production costs eventually decline due to increasing labor productivity and managerial efficiency.

Economies of Scale: refers to reduction in unit cost achieved by producing large volume of a product. Economies of scale have a number of sources, one of the most important of which seems to be the ability to spread fixed costs over a large volume. Fixed costs are the costs required to set up a production facility, develop a new product, and the like. Another source of scale economies is the ability to large firms to employ increasingly specialized equipment or personnel. The theory argues that the division of labor is limited by the extent of the market. As a firm's output expands, it is better able to use specialized equipment and has the output required to justify the hiring of specialized personnel.

[2] ***Location economies:*** *are the economies that arise from performing a value creating activities in the optimal location for that activity, wherever in the world that might be (transportation cost and trade barriers permitting). This can lower the costs of value creation and help the firm to achieve a low-cost position, and/or it can enable a firm to differentiate its product offerings from that of competitors. For example, moving manufacturing operations to countries where there is low labor cost to lower the cost of value creation.*

2. Turnkey Projects

Firms that specialize in the design, construction, and start-up of turnkey plants are common in some industries. IN a turnkey project, the contractor agrees to handle every detail of the project for a foreign client including the training of operation personnel. At completion of the contract, the foreign client is handled the "key "to a plant that is ready for full operation- hence the term turnkey. This is actually a means of exporting process technology to other countries. IN a sense it is just a very specialized kind of exporting. Turnkey projects are most common in the chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production-process technologies.

Advantages:

The know-how required to assemble and run a technologically complex process, such as refining petroleum or steel, is a valuable asset. The main advantage of turnkey project is that they are a way of earning great economic returns from that asset. The strategy is particularly useful in cases where foreign direct investment (FDI) is limited by host-government regulations. For example, the

governments of many oil-rich countries have set out to build their own petroleum refining industries and, a step toward that goal, have restricted FDI in their oil and refining sectors. Since many of these countries lacked petroleum-refining technology, however, they had to gain it by entering into turnkey projects with foreign firms that had the technology. Such deals are often attractive to selling firm because they would probably have no other way to earn a return on their valuable know-how in that country.

A turnkey strategy, as opposed to a more conventional type of FDI, may make sense in a country were the political and economic environment is such that a longer-term investment might expose the firm to unacceptable political and/or economic risks (e.g., the risk of nationalization or of economic collapse)

Disadvantage

Three main drawbacks are associated with a turnkey strategy. First, by definition, the firm that enters into a turnkey deal will have no long-term interest in the foreign country. This can be a disadvantage if that country subsequently proves to be a major market for the output of the process that has been exported. One way around this is to take a minority equity interest in the operation set up by the turnkey project.

Second, the firm that enters into a turnkey project with a foreign enterprise may inadvertently create a competitor. For example, many of the Western firms that sold oil-refining technology to firms in Saudi Arabia, Kuwait, and other Persian Gulf stages now find themselves competing head to head with those firms in the world oil market. Third and related to the second point, if the firm's technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential and/or actual competition.

3. Licensing

A licensing agreement is an arrangement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified period of time, and in return, the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, processes, designs, copyrights, and trademarks.

Advantages:

In the typical international licensing deal, the licensee puts up most to the capital necessary to get the overseas operation going. Thus, a primary advantage of licensing is that the firm does not have to bear the development costs and risks associated with opening a foreign market. Licensing is a very attractive option for firms lacking the capital to develop operations overseas. In addition, licensing can be attractive when a firm is unwilling to commit substantial financial resources to an unfamiliar or politically volatile foreign market. Licensing is also often used when a firm wish to participate in a foreign market but is prohibited from doing so by barriers to investment. Finally, licensing is frequently used when a firm possesses some intangible property that might have business applications, but when it does not want to develop those applications itself. Coca-cola has licensed its famous trademark to clothing manufacturers, who have incorporated the design to their clothing.

Disadvantages

Licensing has three serious drawbacks. First, it does not give a firm the tight to control over manufacturing, marketing, and strategy that is required for realizing experience curve [3]and location economies (as global and transnational firms must do). Licensing typically involves each licensee setting up its own manufacturing operations. This severely limits the firm's ability to realize experience curve and location economies by manufacturing its products in a centralized location. This, when these economies are important, licensing may not be the best way to expand overseas.

Second, competing in a global market may require a firm to coordinate strategic moves across countries by using profits earned in one country to support competitive attacks in another. By its very nature, licensing severely limits a firm's ability to do this. A licensee is unlikely to allow a multinational firm to use its profits (beyond those due in the form of royalty payments) to support a different licensee operating in another country.

A third problem with licensing is the risk associated with licensing technological know-how to foreign companies. Technological know-how constitutes the basis of many multinational firms' competitive advantage. Most firms wish to maintain control over how their know-how is used, and a firm can quickly lose control over its technology by licensing it. Many firms have made the

mistake of thinking they could maintain control over their know-how within the framework of a licensing agreement. RCA Corporation (A US company), for example, once licenses its color TV technology to a number of Japanese firms including Matsushita and Sony. The Japanese firms quickly assimilated the technology, improved upon it, and used it to enter the U.S. market. Now the Japanese firms have a bigger share of the U.S. market than the RCA brand.

On the other hand, there are ways of reducing the risks of this occurring. One way is by entering into a cross-licensing agreement with a foreign firm. Under a cross-licensing agreement, a firm might license some valuable intangible property to a foreign partner, but in addition to a royalty payment, the firm might also request that the foreign partner license some of its valuable know-how to the firm. Such agreements are reckoned to reduce the risks associated with licensing technological know-how, since the licensee realizes that if it violates the spirit of a licensing contract (by using the knowledge obtained to compete directly with the licensor), the licensor can do the same to it. Cross-licensing agreements enable firms to hold each other "hostage," which thereby reduces the probability that they will behave opportunistically toward each other.

Another way of reducing the risk associated with licensing is to link an agreement to license know-how with the formation of a joint venture in which the licensor and licensee take an important equity stake. Such an approach aligns the interests of licensor and licensee, since both have a stake in ensuring that the venture is successful.

Additional readings on Licensing (Paliwoda & Thomas, 3rd ed.- International Marketing

<u>Conditions for adopting licensing policies</u>

- The possession of patented devices and attractive trademarks, preferably in some novel or advanced technology, or special know how to which no one else has access.
- The ability to protect patents across different legal systems.
- That trading conditions in the licensee country inhibit other means of conducting business.
- That licensing is the most profitable option.

- That the results of market research are known, suggesting at least adequate sales in the first and subsequent years, and confirming the breakeven and other calculations. The licensee's profits can then be estimated.

B. Advantages of licensing

- To increase the income on products developed as a result of expensive research.

- To retain a market to which export is no longer possible or which is likely to become unprofitable due to: import prohibitions, quotas or duties, transport costs, lack of production facilities at home or other related factors.

- To make local manufacture possible where this is favored, for other reasons than those listed above. Examples are the need to adapt the product, the opportunity to cash in on local nationalism, the lack of use for the particular patent in the domestic market. This last advantage may well apply to a low-technology product for which there is still a market in developing countries.

- To make possible the rapid exploitation of new ideas on world markets before competitors get into the act.

- The penetration of new markets. Licensing agreements may open up parts of the world previously dosed to a company, either in the licensee's own country or through exports from that country to others.

- There may be a valuable spin-off if the licensor can sell other products or components to the licensee. If these are parts for products being manufactured locally or machinery, there may also be some tariff concessions on their import.

- A means of entering a market where the nature of the competition -a few dominant and highly competitive firms for example - makes any form of entry apart from licensing too expensive to be contemplated.

- One considerable advantage for the small firm with an appropriate product is that licensing can be a much more plausible means of expanding abroad than exporting. It is easier to handle a

number of markets this way. Licensing is a viable option where manufacture near to the customers' base is required.

C. Disadvantages of licensing

- The danger of fostering a competitor. This is strongly maintained when technical information is being provided; and there is no substitute for a satisfactory working arrangement to minimize the danger.
- The danger of a reducing award.
- The danger of the licensee running short of funds, especially if considerable plant expansion is involved or an injection of capital is required to sustain the project. This danger can be turned to advantage if the licensor has funds available by a general expansion of the business through a partnership.
- The licensee may prove less competent than expected at marketing or other management activities; hence the licensor may find his commitment is greater than expected. He may even find costs grow faster than income.
- Opposition is encountered in some less developed countries to royalty payments on the grounds that too high a price is being charged for the knowledge provided.
- Negotiations with the licensee, and sometimes with the local government, are costly and often prolonged.

4. Franchising

In many respects, franchising is similar to licensing, although franchising tends to involve longer-term commitments than licensing. Franchising is basically a specialized form of licensing in which the franchisor not only sells intangible property to the franchisee (normally a trademark), but also insists the franchisee agree to abide by strict rules as to how it does business. The franchisor will also often assist the franchisee to run this business on an ongoing basis. As with licensing the franchisor typically receives a royalty payment that amounts to some percentage of the franchisee's revenues. Whereas licensing is pursued primarily by manufacturing firms, franchising is employed

primarily by service firms. McDonald's provides us with a good example of a firm that has grown by using a franchising strategy. McDonald's has set down strict rules as to how franchisees should operate a restaurant. These rules extended to control over the menu, cooking methods, staffing policies, and the design and location of a restaurant. McDonald's also organizes the supply chain for its franchisees and provided management training and financial assistance for franchisees.

Advantages

The advantages of franchising as an entry mode are very similar to those of licensing. The firm is relieved of many of the costs and risks of operating in a foreign market by itself. Instead, the franchisee typically assumes those costs and risks. This creates a good incentive for the franchisee to build up a profitable operation as quickly as possible. Thus, using franchising strategy, a service firm can build a global presence quickly and at a relatively low cost and risk.

Disadvantage:

The disadvantages, though present, are less pronounced that in the case of licensing. Since franchising is often used by service companies, there is not reason to consider the need for coordination of manufacturing to achieve experience curve and location economies. On the other hand, franchising may inhibit the firm's ability to take profits out of one country to support competitive attacks in another.

