Lesson # 1

OVERVIEW OF INTERNATIONAL MARKETING

Defining International Marketing:

- “Marketing is defined as a process by which individuals and groups obtain what they need & want by creating and exchanging products and value with others.

- The term **“International Marketing”** refers to exchanges across national boundaries for the satisfaction of human needs and wants.

- The extent of a firm’s involvement abroad is a function of its commitment to the pursuit of foreign markets.

- Global industries are defined as those where a firm’s competitive position in one country is affected by its position in other countries, and vice versa.

Evolution of Global Marketing:

Firms, depending on their level involvement in foreign markets, pass through following five evolutionary phases.

1. Domestic marketing

- Domestic marketers tend to be ethnocentric (focus is solely on domestic market) & pay little attention to changes taking place in the global market place.
- Such firms produce and sell products and services only in their home country.
- Firms that keep focus only on their domestic markets may be vulnerable to the sudden changes forced on them from foreign competition, when foreign firms enter the markets or even when foreign firms develop better or cheaper products.

2. Export marketing

- Exporting firms fulfill unsolicited / solicited orders from foreign countries.
- For growth in export marketing, however, a company requires physical, financial and managerial resources.
- When a firm attempts to export it faces many issues that include difficulties in import/export restrictions, cost and availability of shipping, exchange rate fluctuations, collection of money, development of distribution channels etc.
- Export marketers still tend to take ethnocentric approach, since they mostly make products in their home countries and have no direct involvement in the foreign markets.

3. International marketing

- An international marketing firm has polycentric orientation with emphasis on product and promotional adaptation in foreign markets whenever necessary.
- They make strategic decisions that are tailored to suit the cultures of the foreign countries.
- The company may establish an independent foreign subsidiary in each and every foreign market it services – such efforts are also called multi-domestic marketing.

4. Multinational marketing

- Multinational firms are those that sell products or services in many countries.
- Economies of scale in product development, manufacturing, and marketing are achieved by multinational firms by consolidation of some of their activities on regional basis.

- In this regiocentric approach product planning may be standardized within a region (e.g. a group of contiguous and similar countries).

5. Global marketing Emphasizes

- Global marketing firms sell products and services in most countries around the world.
- Through global operations firms achieve reduction of cost inefficiencies and duplication of efforts among their national and regional subsidiaries.
- Global operations allow opportunities for the transfer of products, brands, and other ideas across subsidiaries.
- Opportunities to operate worldwide are supported by the emergence of global customers, and
- Improved linkages among national marketing infrastructures leading to the development of a global marketing infrastructure.

Dynamics of international marketing:

Modern marketers have to deal with customers who are changing;

- With channels of distribution that are changing
- And with the technological advances that are changing the nature of their products & services and requiring them to operate imaginatively & effectively in the emerging markets.

The basic nature of Marketing does not change from domestic to international marketing, but marketing outside national boundaries poses special problems, such as dealing with multiple environments, managing operations in distant markets, optimizing businesses in more than one countries, dealing with foreign nationals etc.

International marketing therefore, unlike domestic marketing, requires operating simultaneously in more than one kind of environment, coordinating these operations, and using the experience gained in one country for making decisions in another country.

The demands are tough and the stakes are high. International marketers not only must be sensitive to different marketing environments internationally, but also must be able to balance marketing moves worldwide to seek optimum results for the company.

Globalization of markets:
It is widely asserted that we are living in an era in which the greater part of social life is determined by global processes, in which national cultures, national economies and national borders are dissolving. Central to this perception is the notion of a rapid and recent economic globalization. “In France the word is mondialisation. In Spain and Latin America it is globalization. The Germans say Globalisierung”.

Many authors cite Wallerstein as the first one to open up the theme of ‘globalization’ in his book “The Capitalist World-Economy”, published in 1979. Since then the topic has attracted much attention from diverse perspectives. The common themes that run through the discourse of globalization are:

a) **Ecological interdependence:** The recognition that most places on the earth are linked to all others by air, water, and overland links. Rapidly increasing interdependence of world is rendering national boundaries meaningless.

b) **Dominance and dependency:** Falling barriers to international trade and world’s markets expose everyone to domination by most powerful players and role of nations in weakening into service structures for corporate interest.

c) **Hologramatic diversity:** The argument that each place reflects the same 'diversity' as each other. What is perceived as human, social or cultural diversity is essentially all the same.

d) **Homogenization of cultures:** The view that both material and non-material cultures are becoming more the same wherever one goes and the argument that a single 'socioculturalpolitical' system is the only viable solution for the problems of interdependency.

e) **Ubiquitous communication:** The belief that communication is now becoming more and more universal in all places at all times in all directions.

The above can probably be split into just two concerns:

i) The awareness of (and probably inevitability of) a global ecosocial dynamics of interdependency.

ii) Standardization in social, political, cultural, and material life in order to limit or control the chaos (or to maximize economic gain).

'Globalization' has been defined in many ways. Some definitions are relatively concise while others are more vague and evocative. A more precise definition of 'globalization' is as follows:

"A process (or set of processes) which embodies a transformation in the spatial organization of social relations and transaction … generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power".

Globalization may not be a particularly attractive or elegant word. But absolutely no one who wants to understand their (and/or others') prospects in future can ignore it. According to the 'globalists' school of thought, globalization represents;

- A convergence of tastes and increasing homogeneity that allows for the use of standard products and services worldwide.

- The process of integrating purchasing and manufacturing processes on a global scale to achieve cost efficiencies.

- Industries dominated by a few major players worldwide.

- Large organizations with global cultures and mindsets.

A number of scholars see globalization as a process driven by a series of global industry drivers. These drivers are *market drivers*, such as common customer needs and the existence of global channels; *cost drivers*, such as global scale economies and global sourcing efficiencies; *economic drivers*, such as trade policy and deregulation; and *competitive drivers*, such as the existence of global competitors.

Market Globalization Drivers - Market drivers depend on the nature of customer behavior and the structure of channels of distribution. Some common market drivers are:

Common Customer Needs

Factors that affect whether customer needs are similar in different countries include economic development, climate, physical environment, and culture.

Global Customers and Channels

Global customers buy on a centralized or coordinated basis for decentralized use. Their existence affects the opportunity or need for global market participation, global products and services, global activity location, and global marketing.

Transferable Marketing

Certain elements of the marketing mix, e.g., brand name, pricing strategy, etc., may be transferable across markets. The implications are that these elements can be effectively used both for increasing as well as reducing barriers.

Lead Countries

Lead countries represent countries where innovations in particular industries are prone to take place, e.g., Japan for consumer electronics, Germany for industrial control equipment, and the United States for computer software.

Cost Globalization Drivers - Cost drivers depend on the economics of the business. These drivers particularly affect production location decisions, as well as global market participation and global product development decisions. The most commonly cited cost drivers are:

Global Economies of Scale and Scope

Global economies of scale apply when single-country markets are not large enough to allow competitors to achieve optimum scale. One of the most visible examples of this has been in the electronics industry. In many cases, economies of scope may be available by using facilities and processes in a single operating unit to produce a larger variety of goods or services with or without the presence of scale economies. Areas where economies of scope may be visible include consumer research, product development, and the creation of marketing programs.

Steep Experience Curve

Besides economies of scope and scale, steep learning activity associated with concentration of activities can result in significant cost advantages.

Global Sourcing Efficiencies

Efficiencies arise out of coordination of the procurement activities of raw materials and components across the world. Ability to source from around the world allows firms to reduce costs of raw materials and productions while increasing their qualities.

Favorable Logistics

A favorable ratio of sales value to transportation cost increases the ability of global firms to concentrate production in certain countries and take advantage of economies of scale. Other logistic factors that have a bearing on global strategy development are nonperishability of products, absence of time urgency, and little need for location close to customer facilities.

Difference in Country Costs

This is based on the classical theories of differences in factor costs that do exist and can be exploited by firms to achieve comparative advantage. Beside factor cost differences, exchange rate differences also have a significant bearing on the absolute costs and the stability of costs.

High Product Development Costs

High product development costs relative to the size of national markets act as a driver to globalization. These costs can be reduced by developing few global or regional products.

Fast-Changing Technology

Fast-changing technologies in products or processes lead to high product development costs, which increase their globalization potential.

Government Globalization Drivers - Rules set by national governments can affect the use of global strategic decision-making. Governments around the world adopt policies, formulate regulations and implement programs to support local businesses sell abroad and to affect their international trade. These rules/policies include the following:

Favorable Trade Policies

Import tariffs and quotas, non-tariff barriers, export subsidies, local content requirements, currency and capital flow restrictions, ownership restrictions, and requirements on technology transfer are some means governments can use to influence firm behavior. These policies can have a significant negative impact on standardization of products and programs.

Compatible Technical Standards

Differences in technical standards among countries also affect the extent of product standardization.

Common Marketing Regulations

Restrictions on various marketing activities can also act as a barrier to the use of uniform marketing approaches. For example, restrictions on the use of certain kinds of media for advertisements, differences in ad content like the use of gender and comparative advertising, and so on.

Government-Owned Competitors

- The presence of government-owned competitors spurs the development of global plans as a means of counteracting the advantages of protected home markets.

Government-Owned Customers

- Presence of government-owned customers could provide a barrier to globalization since such customers usually favor national suppliers.

Competitive Globalization Drivers - Competitive drivers raise the globalization potential of any industry and spur the need for a response on the global strategy levels. The common competitive drivers include:

High Exports and Imports

The level of exports and imports of final and intermediate products and services, i.e., the extent of interaction between countries, has a significant bearing on the use of a global strategy.

Competitors from Different Continents and Countries

Global competition among rivals from different continents trends to be severe.

Interdependent Countries

Competitive interdependence among countries through shared business activities can help such firms to subsidize attacks on competitors to counterattack these subsidies.

Globalized Competitors

When a business's competitors use global strategy to exploit industry globalization potential, the business needs to match or preempt these competitors.

Other environmental drivers

Revolution in IT & telecoms, international financial markets, reduction of tariffs, creation of trade blocs, privatization drives

To conclude the discussion so far:

- A commitment to international market place is important for sustained growth and superior profitability.
- Doing business is a creative enterprise. Doing business outside one's own country is a much more

demanding and complicated enterprise.

- Business environments of countries are different.
- International business necessitates an awareness of the clash of cultural standards among countries.
- In 1950’s and 60’s international business was a means of capitalizing on new opportunity, today’s changing economic environment has made international business dealings vital for survival.
- North American companies will take longer to reach outer limit than will companies in Singapore (smaller market with less room to grow).
- Basic nature of marketing does not change from domestic to international marketing but marketing outside national boundaries poses special problems.

Lesson # 2

INETRNATIONAL MARKETING PROCESS

Defining International Marketing

Under the marketing concept, the firm must find a way to discover unfulfilled customer needs and bring to market products that satisfy those needs. The process of doing so can be modeled in a sequence of steps: the situation is analyzed to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are made, the plan is implemented and the results are monitored.

1. Situation Analysis

A thorough analysis of the situation in which the firm finds itself serves as the basis for identifying opportunities to satisfy unfulfilled customer needs. In addition to identifying the customer needs, the firm must understand its own capabilities and the environment in which it is operating.

The situation analysis thus can be viewed in terms an analysis of the external environment and an internal analysis of the firm itself. The external environment can be described in terms of macro-environmental factors that broadly affect many firms, and micro-environmental factors closely related to the specific situation of the firm.
The situation analysis should include past, present, and future aspects. It should include a history outlining how the situation evolved to its present state, and an analysis of trends in order to forecast where it is going. Good forecasting can reduce the chance of spending a year bringing a product to market only to find that the need no longer exists.

If the situation analysis reveals gaps between what consumers want and what currently is offered to them, then there may be opportunities to introduce products to better satisfy those consumers. Hence, the situation analysis should yield a summary of problems and opportunities. From this summary, the firm can match its own capabilities with the opportunities in order to satisfy customer needs better than the competition.

There are several frameworks that can be used to add structure to the situation analysis:

5 C Analysis - company, customers, competitors, collaborators, climate. Company represents the internal situation; the other four cover aspects of the external situation

PEST analysis - for macro-environmental political, economic, societal, and technological factors. A PEST analysis can be used as the "climate" portion of the 5 C framework.

SWOT analysis - strengths, weaknesses, opportunities, and threats - for the internal and external situation. A SWOT analysis can be used to condense the situation analysis into a listing of the most relevant problems and opportunities and to assess how well the firm is equipped to deal with them.

2. Marketing Strategy

Once the best opportunity to satisfy unfulfilled customer needs is identified, a strategic plan for pursuing the opportunity can be developed. Market research will provide specific market information that will permit the firm to select the target market segment and optimally position the offering within that segment. The result is a value proposition to the target market. The marketing strategy then involves:

- Segmentation
- Targeting (target market selection)
- Positioning the product within the target market
- Value proposition to the target market

3. Marketing Mix Decisions

Detailed tactical decisions then are made for the controllable parameters of the marketing mix. The action items include:

- Product development - specifying, designing, and producing the first units of the product.
- Pricing decisions
- Distribution contracts
- Promotional campaign development

4. Implementation and Control

At this point in the process, the marketing plan has been developed and the product has been launched. Given that few environments are static, the results of the marketing effort should be monitored closely. As the market changes, the marketing mix can be adjusted to accommodate the changes. Often, small changes in consumer wants can be addressed by changing the advertising message. As the changes become more significant, a product redesign or an entirely new product may be needed. The marketing process does not end with implementation - continual monitoring and adaptation is needed to fulfill customer needs consistently over the long-term.

The fundamental concepts involved in marketing process are as follows;

- **Need** arises with the state of felt deprivation. This happens when a situation, of an individual or a group of individuals or a business, is less than the desired situation and there is an urge to achieve the desired situation. Such needs can take many forms, including the following;

  - Physical *(food, clothing, warmth & safety etc...)*
  - Social *(belonging, affection)*
  - Individual *(knowledge, self expression)*

  The needs are basic part of human make-up, while some are also created by marketers

- **Wants**
  - Once needs are felt, humans and businesses look for solutions (or manifestations – physical shapes of solutions for removing the states of felt deprivations). Wants are the manifested solutions of needs. Wants are thus, forms taken by human needs, shaped by culture, individual personality etc.

- **Demands**
  - Human wants backed by buying power & choices translate into demands – what is chosen as the desired solution from among the various available and viable options.

- **Products**
  - Products are the offering of a firm (or individual/s) to a market or consumer to satisfy a need or want. Products can be physical goods, services or other forms of satisfyers.

- **Quality**
  - The term quality is expressed more too often in the context of market transactions. Customers prefer to acquire quality products and firms strive to offer better quality products than competitors can to remain successful. Quality is referred as the ability of a firm (or individual) to satisfy customer needs & expectations.

- **Exchange**
  - Marketing is concerned with exchange of products and services. Exchange is the act of obtaining

a desired product from someone by offering something in return.

- **Satisfaction**
  - Focus of any marketer is to meet customers' expectations when providing product solutions. The term 'satisfaction' in the context of marketing refers to the extent to which a product's perceived performance matches a buyer's expectations

- **Relationship**
  - It is the process of creating, maintaining and enhancing strong value-laden relationships with customers & other stakeholders (build good relationship & profitable transaction will follow)

- **Value**
  - Another term that is often used in the context to marketing is 'value'. It refers to the perceived net benefits one gets from acquiring / owning a certain product (solution).
  - 'Value' refers to the differences between the values the customer gains from owning and using a product and cost/effort in obtaining the product. Often this is a perceived value rather than an objective one. The sense of value of any product to anyone is subjective – in the opinion of the one according to ones own situation and perspective and this sense for the same product often differs from person to person.
  - In perceiving value of a product the buyers consider functional benefits as well as emotional benefits. Costs of owning and using any product include monetary, time, energy and psychic costs.
  - Value can be enhanced by;
    - Raising benefits for same costs
    - Reducing costs for same benefits
    - Raise benefits by more than the raise in costs
    - Lower benefits by less than the reduction in costs

Defining marketing:

Marketing is a process by which individuals and groups obtain what they need & want by creating and exchanging products and value with others.

"**International Marketing**" refers to such exchanges across national boundaries for the satisfaction of human needs and wants

Lesson # 3

INETRNATIONAL MARKETING PROCESS

International Marketing Orientation of Firms

A company's orientation towards the market:

A company can have one of the following five types of orientations towards its markets;

The Production Concept. This concept is the oldest of the concepts in business. It holds that consumers will prefer products that are widely available and inexpensive. Managers focusing on this concept concentrate on achieving high production efficiency, low costs, and mass distribution. They assume that consumers are primarily interested in product availability and low prices. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its features.

The Product Concept. This orientation holds that consumers will favor those products that offer the most quality, performance, or innovative features. Managers focusing on this concept concentrate on making superior products and improving them over time. They assume that buyers admire well-made products and can appraise quality and performance. However, these managers are sometimes caught up in a love affair with their product and do not realize what the market needs. Management might commit the "better-mousetrap" fallacy, believing that a better mousetrap will lead people to beat a path to its door.

The Selling Concept. This is another common business orientation. It holds that consumers and businesses, if left alone, will ordinarily not buy enough of the selling company's products. The organization must, therefore, undertake an aggressive selling and promotion effort. This concept assumes that consumers typically sho9w buyi8ng inertia or resistance and must be coaxed into buying. It also assumes that the company has a whole battery of effective selling and promotional tools to stimulate more buying. Most firms practice the selling concept when they have overcapacity. *Their aim is to* sell *what they make rather than make what the market wants.*

The Marketing Concept. This is a business philosophy that challenges the above three business orientations. Its central tenets crystallized in the 1950s. It holds that the key to achieving its organizational goals (goals of the selling company) consists of the company being more effective than competitors in creating, delivering, and communicating customer value to its selected target customers. The marketing concept rests on four pillars: target market, customer needs, integrated marketing and profitability.

Distinctions between the Sales Concept and the Marketing Concept:

1. The Sales Concept focuses on the needs of the seller. The Marketing Concept focuses on the needs of the buyer.

2. The Sales Concept is preoccupied with the seller's need to convert his/her product into cash. The Marketing Concept is preoccupied with the idea of satisfying the needs of the customer by means of the product as a solution to the customer's problem (needs).

The Marketing Concept represents the major change in today's company orientation that provides the foundation to achieve ***competitive advantage***. This philosophy is the foundation of ***consultative selling***.

The Marketing Concept has evolved into a fifth and more refined company orientation: The Societal Marketing Concept. This concept is more theoretical and will undoubtedly influence future forms of marketing and selling approaches.

The Societal Marketing Concept. This concept holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors (this is the original Marketing Concept). Additionally, it holds that this all must be done in a way that preserves or enhances the consumer's and the society's well-being.

This orientation arose as some questioned whether the Marketing Concept is an appropriate philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services.
Are companies that do an excellent job of satisfying consumer wants necessarily acting in the best long-run interests of consumers and society?

The marketing concept possibly sidesteps the potential conflicts among consumer wants, consumer interests, and long-run societal welfare. Just consider:
The fast-food hamburger industry offers tasty but unhealthy food. The hamburgers have a high fat content, and the restaurants promote fries and pies, two products high in starch and fat. The products are wrapped in convenient packaging, which leads to much waste. In satisfying consumer wants, these restaurants may be hurting consumer health and causing environmental problems.

Some examples of the 'marketing concept':

The marketing concept has been expressed in many colorful ways:

- "Meeting needs profitably."
- "Find wants and fill them."
- "Love the customers, not the product."
- "Have it your way." (Burger King)
- "You are the boss." (United Airlines)
- "Putting people first." (British Airways)
- "Partners for profit." (Milliken Company)

"Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customers by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it"

The international marketing concept rests on four pillars:

- target market (*The potential customers*)
- customer needs
- integrated marketing *(Approaching customers through product offers, marketing communication, distribution and pricing)*
- profitability

Types of customer needs:

Although marketing is about meeting needs profitably, understanding customer needs and wants is not always a simple task. Some customers have needs of which they are not fully conscious. Or they cannot articulate these needs. Or they use words that require more interpretation

Consider the customer who says he wants an "inexpensive car. The marketer must probe further. Five types of needs can be identified:

- Stated needs (the customer wants an inexpensive car)

- Real needs (the customer wants a car whose operating cost, not its initial price, is low)
- Unstated needs (the customer expects good service from the dealer)
- Delight needs (the customer buys the car and receives a complimentary gift)
- Secret needs (the customer wants to be seen by friends as a value-oriented savvy consumer)

Importance of customer retention:

Attracting a new customer can cost much more than pleasing an existing customer - it may cost even much more to bring an existing customer to the same level of profitability as the lost customer - customer retention is thus more important than customer attraction.

The key to customer retention is customer satisfaction. A highly satisfied customer:

- Stays loyal longer
- Buys more as the company introduces new products and upgrades existing products
- Talks favorably about the company and its products
- Pays less attention to competing brands and advertising and is less sensitive to price
- Offers product/service idea to the company
- Costs less to serve than new customers because transactions are routinized

International marketing value chain:

'Value Chain' is tool for identifying ways to create more customer value. Every firm is a collection of activities that are performed to design, produce, market, deliver, and support its products. Just like a metal chain, the strength of a business value chain is the strength of its weakest link. In order to improve the delivery of final customer value, the business value chain needs to first improve its weakest links (activities).

The business value chain identifies nine strategically relevant activities that create value and cost in specific business:

- Primary activities (through which a product / services passes during various stages of manufacturing and delivery)
  - Inbound logistics
  - Operations
  - Outbound logistics
  - Marketing and sales
  - Service

- Support activities (that are not directly involved in manufacturing and delivery of a product or service, but support such activities)

  - Firm infrastructure
  - Human resource management
  - Technology development
  - Procurement

Five different levels of company investment in customer-relationship building:

The customer-relationship building is a process involved in attracting and keeping customers involves. The objective is to move the customer from just a suspect (in terms of a potential to become a buyer) to an advocate for other for the company and its brands. The various stages of customer loyalty are in the following;

- Suspects -- prospects -- first-time customers -- repeat customers -- advocates

A company can opt to adopt a simple selling orientation towards its customers or may work to develop an active partnership with them. The five different levels of a company's investment in customer relationship building are;

- Basic marketing
  - Simply selling

- Reactive marketing
  - In addition to selling encourage the customer to contact for any question, comments, complaints

- Accountable marketing
  - After-sales calls to check if the customer is satisfied

- Proactive marketing
  - Contact customer from time to time to seek inputs for future improvements in products

- Partnership marketing
  - Work continuously with customers to discover ways to effect customer savings or help the customer perform better

A customer that becomes a partner with a firm buys more of the firm's products, the transaction and advertising cots are lower, becomes forgiving, gives higher profits margins and also advocates others to buy the firm's products.

Lesson # 4

INETRNATIONAL MARKETING PROCESS

Five steps of the international marketing process:

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

1. Analyzing international marketing opportunities to identify unfulfilled or under fulfilled needs that a marketer may satisfy through its products or services. This analysis can be done through information seeking and analysis or through market research (secondary or primary data collection and analysis). A marketer may have a product or service concept developed first and looks for the needs in the market that can be satisfied by these products or services. The marketer may also first identify unfulfilled or under fulfilled needs in the market and then develop a suitable product or service offer to satisfy these identified needs.

2. Once the marketer has identified the potential opportunities in the first step now is the time to select the groups of potential international customers (target markets) to whom to sell the products or services.

   This step also involves identifying the potential buyers, demand measurement & forecasting, market segmentation, market targeting & market positioning.

   Segmentation involved identifying groups of potential customers from the total potential market that are homogeneous on certain aspects of identity and behavior and are heterogeneous on the same aspects from others in the target population. The aspects on which the segments are based must be relevant for the marketer to develop its products and services and the marketing programs.

   This step also requires the marketers to decide what key benefits in a product or service to offer to the selected target customers and on what aspects to differentiate from the competition.

3. Since a firm needs to offer best value to the potential customers to makes its products and services more salable compared with competitors, firms have to adopt appropriate business and marketing strategies.

   Many activities are to be undertaken in a firm by many people and in a number of departments to produce and deliver final products and services to its customers, this requires aligning and coordinating numerous activities and efforts. At the same time to achieve best value for the buyer and bet profits for the firms, the firm needs to optimize all the activities, efforts undertaken and resource utilization. This requires the firm to adopt a coherent and appropriate logic or strategy to direct and control the alignment, coordination and optimization of its business and marketing effort.

   Various researchers have studied successful companies around the world and attempted to identify how these firms have aligned and coordinated their activities and efforts. Porter has concluded that successful firms have adopted one of the three strategies, i.e., cost leadership, differentiation or focus. Other scholars have identified that successful firms adopted strategies that were aligned with their market position, i.e., a market leader, challenger, follower & nicher strategies. Other researchers have asserted that firms have achieved success in markets through adopting on of the three value discipline strategies, i.e., operational excellence, customer intimacy or product leadership. Details on these strategies may be found in strategy subject and books.

4. The fourth step in the marketing process is developing the international marketing mix, product, place, price & promotion. Marketing mix identifies four key areas for developing a well coordinated marketing strategy. To create a strong marketing impact a firm needs to develop appropriate programs in these four key areas and also need to ensure that all these four aspects of a firms marketing program are well coordinated and in conformity with each other to give a clear image to the target market of the firm's brands and its products.

5. Developing a good marketing program is not good enough for success. A firm also needs to manage the international marketing effort properly. Quite often firms fail not because they did not have a viable marketing program, but that they failed in properly implementing their well designed plans.

   Firms also need proper analysis, planning, implementation and control of their marketing programs

Lesson # 5

ENGAGING IN INETRNATIONAL MARKETS

Why companies engage in international business:

Companies engage in international business for a variety of reasons. Identifying these reasons for any firm is important to understand the nature and direction of its motivation to engage I international marketing.

Some of the major reasons why companies engage in international marketing are as follows:

- To expand sales of the firm
- To acquire resources / technology / skills from foreign countries
- To diversify their sources of sales and supplies
- To capitalize on incentives from governments, local and foreign
- To follow existing customers who have moved overseas

Reasons for recent growth of business in international markets:

International business has increase on a rapid pace, especially after the 2nd world war of 1940’s. This expansion in international business has been due to host of reasons. Some of the key reasons for expansion of international business are as follows;

- **Expansion of technology**
  - Quicker and cheaper transportation
  - Communications enable controls from afar

- **Liberalization of cross-border movements of goods, services and factors of production, such as labor, capital and technology etc**

- **Development of supporting institutional arrangements for international exchange of goods and funds**

- **Increase in global competition forcing firms to expand in international markets**

- **Convergence of world markets in terms of tastes, distribution infrastructure, technologies and trade regulations.**

- **Support from national governments for internationalization of local firms and for attracting foreign direct investments.**

- **Growth of resources available to mnc’s and with large pool of funds ands and other resources firms could easily expand businesses in world markets.**

Benefits of doing business in international markets:

A country and its people benefit from selling to or even buying from international markets.

- **Exports**
  - Propel country’s economic growth as its firms increase sales and profits
  - Exports of quality products and services support or create better jobs (average export-related job pays more than average national job)

- Selling to international markets diversifies a country’s economy and hence hedges against economic downturns

- **Imports**
  - Consumers gain from lower costs, better quality and greater variety products on the shelves
  - Also create essential competition for local companies which then improve their products and processes
  - Keep levels of prices and hence inflation low as with open imports prices of products in domestic markets would depend on the lower prices of the products in international markets

Means of engaging in international markets:

A company may engage in international markets in a number of ways. These are categorized in the following;

- **Merchandize export and import**

- **Services export and import**
  - Travel, tourism and transportation
  - Performance of services
    - Fees in banking, insurance, rentals etc., turnkey operations, management contracts etc.
  - Use of assets for royalties
    - Licensing
      - Use of assets such as trademarks, patents, copyrights, or expertise under contracts
    - Franchising
      - Franchiser sells/leases the use of assets and also assists the franchisee on a continuing basis in operations

- **Investments**
  - Direct investment - with controlling interest (at least 10% of voting or ownership control)
    - Wholly owned
    - Joint venture
    - Mixed venture (when a government joins as a partner)

  - Portfolio investment - non-controlling interest
    - Equity investment
    - Stock market investment - funds
    - Bonds & loans
    - Money market investment

Lesson # 6

INTERNATIONAL TRADE & INVESTMENT THEORIES

Classical Country Based Theories

International merchandise trade in goods in 2006 was $8 tr. & in services 3 tr. (20% of the world GDP). Exports spark additional economic activity in domestic economy as companies of country can expand their sales and profits by selling to foreign markets.
Imports can pressure domestic economy as foreign products flood domestic markets and result in closing down of non-competitive local businesses.

Some countries in the world are successful in exporting manufactured and non-manufactured goods as well as services to other countries and have become prosperous. While there are other countries that have ton been so successful and hence have remained poor. Due to international trade's significance to businesses, consumers & workers, scholars have attempted to develop theories to explain & predict the forces that motivate such trade.

Mercantilism:

This is an old 16th century economic philosophy that attempted to explain how countries may become prosperous and strong. Salient points of this philosophy are in the following;

- Country's wealth is measured by its holdings of gold & silver (reserves of modern era)
- Country's goal should be to enlarge those holdings
- To do this a country should maximize difference between its exports & imports
- A country should then promote exports & discourage imports - if exports are more than imports foreigners have to pay the difference in gold & silver
- Today's "unfavourable balance of trade" when exports of any country are less than its exports, is the extension of the same idea
- With larger holdings of gold and silver kings could have more wealth – and hence could afford larger armies to expand kingdoms
- This approach would make exporters happy and domestic manufacturers of export products would also be happy as their businesses grow

Arguments against 'Mercantilism' Approach:

- By following this philosophy in a country more members of society are at loss as export subsidy is paid by taxpayers and import restriction leads to higher domestic prices
- In the age of imperialism the burden of the subsidy was shifted to colonies and colonies were made producers of raw materials and markets for empire's manufactured products
- Mercantilism actually weakens a country as the subsidized and protected export sector fails to become efficient and the domestic economy suffers to provide support to the exports.
- Country's true wealth is in fact measured by the wealth of all its citizens not just that of its king or only the exporters
- Country's real wealth is dependent on production of goods & services rather than accumulation of gold reserves
- More wealth of more citizens will provide more tax base & hence a wealthy king
- Mercantilism causes inefficiencies, some special interest groups may benefit, reduces wealth of country as a whole
- Free trade among countries enlarges a country's wealth (specialize in production of some goods & services while import others) (unrest in britain's american colonies and their subsequent independence was due to the "mercantilist" policies of uk)

Theory of Absolute Advantage:

This theory was forwarded in 1776 by Adam Smith. Salient features of this theory are in the following;

- It advocates free trade among world countries to maximize citizens' wealth
- Free trade enables a country to expand the amount of goods and services available to it by specializing in production of some goods and services and trading of others
- A country can have certain advantages over other countries
  - Natural advantage: climatic conditions, natural resources, abundant cheap labor-force etc
  - Acquired advantage: development of product or process, skills development etc
- A country should export those goods & services for which it is more productive than others
- Import those goods & services for which other countries are more productive

What if a country has absolute advantage in all products? Large countries like USA and China can have absolute advantages in manufacturing many types of products. Extent of value addition and profits on various products vary. Some types of products allow better return on resources deployed than others products. Should these countries then produce and export all such products in which they have advantage? Or concentrate more on such products where they may earn comparatively better profits?

Theory of Comparative Advantage:

Forwarded in early 19th century, the theory of Comparative Advantage resolves the above issue. A country should produce and export such products where it has comparatively more advantage and hence can earn better margins. Salient features of this theory are in the following;

- A country should produce & export those goods & services for which it is relatively more productive than other countries
- Implement concept of opportunity cost (what a country gives up to get / produce a certain good) in determining which goods a country should produce

- **Factor – Proportions concept** (identifies which products may offer comparative advantage to a country)
  - Factor (resources) vary among countries i.e. Oil cheaper in Saudi Arabia, china has cheaper labor, Singapore has capital and funds
  - A country will have comparative advantage in producing products that intensively use resources it has in abundance

Country Similarity Theory:

Most trade today occurs among apparently similar countries
- Same per-capita income
- Similar infrastructure / distribution systems
- Same language / culture / religion / tastes etc.

Similarity among countries on the above aspects allows their products and services to be sold easily in each others markets.

Lesson # 7

INTERNATIONAL TRADE & INVESTMENT THEORIES

Modern Firm Based Theories

Explore the firm's role in promoting exports and imports. These theories incorporate additional factors i.e., quality, technology, brand names, customer loyalty, product life-cycles etc. into explaining success or countries in selling products and services in international markets as firms and not countries are the agents for international trade

International Product Life - Cycle Theory:

This theory attempts to explain the impact of a product's life-cycle stage on flow of its trade (where a product would be manufactured and where it would be in demand)

According to this theory shifts in manufacturing and trade flow of a product goes through four phases which are in the following;

1. New product stage
   A product will be initially produced & sold mostly in the country in which it is developed (nearby observed need & market). For most advanced and technology products these will initially be conceptualized in developed countries and sold in these markets

2. Growth stage
   At the next stage, the market for the successful product would start to rapidly grow. In this stage the product would be produced in the innovating and other industrial countries – and sold in many industrial countries

3. Mature stage
   Reaching the maturity stage market for a product would become competitive and buyer would become experienced. As the result margins on the product would decline and competitive pressured would require the manufacturers to seek lower production costs. At this stage production of the products shifts from industrialized countries to countries where costs are lower – the innovating country may stop producing & start importing

4. Decline stage
   At this stage demand for the product declines, especially in advanced countries, as other more effective technologies and products are introduced. At this stage production and market of the product is mainly in less developed countries

- Exceptions
  There are however, exceptions to the impact of the life-cycle on a product's manufacturing locations and trade. Products with very short product-lifecycles, luxury products where cost are less important, products requiring specialized skills, strategic products of a country, differentiated products (i.e., differentiated on country of origin, such as hand made Italian leather fashion products) will experience less, if any, impact of a life-cycle stage.

Global Strategic Rivalry Theory:

This theory was forwarded in 1980 by Paul Krugman. He studied firms that were successful in competing in international markets and concluded that;

- Firms struggle to dominate world markets by

- Owning intellectual property rights
- Investing in research & development
- Achieving economies of scale & scope
- Exploiting the experience curve

Such firms that were innovative and could establish competitive advantages by owning intellectual property rights to useful technologies, that pursued research and development aggressively, that strived to achieve economies of scale and scope and that were learning organization and could become more efficient with time were able to succeed in international competition.

Porter's Theory of National Competitive Advantage:

Professor Michael Porter combined the country specific and firm specific factors to explain how firms and industries of certain countries are able to achieve success in international markets. This theory was forwarded in 1990.

- According to Porter's Theory of National Competitive Advantage success in international trade comes from the interaction of four country - and firm - specific elements;

  - Factor conditions : abundance and quality of land, raw materials, labor, capital, educational level of workforce, country's infrastructure etc. The factors that are need essentially for producing certain products and services.

  - Demand conditions : large sophisticated domestic market stimulated development and distribution of innovative products which may also be exported – most new innovative products are first developed by firms for domestic markets and then sold in other countries. If domestic markets are not sophisticated and large, domestic firms may not have the opportunity to conceptualize and produce innovative products and to develop skills and resources needed for successful international marketing.

  - Related and supporting industries: today most products require many complex technologies for successful manufacturing and it is difficult for any one firm to master all the aspects of all the needed technologies and skills. Firms therefore, need to collaborate with other firms as buyers and suppliers to develop final products. Industries of any country that are successful in international markets are the ones where related and supporting firms are co-located in proximity to allow effective and efficient transactions and collaborations.