A more significant disadvantage of franchising is quality control. The foundation of franchising arrangements is that the firm's brand name conveys a message to consumers about the quality of the firm's product. Thus, a business traveler checking in at a Hilton International hotel in Addis Ababa can reasonably expect the same quality of room food, and service that she would receive in New York. The Hilton name, is supposed to guarantee consistent product quality. This presents a problem in that foreign franchisees may not be as concerned about quality as they are supposed to be, and the result of poor quality can extend beyond lost sales in a particular foreign marketer to a decline in the firm's worldwide reputation. For example, if the business traveler has a bad experience at the Addis Ababa Hilton, he may never to another Hilton hotel and may urge his colleagues to do likewise. The geographical distance of the firm from its foreign franchisees, however, can make poor quality difficult for the franchisor to detect. In addition to sheer number

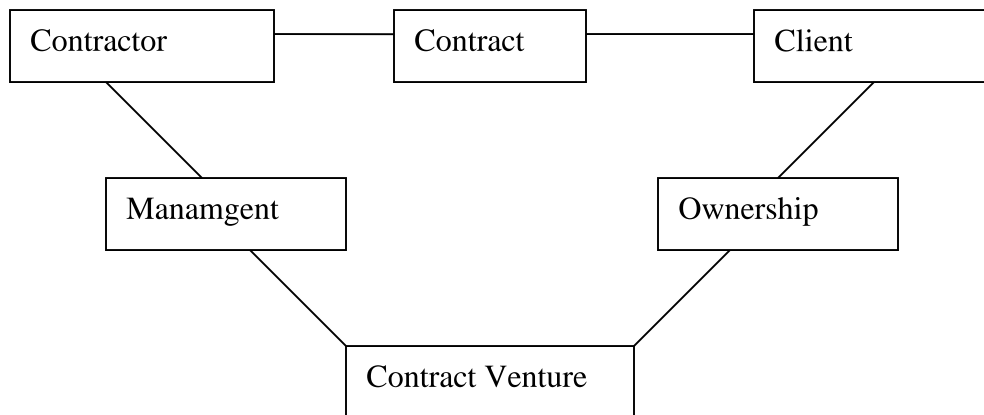
of franchisees can make quality control difficult. Due to these factors, quality problems may persist.

One way around this disadvantage is to set up a subsidiary in each country or region in which the firm expands. The subsidiary might be wholly owned by the company or be a joint venture with a foreign company. In either case, the subsidiary assumes the rights and obligations to establish franchises throughout the particular country or region.

5. Management contracts

An arrangement whereby a company operates a foreign firm for a client who retains the ownership is known as management contract. There are a number of variations but a broad distinction between foreign management and local ownership is a characteristic feature, and the management typically extends to all functions.

Exhibit 4-1 Relationships in Management Contracts



In the management contract the principal (the contractor) operates a complete management system. This method of conducting business has only gradually emerged. It can be said to carry the divorce between ownership and management, that has been a feature of the business scene for many years, one stage further Exhibit 4-1 illustrates the principle of the three-cornered relationship between contractor, client and contract venture.

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In a basic management contract the local (host country) company holds all the equity, but in practice the contractor often takes a small amount. The holding of equity makes it easier to negotiate the other terms; the contractor company does not feel so encouraged to provide for an increasing royalty in the event of success as it knows that it will share anyway. On the other hand, the holding of equity may bias the advice the contractor gives, especially when it's not managing all the functions.

Advantages:

The reasons for developing management contracts as policies are similar to those; or licenses and franchises with a number of additions which include the following,

1. Dissatisfaction with an existing licensing agreement where the licensee or franchisor does not show sufficient marketing, financial or other expertise to develop the business.

2. The expropriation or nationalization of a subsidiary where the parent company's commercial expertise is still required.

3. The development of a consultancy or technical aid contract into a total management contract.

4. Fees for management services may be easier to transfer, and subject to less tax than royalties or dividends.

5. Under-employed- skills and resources are common factors in deciding to opt for management contracts. The licensing specialist may he in a position to negotiate the contracts and employ a number of other experts available at head office on the project. An airline, for instance, may have a depth of expertise which is under-employed managing the number of aircrafts the company owns. In these circumstances, managing another airline can. bring in extra revenue with little extra expenditure.

6. The contracts provide a useful contribution to a global strategy. They are particularly appropriate to the more difficult markets in the less developed countries.

7. Management contracts can provide support to other business arrangements, tike technical agreements and joint ventures, and general support for existing markets where domestication or expropriation are likely. Minority equity holdings are also safeguarded in this way.

8. For countries, this method brings the advantages of foreign expertise without the drawbacks of foreign ownership. There are advantages when funding is sought; the existence of a contract is likely to give extra confidence to the bankers.

Disadvantages:

The disadvantages are similar to those for licenses and franchises. From the principal's point of view, direct export or investment might have been more lucrative. From the point of view of some countries, contracts are still regarded as the intervention of a foreign authority- and the issue of foreign management remains delicate, however badly it may be needed. This is the principal reason why management contracts are often called by other names (such as ‘technical cooperation agreements’ which usually include a management element).

6. Joint Ventures

A joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms. Establishing a joint venture with a foreign firm has long been a popular mode for entering a new market. The most typical joint venture is a 50/50 arrangement in which there are two parties, each of which holds a 50 percent ownership stake and contributes a team of managers to share operating control. Some firms, however, have sought joint ventures in which they have a majority share and thus tighter control.

Advantages:

Joint ventures have a number of advantages. First, a firm is able to benefit from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems. Second, when the development costs and/or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner. *Third, in* many

countries political considerations make joint ventures the only feasible entry mode. Furthermore, research suggests that Joint ventures with local partners face a low risk of being subject to nationalization or other forms of government interference. This appears to be because local equity partners, who may have some influence on host-government policy, have a vested interest in speaking out against nationalization or government interference.

Disadvantages:

Despite these advantages, there are some disadvantages with joint ventures. First, just as with licensing, a firm that enters into a joint venture risks giving control of its technology to its partner. However, joint-venture agreements can be constructed to minimize this risk. One option is to hold majority ownership in the venture. This allows the dominant partner to exercise greater control over its technology. The drawback with this is that it can be difficult to find a foreign partner who is willing to settle for minority ownership.

A second disadvantage is that a joint venture does not give a firm the tight control over subsidiaries that it might need to realize experience curve or location economies. Nor does it give a firm the tight control over a foreign subsidiary that it might need for engaging coordinated global attacks against its rivals.

A third disadvantage with joint ventures is that the shared ownership arrangement can lead to, conflicts and battles for control between the investing firms if their goals and objectives change over time, or if they take different views as to what the strategy of the venture should be.

7. Strategic Alliances

It is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective. It is a situation when 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. In 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. Typically, alliances involve distribution access, technology transfers, or production technology, with each partner contributing a different element to the venture.

Strategic alliance implies (1) that there is a common objective (2) that alone partner’s weakness is offset by the other’s strength; (3) that reaching the objective alone would be too costly, take too much time, or be too risky; and (4) that together their respective strength makes possible what otherwise would be unattainable. Examples of strategic alliances involving large corporations – IBM uses a series of alliances with Japanese suppliers to fill out its product Line-Seiko Epson produces several key components to IBM’s Proprietor, and an alliance with Canon provides the color printer used for IBM’s Proprietor, and an alliance with Canon provides the color printer used in many of IBM’s desktop publishing and printing systems. General Motors and Isuzu, and ford and Nissan are involved in co-designing and co-producing small cars for the U.S. markets.

Reasons for going into strategic alliances include

To gain access to new technologies and acquire the skills necessary to achieve their objectives more efficiently, at a lower cost, or with less risk than if they acted along. For example, a company strong in research and development skills and weak in the ability or capital to successfully market a product may seek an alliance to offset its weakness- one partner to provide marketing skills and capital and the other to provide technology and a product.

- ✓ To enter “blocked” markets
- ✓ To reduce required investment
- ✓ To gain access to a brand name or customer group
- ✓ To achieve more global coverage, etc.

Problems

- ✓ Partners may disagree on further investment
- ✓ Different expectations of return
- ✓ Inability to change with changing market conditions
- ✓ Cultural communications barriers
- ✓ Difficulties in integrating the two companies’ accounting and information systems

8. Wholly Owned Subsidiaries

In a wholly owned subsidiary, the firm owns 100 percent of the subsidiary. Establishing a wholly owned subsidiary in a foreign market can be done in two ways. The firm can either set up a new operation in that country or it can acquire an established firm and use that firm to promote its products in the country's market.

Advantages:

There are three clear advantages of wholly owned subsidiaries. First, when a firm's competitive advantage is based on technological competence, a wholly owned subsidiary will often be the preferred entry mode, since it reduce, the risk of losing control over that competence. For this reason many high-tech firms prefer this entry mode for overseas expansion (e.g., firms in the semiconductor, electronics, and pharmaceutical industries). Second, a wholly owned subsidiary gives a firm the kind of tight control over operations in different countries that are necessary for engaging in global strategic coordination (i.e., using profits from one country to support competitive attacks in another). Third, a wholly owned subsidiary may be required if a firm is trying to realize location and experience curve economies (as firms pursuing global and transnational strategies try to do). When cost pressures are intense, it may pay a firm to configure its value chain and such a way that the value added at each stage is maximized. Thus, a national subsidiary may specialize in manufacturing only part of the product line or certain components of the end product, exchanging parts and products with other subsidiaries in the firm's global system. Establishing such a global production system requires a higher degree of control over the operations of each affiliate. The various operations must be prepared to accept centrally determined decisions as to how they will produce, how much they will produce, and how their output will be priced for transfer to the neat operation. Since licensees or Joint venture partners are unlikely to accept such a submissive role, establishment of wholly owned subsidiaries may be necessary.

Disadvantages:

On the other hand, establishing a wholly owned subsidiary is generally the costliest method of serving a foreign market. Firms doing this must bear the full costs and risks of setting up overseas

operations. The risks associated learning to do business in a new culture are less if the firm acquires an established host-country enterprise. However, acquisitions raise a whole set of additional problems, including those associated with trying to bring together divergent corporate cultures. These problems may more than offset any benefits derived by acquiring an established operation.

Criteria for selecting a market entry mode

Selection of market entry mode has an important bearing on strategy, and can later prove to be a severe constraint on future intended international expansion unless due care and attention has been exercised in terms of any contractual arrangement. The criteria to be considered include:

1. ***Speed of market entry desired***. If speed is required, building up a wholly owned subsidiary is too slow and so acquisition and licensing or exporting will be the likely ways to ensure quick effective distribution in the foreign market.

2. ***Costs to include direct and indirect costs***. Subjectivity which is ever present may force a wrong decision. Commitment to establishing a market presence does not mean blindness to facts. Possible savings may be outweighed by indirect costs such as freight, strikes, or disruptions to output, lack of continuity with the power supply, or irregularity in the supply of raw materials. Against this, the cost of doing nothing has to be considered; this may be higher than the attendant risks of moving into a relatively unknown market.

3. ***Flexibility requires-*** The laws of a country exist to protect that country's nationals. There is as yet no such thing as international law. In disputes between two countries the domestic law of a neutral third country is often called on, so that domestic law then becomes used for a purpose for which it *was* never designed: international disputes.

4. ***Risk factors -*** including political risk and economic as well as competitive risk. In a dynamic market, time is of the essence. No product remains ‘new' forever. Getting the product to market is important but so, too, is avoiding the creation of a competitor, a common criticism of licensing. Risk may be diminished by minimizing the investment stake in the company by accepting a local joint-venture partner.

5. ***Investment payback period-*** Shorter-term payback may be realized from licensing and franchising deals, whereas joint ventures or wholly owned subsidiaries will tie up capital for a number of years.

6. ***Long-term profit objectives*** - the growth expected in that market for the years ahead. Here, the question of distribution channel policy is very important. A wholly owned foreign subsidiary may build up its own technical service department alongside a small but growing sales team.