  - Firm strategy, structure & rivalry : presence of a competitive domestic market forces local firms to focus efforts in skills training, strategizing and r&d that eventually shapes companies to reduce costs & become competitive internationally.

Lesson # 8

INTERNATIONAL MARKETING INFORMATION REQUIREMENTS

Categories for Information Requirements

Importance of identifying the problem:

- Managers are seldom criticized on the grounds that they cannot solve the problems.
- This they can do most of the times.
- But they solve the wrong problem.
- The managers are often better at finding the right answers than asking themselves the right questions.
- The real problem in management is that executives are likely to come up with right answer to wrong problem.

To improve decision making managers need to focus to first understand the environment and issues properly. If their understanding of the issues is correct and comprehensive then they are much more likely to be able to make correct decisions with respect to the issues.

Difficulties in rational decision making:

- Managers' capacity for information processing is significantly limited.
- Managers tend to follow what is called the law of small numbers, whereby even small samples are viewed as representative of the population from which they are drawn, and they are likely to underestimate the errors and unreliability inherent in such small samples.
- They are also subject to the availability fallacy, whereby they are led to draw conclusions on the evidence that they have because it is available rather than because it is relevant.
- There is abundant evidence that managers overestimate their own abilities and suffer from illusions of control.
- A common way managers obtain confidence about a decision is by structuring thesis.

Marketing intelligence must drive marketing research because in ever- changing competitive market place more emphasis will be on determining where to move the business? and why?, and less on how to get there.

Categories for global marketing information requirements:

Managers need a vast variety of information for successfully operating in international markets. In the following are described seven categories in which managers need timely and comprehensive information to make appropriate business decisions.

- **Marketing Mix**: to add, delete, change products, stage of product life cycle, marketing/sales campaign, distribution channel selection, price/demand and profitability analysis.

- **Competitor information**: corporate, business, functional strategies, market share.

- **Foreign exchange info**: interest rates, exchange rates, balance of payment, attractiveness of a country's currency, and expectations of analysts.

- **Market potential**: demand estimates, consumer behavior, review of products, channels, communication media, and market performance.

- **Prescriptive info**: laws, regulations, rulings concerning taxes, earnings, dividends in both home & host countries.

- **Resource info**: availability of human, financial, information, physical resources.
- **General conditions**: overall review of socio-cultural, political, technological environments.

Lesson # 9

INTERNATIONAL MARKETING INFORMATION REQUIREMENTS

Firm Specific International Environment

The Competition:

A firm needs information about its competition in international markets on a continuous basis to make appropriate decisions. Some key areas in which information is needed about competition are in the following;

- Relative market shares of competitors
- New product moves of the competitors
- Pricing & cost structure of the competing firms
- Image & brand reputation of competitors in the markets / segments
- Quality: Its attributes and positioning relative to competitors.
- Competitors' strengths: favorite tactics and strategies.

The Product:

A firm also needs information regarding its product / lines to make product related decisions. Some of the key aspects of a product related information requirements are given as follows;

- Analysis of the users of product, including purchase behavior, usage processes, factors affecting purchase and use decisions etc.
- Who are the end-user industries and what are their behaviors?
- Industrial & consumer buyers and influencers and their roles.
- Characteristics of the buyers: Size, age, gender, segment growth rates etc.
- Purchasing power and intentions of the buyers.
- Customer response to new products, price, promotion distribution etc.
- Switching behavior of the customers.
- Role of credit in purchasing a product.
- Future needs of the buyers / users.
- Impact of cultural differences on purchase and use of products.

Marketing Mix:

Marketing mix related information is essentially needed by marketers to decide and implement marketing strategies. Since international marketing often involves sending products and materials to a distant markets, aspects of logistics also becomes more important. The key areas of marketing mix for which information is needing by international marketers are given as follows;

- Channels of distribution: their shape, functions, evolution & performance.
- Relative pricing, elasticities, and tactics of competitors.
- Advertising & promotion: choices available in international markets and their impacts on customers.
- Service quality perceptions in various international markets and relative positioning of competing brands/products.
- International and domestic logistics networks, their configuration and future change.

FIRM-Specific Historical Data:

While managers need information about their markets, suppliers, environments and external publics, they also need to know about their own firms. A firm's history hold clues for its future. Historical information can inform what and how a firm has been able to achieve certain things in past and that hold clues as to what the firm can achieve in future. Historical firm data may also inform on trends in sales and profits in various markets, which again hold clues for the future of the firm in these and other markets.

Categories of information an international marketing manager may need regarding his or her own firm are give as follows;

- Sales trends by product and product line, sales force, and international market / customer.
- Trends by country and region (sales, profits, technology diffusion etc.)
- Contribution margins and profitability of products in various international markets.
- Marketing mix used and marketing response functions across countries and regions.

Lesson # 10

FOREIGN NATIONAL ENVIRONMENTS

Political Environments

Foreign National Environment:

An international marketer needs information about foreign countries' environments that may affect the business in any way, positively or negatively. Some of the key aspects of a foreign market environment that may affect international marketer's business are give below;

- Political context: national leaders, national goals of leaders and governments, ideologies of the foreign political institutions and leaders, key institutions in forming and implementing regulations.

- Economic growth prospects, levels of economic affluence (GDP, GNP), level and extent of industrialization, business cycle stage.

- Per capita income levels, purchasing power of the population, disposable incomes.

- End-user industry growth trends. Industrial demands are mostly derived demands and industrial buyers by materials and machinery to fulfill the end user demands.

- Government: political and business orientation, legislation, regulation, standards, barriers to trade.

Political systems in the world:

There are different political systems today in various countries around the globe. The basic political ideologies that are existing are given below;

Basic political ideologies

- Democracy
  - Freedom Of Opinion, Expression, Elected Representation With Limited Terms For Elected Political offices, individual's rights, liberties & social freedom, independent & fair courts, non-political bureaucracy etc.

- Quasi democracy
  - Partly free - (example is an appointed governor in HK but elected parliament)

- Totalitarianism
  - Decision making is restricted to one or a few individuals

Political risks in international markets:

A marketer's firm faces numerous political risks in international markets. Major political risks in international markets are given below;

- Direct interference in a foreign company's business - expropriation, confiscation, nationalization
- Campaigns against foreign goods (from governments or people / publics)

- Kidnappings, terrorist threats & other forms of violence targeted against foreign firms or foreigners.
- Civil wars have the potential to disrupt businesses in many foreign countries
- Change in policies, regulations – too often and non-consistent – affect businesses in any country
- Change in governments may also result into changing national priorities.
- Monetary & fiscal policies - inflation, currency devaluation, increased taxation, and currency controls etc. Also affect businesses of international marketers.
- Government as business competitor – when government becomes involved in a business in its own country then it has access to large resources, may implement such regulations that my favor its businesses and may become a formidable competitor.
- Multilateral investment guarantee agency (miga) - a subsidiary of the World Bank provides insurance against some political risks. International marketers may use such multilateral agency guarantees to protect itself from political risks in international markets

Lesson # 11

FOREIGN NATIONAL ENVIRONMENTS

Legal Environments

Differences in legal systems:

Businesses are affected by legal environments of countries in many ways. Legal environments are not just based on different laws and regulations concerning businesses, these are also defined by the factors like rule of law, access to legal systems by foreigners, litigations systems etc.

- **National legal systems vary on the following aspects;**

  - The rule of law

    Some country have strong rule of law in that laws are applied strictly, quickly and fairly, while in others laws are not applied for various reasons, such as corruption, strong nationalism, weak legal institutions etc.

  - The role of lawyers

    A firm depends on lawyers to access courts to seek justice or to defend in case of any litigation against. International business firms are affected by the role of lawyers in foreign countries. In some countries there are few lawyers and it is difficult of very costly to engage a good lawyer. In some countries lawyers may be corrupt or biased in favor of locals.

  - Access to legal system

    Access to legal system also varies from country to country, especially for foreign entities. In some countries foreigners can easily access courts to seek remedies while in other countries there may be restrictions.

  - The burden of proof

    In some countries the burden of proof, in case of any litigation, is on the defendant, while in other countries the applicant / plaintiff has to first prove that there is a case for the court to proceed against someone. It may become difficult for foreigners to get proofs in certain situations.

  - The right to judicial review

    Various countries have different legal provisions for appeals and review of lower court or earlier judgments. These provisions may also vary for foreign entities.

  - And the laws

    Laws relevant to businesses (including foreign firms) also vary from country to country.

Types of legal systems:

Business environments in foreign countries also vary with the types of legal systems. Various types of legal systems are described in the following;

- Common law
  - Law based on cumulative wisdom of judges' decisions on individual cases over time. Relevant judgments of upper courts have bearings on lower court decisions.

- Statutory law
  - Laws enacted by legislative actions, i.e., through parliamentary proceedings

- Civil law
  - Law based on codification and detailed listings. Laws, their applications and penalties are all detailed and judges have little flexibility compared with common based law systems.

- Tort law
  - Cover wrongful acts, damages, and injuries caused by an action other than breach of contract. In some countries, like USA, judges make big awards for tortuous liabilities, while in many other countries courts are reluctant to entertain big claims under tort.

- Religious law - (Theocracy)
  - When the cases are adjudicated based on religious knowledge and beliefs.

- Bureaucratic law
  - When officials adjudicate cases, such as in communist countries. This results into lack of consistency, predictability & appeal procedures

Legal issues faced by marketers in international markets:

Variations in legal environments, rule of law, laws, and legal systems affect foreign business firms in a number or areas. Key areas of business that are affected by legal environments are listed below;

- Laws concerning employment and labor affect managing of workforce in international markets.

- Different laws in foreign countries regulate financing of operations by foreigners. In some countries foreign firms are restricted access to local deposits / funds.

- Various countries around the world have different laws concerning marketing of products, especially food products, pharmaceuticals, hazardous materials and strategic products to a nation.

- Countries also control and regulate developing and utilizing of technologies through various laws and regulations.

- Many countries also have different laws and regulations that affect ownership of businesses by foreigners.

- Countries also regulate / restrict remittances to foreign countries and repatriation of profits.

- Some countries regulate closing of operations and in some countries businesses are not allowed to close shop especially when they have sold products that have guarantees and warranties from the foreign firms.

- Various countries around the world have implemented different trade and investment regulations.

- Countries also have their own taxation requirements, systems and laws.

- Countries also differ on the accounting reporting requirements from various categories of firms.

- Legal environments of countries vary that also affect dispute resolution situations and
- contractual relationships.

- Countries around the world have also actively implemented environmental regulations that affect businesses.

Lesson # 12

FOREIGN NATIONAL ENVIRONMENTS

Dispute resolution and Exchange Rate Environments

Dispute resolution in international business:

Following issues are raised when thinking of business dispute resolution by international marketers;

- Which country's law applies?
- In which country should the issue be resolved?
- What technique should be used to resolve the conflict?
- How will the settlement be enforced?

The above questions are answered in following section.

Methods of International Business Dispute Resolution:

Methods of international business dispute resolution include:

- Lawsuits (litigation)
- Negotiations
- Conciliations
- Mediation
- Arbitration

One could theoretically include violence or even war as part of this spectrum, but dispute resolution practitioners do not usually do so; violence rarely ends disputes effectively, and indeed, often only escalates them. Some individuals, notably Joseph Stalin, have stated that all problems emanate from man, and absent man, no problems ensue. Hence, violence could theoretically end disputes, but alongside it, life.

Dispute resolution processes fall into two major types:

- Adjudicative processes, such as litigation or arbitration, in which a judge, jury or arbitrator determines the outcome.
- Consensual processes, such as mediation, conciliation, or negotiation, in which the parties attempt to reach agreement.

Not all disputes, even those in which skilled intervention occurs, end in resolution. Such intractable disputes form a special area in dispute resolution studies.

Conciliation

Conciliation is an alternative dispute resolution process whereby the parties to a dispute (including future interest disputes) agree to utilize the services of a conciliator, who then meets with the parties separately in an attempt to resolve their differences. Conciliation differs from arbitration in that the conciliation process, in and of itself, has no legal standing, and the conciliator usually has no authority to seek evidence or call witnesses, usually writes no decision, and makes no award. Conciliation differs from mediation in that the main goal is to conciliate, most of the time by seeking concessions. In mediation, the mediator tries to guide the discussion in a way that optimizes parties needs, takes feelings into account and reframes representations.

In conciliation the parties seldom, if ever, actually face each other across the table in the presence of the conciliator. (This latter difference *can* be regarded as one of species to genus. Most practicing mediators refer to the practice of meeting with the parties separately as "caucusing" and would regard conciliation as a specific type or form of mediation practice -- "shuttle diplomacy" -- that relies exclusively on caucusing. All the other features of conciliation are found in mediation as well.)
If the conciliator is successful in negotiating an understanding between the parties, said understanding is almost always committed to writing (usually with the assistance of legal counsel) and signed by the parties, at which time it becomes a legally binding contract and falls under contract law.

Recent studies in the processes of negotiation have indicated the effectiveness of a technique which deserves mention here. A conciliator assists each of the parties to independently develop a list of all of their objectives (the outcomes which they desire to obtain from the conciliation). The conciliator then has each of the parties separately prioritize their own list from most to least important. She then goes back and forth between the parties and encourages them to "give" on the objectives one at a time, starting with the least important and working toward the most important for each party in turn. The parties rarely place the same priorities on all objectives, and usually have some objectives which are not on the list compiled by parties on the other side. Thus the conciliator can quickly build a string of successes and help the parties create an atmosphere of trust which the conciliator can continue to develop.

Most successful conciliators are highly skilled negotiators. Some conciliators operate under the auspices of any one of several non-governmental entities, and for governmental agencies such as the Federal Mediation and Conciliation Service.

Mediation

Mediation in legal terminology comprises an act of bringing two states, sides or parties in a dispute closer together toward agreement through alternative dispute resolution, a dialogue in which a (generally) neutral third party, the **mediator**, using appropriate techniques, assists two or more parties to help them negotiate an agreement, with concrete effects, on a matter of common interest. More generally speaking, the term "mediation" covers any activity in which an impartial third party (often a professional) facilitates an agreement on any matter in the common interest of the parties involved.
Mediation applies to different fields, with some common peculiar elements and some differences for each of its specialties. The main fields of mediation include commerce, legal disputes and diplomacy, but forms of mediation appear in other fields as well. Mediation in marriage technically belongs in the category, although it has followed its own peculiar history since the times of ancient Greeks: compare marriage counseling.

Common aspects of mediation

Mediation as a process involves a third party (often a neutral third party) assisting two or more persons, ("parties" or "stakeholders") to find mutually-agreeable solutions to difficult problems.

People make use of mediation at all levels and in all contexts, from minor disputes to global peace talks. This makes it difficult to provide a general description without referring to practices in specific jurisdictions - where 'mediation' may in fact have a formal definition and in some venues may require specific licenses. This article attempts only a broad introduction, with more specific processes (such as peace process, binding arbitration, or mindful mediation) referred to directly in the text.

While some people loosely use the term 'mediation' to mean any instance in which a third party helps people find agreement, professional mediators generally believe it essential that mediators have thorough training, competency, and continuing education.

Some few of the types of business disputes or decision-making that often go to mediation include the following:

- Financial or budget disagreements
- Family businesses
- Estate disputes
- Workplace:
- Wrongful termination
- Discrimination
- Harassment
- Grievances
- Labour management
- Public disputes
- Environmental
- Land use
- Disputes involving the following issues:
- Landlord-tenant
- Homeowners' associations
- Builders/contractors/realtors/homeowners
- Contracts of any kind
- Medical malpractice
- Personal injury
- Partnerships
- Non-profit organizations

Mediation commonly includes the following aspects or stages:

- a controversy, dispute or difference of positions between people, or a need for decision-making or problem-solving;

- decision-making remaining with the parties rather than imposed by a third party;

- the willingness of the parties to negotiate a positive solution to their problem, and to accept a discussion about respective interests and objectives;

- the intent to achieve a positive result through the facilitative help of an independent, neutral third person.

In the United States, mediator codes-of-conduct emphasize 'client-directed' solutions rather than those imposed by a mediator in any way. This has become a common, definitive feature of mediation in the US and in the UK.

Mediation differs from most other adversarial resolution processes by virtue of its simplicity, informality, flexibility, and economy.

The typical mediation has no formal compulsory elements, although some common elements usually occur:

- each party allowed to explain and detail his/her story;

- the identification of issues, usually facilitated by the mediator;
- the clarification and detailed specification of respective interests and objectives;
- the conversion of respective subjective evaluations into more objective values;
- identification of options;
- discussion and analysis of the possible effects of various solutions;
- the adjustment and the refining of the proposed solutions;
- the memorialization of agreements into a written draft

Due to the particular character of this activity, each mediator uses a method of his or her own (a mediator's methods are not ordinarily governed by law), that might eventually be very different from the above scheme. Also, many matters do not legally require a particular form for the final agreement, while others expressly require a precisely determined form. Most countries respect a mediator's confidentiality.

Mediation in business and in commerce

The eldest branch of mediation applies to business and commerce, and still this one is the widest field of application, with reference to the number of mediators in these activities and to the economical range of total exchanged values.

The mediator in business or in commerce helps the parties to achieve the final goal of respectively buying/selling (a generical contreposition that includes all the possible varieties of the exchange of goods or rights) something at satisfactory conditions (typically in the aim of producing a bilateral contract), harmonically bringing the separate elements of the treaty to a respectively balanced equilibrium. The mediator, in the ordinary practice, usually cares of finding a positive agreement between (or among) the parties looking at the main pact as well as at the accessory pacts too, thus finding a composition of all the related aspects that might combine. in the best possible way, all the *desiderata* of his clients.

This activity is sometimes scholastically included among those of the auxiliary activities of commerce and business, but it has to be recalled that it differs from the generality of the others, because of its character of independence from the parties: in an ordinary activity of agency, or in the unilateral mandate this character is obviously missing, this kind of agent merely resulting as a *longa manus* of the party that gave him his (wider or narrower) power of representation. The mediator does not obey to any of the parties, and is a third party, looking at the contraposition from an external point of view.

Subfields of commercial mediation include work in well-known specialized branches: in finance, in insurance, in ship-brokering, in real estate and in some other individual markets, mediators have specialised designations and usually obey special laws. Generally, mediators cannot practice commerce in the genre of goods in which they work as specialized mediators.

Competence of the mediator

Numerous schools of thought exist on identifying the 'competence' of a mediator. Where parties retain mediators to provide an evaluation of the relative strengths and weaknesses of the parties' positions, subject-matter expertise of the issues in dispute becomes a primary aspect in determining 'competence'. Some would argue, however, that an individual who gives an opinion about the merits or value of a case does not practise true mediation, and that to do so fatally compromises the alleged mediator's neutrality.

Where mediators are expected to be process experts only (i.e., having been employed to use their skills to work through the mediation process without offering evaluations as to the parties' claims) competence is usually demonstrated by the ability to remain neutral and to move parties though various impasse points in a dispute. International professional organizations continue to debate what 'competency' means. Current information can be obtained from professional associations such as the Association for Conflict Resolution.

Mediation as a method of dispute resolution

In the field to resolving legal controversies, mediation is an informal method of dispute resolution, in which a neutral third party, the mediator, attempts to assist the parties in finding resolution to their problem through the mediation process. Although mediation has no legal standing *per se*, agreements between the parties can (usually with assistance from legal counsel) be committed to writing and signed, thus rendering a legally binding contract in some jurisdiction specified therein.

Mediation differs from most other conflict resolution processes by virtue of its simplicity, and the clarity of its rules. It is employed at all scales from petty civil disputes to global peace talks. It is thus difficult to characterize it independently of these scales or specific jurisdictions - where 'Mediation' may in fact be formally defined and may in fact require specific licenses. There are more specific processes (such as peace process or binding arbitration or mindful mediation) referred to directly in the text.

Safety, fairness, closure

These broader political methods usually focus on conciliation, preventing future problems, rather than on focused dispute-resolution of one matter.

Mediation can be reasonably seen as the simplest of many such processes, where there is no great dispute about political context, jurisdiction has been agreed, whatever process selected the mediator is not in doubt, and there is no great fear that safety, fairness and closure guarantees will be violated by future bad-faith actions.

If some warranty of safety, fairness, and closure can be assumed, then the process can reasonably be called 'mediation proper', and be described thus:

Mediation with arbitration

Mediation has sometimes been utilized to good effect when coupled with arbitration, particularly binding arbitration, in a process called 'mediation/arbitration'. In this process, if parties are unable to reach resolution through mediation, the mediator becomes an arbitrator, shifting the mediation process into an arbitral one, seeking additional evidence as needed (particularly from witnesses, if any, since witnesses are normally not called upon by a mediator), and finally rendering an arbitral decision.

This process is more appropriate in civil matters where rules of evidence or jurisdiction are not in dispute. It resembles, in some respects, criminal plea-bargaining and Confucian judicial procedure, wherein the judge also plays the role of prosecutor - rendering what, in Western European court procedures, would be considered an arbitral (even 'arbitrary') decision.

Mediation/arbitration hybrids can pose significant ethical and process problems for mediators. Many of the options and successes of mediation relate to the mediator's unique role as someone who wields coercive power over neither the parties nor the outcome. If parties in a mediation are aware the mediator might later need to act in the role of judge, the process could be dramatically distorted. Thankfully, mediation-arbitration often involves using different individuals in the role of mediator and (if needed later) arbitrator, but this is not always the case.

Mediator liability

The role of mediator is less controversial than the role of judge, if only because a mediator may only propose, rather than impose, a contract.
The assumed moral or legal responsibility, or even liability, of the mediator differs drastically in different methods - for instance, in global political negotiations, it is often difficult to find anyone who is sufficiently trusted by both sides to even get a peace process to begin. Accordingly, liability is not assigned to the mediator no matter how badly things go wrong - doing so would discourage future efforts to help.

Global relevance

The rise of international trade law, continental trading blocs, the World Trade Organization (and its opposing anti-globalization movement), use of the Internet, among other factors, seem to suggest that legal complexity has started to reach to an intolerable and undesirable point. There may be no obvious way to determine which jurisdiction has precedence over which other, and there may be substantial resistance to settling a matter in any one place.

Accordingly, mediation may come into more widespread use, replacing formal legal and judicial processes sanctified by nation-states. Some, like the anti-globalization movement, believe such formal processes have quite thoroughly failed to provide real safety and closure guarantees that are pre-requisite to uniform rule of law.

Following an increasing awareness of the process, and a wider notion of its main aspects and eventual effects, mediation is in recent times frequently proposed as a form of resolution of international disputes, with attention to belligerent situations too.

However, as mediation ordinarily needs to be required by the interested parties and it would be very difficult to impose it, in case one of the parts refuses this process it cannot be a solution.

Fairness

As noted, mediation can only take place in an atmosphere where there is some agreement on safety, fairness and closure, usually provided by nation-states and their legal systems. But increasingly disputes transcend those borders and include many parties who may be in unequal-power relationships.

In such circumstances, with many parties afraid to be identified or to make formal complaints, terminology or rules of standing or evidence slanted against some groups, and without power to enforce even "legally binding" contracts, some conclude that the process of mediation would not reasonably be said to be 'fair'.

Accordingly, even when it is offered and attempts are made to make it fair, mediation itself might not be a fair process, and other means might be pursued.

From a more technical point of view, however, one must recall that the mediation must be required by the parties, and very seldom can it be imposed by "non-parties" upon the parties. Therefore, in presence of entities that cannot be clearly identified, and that practically don't claim for their recognition as "parties", the professional experience of a mediator could only apply to a proposal of definition, that besides would always miss the constitutional elements of a mediation. Moreover, in such circumstances, the counter-party of these eventual entities would very likely deny any prestige of 'party' to the opponent, this not consenting any kind of treaty (in a correct mediation).

More generally, given that mediation ordinarily produces agreements containing elements to enforce the pacts with facts that can grant its effectiveness, note that the legal system is not the only means that will ensure protection of the pacts: modern mediation frequently tends to define economical compensations and warranties too, generally considered quicker and more effective. The concrete 'power' of an agreement is classically found in the *equilibre* of the pact, in the sincere conciliation of respective interests and in the inclusion of measures that would make the rupture of the pact very little convenient for the unfaithful party. Pacts that don't have such sufficient warranties are only academically effects of a mediation, but would never respect the deontology of the mediator.

Arbitration

Arbitration is a form of mediation or conciliation, where the mediating party is given power by the disputant parties to settle the dispute by making a finding. In practice arbitration is generally used as a substitute for judicial systems, particularly when the judicial processes are viewed as too slow, expensive or biased. Arbitration is also used by communities which lack formal law, as a substitute for formal law.

Commercial and other forms of contract arbitration

Agreements to arbitrate were not enforceable at common law, though an arbitrator's judgment was usually enforceable (once the parties had already submitted the case to him or her). During the Industrial Revolution, this situation became intolerable for large corporations. They argued that too many valuable business relationships were being destroyed through years of expensive adversarial litigation, in courts whose strange rules differed significantly from the informal norms and conventions of businesspeople (the private law of commerce, or *jus merchant*). Arbitration appeared to be faster, less adversarial, and cheaper.

The result was the New York Arbitration Act of 1920, followed by the United States Arbitration Act of 1925. The USAA is now known as the Federal Arbitration Act. Thanks to the subsequent judicial expansion of the meaning of interstate commerce, the U.S. Supreme Court reinterpreted the FAA in a series of cases in the 1980s and 1990s to cover the full scope of interstate commerce. In the process, the Court held that the FAA preempted many state laws covering arbitration, some of which had been passed by state legislatures to protect their consumers against powerful corporations.

Since commercial arbitration is based upon either contract law or the law of treaties, the agreement between the parties to submit their dispute to arbitration is a legally binding contract. All arbitral decisions are considered to be "final and binding." This does not, however, void the requirements of law. Any dispute not excluded from arbitration by virtue of law (e.g. criminal proceedings) may be submitted to arbitration.

Other forms of contract arbitration

Arbitration can be carried out between private individuals, between states, or between states and private individuals. In the case of arbitration between states, or between states and individuals, the Permanent Court of Arbitration (Hague Tribunal) and the International Center for the Settlement of Investment Disputes (ICSID) (an institution of the World Bank Group) are the predominant organizations.

Arbitration is also used as part of the dispute settlement process under the WTO Dispute Settlement Understanding. International arbitral bodies for cases between private persons also exist, the International Chamber of Commerce Court of Arbitration being the most important. The American Arbitration Association is a popular arbitral body in the United States. The National Arbitration Forum is another leading arbitration provider in the United States. Arbitration also exists in international sport through the Court of Arbitration for Sport.

A growing trend among employers whose employees are not represented by a labor union is to establish an organizational problem-solving process, the final step of which consists of arbitration of the issue at point by an independent arbitrator, to resolve employee complaints concerning application of employer policies or claims of employee misconduct. Employers in the United States have also embraced arbitration as an alternative to litigation of employees' statutory claims, e.g., claims of discrimination, and common law claims, e.g., claims of defamation. Currently found in open Brazillian markets and misc. benches.

Labor arbitration

Arbitration has also been used as a means of resolving labor disputes for more than a century. Labor organizations in the United States, such as the National Labor Union, called for arbitration as early as 1866 as an alternative to strikes to resolve disputes over the wages, benefits and other rights that workers would enjoy. Governments have also relied on arbitration to resolve particularly large labor disputes, such as the Coal Strike of 1902.

This type of arbitration is commonly known as interest arbitration, since it involves the mediation of the disputing parties' demands, rather than the disposition of a claim in the manner a court would act. Interest arbitration is still frequently used in the construction industry to resolve collective bargaining disputes. The United Steelworkers of America adopted an elaborate form of interest arbitration, known as the Experimental Negotiating Agreement, in the 1970s as a means of avoiding the long and costly strikes that had made the industry vulnerable to foreign competition. Major League Baseball uses a variant of interest arbitration, in which an arbitrator chooses between the two sides' final offers, to set the terms for contracts for players who are not eligible for free agency.

Unions and employers have also employed arbitration to resolve employee grievances arising under a collective bargaining agreement. The Amalgamated Clothing Workers of America made arbitration a central element of the *Protocol of Peace* it negotiated with garment manufacturers in the second decade of the twentieth century. Grievance arbitration became even more popular during World War II, when most unions had adopted a no-strike pledge. The War Labor Board, which attempted to mediate disputes over contract terms, pressed for inclusion of grievance arbitration in collective bargaining agreements. The Supreme Court subsequently made labor arbitration a key aspect of federal labor policy in three cases which came to be known as the Steelworkers' Trilogy. The Court held that grievance arbitration was a preferred dispute resolution technique and that courts could not overturn arbitrator's awards unless the arbitrator exceeded his or her authority, engaged in fraud or corruption, or violated basic due process.

Securities arbitration

In the United States securities industry, arbitration has long been the preferred method of resolving disputes between brokerage firms, and between firms and their customers. The securities industry uses a pre-dispute arbitration agreement, where the parties agree to arbitrate their disputes before any such dispute arises. Those agreements were upheld by the United States Supreme Court in Shearson v. MacMahon, 482 U.S. 220 (1987) and today nearly all disputes involving brokerage firms are resolved in arbitration.
The process operates under its own rules, and is described in an article Introduction to Securities Arbitration. Securities arbitrations are held primarily by the NASD Dispute Resolution program and the New York Stock Exchange.

Judicial arbitration

Some state court systems have promulgated court-ordered arbitration; family law (particularly child custody) is the most prominent example. Judicial arbitration is often merely advisory dispute resolution technique, serving as the first step toward resolution, but not binding either side and allowing for trial de novo. Litigation attorneys present their side of the case to an independent teritary lawyer, who issues an opinion on settlement. Should the parties in question decide to continue to dispute resolution process, there can be some sanctions imposed from the initial arbitration per terms of the contract.

Proceedings

Various bodies of rules have been developed that can be used for arbitration proceedings. The two most important are the UNCITRAL (United Nations Commission on International Trade Law) rules (Model Law) and the ICSID rules. The rules to be followed by the arbitrator are specified by the agreement establishing the arbitration.

The Convention on the Recognition and Enforcement of Foreign Arbitral Awards (Done at New York, 10 June 1958; Entered into force, 7 June 1959; 330 U.N.T.S. 38, 1959) provides for the enforcement of foreign arbitral awards on the territory of the contracting parties. Similar provisions are contained in the earlier Convention on the Execution of Foreign Arbitral Awards (Done at Geneva, 26 September 1927; Entered into force, 25 July 1929; L.N.T.S. ???).

Some jurisdictions have instituted a limited grace period during which an arbitral decision may be appealed against, but after which there can be no appeal. In the case of arbitration under international law, a right of appeal does not in general exist, although one may be provided for by the arbitration agreement, provided a court exists capable of hearing the appeal.

When arbitration occurs under U.S. law, either party to an arbitration may appeal from the arbitrator's decision to a court, however the court will generally not change the arbitrator's findings of fact but will decide only whether the arbitrator was guilty of malfeasance, or whether the arbitrator exceeded the limits of his or her authority in the arbitral award or whether the award conflicts with positive law. The Supreme Court has described the standard of review as one of the narrowest known to Western jurisprudence.

Arbitrators

Arbitrators are not bound by precedent and have great leeway in such matters as active participation in the proceedings, accepting evidence, questioning witnesses, and deciding appropriate remedies. Arbitrators may visit sites outside the hearing room, call expert witnesses, seek out additional evidence, decide whether the parties may be represented by legal counsel, and perform many other actions not normally within the purview of a court. It is this great flexibility of action, combined with costs usually far below those of traditional litigation, which makes arbitration so attractive.

Arbitrators have wide latitude in crafting remedies in the arbitral decision, with the only real limitation being that they may not exceed the limits of their authority in their award. An example of exceeding arbitral authority might be awarding one party to a dispute the personal automobile of the other party when the dispute concerns the specific performance of a business-related contract.

It is open to the parties to restrict the possible awards that the abitrator can make. If this restriction requires a straight choice between the position of one party or the position of the other, then it is known as *pendulum arbitration* or *final offer arbitration*. It is designed to encourage the parties to moderate their initial positions so as to make it more likely they receive a favourable decision.

No definitive statement can be made concerning the credentials or experience levels of arbitrators, although some jurisdictions have elected to establish standards for arbitrators in certain fields. Several independent organizations, such as the American Arbitration Association, offer arbitrator training programs and thus in effect, credentials. Generally speaking, however, the credibility of an arbitrator rests upon reputation, experience level in arbitrating particular issues, or expertise/experience in a particular field. Arbitrators are generally not required to be members of the legal profession.

To ensure effective arbitration and to increase the general credibility of the arbitral process, arbitrators will sometimes sit as a panel, usually consisting of three arbitrators. Often the three consist of an expert in the legal area within which the dispute falls (such as contract law in the case of a dispute over the terms and conditions of a contract), an expert in the industry within which the dispute falls (such as the construction industry, in the case of a dispute between a homeowner and his general contractor), and an experienced arbitrator.

Exchange rate systems:

Exchange rate is the price of one country's currency in terms of another country's currency. Three types of exchange rate systems are give in the following;

- Fixed exchange rate system (*the exchange rate is fixed)*
- Flexible (floating) exchange rate system *(the exchange rate is determined by market forces and changes freely)*
- Managed exchange rate system *(the exchange rates are allowed to move only within limits - if the exchange rate is moving out of the desired limit then central banks buy or sell the currencies to control the exchange rate)*

Pros and Cons of Fixed & Flexible Exchange-Rate Systems

Fixed and flexible exchange rate systems have their pros and cons that are listed below;

- Fixed exchange-rate system
  - *reduce riskiness of international trade*
  - *important anti-inflationary tool*
  - *wide swings in the values of key currencies can disrupt sound international investment decision making*

- Flexible exchange-rate system
  - *with BOP equilibrium, domestic policy makers can concentrate on domestic economy*
  - *represent true state of economy*

Factors influencing exchange-rates:

Business in international markets are strongly affected by exchange rates of host and home countries' currencies as well as with other exchange rates. The major factors that affect exchange rates are discussed in the following;

- Capital controls on any foreign currency would often work to increase its exchange rate as its trading gets restricted.

- Higher exchange-rate spreads (difference between buying and selling rate of a currency) allows more flexibility to buyers and sellers to change exchange rates.

- Strong balance-of-payments statistics of any country affect that country's currency to strengthen.

- Higher foreign-exchange reserves of any country influence that currency of that country to appreciate in value.

- Direction and strength of economic growth any country also affects its currency's exchange rates.
- Government spending increases money in circulation and also affects growth ot certain sectors of a country's economy and may also affect exchange rates.
- Relative inflation rates *(purchasing power parity - higher relative inflation leads to lower purchasing power of currency & hence lower exchange value*) also affect exchange rates with pressure on the currency of the country with higher inflation to depreciate overtime.
- Large money-supply growth increases inflation and accordingly affects the value of a country's currency.
- Interest-rate differentials *(investors will arbitrage to keep exchange rates in equilibrium)* also work like the relative inflation rates in affecting the currency of a country.
- Trends in exchange-rate movements also impact the direction of exchange rate movements, at-least in near-term future.
- In time of economic turmoil in the regains of the world investors move their capital in the currencies that are strong (safe haven) and with increasing demand their exchange rates may increase.
- Technical factors (i.e. seasonal, release of statistical data) also affect exchange rates in near-term.