Self-Test Exercises

Choose the best answer for each of the following questions. Answer key for multiple choice questions are provided at the end of the module.

______1. Which one of the following is true?

a. In the implementation and control stage of the international marketing planning process countries are analyzed and screened to eliminate those that do not offer sufficient potential for further consideration.
b. Phase 2 (adapting the marketing mix to target markets) in the international marketing planning process permits the marketer to determine possibilities of standardization.
c. The international marketing planning process is basically different for a firm intending to enter a single country from a firm intending to enter multiple countries.
d. International marketing planning is more important to a big firm than a small one.

_______2. An international marketing organization structure that works best when a close relationship with national and regional governments is important is:

a. export department
b. international division
c. geographical division
d. product structure

_____3. A foreign market entry strategy that has minimum risk to the international firm is

a. exporting
b. joint venture
c. foreign assembly
d. wholly owned foreign production

____4.___________ is an arrangement whereby the foreign firm and local firm have share in this new firm.

a. Management contracting
b. Contract manufacturing
c. Foreign assembly
d. Wholly owned foreign production
e. None of the above

_____5. Which one of the following is not a characteristic of licensing?

a) Licensing provides limited returns.

b) Licensing can have the problem of controlling licensee.

c) Through licensing the firm immediately gains local knowledge.

d) It is costly in terms of capital and management resources.

Questions for Discussion

1. Define

- Global marketing management

- Direct exporting

- Licensing

- Joint venture

- Domestic market extension concept
- Multi-domestic market concept
- Global market concept

2. Define strategic planning. How does strategic planning for international marketing differ from domestic marketing?

3. In Phases 1 and 2 of the international planning process, countries may be dropped from further consideration as potential markets. Discuss some of the conditions in each phase that may exist in a country that would lead a marketer to exclude a country.

4. Compare joint ventures versus licensing.

Chapter 5

INTERNATIONAL PRODUCT POLICY

Introduction

The core of a firm's international operations is a product or service. This can be defined as the complex of tangible and intangible elements that distinguishes it from the other entities in the marketplace. The firm's success depends on how good its product or service is and on how well the firm is able to differentiate the product from the offerings of competitors. Products can be differentiated by their composition by their country of origin, by their tangible features such as packaging or quality, or by their augmented features such as warranty.

Section 1

5.1 Adaptation versus Standardization of the Product

A central issue in approaching global markets is whether products sold in the home market should be adapted or standardized for international markets. This raises the question of whether a company can successfully design and market a global product. Other issues have to do with standardizing or adopting product features, such as packaging, and labeling, brands and trademarks, and warranty and service policies.

The easiest course for a firm just beginning to go international is to sell products designed for the home market as is in foreign markets. As the firm meets with success in foreign markets, it begins to consider choosing between the two extremes of (1) adapting to the point of creating an entirely new product and (2) keeping the product exactly the same.

5.1.1 Factors Encouraging Standardization

The attractions of standardization are obvious.   It can result in lower costs and economies of scale in manufacturing, product development, and marketing. Managerial complexity is reduced, and export marketing is facilitated when the same product is exported to several countries.

1.   High Costs of Adaptation

Low –volume markets and the specific nature of the adaptation contemplate can contribute to an increase in overall manufacturing costs that make it difficult to sell the product at a reasonable price (that covers costs) and yet be attractive enough to garner market share and ultimately render profits.

1.Industrial Products

Products in which technical specifications are critical tend to be uniform internationally. Differences significant in international business are "people differences," that is, cultural differences. In general, then, industrial goods are more standardized than consumer goods. Even when industrial goods are modified, the changes are likely to be minor–an adaptation of the electric voltage or the use of metric measures. Of course, differences may be forced on the company by distinct and different national standards in areas such as environmental protection.

2. *Convergence and Similar Tastes in Diverse Country Markets*

As countries obtain similar income levels and develop economically at the same pace, their consumption patterns are likely to converge.

3. Marketing to Predominantly Similar Countries

Cluster analysis reveals groups of countries that are similar on a number of dimensions. Using the results of such cluster analysis, firms can market standardized products within such groups of similar countries. The dimensions to group countries will vary depending on the product, and could include variables such as income, language, degree of urbanization, phone penetration, and so on.

4. Centralized Management and Operating via Exports

If a firm market overseas principally through exports, it is likely to sell standardized products. Given the costs of adaptation, such firms might choose export markets that are more likely to accept standardized products.

4. *Economies of Scale in Production*

Standardizing a product at a production site allows the firm to gain scale economies in manufacturing. As the company multiplies production and the world, this advantage decreases.

5. Economies in Research and Development

If the firm offers the identical product around the world, it gets more mileage out of its R&D efforts. Less research needs to be directed toward the individual desires of national markets, allowing effort to be focused on developing the next-generation product. Standardized products thus yield an advantage in product- development costs and may shorten the time to develop new products.

6. *Economies in Marketing*

Even when marketing is done on a national basis, economies of scale are possible with standardized products. Although sales literature, sales-force training, and advertising may vary somewhat from country to country, they will be much more similar when the product is uniform than when it must be adapted for each national market. Service requirements and parts inventories are easier with a standardized product.

5.1.2 Factors Encouraging Adaptation

The greatest argument for adapting products is that by doing so the firm can realize higher profits. Modifying products for national or regional markets may raise revenues by more than the costs of adaptation. Specific factors encouraging product adaptation include:

1. *Differences in Technical Standards*

Firms must meet technical standards in order to sell in different national markets. For example, agricultural products sold into the U.S. must meet guidelines for maximum levels of chemical additives and fertilizers used in growing such products. In Europe, there are restrictions on the sale of beef from cows treated with growth hormones.

2. *Consumer and Personal Use Products*

Products sold to consumers and for personal use are likely to meet with market success when adapted to local markets. Products such as food and clothing cater to highly individual tastes and hence must adapt to the differing needs to local population.

3. *Variation in Consumer Needs and Differing Use Conditions*

Although a given product fulfills a similar functional need in various countries, the conditions under which the product is used may vary greatly from country to country. Climate, for instance, has an effect on products sensitive to temperature or humidity, making it necessary to modify these products for tropical or arctic markets. Another factor is the difference in the skill level of users, especially between consumers in industrialized nations and those in less developed countries.

4. *Variation in Ability to Buy–Differing Income Levels*

The income per capita of the world's nations ranges from over $40,000 to under $ 300. This affects not only the demand for consumer durables but also for inexpensive consumer products. Product features may have to be adapted to make the product affordable at lower income levels.

5. *The Impact of Cultural Differences*

Cultural differences affect the tastes, the acceptance of products, and consumption habits. Food is an area in which cultural differences dominate. Introducing food products into foreign markets when that food itself is unknown to the population can be challenging.

6. *Environmentally Induced Adaptation: The Influence of Governments*

Nations may forbid certain goods to be imported to their country. Conversely, they may require that the product be manufactured locally, not imported. Demands for local production or a high degree of "local content" in the product often lead the international firm to modify it.

Activity 1

1. *Outline the factors encouraging standardization*

____

____

____

2. *Outline the factors encouraging adaptation.*

____

____

Section 2

5.2 Product Attributes in International Markets

Product policy goes beyond the product itself–attributes such as **brands and trademarks, country of origin, packaging and labeling, and warranty and service polices represent key decision areas.**

5.2.1 Brands and Trademarks

A major focus in international marketing is protecting the company's brands and trademarks. Another is deciding whether there should be one international brand or different national brands for a given product. Another question regards the role of private branding in international

marketing. The main question is whether to promote local country–specific brands or to establish global and regional brands with appeal across countries.

Branding

A brand once developed and recognized, can have a long life: Major brands such as Gillette and Coca-Cola have been popular for many years. *A big question then is how to build up brand recognition in international markets. Brands can be built up through adverting, but advertising merely builds on the brand's foundation, which rests on (a) quality, (b) innovation, (c) superior service, (d) customer satisfaction, and (e) value.*

The return of good branding to the firm is brand loyalty and repeat purchases and a loyal customer; since acquiring customers is costly, loyal customers who buy regularly are valuable to a firm. Furthermore, brands provide customers with a guarantee of value and quality, making the customer's choice easier; it frees them from the confusion and message fatigue endemic to consumption, allowing the customer to make safe choices, secures that satisfaction and value will result if the brand is purchased. Brands allow a firm to charge premium prices, and the profits from premium pricing, coupled with steady market share and repeat purchases, result in measureable cash flow, which is at the heart of brand equity calculations.

Brand extensions

Brand extension allows a firm with an existing presence in overseas markets to quickly establish its new products. Using a well–known brand name with a reputation for quality can extend an aura of high quality to the new product. Brand extension can allow the new product to be introduced with lower advertising expenditures. The comfort level and familiarity associated with a well – known brand can motivate customers to try the new product rather than a competitor's product.

Brand extensions can include launching the same product in a different form, adding the brand name to related products often used together ("companion" products) and building on the company image and expertise. However, there are dangers: The original brand and product can be damaged by extending the brand image to undesirable products and settings. There must be a fit, some complementarity, between the original product and the proposed product/ brand extension.

Brand protection

Protecting a brand in international markets can begin with registering them in the countries of interest with the appropriate authorities. Blanket registration in all countries might be wise if the costs of registration, which may amount to a significant sum, are within the budgetary capabilities of the firm. Smaller firms may wish to be more selective.

A problem in brand protection is imitation brands: local brands are introduced that are reasonably close facsimiles of the international brand such as a “Coalgate” brand competing with the better known international brand Colgate.

Product piracy and counterfeiting

As more trade becomes technology intensive, intellectual property protection is essential to maintaining competitive advantage. Firms spend large amounts of money creating technology through R&D. Pharmaceutical companies can easily spend $100 million over 10 years to develop a new pharmaceutical drug. Patent copyright law protects such investments.

Private Branding

In *private branding*, which is common in consumer goods marketing, the manufacturer cedes control over marketing to the retailer or distributor. That is, the manufacturer supplies goods but the retailer sells these goods under its own brand names.

Private branding provides a quick and relatively low–cost approach to penetrating foreign markets, though the seller fails to establish any relationship with the ultimate buyer and hence has little control over the marketing relationship. The manufacture has no say on the prices charged and receives little direct feedback from the market. Nor can service and after–sales support be used as a means of forging long-term ties with the ultimate buyer. However; private branding is a useful means of test-marketing products in markets whose potential is likely to grow in the future.

5.2.3. Country – Of – Origin Effect

Country –of–origin effect can be defined as any influence that the country of manufacture has on a consumer’s positive or negative perception of a product.

Numerous studies have shown that consumers evaluate a product not only by its appearance and physical characteristics but also by the country in which it was produced. This is the *country–of–origin effect*. Certain countries have a good image for certain kinds of products- Germany for cars, France for women's fashion, and Japan for electronic products and cameras. If a firm is producing a product in a country that does not have a favorable image for that product, it may have a hard task marketing it.

Activity 2

Answer the following questions before continuing to the next section

1. Differentiate between brands and trademarks.

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2. Explain the benefit of good branding.