Business implications of exchange rates:

Changes in exchange rates of international currencies impact business decisions in many ways. Some of the common implications of changing exchange rates are discussed below;

Marketing Decisions
- Changes in exchange rates affect demand for products (home & abroad)
- Marketer may need to change prices of products and services

Production Decisions
- Changes in exchange rates may affect production costs in various countries

Financial Decisions
- Changes in exchange rates affect sourcing of funds by firms
- Also affect cross-border remittances of funds
- and reporting of financial results into home country accounts

Lesson # 13

ROLE OF GOVERNMENTS IN INTERNATIONAL MARKETS

Type of trading environments in countries:

There are two types of trade regimes in countries around the world;

- Free Trade
  - National governments exert minimal influence on exporting and importing decisions of private firms and individuals

- Managed Trade (also called fair trade)
  - National governments intervene to ensure that exports / international business of local firms have equitable share of foreign markets – to minimize domestic job losses and market share in specific industries

Rationales for trade intervention by governments:

Governments intervene in trade in their countries and abroad for a variety of reasons. The most common reasons are discussed below;

Industry-level needs

- National defense argument – to promote local defense industry.

- Strategic industry argument – to support development of essential industry in the country (such as textiles in Pakistan)

- Infant industry argument – to support emerging industry in the country, to protect it in the infancy stage from foreign competition.

- Maintenance of existing jobs – governments intervene to support certain industries to maintain existing jobs in the economy.

- Government also intervene to help make local firms compete internationally, so that the export from the country increase.

National-level needs

- Governments also intervene as part of the economic development programs
  - import substitution / export promotion

- Government also intervene as a result of public choice (to pacify pressures from various interest groups)
  - unemployment level
  - political/interest group pressures

- Governments also intervene in trade to ensure required revenue earnings to manage the government and its programs.

- Intervention in trade is also done for regulating demand of certain products (cigarettes, alcohol etc.).

- Government also intervene in trade to influence economic relationships with other countries
  - trade deficit / political or reactionary measures

Other needs

- For achieving balance of payments adjustments.
- For price-control objectives.
- For maintaining spheres of influence by the countries and their governments.
- For preserving national identities in certain industries.
- Governments also intervene due to mere bureaucratic attitude

Forms of government controls:

Government exercise various types of tools to control / regulate foreign businesses;

Control over foreign owned businesses through

- Taxes, ownership controls, controls on profit remittances, controls on borrowings / investments
- licenses

Tariff *(taxes placed on goods involved in international trade)*

- export duties
- import duties
- transit tariff

Form of taxes on international trade can be

- *% of value (ad valorem)*
- *fixed amount on some unit of measurement (specific duty)*
- *a combination (compound tariff)*

Non tariff barriers can be

- direct price influences
  - export subsidies
  - customs valuation
  - other direct price influences

- quantity controls
  - import / export quotas
  - buy-local legislation
  - voluntary export restraint (VER)
  - embargo

- other controls
  - licensing, foreign exchange controls, administrative delays, reciprocal requirements,

restriction on services, technical & govt. regulations

Promotion of exports by governments:

Governments work to promote exports in a variety of ways. The common forms are given in the following;

Export subsidies

- *tax breaks*
- *direct payments to producers*
- *product price support*
- *cheaper resources (i.e. land, utilities)*
- *public services provided at lower cost*

Establishment of export trade / processing zones
Export financing programs
Training / assistance programs
Other governmental assistance

Lesson # 14

INTERNATIONAL CULTURAL AND SOCIAL ENVIRONMENTS
Defining Culture

Nation as a definition of society:

A society can be defined on a variety of parameters, regional, linguistic, ethnic, religious etc. Nation is a more useful definition of a society for international marketing perspective due to the following reasons;

- Business employs, sells to, buys from, is regulated by and is owned by people
- Human differences give rise to different business practices in various parts of the world
- Nation is useful definition of society
- *similarity among people is cause and an effect of national boundaries*
- *laws apply primarily along national lines*

Within a nation

- People share essential attributes perpetuated through rites and symbols of nationhood - flags, parades, rallies, common history
- Nation may include various subcultures / groups and is legitimized by being mediator of different interests
- Nation comprises people whose attributes vary widely, usually some characteristics dominate which influence how business is conducted

The concept of culture:

- Is the collection of values, beliefs, rules, behaviors, customs, attitudes, institutions and artifacts that characterize human population

- Characteristics of culture:

  - *learned patterns of behavior common to members of a given society*
  - *elements of culture are interrelated*
  - *it is adaptive*
  - *defines membership of the society*

Elements of a culture:

The elements of a culture that define it are in the following;

Social structure describes a culture
- *individuals and their attitudes, families, groups*
- *social stratification, and*
- *social mobility across the social/ economic stratas*

Language is a cultural mirror (words and discourses and their use and meaning in a particular culture)

Communication

- *low context vs high context cultures*
- *nonverbal communication constitutes over 80% of a social communication*
- *gift giving & hospitality*

Attitudes & beliefs

Attitudes and beliefs also vary across culture on various aspects. Some of the key cultural aspects of attitudes are given below;

attitudes towards:

- *time*
- *work & leisure*
- *achievement*
- *change*
- *jobs*
- *religion*
- *aesthetics*
- *moral / ethical issues*
- *other cultures & races*

Lesson # 15

INTERNATIONAL CULTURAL AND SOCIAL ENVIRONMENTS
Affect of Cultures on Business Practices

Causes of cultural differences and change:

Cultural value systems are set early in life and are difficult to change. By the age of ten most children have their basic value system in place, such as;

- *evil vs good*
- *dirty vs clean*
- *ugly vs beautiful*
- *unnatural vs natural*
- *abnormal vs normal*
- *paradoxical vs logical*
- *irrational vs rational*

Culture is transmitted by various patterns:

- – *from parent to child*
- – *from teacher to pupil*
- – *from social leader to follower*
- – *from one age peer to another*

Change in culture may come through

- – *choice or imposition*
- – *contact with other cultures*

Isolation tends to stabilize a culture and contact tends to create cultural borrowing
Language and religion also affect cultural stability

Behavioral practices affecting businesses:

In any culture a variety of behavioral practices affect the way businesses are conducted. Some of the common behavioral practices affecting businesses are given below;

- group affiliations
- role of competence
- attitudes towards gender, age & family
- importance of occupation
- communications
  - – *language, context*
  - – *silent language*
- attitudes towards work
- other behavioral differences
- degree of self-reliance
- preference for autocratic vs consultative management
- attitudes towards self-determination vs fatalism

Some management styles:

Scholars like Herzberg have researched cultures of countries around the world and have categorized countries according to business practices;

- Theory "X" - workers are generally irresponsible, unwilling to work and must be persuaded to perform their obligations
- Theory "Y" - given an appropriate work environment and in absence of exceptional disincentives, workers are dedicated to their tasks, are generally self motivated

- Decision making
  - *USA - authoritarian*
  - *Western Europe - limited co-determination*
  - *Japan - with consensus*
  - *Latin America – paternalistic*

- Corporate emphasis
  - *North America - short-term profit*
  - *Western Europe - employee & corporate interests*
  - *Japan - close cooperation between govt. & business*
  - *Latin America - highly govt. regulated*

Hofstede's dimensions of national culture:

- Power distance - *extent to which power in organizations is unequally distributed*
  - high power distance - *centralized tall, pyramid organizations, people at lower strata with lower qualifications (Philippines, Mexico, South Korea, India)*
  - Low power distance - *less centralized, flatter organizations, people at lower strata with higher qualifications (Austria)*

- Uncertainty avoidance - extent to which society feels threatened by uncertain or ambiguous situations
  - high uncertainty avoidance - *structured organizational activities, more written rules, less risk taking by managers, lower labor turnover, less ambitious employees (Germany, Japan & Spain)*
  - low uncertainty avoidance *(Denmark & Great Britain)*

- Individualism - Collectivism
  - individualism - *tendency of people to look after themselves and their immediate family (normally high in wealthy countries)*
  - collectivism - *people belong to groups or collectives and look after each other in exchange for loyalty (normally high in poor countries)*

- Masculinity - Femininity
  - masculinity - *dominant values of society are success, money, advancement (large-scale enterprises and economic growth considered important, situations of higher job stress and employees kept under higher degree of control - Japan)*
  - femininity - *dominant values of society are caring for others and quality of life (greater importance on cooperation, friendlier atmosphere, employment security, low job stress and employees allowed considerable freedom - small scale enterprises and emphasis on conservation of environment - more women hold higher level jobs - Norway)*

Culture is a human medium:

- there is not one aspect of human life that is not touched and altered by culture
- this means personality
- how people express themselves *(including shows & emotions)*
- the way they think
- how they walk
- how problems are solved
- how their cities are planned & laid-out
- how transportation systems function & are organized
- how economics & government systems work & are put together

Cultural influences on consumer behavior:

- Hierarchy of needs, which distorts demand across product categories.
- Culture based values, especially on individualistic or collective orientations, which influence purchase behavior and decision process *(individual vs family)*
- Institutions which influence consumer behavior
- Influences through cultural variations in personal factors of consumer behavior, brand loyalty, consumer involvement, perceived risk, cognitive style.

Level of context needed:

HIGH CONTEXT

- JAPANESE
- CHINESE
- GREEK
- ARABS
- SPANISH
- ITALIAN
- ENGLISH
- NORTH AMERICAN
- FRENCH
- SCANDINAVIAN
- GERMAN

LOW CONTEXT

Impact of national cultures on marketing:

- Material culture & marketing
  - *types of products suitable for individual markets*
  - *types of media available*
  - *distribution systems / storage facilities*

- Imperialism
  - *alien products are agents of change in host culture*

- Language as a culture mirror

- *most obvious difference between cultures*
- *English has large vocabulary of commercial & industrial words*
- *Eskimo has many words to describe snow*

- Cultural events & marketing opportunities
  - *Eid, Christmas, Chinese New Year etc.*

- Cultural sensitivities to products , colors etc.

Reconciliation of cultural differences by international marketer:

- **Cultural awareness**
  - managers must be aware of what cultural differences are and how these differences would influence basic functions of management
  - managers must decide carefully whether and to what extent they should adopt home-country practices to foreign environment
  - international managers need to identify the roles that individuals play in process of cultural change and in acceptance of change
  - cultural elements which may resist change should be identified and understood before planning any organizational change
  - products, services and advertising should also fit needs and perceptions of host culture
- **grouping countries together**
- **fitting needs to company position**
  - not all companies need to have same degree of cultural awareness
  - the more a change upsets important cultural values, the more resistance it will face
  - cost of change may exceed the benefits gained

Lesson # 16

DETERMINING EXPORT POTENTIAL IN INTERNATIONAL MARKETS
Preliminary Screening of Countries

International marketers may use a three stage analysis to determine which foreign countries offers best potential for exports from their companies.

Stage One: Preliminary Screening - *involves defining the physical, political, economic, and cultural environment of the countries*

Demographic/Physical Environment:

- Population size, growth, density
- Urban and rural distribution
- Climate and weather conditions
- Shipping distance
- Product-significant demographics
- Physical distribution and communications network
- Natural resources

Political Environment

- System of government
- Political stability and continuity
- Ideological orientation
- Government involvement in business
- Government involvement in communication
- Attitudes towards foreign business (trade restrictions, tariffs, non-tariff barriers, bilateral trade agreement)
- National economic and development priorities

Economic Environment

- Overall level of development
- Economic growth: GNP, industrial sector
- Role of foreign trade in economy
- Currency, inflation rate, availability, controls, stability of exchange rate
- Balance of payments
- Per capita income and distribution
- Disposable income and expenditure patterns

Social/Cultural Environment

- Literacy rate, educational level
- Existence of middle class
- Similarities and differences in relation to home market
- Language and other considerations

The export marketer will eliminate some foreign markets from further consideration on the basis of this preliminary screening. An example would be the absence of comparable or linking products and services, a deficiency that would hinder the potential for marketing products

Lesson # 17

DETERMINING EXPORT POTENTIAL IN INTERNATIONAL MARKETS
Analysis of Industry Market Potential

Stage Two: Analysis of Industry Market Potential:

After the foreign country markets are screened on the basis of their macro environments, the short listed markets are further analyzed for the industry potential. In the following are the factors that are evaluated to determine the industry potential;

Market Access:

- Limitations on trade: tariff levels, quotas
- Documentation and import regulations
- Local standards, practices, and other non-tariff barriers
- Patents and trademarks
- Preferential treaties
- Legal considerations: investment, taxation, repatriation, employment, code of laws

Product Potential:

- Customer needs and desires
- Local production, imports, consumption
- Exposure to and acceptance of products
- Availability of linking products
- Industry-specific key indicators of demand
- Attitude toward products of foreign origin
- Competitive offerings
- Availability of intermediaries
- Regional and local transportation facilities
- Availability of manpower
- Conditions of local manufacture

At the end of the stage two analysis, international marketers would be able to identify promising international markets with strong industry potential.

Stage Three: Analysis of Company Sales Potential:

The third stage of the screening process involves assessing company sales potential in those countries that prove promising based upon the earlier analysis. Following factors are considered for evaluating international markets for firm sales and profit potential;

Sales Volume Forecasting:

- Size and concentration of customer segments
- Projected consumption statistics
- Competitive pressures
- Expectations of local distributors/agents

Landed Cost:

- Costing method for exports
- Domestic distribution costs
- International freight and insurance
- Cost of product modification

Cost of Internal Distribution:

- Tariffs and duties
- Value-added tax
- Local packaging and assembly
- Margins/commission allowed for the trade
- Local distribution and inventory costs
- Promotional expenditures

Other determinants of Profitability:

- Going price levels
- Competitive strengths and weaknesses
- Credit practices
- Current and projected exchange rates

The three stage analysis would thoroughly evaluate international markets for macro level, industry level and firm sales and profit potential. The country markets that appear to be potential opportunity on the three stage analysis may then be targeted for exports.

Lesson # 18

INTERNATIONAL MARKETING RESEARCH PROCESS
Four Steps of International Marketing Research

Framework for international marketing research:

Marketing research are the formal studies of specific situations. As discussed in the earlier lectures major issue in decision making is that managers often fail to appropriately understand the issues or problems and hence end up making right decisions for wrong problems. Since international markets are often foreign to a marketer there are even more chances that the marker mat miss-understand the problems / issues. To avoid such scenarios it is beneficial first to conduct exploratory research for understanding the issues / situation better.

A business research process consists of four steps;

Step 1:

Defining the problem (the decision for which info. is needed) and research objectives along with:

- **market structure**
  - *size of market, stage of development etc.*
- **product concept**
  - *meaning of product in a particular environment*

Marketing research project may have one of the three types of objectives;

- Exploratory research - *is to gather preliminary information that will help define the problem and suggest hypothesis*
- Descriptive research - *is to describe things such as market potential for a product, demographics, or attitudes of customers*
- Causal research - *is to test hypothesis about cause-and-effect relationships*

Step 2:

Once research objectives are properly defined the marketer / researcher should then develop the detailed plan for conducting the research. A detailed research plan should include the following five aspects;

Developing the research plan

- Determining specific information needs
  - *research objectives must be translated into specific information needs*
- Plan for gathering secondary information
  - *information that already exists somewhere, having been collected for another purpose - relevant, current, impartial (objectively collected & reported)*
- Primary data collection plan
  - *information collected for the specific purpose at hand - research approaches : observation,*

survey, experiment

- Deciding contact method
  - *mail, telephone, personal*

- Detailing the sampling plan
  - *sampling unit, sample size, sampling procedure*

Step 3:

Implementing the research plan

- *data collection phase is generally the most expensive & most subject to error - wrong implementation, problems in contacting respondents, biased or dishonest answers, problems with interviewers (mistakes or short-cuts)*

Step 4:

Interpreting and reporting the findings

- *both researchers & managers must work together at this stage - researchers know methodology better while managers understand problems and possible management solutions better*

Lesson # 19

INTERNATIONAL MARKETING RESEARCH PROCESS

Secondary Data Collection

Issues in international research problem formulation:

- A major problem is the unfamiliarity with the foreign environment - lack of familiarity may lead to false assumptions, poorly-defined research problems, and, ultimately misleading conclusions about the foreign market
- To reduce part of the uncertainty, some exploratory research at the early stage of the research process is often fruitful
- A useful vehicle for such preliminary research is an omnibus survey - conducted by research agencies at regular intervals

Framework for international marketing research:

Determine research design:

- **Exploratory** (informal, unstructured) - *to gain background information, to define terms, to clarify problems & hypothesis and to establish research priorities.*
    - secondary data
    - experience survey
    - case analysis
    - focus groups
    - projecting techniques (asking participants to act in controlled/simulated conditions)

- **Descriptive research** - *to describe and measure marketing phenomena at a point in time.*
    - provides answers to questions such as;
        - who customer, competitor
        - what product, brand, design, size
        - where places of purchase, wholesale
        - when time & frequency of purchase
    - one point in time - *cross-sectional surveys, sample surveys.*
    - longitudinal - *repeat measurements on the same sample over a period of time.*

- **Causal research** - *to determine causality, to make "if then" statement.*

Identify alternative information sources:

- internet
- international publications
- country research reports
- trade / production statistics
- trade / diplomatic offices
- local chamber of commerce

Secondary data information sources:

Secondary data may be readily available and may also be cheaper than primary research. International marketers, however, need to very carefully evaluate the relevance, objectiveness and timeliness of the secondary data. Following aspects about the secondary data need to be evaluated for use in any international marketing research;

- **Secondary data:**
    - *what was the purpose of study?*
    - *who collected the information?*
    - *what information was collected?*
    - *how was the information obtained?*
    - *how consistent is the information with other information?*

- **Data quality:**
    - *timeliness, accuracy, relevance*

Issues with secondary research:

- Accuracy of data may vary due to variation in definitions of various variables
- Quality and reliability of information may also be compromised by the mechanisms that were used to collect them
- International trade statistics do not cover cross-border & undocumented activities
- Comparability of data across countries is constrained as different resources on a given item produce contradictory information
- One way to reconcile these differences is to triangulate - obtain information on the same item from at least three different sources and speculate on possible reasons behind these differences
- Comparability of data may also be hindered by the lack of functional or conceptual equivalence - functional equivalence refers to the degree to which similar activities or products in different countries fulfill similar functions - conceptual equivalence reflects the degree to which a given concept has the same meaning in different environments
- Finally, in many developing nations, secondary data are very scarce. Information on retail and wholesale trade is especially difficult to obtain

Lesson # 20

INTERNATIONAL MARKETING RESEARCH PROCESS

Primary Data Collection

Primary data:

- **Data collection**
    - sample must be representative of the population
    - questions must be appropriate to various cultural and social backgrounds of the respondents
    - data collection process must be feasible in every international market
- **Execution**
    - controls need to be decided and implemented so that the data collection may be correctly implemented
    - cross-check information from various sources for relevance & accuracy

Issues with primary global research:

- Sampling problems arise out of biased respondents, difficulties in reaching to the respondents, non-availability of accurate telephone and street directories

- Different languages and cultural variations cause translation and meaning problems

- Even if the interviewee is successfully reached, there is no guarantee that he or she will cooperate and furnish the desired information. There are also different reasons for nonresponse - may be due to culture, govt. control, attitude towards privacy, inexperienced researcher etc.