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3. Explain brand extension.

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4. How does private branding benefit or create problems to an international firm?

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Section 3

Packaging and Labeling

5.3.1 Packaging

Packaging is very much part of a product's attributes and companies expend considerable effort in developing packaging that is recognizable and distinctive as well as functional. Examples of factors that require packaging adaptation:

1. Changes in climate across countries, requiring more protective packaging against extremes of cold and heat.

2. Lengthy and difficult transportation and logistics networks, requiring that packaging protect goods against breakage and damage.

3. Lengthy periods on shelves at retailers before final sale, again requiring that packaging be protective and maintain freshness.

4. Varying sizes of packaging, with smaller- sized packages required in lower-income countries because they may be more affordable; smaller size may also be more common in

countries where more frequent shopping trips are made and shoppers may carry their purchases on foot back to their dwellings.

5. Differences in packaging forms because of consumer preferences: for example, whether toothpaste is sold in squeeze tubes or up right cans, and whether glass containers or cardboard boxes are used for dispensing fruit juices and drinks.

6. Growing environmental consciousness on the part of consumers attempting to persuade firms to ensure that their packaging material are biodegradable and /or recyclable and cause the least harm to the environment.

Packaging adds bulk to a product and takes up more space during shipment. It might be more economical to ship the products in bulk and package them inside the destination markets. Whether this is feasible will depend on the capabilities of the domestic packaging industry, particularly in terms of quality, use of advanced technology packaging and printing processes, cost and timely delivery, and availability of quality materials.

Labeling

Primary considerations in labeling are providing information to the consumers and the use of multiple languages. Regulations in many countries require that detailed product compositions and nutritional information be provided as well as warning messages in the case of products that may be harmful or hazardous.

Firms may also want to provide instructions for proper product use in which case readability and the quality of communication matter. Merely translating text from the home country's language may not be sufficient. Country regulations may also require that information be presented in all of a country's or region's official languages. Language complexities motivate manufacturers to use diagrams and cartoons to instruct consumers in the use of their products. Such pictorial descriptions transcend language and make it easier to introduce products into new markets.

<u>Summary on Product Policy Decisions</u>

A. Physical or Mandatory Requirements and Adaptation

A product may have to change in a number of ways to meet physical or mandatory requirements of a new market, ranging from simple package changes to total redesign of the physical core product. A recent study reaffirmed the often-reported finding that mandatory adaptations were more frequently the reason for product adaptation than adapting for cultural reasons.

Some changes are obvious with relatively little analysis; a cursory examination of a country will uncover the need to rewire electrical goods for a different voltage system, simplify a product when the local level of technology is not high, or print multilingual labels where, required by law. Electrolux, for example, offers a cold-wash-only washing machine in Asian

countries where electric power is expensive or scarce. But other necessary changes may surface only after careful study of an, intended market.

Legal, economic, political, technological, and climatic requirements of the local marketplace often dictate product adaptation. During a period in India when the government was very anti-foreign investment, Pepsi-Cola changed its product name to Lehar Pepsi (in Hindi lehar means wave) to gain as much local support as possible. The name returned to Pepsi-Cola when the political climate turned favorable. Laws that vary among countries usually set specific package sizes and safety, and quality standards. To make a purchase more affordable in low-income countries, the number of units per package may have to be reduced from the typical quantities offered in high income countries. Razor blades, cigarettes, chewing gum, and other multiple pack items are often sold singly or two to a pack instead of the more customary 10 or 20. If the concept of preventive maintenance is unfamiliar to an intended market, product simplification arid maintenance-free features may be mandatory for, successful product performance.

Changes may also have to be made to accommodate climatic differences. General Motors of Canada, for example, experienced major problems with several thousand Chevrolet automobiles shipped to a Middle east country; it was quickly discovered they were unfit for the hot, dusty climate. Supplementary air filters and different clutches had to be added to adjust for the problem. Even crackers have to be packaged in tins for humid areas.

B. Product Alternatives

When a company plans to enter a market in another country, careful consideration must be given to whether or not the present product lines will prove adequate in the new culture. Will they sell in quantities large enough and at prices high enough to be profitable? If not, what other alternatives are available? The marketer has at least four viable alternatives when entering a new market: (1) sell the same product presently sold in the home market (domestic market extension strategy); (2) adapt existing products to the tastes and specific needs in each new country market (multi-domestic market strategy); (3) develop a standardized product for all markets (global market strategy); or (4) acquire local brands and reintroduce.

An important issue in choosing which alternative to use is whether or not a company is starting from scratch (i.e., no existing products to market abroad), whether it has products already established in various country markets, or whether there are local products that can be more efficiently developed for the local market than other alternatives.

For a company starting fresh, the prudent alternative is to develop a global product. If the company has several products that have evolved over time in various foreign markets, then the task is one of repositioning the existing products into global products. In some cases, a company encounters a market where local brands are established and the introduction of a company brand would take too long and be more costly than acquiring the local brand. Nestle and Unilever have used this approach effectively in Eastern Europe and Russia.

The success of these alternatives depends on the product and the fundamental need it Mills, its characteristics, its perception within the culture, and the associated costs of each program. To know that foreign markets are different and that different product strategies may be needed is one thing; to know when adaptation of your product line and marketing program is necessary is another, more complicated problem.

C. Screening Products for Adaptation

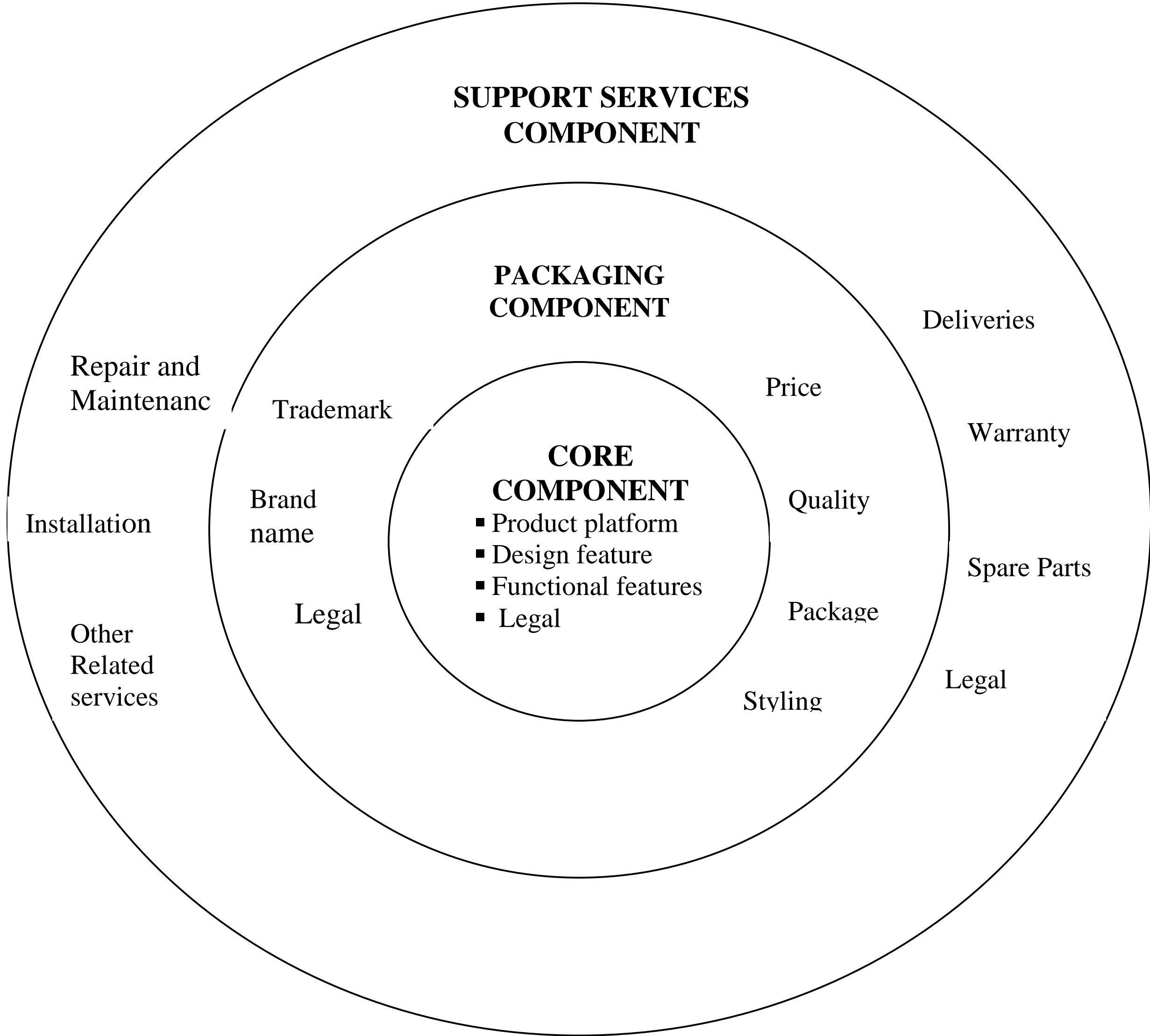
Evaluating a product for marketing in a country market requires a systematic method of screening products to determine if there are cultural resistances to overcome and/or physical or mandatory changes necessary for product acceptance. Only when the psychological (or cultural) and physical dimensions of the product, as determined by the country market, are known can the decision for adaptation be made. Products can be screened by using the "Analysis of Product Component" discussed below to determine if there are mandatory or physical reasons why a product must be adapted.

Before entering a market, the international marketer can analyze the components of a product to determine what features need to be adapted to ensure that the product meets both the market perceived quality and performance quality.

Analysis of Product Components

A product is multidimensional, and the sum of all its features determines the bundle of satisfactions (utilities) received by the consumer. To identify all the possible ways a product may be adapted to a new market it helps to separate its many dimensions into three distinct, components as illustrated in Figure 6-1, the Product Component Model. By using this model, the impact of the cultural, physical, and mandatory factors that affect a market's acceptance of a product can be focused on the core component, packaging component, and support services component. These components include all the product's tangible and intangible elements and provide the bundle of utilities the market receives from use of the product.

Figure 6-1 Product Component Model



Core Component

The core component consists of the physical product - the platform that contains the essential technology - and all its design and functional features. It is on the product platform that product variations can be added or deleted to satisfy local differences. Major adjustments in the platform aspect of the core component may be costly because a change in the platform can affect product processes and thus require additional capital investment. However, alterations in design, functional features, flavors, color, and other aspects can be made to adapt the product to cultural variations.

For the Brazilian market, where fresh orange juice is plentiful, General Foods changed the flavor of its presweetened powdered, juice substitute, Tang, from the traditional orange to passion fruit

and other flavors. Changing flavor or fragrance is often necessary to bring a product in line with what is expected in a culture.

Packaging Component

The packaging component includes style features, packaging, labeling, trademarks, brand name, quality, price, and all other aspects of a product's package. As with the core component, the importance of each of these elements in the eyes of the consumer depends on the need that the product is designed to serve. Packaging components frequently require both discretionary and mandatory changes. For example, some countries require labels to be printed in more than one language, while others forbid the use of any foreign language. Elements in the packaging component may incorporate symbols, which convey an unintended meaning and thus must be changed. One company's red-circle trademark was popular in same countries but was rejected in parts of Asia, where it conjured up images of the Japanese flag. Yellow flowers used in another company trademark were rejected in Mexico, where a yellow flower symbolizes death or disrespect.

A well-known baby- food producer that introduced small jars of baby food in Africa complete with labels featuring a picture of a baby experienced the classic example of misinterpreted symbols. The company was absolutely horrified to find that consumers thought the jars contained ground-up babies. In China, although not a problem of literacy, per se, Brugel, a German children's cereal brand which features cartoon drawings of dogs, cats, birds, monkeys, and other animals on the package, was located in the pet foods section of a supermarket. The label had no Chinese, and store personnel were unfamiliar with the product. It is easy to forget that in low-literacy countries, pictures and symbols are taken quite literally for instructions and information.

Package size and price have an important relationship in poor countries. Companies find that they have to package in small units to bring the price in line with spending norms. Unilever made its Sunsilk brand shampoo affordable in India by packaging it in tiny plastic bags, enough for one shampoo.

Care must be taken to ensure that corporate trademarks and other parts of the packaging component do not have unacceptable symbolic meanings. Particular attention should be given to translations of brand names and colors used in packaging. When Ford tried to sell its Pinto automobile in Brazil, it quickly found out that the car model's name translated to "tiny male genitals." White, the color for purity in some countries, is the color for mourning in others. In China, P&G packaged diapers in a pink wrapper. The consumer avoided the pink package - pink symbolized a girl, and in a country with a one-child per family rule where the male is preferred; you do not want anyone to think you have a girl, even if you do.

There are countless reasons why a company might have to adapt a product's package. In some countries, law stipulates specific bottle, can, package sizes, and measurement units. If a country uses the metric system, it will probably require that weights and measurements conform to the metric system. Such descriptive words as "giant" or "jumbo" on a package or label may be illegal. High humidity and/or the need for long shelf life because of extended distribution systems may dictate extra-heavy packaging for some products. A poorly packaged product

conveys an impression of poor quality to the Japanese. It is also important to determine if the packaging has other uses in the market.

Labeling law varies from country to country and does not seem to follow any predictable pattern. In Saudi Arabia, for example, product names must be specific. "Hot Chili" will not do: it must be "Spiced Hot Chili." Prices are required to be printed on the labels in Venezuela, but in Chile it is illegal to put prices on labels or in any way suggest retail prices. Coca-Cola ran into a legal problem in Brazil with its Diet Coke. Brazilian law interprets diet to have medicinal qualities. Under the law, producers must give daily recommended consumption on the labels of all medicines. Coca Cola had to get special approval to get around this restriction. Chinese labeling law requires that food products must have their name, contents, and other specifics listed clearly in Chinese printed directly on the package.

Labeling laws create a special problem for companies selling products in various markets with different labeling laws and small initial demand in each. Forward-thinking manufacturers with wide distribution in Asia are adopting packaging standards comparable to those required in the European Union, by providing standard information in several different languages on the same package. A template is designed with a space on the label reserved for locally required content, which can be inserted depending on the destination of a given production batch.

Marketers must examine each of the elements of the packaging component to be certain that this part of the product conveys the appropriate meaning and value to a new market. Otherwise they may be caught short, as was the U.S. soft-drink company that incorporated six-painted stars as decoration on its package labels. Only when investigating weak sales did they find out that they had inadvertently offended some of them Arab customers who interpreted the stars as symbolizing pro-Israeli sentiments.

Support Services Component

The support service component includes repair and maintenance, instructions, installation, warranties, deliveries, and the availability of spare parts. Many other wise successful marketing programs have ultimately failed because little attention was given to this product component. Repair and maintenance are especially difficult problems in developing countries.

Literacy rates and educational levels of a country may require a firm to change a product's instructions. A simple term in one country may be incomprehensible in another. In rural Africa, for example, consumers had trouble understanding that Vaseline Intensive Care lotion is absorbed into the skin. Absorbed was changed to soaks into, and the confusion was eliminated. The Brazilians have successfully overcome low literacy and technical skills of users of the sophisticated military tanks they sell to Third World countries. They include videocassette players and videotapes with detailed repair instructions as part of the standard instruction package. They also minimize spare parts problems by using standardized, off -the-shelf parts available throughout the world.

The Product Component Model can be a useful guide in examining adaptation requirements of products destined for foreign markets. A product should be carefully evaluated on each of the three components for mandatory and discretionary changes that may be needed.

Self-Test Exercises

Choose the best answer for each of the following questions. Answer key for multiple choice questions are provided at the end of the module.

____1. Which one of the following cannot be used as a way of differentiating products in the international market?

a) Country of origin

b) Packaging

c) Warranty

d) None of the above

____2. Which one of the following in not a factor that encourages standardization?

a) High cost of adaptation

b) Marketing to predominantly similar countries

c) Economies of scale in production

d) Differences in technical standards

____3. Which one of the following statements is true?

a) The benefit of good branding to the firm is brand loyalty and repeat purchases.

b) Brand extension to a new product leads to higher advertising expenditure than using a new brand to the new product.

c) To protect their brands in international markets smaller firms have to use blanket registration in all countries.

d) Product piracy and counterfeiting can be protected through labeling.

_____4. An arrangement in which the manufacturer supplies goods but the retailer sells these goods under its own brand names is

a) Counterfeiting

b) Private branding

c) Country – of – origin effect

d) Brand extension

____5. A good reason for labeling in international marketing is

a) The existence of lengthy and difficult transportation and logistics networks.

b) Differences in climate across countries.

c) Foreign country regulations

d) Environmental consciousness on the part of the consumer

Questions for Discussion

1. What does selling a standardized product in global markets imply?

2. In what ways might a product be adapted for global markets?

3. What factors encourage global standardization of a product?

4. What factors encourage firms to adapt their product for foreign markets?

5. Why are trademark and brand piracy important? How can a firm protect itself against such action?

6. What are the pros and cons of private branding in international markets?

7. What is the importance of "country of origin" in international product marketing?

CHAPTER 6: PRICING POLICY DECISIONS

Introduction

Pricing is part of the marketing mix. Pricing decisions must therefore be integrated with other aspects of the marketing mix. Price is the only element of the marketing mix that is revenue generating; all of the others are costs. It should therefore be used as an active instrument of strategy in the major areas of marketing decision making.

Price serves as a means of communication with the buyer by providing a basis for judging the attractiveness of the offer. Price is a major competitive tool in meeting and beating close rivals and substitutes. Competition will often force prices down whereas intracompany financial considerations have an opposite effect. Prices along with costs, will determine the long-term viability of the enterprise.

Price should not be determined in isolation form the other marketing mix elements. Price may be used effectively in positioning the product in the marketplace. It may be a major determinant in how the product is to be distributed.

Section 1

5.1 Approaches to International Pricing

Several factors are important in international pricing:

1. Setting pricing and strategic objectives
2. Monitoring price-setting behavior by competitors and assessing their strategic objectives.
3. Evaluating consumers' ability to buy in the various country markets.
4. Relating price to a firm's costs and profit goals.
5. Understanding the product-specific factors, including product life cycle stage, that affect pricing. Generally prices are reduced on mature products as they become more commodity like and face increased competition.
6. Recognizing differences in the country environment governing prices in each national market–differences in the legal and regulatory environment, the volatility of foreign–exchange rates, market structure (especially distribution channels), and competitive environment.

Both cost and market considerations are important in international pricing; a company cannot sell goods below cost of production and remain in business for very long, and neither can it sell goods at a price unacceptable in the marketplace. Firms unfamiliar with overseas marketing and firms producing industrial goods orient their pricing solely on a cost basis. Firms that employ pricing as part of the strategic mix, however, are aware of such alternatives as market segmentation from country to country or market-to-market, competitive pricing in the marketplace, and other market oriented pricing factors.

In first-time pricing, the general alternatives are (1) skimming, (2) following the market price, and (3) penetration pricing.

The objective of *skimming* is to achieve the highest possible contribution in a short time period. A firm uses skimming when the objective is to reach a segment of the market that is relatively price-insensitive and thus willing to pay a premium price for the value received. If limited supply exists, a company may follow a skimming approach in order to maximize revenue and to match demand to supply. When a company is the only seller of a new or innovative product, a skimming price may be used to maximize profits until competition forces a lower price.

Skimming often is used in those markets where there are only two income levels, the wealthy and the poor. Costs prohibit setting a price that will be attractive to the lower-income market, so the marketer charges a premium price and directs the product to the high-income, relatively price-inelastic segment. The success of skimming depends on the ability and speed of competitive reaction.

If similar products already exist in the target market, *market pricing* can be used. The final customer price is determined based on competitive prices, and then both production and marketing must be adjusted to the price. This approach requires the exporter to have a thorough knowledge of product costs, as well as confidence that the product life cycle is long enough to warrant entry into the market. It is a reactive approach and may lead to problems if sales volumes never rise to sufficient levels to produce a satisfactory return. Although firms typically use pricing as a differentiation tool, the international marketing manager may have no choice but to accept the prevailing world market price.

A *penetration pricing* policy is used to stimulate market growth and capture market share by deliberately offering products at low prices. When penetration pricing is used, the product is offered at a low price intended to generate volume sales and achieve high market share, which would compensate for a lower per-unit return. This approach requires mass markets, price-sensitive customers, and decreasing production and marketing costs as sales volumes increase. The basic assumption of penetration pricing is that the lower price will increase sales, which may not always be the case.

Checklist

If you understand the following phrases put a tick (✓) mark in the box, otherwise read the section again.

- Market pricing………………………………………. ☐
- Penetration pricing………………………………….. ☐
- Skimming pricing……………………………………. ☐

Section 2

5.2 The Setting of Export Prices

5.2.1 Export Pricing Strategy

Three general price-setting strategies in international marketing are a standard worldwide price; dual pricing, which differentiates between domestic and export prices; and market-differentiated pricing.

The *standard worldwide price* may be the same price regardless of the buyer (if foreign product or foreign marketing costs are negligible) or may be based on average unit costs of fixed, variable, and export-related costs.

In *dual pricing*, domestic and export prices are differentiated, and two approaches, to pricing export products are available: the *cost-plus method* and the *marginal cost method.* The cost-plus strategy is the true cost, fully allocating domestic and foreign costs to the product. Firms following this strategy insist that no unit of a similar product is different from any other unit in terms of cost and that each unit bears its full share of the total fixed and variable cost. Although this type of

pricing ensures margins, the final price may be so high that the firm's competitiveness may be compromised.

The marginal cost method considers the direct costs of producing and selling products for export as the floor beneath which prices cannot be set. Fixed costs for plants, R & D, and domestic overhead, as well as domestic marketing costs, are disregarded. In marginal cost pricing method, the firm is concerned only with the marginal or incremental cost of producing goods to be sold in overseas markets. Such firms regard foreign sales as bonus sales and assume that any return over their variable cost makes a contribution to net profit.