- A focus group is a loosely structured free-flowing discussion among a small group of target customers facilitated by a professional moderator - moderators need to be culturally sensitive and familiar with the local language and social interaction patterns

- Questionnaires need to fulfill the criteria of conceptual, functional, translation and scalar equivalence

- Two procedures often used in practice to avoid sloppy translations are back-translation and parallel-translation

- Sampling plan has added complexity in international research - there may be absence of sampling frames and various cultural hurdles - desired sample sizes and criteria of target population also varies

- Viable contact methods also vary due to prevailing cultural norms in different countries
- Collection of information is affected by courtesy, social desirability and other biases

Lesson # 21

INTERNATIONAL MARKETING RESEARCH PROCESS
Analysis, Interpretation and Report Presentation

Analysis, interpretation & report presentation:

Marketers / researchers should ensure that the following aspects are addressed in the research analysis report;

- data source must be identified
- data projection must be explained
- identify those interviewed
- highlight alternative courses of action

- for translation of questionnaires and the international marketing research analysis report the following should be observed;
    - equivalence of language
    - method of translation *(different cultural & linguistic backgrounds lead to different ways of perceiving the world)*
    - measurement & instrumentation

Problems in international marketing research:

- **Problems of numerous markets:**
    - definition error caused by the way problem is defined
    - instrument error which arises from questionnaire and the interviewer
    - frame error - occurs when sampling frames are available from different sources in different countries
    - selection error which results from the way actual sample is selected from the frames
    - non-response error - which results when different cultural patterns of non-response are obtained

- **Problems with data:**
    - secondary data - comparing several markets
    - primary data
        - language
        - social organization
        - obtaining responses
        - infrastructure constraints
        - convergence / divergence of consumer behavior across cultures

Research techniques for analyzing international data:

- **Demand Pattern Analysis**
    - Industrial growth patterns provide an insight into market demand. Because they generally reveal consumption patterns, production patterns and are helpful in assessing market opportunities.

Additionally, trends in manufacturing production indicate potential markets for companies that supply manufacturing inputs. At the early stages of growth in a country, when per capita incomes are low, manufacturing centers on such necessities as food and beverages, textiles, and other forms of light industry. As incomes rise, the relative importance of these industries declines as heavy industry begins to develop. Countries at different levels of per capita income, thus, have diverse patterns of consumption & production. Such data can be gathered on macro levels for most countries. This simple technique, known as multiple-factor index approach, allows insights into consumption-production profiles of many countries. Though relatively crude, it gives a clue both to a country's present position and the direction it is going. This in turn helps the firm identify possibilities for export or local production in that market.

- **Multiple-Factor Indexes**
  - A multiple-factor index measures market potential indirectly, using as proxies a number of variables that intuition or statistical analysis reveal to be closely correlated with the potential for the product in question. A model for forecasting the demand for television sets in international markets could be a function of the market size for TV and consumer's capacity to by TV. Market size can be indicated by the proxy variables of number of households, percent of literacy, percent of urbanization etc. Capacity to buy can be indicated by per capita income, index of standard of living, price per unit, and price per unit relative to per capita income etc.

- **Income Elasticity Measurements**
  - Income elasticity describes the relationship between demand for a good and changes in income. Studies have shown that basic necessities such as food and clothing are characterized by inelastic demand. Stated differently, expenditures on products in these categories increase but at a slower percentage rate than do increase in income. Demand for durable consumer goods such a furniture and appliances tends to be income elastic, increasing relatively faster than increase in incomes.

- **Market Estimation by Analogy**
  - For countries with limited data, estimating market potential can be a precarious exercise. Given the absence of hard data, one technique - estimation by analogy - can be useful in getting better feel for market potential in such countries. This estimation is done in two ways:
    - The **cross-section comparison approach** involves taking the known market size of a product in one country and relating it to some economic indication, such as disposable personal income, to derive a ratio. This ratio (of product consumption to disposable personal income in above illustration) is then applied to another country where disposable personal income is known in order to derive the market potential for the product in that country.
    - The **time-series approach** estimates the demand in the second country by assuming that it has the same level of consumption that the first country had at the same level of development (or per capita income) at a different point in time.

- **Comparative Analysis**
  - One of the unique opportunities in global marketing analysis is to conduct comparisons of market potential and market performance in different country markets at the same point in time.
  - Gap analysis analyzes the difference "gap" between estimated total market potential and a company's sales. The gap can be divided into four categories: *Usage gap, Competitive gap, Product-line gap, Distribution gap*

- **Cluster Analysis**
  - The objective of cluster analysis is to group variables into clusters that maximize within-group similarities and between-group differences. Cluster analysis using macroeconomic and consumption data is a favored technique for identifying similar markets. The goal here is to ensure that the countries with the greatest potential make it to the short list for further investigation.
  - Countries can also be clustered based on product diffusion patterns **-** the rate at which new products are adopted in a market. If such segments can be derived, managers could use information from the **lead market**, about variables such as growth in market size, when sales reach a peak, to make inferences on the same variables for **lagging markets**.

Lesson # 22

MODES OF ENTRY INTO INTERNATIONAL MARKETS
Exporting

Modes of entry into international markets:

- Exporting
- International Licensing
- International Franchising
- Specialized Modes
- Foreign Direct Investment
- Countertrade

Exporting:

- Simple mode of internationalizing a domestic business

- Advantages
  - allows a firm to quickly enter the foreign market
  - often involves less financial exposure
  - permits a firm to enter a foreign market gradually, and in this way allows it to assess local conditions and fine-tune its products to better suit the needs of the customers in the host country

- Disadvantages
  - little control over marketing and distribution in the host country
  - can quickly lose market to other firms
  - in case of many goods, transportation costs may be high rendering the exported products too expensive for host markets

Forms of exporting:

Indirect exporting
- occurs when a firm sells its products to a domestic customer, who in turn exports the product, in either its original form or a modified form

Direct exporting
- involves sales to customers - either distributors or end-users - located outside the firm's home country

Intracorporate transfers
- is selling of goods / services by a firm in one country to an affiliated firm in another

Export intermediaries:

- **Export management companies**
  - a firm which acts as a client's export department - an EMC's staff are typically knowledgeable about the legal, financial and logistical details of exporting and importing.
  - can be commission agents or may take title of goods by profiting from the difference between

local buying price and selling price to the foreign customer

- **Enterprise networks**
  - a group of companies producing related or complementary products pooling resources together to form marketing companies

- **International trading companies**
  - are firms which are directly engaged in importing and exporting a wide variety of goods on their own account

Export and import management:

Terms of Shipment

- **Ex-works (EXW) -** *at the point of origin*
  - The exporter agrees to deliver the goods at the disposal of the buyer to the specified place on the specified date or within a fixed period. All other charges are borne by the buyer.

- **Free Alongside Ship (FAS) -** *at a named port of export*
  - The exporter quotes a price for the goods, including charges for delivery of the goods alongside a vessel at a port. The seller covers the costs of unloading and wharfage. Loading onto the ship, ocean transportation, insurance, unloading and wharfage at a port of destination and transport to the site required by the buyer are on the importer's account.

- **Free on Board (FOB**) **-** *at a named port of export*
  - In addition to FAS, the exporter undertakes to load the goods on the vessel to be used for ocean transportation and the price quoted by the exporter reflects this cost.

- **Cost and Freight (CFR) -** *to a named overseas port of disembarkation*
  - The exporter quotes a price for the goods, including the cost of transportation to a named overseas port of disembarkation. The cost of insurance and the choice of the insurer are left to the importer.

- **Cost, Insurance and Freight (CIF) -** *to a named overseas port of disembarkation*
  - The exporter quotes a price including insurance and all transportation and miscellaneous charges to the port of disembarkation from the ship or aircraft. CIF costs are influenced by port charges (unloading, wharfage, storage, heavy lift, demurrage), documentation charges (certification of invoice, certification of origin, weight certificate) and other miscellaneous charges (fees of freight forwarder, insurance premiums).

- **Delivery Duty Paid (DDP) -** *to an overseas buyer's premises*
  - The exporter delivers the goods with import duties paid including inland transportation from the docks to the importer's premises.

Terms of payment of an export transaction:

- Cash with order
  - Cash payment when order is placed

- Confirmed irrevocable letter of credit
  - A letter of credit issued by the importer's bank and confirmed by a bank, usually in the exporter's country. The obligation of the second bank is added to the obligation of the issuing bank to honor

drafts presented in accordance with the terms of credit.

- Unconfirmed irrevocable letter of credit
  - A letter of credit issued by the importer’s bank. The issuing bank still has an obligation to pay.

- Revocable letter of credit
  - A letter of credit that may be withdrawn from the beneficiary at any time without prior notice to the exporter. It does not carry a bank’s obligation to pay.

- Sight Draft
  - A draft so drawn as to be payable on presentation to the drawee (usually the buyer).

- Time Draft
  - A draft maturing at a certain fixed time after presentation or acceptance.

- Open Account
  - No draft drawn; transaction payable when specified on invoice.

- Consignment
  - A shipment that is held by the importer until the merchandise has been sold, at which time payment is made to the exporter.

Other export documents / terms:

- A bill of lading
  - is a contract between the exporter and the shipper indicating that the shipper has accepted responsibility for the goods and will provide transportation in return for payment.
  - A straight bill of lading is non-negotiable.
  - A shipper’s order bill of lading is negotiable; it can be bought, sold or traded while the goods are still in transit, (title of goods can change hands) - normally the original bill of lading is needed to take possession of goods.

- Air way bill – a contract between the exporter and the air-cargo company.

- Country of origin certificate – certifying where the goods were manufactured

- Commercial invoice / Consular invoice *from consulate office of importing country in importing country language*

- LC margin – a percent of payment of the total import amount paid by the importer to his bank for the bank to issue a letter of credit for the whole value of the import

- Pre-Shipment inspection – inspection of the goods done by or on behalf of the importer before the shipment

- Export packing list – a list in the export documents listing the packaging and items in each packing

- Insurance certificate – issued by an insurer for the insurance of the export merchandise

- Export / Import registration – required in various countries to allow firms to import or export goods

- Export / Import license – a license needed in some countries for specific imports or exports

- Freight forwarder – a company involved in packing and shipment of export goods
- Customs / Clearing Agent – company involved in dealing with the customs clearance of imported or exported goods
- Bonded warehouse – a designated warehouse where imported goods may be stored prior to the payment of import duties. Importers pay customs duties when they take the goods out of the bonded warehouse
- Marking of the shipments – markings on the outer packaging of the export consignment for the purpose of identification
- Marine cargo insurance (special one time / open policy) – export goods' insurance for the transportation
- Containers – metal containers (normally 20 or 40 feet long) for safe transportation of cargo by sea
- Bulk-break – normally goods are transported by sea in large metal containers – some exporters may not have enough cargo to fill a container then the cargo companies combine cargos from a number of exporters to fill a container for shipment to a destination

Lesson # 23

MODES OF ENTRY INTO INTERNATIONAL MARKETS
Licensing

Licensing:

Is a contractual arrangement in which a firm (the licensor) sells the right to use its intellectual property (technology, patents, work methods, brand names, trade marks, copyrights, and company name) to a firm (the licensee) in return for fees

Roles of licensing in internationalization:

- helping firms survive and compete within a rapidly changing international industrial environment

- factors contributing to rapid growth of licensing
  - protectionism and regulation of FDI
  - licensing of universities research results
  - emergence of small, high-technology firms
  - rising R&D costs
  - shortening product life cycles
  - cross-licensing

Licensing contract:

I licensing contract defines the terms of agreement between a licensor and a licensee. It is important that the contract adequately covers all the important aspects of the relationship. I licensing contract normally includes the following;

- boundaries of the agreement
  - The first step in negotiating a licensing contract is to specify the boundaries of the agreement, that is which rights and privileges to be included in the agreement and the issues which are not to be included.

- compensation
  - compensation under a licensing agreement is called a royalty - can be a flat fee, a fixed amount per unit sold, or a percentage of sales of the licensed product or service.

- rights, privileges, constraints of the licensee and the licensor

- dispute resolution mechanism in case any dispute arises

- contract duration for the licensing agreement

Licensing risks:

It is important that both the licensee and the licensor understand the risks involved in any such agreement so that steps are taken to avoid any issue that might arise in future. Key issues that a licensing association may face are in the following

- limiting market opportunities for the licensor and the licensee if they both agree to work with each others and not with any other firm in similar business
- the licensor may be creating a future competitor in form of the licensee
- loss of control of technology by the licensor as information and rights of use are allowed to the licensee
- minimum performance by licensee may be agreed in the contract, but in reality the potential for the business may be much larger in the market – licensee may opt to just achieve the minimum performance to fulfill the contractual obligations
- misuse of trademarks by the licensee

Critical success factors of licensing:

In the following are the critical success factors of a licensing agreement;

- avoiding licensing arrangements with any firm that could become future competitor
- trade protection
- specifying compensation practices for breaching agreement
- setting standards for performance, quality
- careful selection and evaluation of prospective licensee
- maintain long term relationship with licensee

Lesson # 24

MODES OF ENTRY INTO INTERNATIONAL MARKETS
Franchising

Franchising:

a form of licensing

- a contractual arrangement in which a firm (the franchiser) sells the right to use its intellectual property (technology, patents, work methods, brand names, trade marks, copyrights, and company name) to a firm (the franchisee) in return for fees

- The franchiser provides significant assistance and/or exercises significant control over the franchisee's method of operation.

Types of franchise agreements:

- Product/trade name franchises
  - distribution of product in a specified territory or location with the use of manufacturer's trademark.
  - car dealerships, petrol service stations, soft-drink bottles.

- Business format franchises
  - incorporates the licensing of a trademark for business in a specified territory along with an entire system for conducting a business.
  - These now account for nearly 75% of all franchise businesses, examples are McDonalds, KFC, Bodyshop, Giordano concept shops etc.

Franchising strategies for rapid growth in international markets:

Single-unit franchising
  - *the franchiser grants to an individual franchisee the right to operate a single unit within a defined territory.*

- Multi-unit franchising
  - *involves granting the franchisee the right to operate more than one franchise from the same franchiser*

- Conversion franchising
  - *acquiring and converting existing business into a franchise*

- International franchising commonly involves "Master Franchising" and joint-ventures

- Creative franchising can include many things ranging from money-back guarantees, and stock ownership, to the use of sophisticated management techniques

Key considerations in franchising:

- franchising package must be sound and cohesive, adapted to environment of target country
- franchiser must be able to provide value to franchisees on continuous basis

- adequate financing
- careful selection of franchisees
- building strong cordial relationships with franchisees
- providing continuing support to franchisees
- compliance with foreign regulations

The franchiser's balance:

- **Positive factors**
  - demonstration effect
  - rapid expansion of business
  - franchisee's financial contribution
  - franchisee's motivation and local knowledge
  - low risks involved

- **Negative factors**
  - lacks ultimate control
  - demands of training
  - protection of intellectual property
  - creating future competitors
  - misuse of franchise rights
  - low profitability

The franchisee's balance:

- **Positive factors**
  - well known brand name
  - training
  - low failure rate
  - continuing technology and management skills transfer
  - financing support
  - independent yet linked to larger business and an international network

- **Negative factors**
  - inappropriate or unfamiliar brand name
  - exaggerated or deceptive claims
  - inadequate support with purchase requirements
  - unsuitable technical, managerial or marketing know-how
  - lack of security
  - excessive initial investment
  - proliferation of outlets
  - disadvantage in negotiations

Lesson # 25

MODES OF ENTRY INTO INTERNATIONAL MARKETS
Countertrade, Specialized Modes and Direct Investment

Countertrade:

- The sale of a good, service, know-how or system in one direction is conditional upon the sale of a good or service as part or full payment in the reverse direction.