Firms following marginal cost method may be able to price most competitively in foreign markets, but because they are selling products abroad at lower net prices than they are selling them in the domestic market, they may be subject to charges of dumping. In that case, they open themselves to antidumping tariffs or penalties that take away from them their competitive advantage.

Market-differentiated pricing calls for export pricing according to the dynamic conditions of the marketplace. For these firms, the marginal cost strategy provides a basis, and prices may change frequently due to changes in competition, exchange rate changes, or other environmental changes.

5.2.2 Export-Related Costs

In preparing a quotation, the exporter must be careful to take into account and, if possible, include unique export-related costs. These are in addition to the normal

costs shared with the domestic side. They include the following:

1. The cost of modifying the product for foreign markets.
2. Operational costs of the export operation: personnel, market research, additional shipping and insurance costs, communications costs with foreign customers, and overseas promotional costs.
3. Costs incurred in entering the foreign markets: tariffs and taxes; risks associated with a buyer in a different market (mainly commercial credit risks and political risks); and risks form dealing in other than the exporter's domestic currency–that is, foreign exchange risk.

The combined effect of both clear-cut and hidden costs result in export prices that far exceed domestic prices. The cause is termed *price escalation*. Price escalation can be combated through creative strategies such as reorganizing the channel of distribution.

Other strategies to deal with price escalation include product modification either by eliminating costly product features or by bringing the product into the target country under a new, lower tariff classification. In the long term, the exporter may resort to overseas production or sourcing. Through foreign sourcing, the exporter may accrue an additional benefit to lower costs: *duty drawbacks*. If a company imports components or raw materials for exports in a manufactured product, it can obtain a refund of the customs duty paid on the importation.

Activity 1

Answer the following questions before continuing to the next section.

1. Distinguish between cost-plus method and marginal cost method in export pricing.

____

____

2. Explain market- differentiated pricing.

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3. Briefly explain the impact of price escalation in international marketing.

____

____

4. Explain duty drawbacks.

____

____

Section 3

5.3 Terms of Sale

The responsibilities of the buyer and the seller should be spelled out as they relate to what is and what is not included in the price quotation and when ownership of goods passes from seller to buyer. *Incoterms* are the internationally accepted standard definitions for terms of sale set

by the International Chamber of Commerce (ICC) since 1936. The Incoterms 1990 went into effect on July 1,1990 with significant revisions to better reflect changing transportation technologies and to facilitate electronic data interchange.

EX- works (EXW)

Prices quoted *ex-works (EXW)* apply only at the point of origin, and the seller agrees to place the goods at the disposal of the buyer at the specified place on the date or within a fixed period. All other charges are for the account of the buyer.

Free carrier (FCA)

One of the new Incoterms is *free carrier (FCA),* which replaced a variety of FOB terms for all modes of transportation except vessel. FCA (named inland point) applies only at a designated inland shipping point. The seller is responsible for loading goods into the means of transportation; the buyer is responsible for all subsequent expenses. If a port of exportation is named, the costs of transporting the goods to the named port are included in the price.

Free alongside ship (FAS)

Free alongside ship (FAS) at a named port of export means that the exporter quotes a price for the goods including charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and wharf age; loading, ocean transportation, and insurance are left to the buyer.

Free on board (FOB)

Free on board (FOB) applies only to vessel shipments. The seller quotes a price covering all expenses up to, and including, delivery of goods on an overseas vessel provided by or for the buyer.

Cost and freight (CFR)

Under cost and freight (CFR) to a named overseas port of import, the seller quotes a price for the goods, including the cost of transportation to the named port of debarkation. The cost of insurance and the choice of insurer are left to the buyer.

Cost, insurance, and freight (CIF)

With *cost, insurance, and freight (CIF)* to a named overseas port of import, the seller quotes a price including insurance, all transportation, and miscellaneous charges to the point of debarkation from the vessel or aircraft. Items that may enter into the calculation of the CIF cost are (1) port charges: unloading, wharfage (terminal use) handling, storage, cartage, heavy lift, and demurrage; (2) documentation charges: certification of invoice, certificate of origin, weight certificate, and consular forms; and (3) other charges, such as fees of the freight forwarder and freight (inland and ocean) insurance premiums (marine, war, credit).

Delivered duty paid (DDP)

With delivered duty paid (DDP), the seller delivers the goods, with import duties paid, including inland transportation from import point to the buyer's premises. Ex-works signifies the maximum obligation for the buyer; delivered duty paid puts the maximum burden on the seller.

The careful determination and clear understanding of terms used and their acceptance by the parties involved are vital if subsequent misunderstandings and disputes are to be avoided.

These terms are also powerful competitive tools. The exporter should therefore learn what importers usually prefer in the particular market and what the specific transaction may require. An inexperienced importer may be discouraged from further action by a quote such as ex-plant MAA Garment, Mekelle, whereas CIF Naples will enable the Italian importer to handle the remaining costs because they are incurred in a familiar environment.

Checklist

If you understand the following phrases put a tick (✓) mark in the box, otherwise read the section again.

- Incoterms………………………………………… ☐
- Ex-works (EXW) ………………………………… ☐
- Free carrier (FCA) ………………………………... ☐
- Free alongside ship (FAS) ……………………………… ☐
- Free on board (FOB)..……………………………..…….. ☐
- Cost and freight (CFR) ……………………………. ☐
- Cost, insurance, and freight (CIF) ………………… ☐

- Delivered duty paid (DDP) ………………………… ☐

Section 4

5.4 Terms of Payment

Export credit and terms constitute another complex area in pricing for the international market. The task is to choose payment terms that satisfy importers yet safeguard the interests of the exporter.

Terms of sale are typically arranged between the buyer and seller at the time of the sale. The type of merchandise, amount of money involved, business custom, credit rating of the buyer, country of the buyer, and whether the buyer is a new or old customer must be considered in establishing the terms of sale. The five basic payment arrangements (in order of increasing attractiveness to the *importer*) – 1) cash in advance, (2) letters of credit, (3) bills of exchange, (4) open accounts, and (5) consignment– are discussed in this section.

Cash in Advance

The most favorable term to the exporter is *cash in advance* because it relieves the exporter of all risk and allows for immediate use of the money. It is not widely used, however, except for smaller, first-time transactions or situations in which the exporter has reason to doubt the importer's ability to pay. Cash–in–advance terms are also found when orders are for custom-made products because the risk to the exporter is beyond that of a normal transaction.

Letters of Credit (L/C)

Export *letters of credit* opened in favor of the seller by the buyer handle most countries' exports. Letters of credit shift the buyer's credit risk to the bank issuing the letter of credit. When a letter of credit is employed, the seller ordinarily can draw a draft against the bank issuing the credit and receive money by presenting proper shipping documents.

The procedure for a letter of credit begins with completion of the contract. Then the buyer goes to a local bank and arranges for the issuance of a letter of credit; the buyer's bank then notifies its correspondent bank in the seller's country that the letter has been issued. After meeting the requirements set forth in the letter of credit, the seller can draw a draft against the credit (in effect, the bank issuing the letter) for payment for the goods. The precise conditions of the letter of credit are detailed in it and usually also require presentation of certain documents along with the draft

before the correspondent bank will honor it. The documents usually required are: (1) commercial invoice, (2) consular invoice (when requested), (3) clean bill of lading, and (4) insurance policy or certificate.

Letters of credit can be classified among three dimensions:

1. *Irrevocable versus revocable*. An irrevocable letter of credit can neither be canceled nor modified without the consent of the beneficiary (exporter), thus guaranteeing payment.
2. *Confirmed versus unconfirmed*. In the case of an Ethiopian exporter, an Ethiopian bank might confirm the letter of credit and thus assume the risk, including the transaction (exchange) risk. The single best method of payment for the exporter in most cases is a confirmed, irrevocable letter of credit. Banks may also assume an advisory role but not assume the risk; the underlying assumption is that the bank and its correspondent(s) are better able to judge the credibility of the bank issuing the letter of credit than is the exporter.
3. *Revolving versus no revolving*. Most letters of credit are no revolving, that is, they are valid for the one transaction only. In case of established relationships, a revolving letter of credit may be issued.

Bills of Exchange

Bills of exchange is drawn by sellers on foreign buyers. In letters of credit, the credit of one or more banks is involved, but in the use of bills of exchange, the seller assumes all risk until the actual money is received.

The typical procedure is for the seller to draw a draft on the buyer and present it with the necessary documents to the seller's bank for collection. The documents required are principally the same as for letter of credit. On receipt of the draft, the Ethiopian bank forwards it with the necessary documents to a correspondent bank in the buyer's country; then the buyer is presented with the draft for acceptance and immediate or later payment. With acceptance of the draft, the buyer receives the properly endorsed bill of lading that is used to acquire the goods from the carrier.

Open Accounts

In *open accounts* sales, terms are agreed to between buyer and seller but without documents specifying clearly the importer's payment obligations. Open account terms involve less paperwork and give more flexibility to both parties. However, the legal recourse of the exporter in case of

default is less satisfactory than under the methods discussed above. Open account sales are more attractive to the importer, but because of the risks to the exporter, they tend to be limited to foreign subsidiaries, joint ventures or licensees, or foreign customers with whom the exporter has had a long and favorable experience.

Consignment

The most favorable term to the importer is *consignment selling*, which allows the importer to defer payment until the goods are actually sold. This approach places all of the burden on the exporter, and its use should be carefully weighed against the objectives of the transaction. If the exporter wants entry into a specific market through specific intermediaries, consignment selling may be the only method of gaining acceptance by intermediaries. Because exporters own the goods longer in this method than in any other, their financial burdens and risk are greatest.

Activity 2

Answer the following questions before continuing to the next section.

1. If you were an exporter would you favor "cash in advance" or "letter of credit" terms of payment? Justify.

____

2. Outline the three classifications of letters of credit.

____

3. Why is "consignment" most favorable term of payment to the importer?

____

4. How does bill of exchange differ from letter of credit?

Section 5

5.5 Dumping

Dumping is selling goods overseas for less than in the exporter's home market or at a price below the cost of production, or both.

Dumping ranges from predatory dumping to unintentional dumping. *Predatory dumping* refers to a tactic whereby a foreign firm intentionally sells at a loss in another country in order to increase its market share at the expense of domestic producers, which amounts to an international price war. *Unintentional dumping* is the result of time lags between the dates of sales transaction, shipment, and arrival. Prices, including exchange rates, can change in such a way that the final sales price turns out to be below the cost of production or below the price prevailing in the exporter's home market.

Antidumping duty: The laws of many countries authorize the imposition of anti-dumping duty when goods are sold at a price lower than the normal export price or less than the cost in the country of origin. A *countervailing duty* may be imposed on foreign goods that are found to be subsidized by foreign governments and which are designed to offset the advantages imports would otherwise receive from the subsidy.

Self-Test Exercises

Choose the best answer for each of the following questions. Answer key for multiple choice questions are provided at the end of the module.

____1. A pricing policy used to stimulate market growth and capture market share by offering products at low prices is

a) penetration pricing
b) skimming pricing
c) market pricing
d) premium pricing

____2. An export pricing strategy in which fixed costs for plants, R&D, and domestic overhead are disregarded is

a) cost-plus method
b) marginal cost method
c) standard pricing method
d) market- differentiated pricing method

____3. The combined effect of both clear-cut and hidden costs results in export prices that exceed domestic prices. The cause is known as

a) inflation
b) price escalation
c) duty drawback
d) dual pricing

____4. A terms of sale in international marketing in which the responsibility of the buyer is highest is

a) FAS
b) FOB
c) CIF
d) EXW

____5. Terms of payment in international trade in which the risk of the exporter is minimum is

a) letter of credit
b) open account
c) cash in advance
d) bill of exchange

CHAPTER 7: INTERNATIONAL PROMOTION

Introduction

Promotion is the most visible as well as the most culture bound of the marketing functions. In the other functions, the firm relates to the market in a quiet, more passive way. With the promotional function, the firm is standing up and speaking out, wanting to be seen and heard. We define promotion as communication by the firm with its various audiences, with a view to informing and influencing them.

Adverting, sales promotion, personal selling, and public relations, the mutually reinforcing elements of the promotional mix, have as their common objective the successful sale of a product. Once a product is developed to meet target market needs and is properly distributed, intended customers must be informed of the product's value and availability. Promotion is a basic ingredient in the marketing mix of an international firm.

The international marketer must choose a proper combination of the various promotional tools to create images among the intended target audience. The choice will depend on the target audience, firm's objectives, the products or services marketed, the resources available for the endeavor, and the availability of promotion tools in a particular market.

The basic framework and concepts of international promotion are essentially the same wherever employed. Six steps are involved: (1) study the target market(s); (2) determine the extent of

worldwide standardization; (3) determine the promotional mix (the blend of advertising, personal selling, sales promotions, and public relations) by national or global markets; (4) develop the most effective message(s); (5) select effective media; and (6) establish the necessary controls to assist in monitoring and achieving worldwide marketing objectives.

Section 1

Advertising Decisions Facing the International Marketer

Advertising is a non-personal presentation of sales messages through various mass media, paid for by the advertiser. The international advertiser must ensure appropriate campaigns for each market and also to get coordination among the various national programs. There are seven decision areas in international advertising: (1) selecting the agency (or agencies), (2) choosing the message, (3) selecting the media, (4) determining the budget, (5) evaluating advertising effectiveness, (6) organizing for advertising, and (7) deciding whether to engage in cooperative adverting abroad.

Selecting the Agency

Many marketing functions are performed within the company. With advertising, the firm almost always relies on expertise from the advertising agency. Agency selection is usually the first advertising decision the marketer has to make. Two major alternatives are open: (1) an international agency with domestic and overseas offices or (2) local agencies in each national market.

Choosing the Advertising Message

A major decision for the international marketer is whether the firm should use national or international advertising appeals□□a localized or standardized approach. The goal in either case is to fit the market. Although people's basic needs and desires are the same around the world, the way these desires are satisfied may vary from country to country. Because it is impossible to know each market intimately, help must be obtained from the local subsidiary or distributor and the local advertising agency. The firm may, in fact, completely decentralize responsibility so that each national operation prepares its own advertising.

Selecting the Media

A third decision in international advertising is the selection of media for each national market. The desirable media in every country are those that reach the target markets efficiently. The target markets □the purchase decision influencers□ are not always the same individuals or groups as in the domestic market. The relative roles of different family members in consumer buying, or of the purchasing agent, engineer, or president in industrial procurement, vary from country to country.

Setting the International Advertising Budget

Among the controversial aspects of advertising is determining the proper method for setting the advertising budget. This is a problem domestically as it is internationally. Yet because the international advertiser must try to find an optimum outlay for a number of markets, the problem is more complex on the international level.

Firms have developed practical guidelines to determine advertising budget.

i) Percentage-of-sales Approach. An easy method for setting the advertising appropriation in a country is based on percentage of sales. This method has the advantage of relating advertising to the volume of sales in a country.

ii) Competitive-parity Approach. Matching competitor's advertising outlays, the competitive-parity approach –is used by some companies.

iii) Objective-and Task Approach. The weaknesses of the above approaches have led some advertisers to the objective-and-task method, which begins by determining the advertising objectives, expressed in terms of sales, brand awareness, or something else, and then ascertaining the tasks needed to attain these objectives, and finally estimating the costs of performing these tasks.

Evaluating International Advertising Effectiveness

Testing advertising effectiveness is even more difficult in international markets than in the domestic market. Because marketers have less contact with foreign markets, their ability to

investigate advertising effectiveness is limited. Many firms use sales results as the measure of advertising effectiveness.

Organizing for International Advertising

The firm has basically three organizational alternatives:

1) It can centralize all decision making for international advertising at headquarters; (2) it can decentralize the decision making to foreign markets; or (3) it can use some blend of these two alternatives. Of course, the question of organizing for international advertising cannot be separated from the company's overall organization for international business. The firm is unlikely to be highly centralized for one function and decentralized for another.

Using Cooperative Advertising

A firm that sells through licensees or distributors can choose one of three ways to advertise in its foreign markets: (1) It can handle such adverting itself; (2) it can cooperate with the local distributor; or (3) it can try to encourage the distributor or licensee to do such advertising by itself. The last alternative is not really feasible, so the choice is primarily between going it alone or cooperating.

Section 2

Personal Selling

Personal selling is person-to-person communication between a company representative and a prospective buyer. The seller's communication effort is focused on informing and persuading the prospect with the goal of making a sale. The sales person's job is to understand the buyer's needs correctly, attach those needs to company's product(s), and then persuade the customer to buy.

A well-selected, well-trained, well-compensated, and well-supported sales person can, and in most instance will, make the difference between successful and unsuccessful foreign sales volume.

There is little difference in kind between managing export and domestic marketing sales people; they have to be recruited, hired, trained, organized, compensated, supervised, motivated, and

controlled. In global selling, it is absolutely essential for a sales person to understand cultural norms and proper protocol.

The personal selling process is typically divided into several stages: prospecting, pre approach, problem solving, approaching, presenting, handling objections, closing the sale, and follow-up. It is important to realize that the relative importance of each stage can vary by country or region.

Personal selling is a popular communication tool in countries with restrictions on advertising and in countries where low wage rates allow large local forces to be hired.

Section 3

6.3 Sales Promotion

Sales promotion includes all sales activities that supplement and strengthen personal selling and advertising. It includes those selling activities that do not fall directly into the advertising or personal selling category, such as the use of contests, sampling, cents-off deals, and so on.

For the most part sales promotion activities are of a relatively short-run duration that adds tangible value to the product or brand. The tangible value created by the sales promotion may come in various forms, such as price reduction or a "buy one, get one free" offer. The purpose of a sales promotion may be to stimulate nonusers to sample a product or to increase overall consumer demand.

The success of a sales promotion may depend on local adaptation. Major constraints are imposed by local laws, which may not permit premiums or free gifts to be given.

Section 4

6.4 Publicity

Publicity, which is any form of nonpaid significant news or editorial comment about a company, its practices, its personnel, or its products, is a major component of the public relations activities of a company. Public relations are the marketing communications function that carries out

programs designed to earn public understanding and acceptance: it should be viewed as an integral part of the export marketing effort.

If a firm wants to gain recognition as one with social responsibilities in foreign locations, this objective may often be accomplished much more effectively by a carefully planned campaign to receive favorable editorial mention than by using paid advertisements.

Among the most widely used tools of public relations are press releases and prepared editorial material. Such materials often are prepared on new products, the opening of new plants, the accomplishments of the company, the activities of company personnel in community or governmental activities of locally recognized merit, the favorable impact of the company on the local economy, the role of the company as a local employer, or the contribution that a company makes to the country.

Summary on international promotion decision

Once a product is developed to meet target market needs and is properly distributed, intended customers must be informed of the product's value and availability.

Of all the elements of the promotional mix, decisions involving advertising are those most often affected by cultural differences among country markets. Consumers respond in terms of their culture, its style, feelings, value systems, attitudes, beliefs, and perceptions. Because advertising's function is to interpret or translate the need/want-satisfying qualities of products and services in terms of consumer needs, wants, desires, and aspirations, the emotional appeals, symbols, persuasive approaches, and other characteristics of an advertisement must coincide with cultural norms if it is to be effective.

Reconciling an international advertising and promotion effort with the cultural uniqueness of markets is the challenge confronting the international or global marketer.

The basic framework and concepts of international promotion are essentially the same wherever employed. Six steps are involved: (1) study the target market(s); (2) determine the extent of worldwide standardization; (3) determine the promotional mix (the blend of advertising, personal selling, sales promotions, and public relations) by national or global markets; (4) develop the most

effective message(s); (5) select effective media; and (6) establish the necessary controls to assist in monitoring and achieving worldwide marketing objectives.

In this chapter, a review of some of the global trends that can impact international advertising is followed by a discussion of global versus modified advertising. A survey of problems and challenges confronting international advertisers – including basic creative strategy and media planning and selection – are presented.

A. International Advertising

One of the most widely debated policy areas pertaining to the degree of specialized advertising necessary from country to country. One view sees advertising customized for each country or region because every country is seen as posing a special problem. Executives with this viewpoint argue that the only way to achieve adequate and relevant advertising is to develop separate campaigns for each country. At the other extreme are those who suggest that advertising should be standardized for all markets of the world and overlook regional differences altogether.

A global perspective directs products and advertising toward worldwide markets rather than multiple national markets. The seasoned international marketer or advertiser realizes the decision for standardization or modification depends more on motives for buying than on geography. Advertising must relate to motives. If people in different markets buy similar products for significantly different reasons, advertising must focus on such differences. For example, an advertising program developed by Channel, the perfume manufacturer, failed in the United States although it was very popular in Europe. Admitting failure in their attempt to globalize the advertising, one fragrance analyst commented, "There is a French-American problem." The French concept of prestige is not the same as America's. On the other hand, when markets react to similar stimuli, it is not necessary to vary advertising messages for the sake of variation. A Mexican-produced commercial for Vicks VapoRub was used throughout Latin America and then in 40 other countries, including France. The message was totally relevant to the habits and customs of all these countries.

Because there are few situations where either a multi-domestic or global marketing strategy alone is clearly the best, most companies compromise with pattern advertising.

Pattern Advertising: Plan Globally, Act Locally

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 attributed to 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. 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.

Global Market Segmentation and Promotional Strategy

Rather than approaching 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 behavior 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.

There are those who continue to argue the merits of standardization versus adaptation but most agree that identifiable market segments for specific products exist across country markets and that companies should approach promotional planning from a global perspective, standardize where feasible, and adapt where necessary.

B. 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, language, 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.