- More than 20% of world trade is financed through countertrade transactions.
  - world debt crisis
  - circumvention of exchange controls
  - bilateralism
  - entry into new markets
  - major growth opportunities in emerging markets lacking hard currency and cash-strapped countries

Forms of countertrade:

- **Barter**
  - *simplest form of countertrade, in which each party simultaneously swaps its products or services for the products or services of other party*

- **Compensation Deal**
  - *semi-barter or simple compensation* **-** *importer makes part payment in cash and balance in goods or services*

- **Counterpurchase (Parallel Barter)**
  - *two separate contracts specifying products to be exchanged*
  - *one contract for payment of exported goods*
  - *second for exporter's counter-purchase obligation with penalty for non-fulfillment*

- **Advance Purchase**
  - exporter buys goods in advance from countertrading country before making exports to that country

- **Buy-Back Agreement**
  - also called compensation agreement
  - one party exports production equipment, machinery, technology, or turnkey plant to another party - the exporter buys-back part of the output as compensation

- **Offset Agreement**
  - used often in military-related or technology purchases (air crafts)
  - exporting firm permits certain portion of purchase to be produced or assembled in the importing country - called Direct Offset.
  - may take the form of co-production, licensing, subcontracting, or joint venture
  - Indirect Offsets do not relate to the purchase equipment - that is some other equipment is produced or assembled in the importing country

- **Clearing Accounts**
  - a refined form of barter done at government level on log-term basis covering broad range of

products
- clearing accounts established to track credits and debits of trades
- balance in accounts over the long run

- **Switch Trading**
  - three or more parties required to complete countertrade transactions
  - one party not willing to accept all the goods or clearing credits received in the transaction
  - professional switch trader or a bank steps in and provides a secondary market for the goods or credits using own network of firms and personal contacts

Specialized entry modes:

Management Contracts
- is an agreement where one firm provides managerial assistance, technical expertise or specialized services to a second firm for some agreed period in return for a flat fee or a percentage of sales. (such as hotels)

Turnkey Projects
- is a contract under which a firm agrees to fully design, construct and equip a facility and then turn the project over to the purchaser when it is ready for operation. (such as the motorway)

Turnkey projects:

- **Turnkey Plus projects**
  - may include feasibility study or management of the completed facility in the operational phase - project operators may also be required to assist the client organization in securing sources of finance or to be involved in equity participation in the completed facility.

- **Turnkey failures**
  - minimum investment required in the project by the turnkey supplies
  - commission gap due to contractor's emphasis on hardware and equipment rather than skills transfer.
  - indigenization of operation of the facility done too soon.

Types of foreign direct investment:

An investment in foreign country that also brings at least 10% ownership rights (voting control) is termed as a direct investment. Direct investment not only brings in capital, it also brings into a country latest technologies and management expertise. Forms of direct investments are in the following;

Subsidiary establishment
- the greenfield strategy
  - *starting a new operations from scratch*
- acquisition strategy
  - *buy an existing firm conducting business in the host country*

Joint venture
- *when two or more firms agree to work together and create a jointly owned but separate firm to*

promote their mutual interests

Managing a joint venture:

A joint venture is usually managed in one of the three ways:

– *The parent firms may jointly share management with each firm appointing key personnel who report back to the executives of the parent.*
– *One parent may assume primary responsibility.*

– *An independent team of managers may be hired to run the joint venture.*

A non-joint venture strategic alliance may be formed merely to allow the partners to overcome a particular hurdle that each faces in the short run.

Lesson # 26

MODES OF ENTRY INTO INTERNATIONAL MARKETS
Factors Influencing FDI

Foreign direct investment not only brings in capital, it also brings in latest technologies and modern management practices. Such investments are crucial to ensue that any country's industries would be able to create products and services in future that can be sold in international markets. As such FDI is important not just for the developing countries, it is also equally important for developed nations. Industrialized nations are among the largest recipient of FDI.

Factors that are important for a country to attract FDI are give in the following;

Supply factors:

- Lower production costs for certain products / industries compared with other countries attract foreign investment in those industries
- Better logistics, warehousing and transportation infrastructure and systems (by air, sea or over land) also attract foreign direct investment
- Abundant availability of natural resources and other factors of production lead to cheaper prices of these resources and may attract foreign direct investment
- Firms also make foreign direct investment in foreign countries to access to key technologies

Demand factors:

- Closer and good customer access also factors to bring in foreign direct investment
- Advantages in marketing, being closer to customers, may also bring in FDI
- Firms may need to establish operations in foreign markets for exploiting of competitive advantages
- Companies that have strong global brands may want to have full control over their brands in world markets and my engage in FDI for preservation of brand names and trade marks
- Customers of firms are also often traveling / moving to foreign countries. Firms may also need to establish operations in foreign countries due to their customers mobility

Political factors:

- Firms may also invest in foreign countries for avoidance of any trade barriers posed by the home of host countries
- Home country or foreign country government may provide economic development incentives for FDI, encouraging firms to invest overseas.

Lesson # 27

MODES OF ENTRY INTO INTERNATIONAL MARKETS
Managing Joint Ventures

As there are good business and accounting reasons to create a joint venture (JV) with a company that has complementary capabilities and resources, such as distribution channels, technology, or finance, joint ventures are becoming an increasingly common way for companies to form strategic alliances. In a joint venture, two or more "parent" companies agree to share capital, technology, human resources, risks and rewards in a formation of a new entity under shared control.

Important Factors to be Considered Before a Joint Venture is Formed

- screening of prospective partners
- joint development of a detailed business plan and shortlisting a set of prospective partners based on their contribution to developing a business plan
- due diligence - checking the credentials of the other party ("trust and verify" - trust the information you receive from from the prospective partner, but it's good business practice to verify the facts through interviews with third parties)
- development of an exit strategy and terms of dissolution of the joint venture
- most appropriate structure (e.g. most joint ventures involving fast growing companies are structured as strategic corporate partnerships)
- availability of appreciated or depreciated property being contributed to the joint venture; by misunderstanding the significance of appreciated property, companies can fundamentally weaken the economics of the deal for themselves and their partners.
- special allocations of income, gain, loss or deduction to be made among the partners
- compensation to the members that provide services

Joint venture decay and failure:

- Joint ventures seem to have a life cycle

- At a certain point in the life span of the joint venture, the high level of mutual interest which prevailed at the time of its formation grows weaker

- There are several principal causes of failure or difficulty in joint venture partnerships

  - *the failure of strategic vision*
  - *the failure to evaluate the intentions and capabilities of the local partner*
  - *a classic error is made in the choice of a distributor*
  - *believing gabout the partner/s without seeing*
  - *failure to understand the strategic logic of one's own partner*
  - *haste in negotiation*
  - *lack of organizational support for the JV*
  - *staff not prepared to deal with the political and cultural complexity of the local government*

Drivers behind successful joint ventures:

- Pick the right partners
- Establish clear objectives from the beginning

- Bridge cultural gaps
- Top management commitment and respect
- Incremental approach works best

Lesson # 28

MODES OF ENTRY INTO INTERNATIONAL MARKETS
Entry Strategies

Choosing a mode of entry in international markets:

Choice for an appropriate mode of entry into international markets would depend on a host of factors. The key factors are given as follows:

- Nature of business
- Size of the company
- Resource availability to the firm
- Firm's international strategy
- Need for control over business and brands
- Ownership advantages
  - *A firm holds unique competitive advantage that overcomes problems of competing in foreign countries i.e. brand names, technology, economies of scale etc.*
- Location advantages for the firm
- Internationalization advantages for the firm
  - *a firm must benefit more from controlling the foreign business activity than hiring another company to conduct the business*
- Market size & growth

6. Risk of operating in the foreign market
7. Government regulation
8. Competitive environment in the country
9. Local infrastructure

All these factors combined determine the overall market attractiveness of the countries being considered

Classification of countries for entry mode selection:

- Markets can be classifies in five types of countries based on their respective attractiveness
  - Platform
    - *Countries that can be used to gather intelligence and establish a network- i.e Dubai*
  - Emerging
    - *i.e Vietnam, Philippines – companies should build up an initial presence, i.e. via a liaison office*
  - Growth
    - *Early mover advantages often allows companies to build up a significant presence in order to capitalize on future market opportunities*
  - Mature & Established
    - *These countries have far fewer growth prospects than other types of markets – often times, local competitors are well entrenched*

Entry modes and foreign market development:

Depending on the nature of foreign markets the suggested modes for entry are as follows;

Platform countries
- Establish a base to learn, collect information and set up contacts – an office perhaps

Emerging markets
- Agents – representative office

Growth markets
- Joint venture – local subsidiary

Maturing markets
- Joint venture – local operations

Established markets
- Joint venture – acquisition

Entry strategies into international markets:

Selecting and changing entry modes

- in a specific country, market attractiveness and the pressure to produce locally are often the most important criteria for selecting entry modes
- by and large governments of developing countries prefer foreign firms to manufacture locally, or at least to assemble imported parts and components within the country
- due to lack of information decisions on entry modes are therefore have to be made under great uncertainty even though they may affect the well-being of the firm for many years to come

Distribution agreements

- presently there is an increasing trend towards more direct involvement in world markets, especially among larger and more experienced firms - especially in larger markets
- distribution agreements, however remain crucial for smaller, less experienced firms and for markets or market segments which are presently of secondary importance
- in many countries there are also restrictions on foreign firms regarding certain activities - where they need to join with local partners
- traditional Chinese distributors, dominating most of the South & East Asian markets, tend to look at distribution as a cash management business
- successful partnerships require a fit in strategies, resources, culture and organization
- some Western distributors have been in Asia since colonial times - Diethelm, East Asiatic, Hagemeyer, Liebermann, Inchcape, Jardine and Swire
- Japanese *sogo shosha*, with dominant role in Japan have often failed to come up to the expectations of foreign firms with limited sales

Choice of location

- the choice of location for the firm within a country / region has to be made at a very early stage of market entry and carries far-reaching consequences
- the choice of location is influenced by location of joint venture partner, location of customer/s, close to supplier/s, costs, availability of operational infrastructure / supporting industries

Critical mass & optimism traps

- any entry decision is connected with the question of how many resources should be deployed in the country
- the theoretical answer is easy: enough to make an impact on the market, but not so much as to waste capital or human resources which could be used more efficiently elsewhere
- in practice the problem lies in the identification of the critical mass threshold where any additional input of resources results in a disproportionately high growth in output
- this can normally be found by taking the most successful (often the largest) competitor in the market as the benchmark

Competitive moves for entry into international markets:

- **First mover advantage**
  - Unilever still dominates Indonesian and Pakistani markets, P&G those of Philippines - neither of them have been able to make large inroads into the other's territory
  - more recently, Japanese firms have opened up new markets for themselves ahead of Western firms and shaped them to their standards - in Vietnam motorcycles are already called Hondas - and repair shops *Hon-Da* service station

- **Late entry strategies**
  - the things that work in favor of the first mover represent entry barriers to firms which enter a market later than competitors
  - a frontal attack requires superior resources
  - a late entry is advisable when competition is in turmoil because of technological change in the industry or changes in the marketplace - or due to changes in distribution systems

Lesson # 29

INTERNATIONAL STRATEGIC ALLIANCES

Cooperation between international firms can take many forms, such as licensing of proprietary technology, sharing of production facilities, co-funding of research projects and marketing of each other's products using existing distribution networks.

These forms of cooperation are known collectively as **strategic alliances** – *business arrangements where two or more firms choose to cooperate for their mutual benefit*

A **Strategic Alliance** is therefore, a mutually beneficial long-term formal relationship formed between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. It is a synergistic arrangement whereby two or more organizations agree to cooperate in the carrying out of a business activity where each brings different strengths and capabilities to the arrangement.

Strategic alliances bring enterprises the following benefits:

- Increase in capital for research and product development and yet lower risk (Innovation)
- Decrease in product lead times and life cycles (time pressures)
- Ability to bring together complementary skills and assets that neither company could easily develop on its own
- Access to knowledge and expertise beyond company borders (technology transfer)
- Rapidly achieve scale, critical mass and momentum (Economies of Scale - bigger is better)
- Expansion of channel and international market presence (enter a foreign market)
- Building credibility in the industry and brand awareness
- Providing added value to customers
- Establishing technological standards for the industry that will benefit the firm

Strategic alliances come in all shapes and sizes, and include a wide range of cooperation, from contractual to equity forms.

Impetus for international alliances:

There are a number of factors contributing towards the growing trend of forging strategic alliances in international markets.

- **Technological**
  - – Rapid technological change exceeds capability of one firm.
  - – Technological skills/expertise are more widely dispersed throughout the world than in the past.
  - – Shorter product life cycles require rapid technological development
  - – Improved information flow worldwide eases alliance formation

- **Managerial**
  - Leverage expertise of foreign firms in their local markets.
  - Tailor products to local needs.
  - Growth in acceptance of cooperation.
  - Difficult to maintain competitive advantage alone, without a global perspective.

- **Economic / regulatory**
  - Enjoy global economies of scale
  - Open new markets to develop synergies and learning curve benefits.
  - Attractive way to utilize excess capacity given slower growth in domestic markets.
  - Local content laws and other countertrade measures firms to conduct business with other firms.

- **Strategic**
  - Gain access to otherwise closed markets.
  - Take advantage of synergies due to the emergence of products with a global appeal.
  - Share risks of competing in a certain market.
  - Retaliate / defend against competitors.

Benefits of strategic alliances:

- Ease of market entry
- Shared risk
- Shared knowledge and expertise
- Synergy and competitive advantage

Scope of strategic alliances:

Comprehensive alliances

- when participating firms agree to collaboratively perform multiple stages of the process by which goods and services are brought to the market - such as R&D, design, production, marketing and distribution.

Functional alliances

- production alliances
- marketing alliances
- financial alliances
- R&D alliances

Pitfalls of strategic alliances:

There are many reasons that contribute towards the failure of strategic alliances. International markets need to avoid the following issues in the cse of forming strategic alliances;

- Incompatibility of partners

- Issues in having access to each other's information
- Disagreements over distribution of earnings
- Issues due to potential loss of autonomy
- Changes in motivations due to changing circumstances over time

Management of strategic alliances:

For managing alliances successfully in international markets managers need to ensue the following;

- Selection of right partners
  - *compatibility*
  - *nature of the potential partner's product and services*
  - *the relative risk of the alliance*
  - *the learning potential of the alliance*

- Select the right form of ownership of the alliance

- Joint management considerations
  - shared management agreement **-** *both partners participate actively*
  - assigned arrangement **-** *one partner takes primary responsibility*
  - delegated arrangement **-** *all the partners delegate management to the joint venture's executives*

- Organizational requirements
  - setting up a global partnership
  - organizational learning
  - provision for exit

Right alliance partner selection:

- **The selection process**

  - the selection of a potential partner is the most crucial and difficult decision the foreign firm will make, and one which will have long-term ramifications for its future in the target country
  - partner selection is crucial because the foreign firm's expansion and strategic success in a country will depend on the capabilities of the partner, the partner's willingness to cooperate, and the climate of mutual trust which must be allowed to develop between both
  - partner selection is difficult because it is usually undertaken at a time when the experience of the foreign firm in the target country is limited and when available information is often unsystematic and sketchy
  - studies have shown that partner selection in Asia Pacific is very *ad hoc* and that Western firms conduct far too little advance planning of the whole process
  - this behavior contrasts sharply with the Japanese approach to foreign markets **-** as a rule the representative office of a Japanese company will be established far in advance of any investment commitment and will often be staffed with at least one full-time Japanese expatriate manager, whose task is primarily to collect information on market opportunities and potential candidates for partnership and acquisition

- **The selection criteria**

  - it is difficult to list the features of an ideal foreign country partner, since these will invariably depend on the criteria of the international firm
  - a strategic fit exists when the long-term objectives or motives of the partners are compatible - the most favorable strategic fit occurs when both partners approach the joint venture with a desire to build and develop a new business - this is essentially the matching of two venturing motives
  - there is no guarantee that the partners will not experience serious disagreements within the venture; neither does it imply that both partners benefit equally from their joint undertakings, nor that the partnership is of equal importance to them
  - the foreign country partner should be successful in its home country, but remain open to initiatives from the international partner - the firm should have good contacts with authorities, politically influential but at the same time neutral enough to survive and manage shifts in power, should be aggressive without taking too many risks and (most importantly) be reliable and trustworthy

Partner selection and cultural fit:

- All empirical evidence on international joint ventures shows that cultural differences lead to numerous problems and conflicts within partnerships - any cooperative venture between Western and Asian partners is bound to run into cross-cultural problems of various kinds
- The heterogeneity of Asian peoples has prevented the emergence of a monolithic business culture
- If there is anything all Asians have in common and which differs from the West, it is the high degree of importance attached to personal relationships in preference to contractual ones
- The establishment of a cultural fit therefore requires the joint venture partners to plan for a more personal involvement by their managers

Partner cultural differences:

- Generally speaking, there are two salient differences between Asian and Western corporate culture

  - in South &East Asia many firms still tend to be over dependent on the decisions of the person at the top, who often is owner or founder of the company
  - local firms (particularly in East Asia), tend to emphasize both the firm’s and the employee’s duty to contribute to society and to strengthen the domestic economy - this nationalistic orientation can make it difficult for Western firms to cooperate with Asian firms on the basis of mutual benefit
  - national and ethnic cultures are also shaped by the differences which arise from sociological, religious and philosophical norms and beliefs
  - a small Asian firm without any procedures will have difficulty in cooperating with a bureaucratically organized Western multinational - the entrepreneur who heads a large Asian conglomerate, accustomed to making all the important decisions himself, will resist negotiating with a middle manager of a Western firm

Negotiating partnership agreements:

- Negotiating and structuring a partnership agreement is a complex and multifaceted task anywhere in the world
- Many of the negotiation approaches used in Europe or the USA can be used in Asia as well
- Good preparation through systematic information gathering and consensus building among all members of the negotiation team about objectives, strategy and tactics are as essential in Asia as elsewhere.

- There are, however, certain peculiarities of the Asian and Latin American mind which merit special attention.
- Asians and Latin Americans are reputed to be good negotiators, to enjoy bargaining, and in the process display considerable patience and perseverance in extracting additional information from other side.
- Rarely is a deal closed without giving in to some extent in order not to let the other party lose face
- A good relationship will bring a high degree of trust to the negotiation table.
- It obliges both parties to be reasonable, act in good faith and respect other's opinion; hence overly contractual to legalistic approach is frowned upon
- In Asia and many developing countries, agreements are rarely concluded within short time periods - often the need to clear certain issues with the government or other parties invisible at the negotiation table slows the decision process considerably

Managing partnerships:

Managers need to address the following organizational aspects for management of partnerships;

Organizational design

- – initial strategic move of the partnership
- – development of operational capabilities

Staffing

- – need more than technical competencies
- – be part of core international managers group
- – capable of synthesizing and transmitting learning experiences to the institutional memory

Control over strategic alliance

Communication in the alliance partnership

Lesson # 30

INTERNATIONAL CONSUMER MARKETS

International consumer markets are described as all the individuals & households in international markets who buy or acquire goods & services for personal consumption.