Advertising on television is strictly controlled in many countries. In Kuwait, the government-controlled TV network allows only 32 minutes of advertising per day, in the evening. Commercials are controlled to exclude superlative descriptions, indecent words, fearful or shocking shots,

indecent clothing or dancing, contests, hatred or revenge shots, and attacks on competition. It is also illegal to advertise cigarettes, lighters, pharmaceuticals, alcohol, airlines, and chocolates or other candy.

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. Impulsive handling of language has created problems in nearly every country.

For example, a company marketing tomato paste in the Middle East found that in Arabic the phrase "tomato paste" translates as "tomato glue." In Spanish-speaking countries you have to be careful of words that have different meanings in the different countries. The word "ball" translates in Spanish as bola. Bola means ball in one country, revolution in another, a lie or fabrication in another" and, in yet another, it is an obscenity.

Language translation encounters innumerable barriers that impede effective, idiomatic translation and thereby hamper communication. This is especially apparent in advertising materials. Abstraction, concise writing, and word economy, the most effective tools of the advertiser, pose problems for translators. Communication is impeded by the great diversity of cultural heritage and education which exists within countries and which causes varying interpretations of even single sentences and simple concepts.

In addition to translation challenges, low literacy in many countries seriously impedes communications and calls for greater creativity and use of verbal media. Multiple languages within a country or advertising area pose another problem for the advertiser.

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 itself differs.

In addition to concerns with differences among nations, advertisers find subcultures within a country require attention as well. In Hong Kong there are 10 different patterns of breakfast eating. The youth of a country almost always constitute a different consuming culture from the older people, and urban dwellers differ significantly from rural dwellers. Besides these differences, there is the problem of changing traditions. In all countries, people of all ages, urban or rural, cling to their heritage to a certain degree but are willing to change some areas of behavior. A few years ago, it was unthinkable to try to market coffee in Japan, but it has become the fashionable drink for younger people and urban dwellers who like to think of themselves as European and sophisticated.

Media Limitations

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.

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 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 color ad used by Kodak in the West is not an option. Kodak's solution has been to print a single-sheet color insert as a newspaper supplement.

The necessity for low-cost reproduction 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.

In reflecting on what a marketer is trying to achieve through advertising, it is clear that an arbitrary position strictly in favor of either modification or standardization is wrong; rather, the position must be to communicate a relevant message to the target market. If a promotion communicates effectively in multiple-country markets, then standardize; otherwise, modify. It is the message a market receives that generates sales, not whether an advertisement is standardized or modified.

C. 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.

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 the cost of reaching a prospect through advertising depends on the agent's bargaining ability. 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 preempt system in which advertisers willing to pay a higher rate can bump already scheduled spots.

Coverage Closely similar 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.

Because of the lack of adequate coverage by any single media in Eastern European countries, it is necessary for companies to resort to a multimedia approach. In the Czech Republic, for example, TV advertising rates are high, and unavailable prime-time spots have forced companies to use billboard advertising. Outdoor advertising has become popular, and in Prague alone, billboards have increased from 50 in 1990 to over 3,500 in 1994.

Lack of Market Data Verification of circulation or coverage figures is a difficult task. For example, in China, 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.

Even where advertising coverage can be measured with some accuracy, there are questions about the composition of the market reached. Lack of available market data seems to characterize most international markets; advertisers need information on income, age, and geographic distribution, but such basic data seems chronically elusive except in the largest markets. Even the attractiveness of global television (satellite broadcasts) is diminished somewhat because of the lack of media research available.

Self-Test Exercises

Write 'True' if the statement is correct or 'False' if it is incorrect

_________**1.** Advertising is different from publicity in that the advertiser does not have to pay for the message advertised.

_________2. The medium through which advertising message is disseminated to the public is known as advertising agency.

_________3. 'Objective-and–task approach' in setting international advertising budget tries to match competitors' advertising outlays.

_________4. Sales result can be used as the measure of advertising effectiveness.

_________5. Personal selling is the most expensive promotional tool.

_________6. Sales promotion activities need long-run duration.

CHAPTER 8: DISTRIBUTION POLICY DECISIONS

A. Introduction

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.

This chapter deals with the patterns of distribution that confront international marketers in the world market place, alternative middlemen choices both in their home country and foreign countries, and the factors affecting choice of channels of distribution.

B. 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. However, the pattern of structure may differ from market to market. Thus, understanding the various kinds of distribution patterns may assist international marketers to make an appropriate choice.

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.

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. Associations of middlemen sometimes restrict the number of distribution alternatives available to a producer.

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 lags 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 is 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 costlier distribution.

C. Alternative Middleman Choices

A marketer's options range from assuming the entire distribution activity (by establishing its own subsidiaries and marketing directly to the end user) to depending on intermediaries for distribution of the product. Channel selection must be given considerable thought since once initiated it is difficult to change, and if it proves inappropriate, future growth of market share may be affected.

The channel process includes all activities beginning with the manufacturer and ending with the final consumer. This means the seller must exert influence over two sets of channels, one in the home country and one in the foreign-market country. In the home country, the seller must have an organization (generally the international marketing division of a company) to deal with channel members needed to move goods between countries. In the foreign market, the seller must supervise the channels that supply the product to the end user. Ideally, the company wants to control or be involved in the process directly through the various channel members to the final user. To do less may result in unsatisfactory distribution and the failure of marketing objectives. In practice, however, such involvement throughout the channel process is not always practical or cost effective. Consequently, selection of channel members and effective controls are high priorities in establishing the distribution process.

Once the marketer has clarified company objectives and policies, the next step is the selection of specific intermediaries needed to develop a channel. External middlemen are differentiated on whether or not they take title to the goods – agent middlemen represent the principal rather than themselves, and merchant middlemen take title to the goods and buy and sell on their own account. The distinction between agent and merchant middlemen is important because a manufacturer's control of the distribution process is affected by who has title to the goods in the channel.

Agent middlemen work on commission and arrange for sales in the foreign country but do not take title to the merchandise. By using agents, the manufacturer assumes trading risk but maintains the right to establish policy guidelines and prices and to require its agents to provide sales records and customer information.

Merchant middlemen actually take title to manufacturers' goods and assume the trading risks, so they tend to be less controllable than agent middlemen. Merchant middlemen provide a variety of import and export wholesaling functions involved in purchasing for their own account and selling in other countries. Because merchant middlemen primarily are concerned with sales and profit margins on their merchandise, they are frequently criticized for not representing the best interests of a manufacturer. Unless they have a franchise or a strong and profitable brand, merchant middlemen seek goods from any source and are likely to have low brand loyalty. Some of the advantages of merchant middlemen include minimized credit risk and elimination of all merchandise handling outside the home country.

Middlemen are not clear-cut, precise, easily defined entities. It is exceptional to find a firm that represents one of the pure types identified here. Thus, intimate knowledge of middlemen functions is especially important in international activity because misleading titles can fool a marketer unable to look beyond mere names.

Only by analyzing middlemen functions in detailed simplicity can the nature of the channels be determined. Two alternatives are presented: first, middlemen physically located in the manufacturer's home country; and second, middlemen located in foreign countries.

Home-Country Middlemen

Home-country middlemen, or domestic middlemen, located in the producing firm's country, provide marketing services from a domestic base. By selecting domestic middlemen as intermediaries in the distribution processes, companies transfer foreign-market distribution to others. Domestic middlemen offer many advantages for companies with small international sales volume, those inexperienced with foreign markets, those not wanting to become immediately involved with the complexities of international marketing, and those wanting 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 and/or desires to minimize financial and management investment. A brief discussion of the more frequently used domestic middlemen follows.

Trading Companies: Trading companies have a long history as important intermediaries in the development of trade between nations. Trading companies accumulate, transport, and distribute goods from many countries.

Large, established trading companies generally are located in developed countries; they sell manufactured goods to developing countries and buy raw materials and unprocessed goods from developing countries.

Complementary Marketers: Companies with marketing facilities or contacts in different countries with excess marketing capacity or a desire for a broader product line sometimes take on additional lines for international distribution; although the generic name for such activities is complementary marketing, it is commonly called piggybacking. General Electric Company has been distributing merchandise from other suppliers for many years. It accepts products that are noncompetitive but complementary and that add to the basic distribution strength of the company itself.

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. 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.

Home Country Brokers: The term broker is a applicable 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.

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.

Foreign-Country Middlemen

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.

Using foreign-country middlemen moves the manufacturer closer to the market and involves the company more closely with problems of language, physical distribution, communications, and financing. Foreign middlemen may be agents or merchants; they may be associated with the parent company to varying degrees; or they may be temporarily hired for special purposes. Some of the more important foreign-country middlemen are manufacturer's representatives and foreign distributors.

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.

Foreign manufacturer's representatives have a variety of titles, including sales agent, resident sales agent, exclusive agent, commission agent, and indent agent. They take no credit, exchange, or market risk but deal strictly as field sales representatives. Manufacturers who wish the type of control and intensive market coverage their own sales force would afford, but who cannot field one, may find the manufacturer's representative a satisfactory choice.

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.

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.

Some of the best examples of dealer operations are found in the farm equipment, earth-moving, and automotive industries.

D. Factors Affecting 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.

Once these points are established, selecting among alternative middlemen choices to forge the best channel can begin. Marketers must get their goods into the hands of consumers and must choose between handling all distribution or turning part or all of it over to various middlemen. Distribution

channels vary depending on target market size, competition, and available distribution intermediaries.

Key elements in distribution decisions include: (1) functions performed by middlemen (and the effectiveness with which each is performed), (2) cost of their services, (3) their availability, and (4) extent of control which the manufacturer can exert over middlemen activities.

Although the overall marketing strategy of the firm must embody the company's profit goals in the short and long run, channel strategy itself is considered to have six specific strategic goals. These goals can be characterized as the six Cs of channel strategy: cost, capital, control, coverage, character, and continuity.

In forge the overall channel-of-distribution strategy, each of the six Cs must be considered in building an economical, effective distribution organization within the long-range channel policies of the company.

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, markup, or commissions of various middlemen handling the goods. Marketing costs (a substantial part of which is channel cost) must be considered 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 ramification of a distribution policy is 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.

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, an important selection criterion of middlemen should be the amount of control the marketer can maintain.

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.

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 in case middlemen shift allegiance to other companies or other inducements.

Activity

Answer the following questions before continuing to the next unit.

1. Explain how you would select distributors in foreign markets.

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2. Explain the roles of export management companies to the international marketing firm.

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3. Distinguish between a foreign distributor and a manufacturer's representative.

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Self – Test Exercises

Write "True" if the statement is correct or "False" if it is incorrect. Answer key is provided at the end of the module.

__________**1.** A firm's success in export markets has little or nothing to do with the performance of distributors it uses there.

__________2. A firm should give lower margin to foreign distributors if it wants to break into the market.

__________3. Home–country middlemen are advantageous to firms with small international sales volume.

__________4. The use of export management companies by a firm lead to the need for high investment on the part of the firm to get into international markets.

__________5. The manufacturer's export agent serves as the producer's export department in the same way export management company does.