Markets (and those which they serve) have to be understood before marketing strategies can be developed. The consumer market buys goods and services for personal consumption. At present, the world consumer market consists of 6.2 billion people.

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

After the following section examines the influences that affect buyers, a discussion is presented which examines how consumers make actual buying decisions. Decisions vary based on the degree of buyer involvement and the degree of differences among brands. A summary discussion is also presented in the following that outlines complex buying behavior, dissonance-reducing buying behavior, habitual buying behavior, and variety-seeking buying behavior. Special focus is directed toward a simple model of buying behavior that explains most of the terms pertinent to the study of buying behavior. The simple model (consisting of five stages—*need recognition, information search, evaluation of alternatives, purchase decision,* and *postpurchase behavior*) ties together material about the buying decision process.

For new products, special situations affect the consumer choice decision. It has been found that consumers respond at different rates (depending on consumer and product characteristics), gain knowledge about the products in different ways, and become aware of "newness" with varying rates of consideration. Factors that speed the rate of adoption of new products are covered and explained.

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

Introducing consumer buying behavior

a. Many different factors affect consumer buying behavior. Buying behavior is never simple. Understanding it, however, is the essential task of marketing management.
b. *Consumer buying behavior* refers to the buying behavior of final consumers—individuals and households who buy goods and services for personal consumption.
c. The *consumer market* is all the individuals and households who buy or acquire goods and services for personal consumption.
    1). The largest consumer market, American consumer market, consists of about 287 million people.
    2). These people consume trillions of dollars of goods and services each year.
    3). The world consumer market consists of more than 6.2 billion people.
    4). Consumers vary tremendously in age, income, education level, and tastes.

2. Model of Consumer Behavior

a. Consumers make many buying decisions every day.
b. A model of consumer behavior helps managers answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy.
   1). Learning about the what, where, when, and how much is fairly easy.
   2). Learning about the "why" is much more difficult.
c. The central question is: How do consumers respond to various marketing efforts the company might use?
d. The stimulus-response model of buyer behavior shows that marketing (made up of the four P's—product, price, place, and promotion) and other stimuli (such as the economic, technological, political, and cultural environments) center on the consumer's "black box" and produce certain responses.
e. Marketer's must figure out what is "in" the consumer's "black box."
f. The "black box" has two parts.
   1). The buyer's characteristics influence how he or she perceive and react to stimuli.
   2). The buyer's decision process itself affects the buyer's behavior.

3. Characteristics Affecting Consumer Behavior

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

Cultural Factors

b. Cultural factors exert the broadest and deepest influence on consumer behavior. The marketer needs to understand the role played by the buyer's culture, sub-culture, and social class.

c. *Culture* is the set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions.

1). Culture is the most basic cause of a person's wants and behavior.

2). A child learns or is exposed to the following values:

a). Achievement and success.
b). Activity and involvement.
c). Efficiency and practicality.
d). Progress.
e). Material comfort.
f). Individualism.
g). Freedom.
h). Humanitarianism.
i). Youthfulness.
j). Fitness and health.

3). Marketers are always trying to spot cultural shifts in order to imagine new products that might be wanted (the fitness and health craze in the developed world of the late 80s and 90s for example).

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

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

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

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

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

Social Factors

g. A consumer's behavior is influenced by social factors. These include small groups, family, and social roles and status.

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

1). Membership groups are groups that have a direct influence on a person's behavior; they are groups to which a person belongs.

2). Reference groups are groups that that have a direct (face-to-face) or indirect influence on the person's attitudes or behavior. People are often influenced by reference groups to which they do not belong.

a). An aspirational group is a group to which an individual wishes to belong.

b). Reference groups expose a person to new behaviors and lifestyles.
c). Influence the person's attitudes and self-concept.
d). They also create pressures to conform that may affect the person's product and brand choices.
e). An *opinion leader* is a person within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert influence on others. Marketers try to identify opinion leaders and direct products and communications toward them.

i. A consumer's purchases are also influenced by family members. The influence can be very strong because the family is the most important consumer-buying organization in society. It has been extensively researched.

j. Marketers are interested in the roles and influence of the husband, wife, and children in the purchase of different products and services. Buying roles change with evolving lifestyles (such as more females working outside the home). Marketers try to identify the influencer role in a family unit (such as children).

k. A person belongs to many groups and the person's position within each group can be defined in terms of both role and status. A role is the activities a person is expected to perform according to the people around him or her. Status is the general esteem given to a role by society. People often choose products that show their status in society.

<u>Personal Factors</u>

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

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

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

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

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

1). Examples include:
a). Activities (work, hobbies, shopping, etc.).
b). Interests (food, fashion, recreation, etc.).
c). Opinions (about themselves, social issues, business, etc.).

2). The most widely used lifestyle classification is the (Stanford Research Institute) SRI Values and Lifestyles (VALS) typology. VALS classifies people according to their consumption tendencies by how they spend their time and money. A person could change positions over time. It is felt that a person's lifestyle does affect their purchase behavior. Groups are further subdivided based on self-orientation and resources.

a). Self-orientation groups include:
1]. Principle-oriented consumers who buy based on their views of the

world.

2]. Status-oriented consumers who base their purchases on the actions and opinions of others.

3]. Action-oriented buyers who are driven by their desire for activity, variety, and risk taking.

b). Resources can be either abundant or minimal depending on whether the the buyer has high or low levels of income, education, health, self-confidence, energy, and other factors. *Note: See SRI's Web site at www.sri-bi.com for additional information. A survey can be filled out at the site to determine your SRI VALS position.*

q. Each person's personality and self-concept will influence their buying behavior. *Personality* is a person's unique psychological characteristics that lead to relatively consistent and lasting responses to his or her own environment. Personality is usually described in terms of traits (such as self-confidence, dominance, sociability, etc.). Personality can be useful for analyzing consumer behavior for certain brand or product choices.

1). A *brand personality* is the specific mix of human traits that may be attributed to a particular brand.

2). Five brand personalities might be:

a). Sincerity.

b). Excitement.

c). Competence.

d). Sophistication.

e). Ruggedness.

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

<u>Psychological Factors</u>

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

1). A *motive (drive)* is a need that is sufficiently pressing to direct the person to seek satisfaction. A person has many needs at any given time and they can be biological or psychological. Several theories of motivation include:

a). Freud's theory of motivation assumed that people are largely unconscious about the real psychological forces shaping their behavior. A person does not fully understand his or her motivation according to Freud.

1). These ideas spawned the field of motivation research.

b). Maslow's theory of motivation sought to explain why people are driven by particular needs at particular times. He believed that needs were arranged in a hierarchy (beginning with physiological needs and then continuing with safety, social, esteem, and self-actualization needs). Under this idea, a person would try to satisfy the most important needs first. The needs include:

1]. Physiological needs.

2]. Safety needs.

3]. Social needs.

4]. Esteem needs.

5]. Self-actualization needs.

2). *Perception* is the process by which people select, organize, and interpret information to form a meaningful picture of the world. The marketer must remember that two people with the same motivation and in the same situation may act differently because they perceive the situation differently. These differences in perception can be accounted for by three perceptual processes:

a). Selective attention is the tendency of people to screen out most of the information to which they are exposed.

b). Selective distortion is the tendency of people to interpret information in a way that will support what they already believe.

c). Selective retention is the tendency of people to retain only part of the information to which they are exposed, usually information that supports their attitudes and beliefs. An interesting side bar is the concept of subliminal advertising where some researchers attempted to appeal to consumers below the conscious thinking and perception level. Most agree that no link has been found between this somewhat devious technique and consumer behavior.

3). *Learning* is described as changes in an individual's behavior arising from experience. Learning occurs through the interplay of:

a). A drive (a strong internal stimulus that calls for action).

b). A drive becoming a motive when it is directed toward a particular stimulus object.

c). Cues are minor stimuli that determine when, where, and how the person responds.

d). Cues can influence a buyer's response to an impulse.

e). If the experience is rewarding, then the response is reinforced.

f). The practical significance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivation cues, and providing positive reinforcement.

4). A person's beliefs and attitudes are acquired through acting and learning. A *belief* is a descriptive thought that a person holds about something.

a). A belief may be based on real knowledge, opinion, or faith.

b). Beliefs may or may not carry an emotional charge.

c). Because beliefs make up product and brand images, they are important to marketers. People tend to act on their beliefs.

5). An *attitude* is a person's consistently favorable or unfavorable evaluations, feelings, and tendencies toward an object or idea.

a). Attitudes put people into a frame of mind of liking or disliking things, moving toward or away from them.

b). Attitudes are difficult to change.

c). A person's attitudes fit into a pattern and changing one attitude may require changing others.

d). A company should try to fit its products into existing attitudes rather than try to change them.

4. Types of Buying-Decision Behavior

a. Buying behavior differs greatly depending on what is being bought.

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

<u>Complex Buying Behavior</u>

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

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

<u>Dissonance-Reducing Buying Behavior</u>

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

Habitual Buying Behavior

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

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

Variety-Seeking Buying Behavior

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

i. In such cases, consumers would do more than usual brand switching.

5. The Buyer Decision Process

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

Need Recognition

b. *Need recognition* is the first stage of the buyer decision process in which the consumer recognizes a problem or need.
   1). The need can be triggered by internal stimuli when one of the person's normal needs rises to a level high enough to become a drive.
   2). A need can also be triggered by external stimuli (such as an advertisement).
   3). At this stage, the marketer needs to determine the factors and situations that usually trigger consumer need recognition.

Information Search

c. *Information search* is the stage of the buyer decision process in which the consumer is aroused to search for more information; the consumer may simply have heightened attention or may go into active information search. Information can be obtained from several sources:
   1). Personal sources such as family and friends.
   2). Commercial sources such as advertising and salespeople.
   3). Public sources such as the mass media and consumer-rating organizations.
   4). Experiential sources such as handling, examining, or using the product.

d. The relative influence of these information sources varies with the product and the buyer.
   1). Generally, the consumer receives the most information about a product from commercial sources.
   2). Yet, the most effective sources tend to be personal. Personal sources legitimize or evaluate products for the buyer.

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

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

Evaluation of Alternatives

g. *Alternative evaluation* is the stage of the buyer decision process in which the consumer uses information to evaluate alternative brands choices. Several basic concepts help to explain the consumer-evaluation process:
    1). The consumer arrives at attitudes toward different brands through some evaluation procedure.
    2). In some cases consumers use careful calculations and logical thinking.
    3). In other instances, consumers buy on impulse and rely on intuition.
    4). Sometimes, consumers make buying decisions by themselves. At other times, the consumer uses friends, buying or consumer guides, or salespeople for advice.
    5). Marketers should study buyers to find out how they actually evaluate brand alternatives.

Purchase Decision

h. The *purchase decision* is the stage of the buyer decision process in which the consumer actually buys the product. Generally, the consumer's purchase decision will be to buy the most preferred brand; however, two factor's can come between purchase intention and the purchase decision. They are:
    1). The attitude of others. How much another person's attitudes will affect individual choices depends both on the strength of the other person's attitudes toward the buying decision and on an individual's motivation to comply with that person's wishes.
    2). Purchase intention is also influenced by unexpected situational factors. If unexpected situational factors arise as the consumer is about to act, the purchase intention may be affected.

Postpurchase Behavior

i. *Postpurchase behavior* is the stage of the buyer decision process in which consumers take further action after purchase based on their satisfaction or dissatisfaction. Determinates are:
    1). The relationship between the consumer's expectations and the product's perceived performance. The larger the gap between expectations and performance, the greater the consumer's dissatisfaction.
    2). Some sellers might even understate performance levels to boost consumer satisfaction with the product.

j. *Cognitive dissonance* is buyer discomfort caused by postpurchase conflict and it is very common.

k. It is very important to satisfy customers because a company's sales come from two basic groups: new customers and retained customers.
    1). Because it is more expensive to attract new customers than to retain current ones, it is important to keep current customers happy.
    2). A satisfied customer also tells others about their experience.

6. The Buyer Decision Process For New Products

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

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

Stages in the Adoption Process

c. The five stages of the adoption process are:
   1). Awareness—where the consumer becomes aware of the new product, but lacks information about it.
   2). Interest—in which the consumer is stimulated to seek information about the new product.
   3). Evaluation—in which the consumer considers whether trying the new product makes sense.
   4). Trial—in which the consumer tries the new product on a small scale to improve his or her estimate of its value.
   5). Adoption—in which the consumer decides to make full and regular use of the new product.

d. The marketer must plan how to help the consumer move through these stages.

<u>Individual Differences in Innovativeness</u>

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

f. Five different adopter categories can be identified as:
   1). Innovators are venturesome and they try new ideas at some risk (2.5 percent).
   2). Early adopters are guided by respect. They are opinion leaders in their community and adopt new ideas early but carefully (13.5 percent).
   3). The early majority are deliberate. Although rarely leaders, they adopt new ideas before the average person (34 percent).
   4). The late majority are skeptical. They adopt an innovation only after a majority of people have tried it (34 percent).
   5). Laggards are tradition bound. They are suspicious of changes and adopt the innovation only when it has become something of a tradition itself (16 percent).

<u>Influence of Product Characteristics on Rate of Adoption</u>

g. The new product's characteristics will also influence the rate of adoption. Five characteristics that are especially important to consider are:
   1). The innovation's relative advantage or the degree to which it appears superior to existing products.
   2). The innovation's compatibility or degree to which it fits the values and experiences of potential customers.
   3). The innovation's complexity or the degree to which it is difficult to understand or use.
   4). The innovation's divisibility or the degree to which it may be tried on a limited basis.
   5). The innovation's communicability or the degree to which the results can be observed or described to others.

h. Other characteristics such as initial and ongoing costs, risk and uncertainty, and social approval also affect the rate of adoption.

<u>Consumer Behavior Across International Borders</u>

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

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

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

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

Lesson # 31

INTERNATIONAL BUSINESS MARKETS

Business markets consist of individuals or groups that purchase a specific kind of product for resale, direct use in producing other products, or use in general daily operations. There are producer, reseller, government, and institutional markets. **Producer markets** include those individuals and business organizations purchasing products for the purpose of making a profit by using them to produce other products or by using them in their operations. **Reseller markets** are intermediaries who buy finished products and resell them to make a profit. **Government markets** are federal, state, county, and local governments that buy goods and services to support their internal operations and provide products to their constituencies. **Institutional markets** are organizations with charitable, educational, community, or other nonbusiness goals.

Business transactions differ from consumer transactions in several ways. Business transactions tend to be larger, and frequently involve more than one person or department in the purchase. They may also involve **reciprocity**, an arrangement in which two organizations agree to buy from each other. Business customers are usually better informed than ultimate consumers and are more likely to seek information about a product's features and technical specifications.

When purchasing products, business customers are particularly concerned about quality, service, and price. To achieve an exact level of quality, businesses often buy products on the basis of a set of expressed characteristics, called specifications. Because services have such a direct influence on a firm's costs, sales, and profits, such matters as market information, on-time delivery, and availability of parts are crucial to a business buyer. Although business customers do not depend solely on price to decide which products to buy, price is of prime concern because it directly influences profitability.

Business buyers use several purchasing methods, including description, inspection, sampling, and negotiation. Most business purchases are either **new-task purchases** (an initial purchase of an item to b used to perform a new job or solve a new problem), **straight rebuy purchases** (a routine purchase of the same products), or **modified rebuy purchases** (a new-task purchase that is changed on subsequent orders or when the requirements of a straight rebuy purchase are modified).

Unlike consumer demand, the demand for industrial products can be characterized as derived, inelastic, or sometimes joint demand. **Derived demand** is demand for industrial products that stems from demand for consumer products. **Inelastic demand** is demand that is not significantly altered by a price increase or decrease. **Joint demand** involves the use of two or more items in combination to produce a product. Because business demand derives from consumer demand, the demand for business products can fluctuate widely.

Business buying behavior refers to the purchase behavior of producers, government units, institutions, and resellers. Business purchase decisions are generally made through a **buying center**, which includes users, influencers, buyers, deciders, and gatekeepers who make purchase decisions.

The stages of the business buying decision process are problem recognition, development of product specifications, search for and evaluation of products and suppliers, selection and ordering of the most appropriate product, and evaluation of the product's and supplier's performance. During the search for and evaluation of possible products, some businesses engage in **value analysis**, an evaluation of each component of a potential purchase, and/or **vendor analysis**, a formal, systematic evaluation of current and potential vendors. Results of deliberations and assessments in the third stage are used in selection and ordering of the product. In some cases the buyer uses **multiple sourcing** (the decision to use several suppliers), and in others the buyer uses **sole sourcing** (the decision to use only one supplier).

Four categories of factors influence business buying decisions: environmental, organizational, interpersonal, and individual.

Business marketers have available to them a considerable amount of information about customers. Much of this information is based on an industrial classification system. A marketer can obtain the name and location of potential customers by using government and commercial data sources. Marketers then must estimate potential purchases by finding a relationship between a potential customer's purchases and a variable available in industrial classification data.

Characteristics of international business markets:

Marketing structure and demand

- *contain fewer but larger buyers*
- *close supplier-customer relationship*
- *more geographically concentrated*
- *buyer demand is mostly derived from final consumer demand*
- *more inelastic to price in short term*
- *demand fluctuates more & more quickly*
- *professional purchasing*

Nature of buying unit

- *involves more buyers / influencers*
- *involves a more professional purchasing effort*

Types of decision & decision process

- *more complex buying decisions*
- *buying process is more formalized*
- *buyers & sellers work more closely & build long-run relationships*

Other characteristics

- *buyers often buy directly from producers, rather than through retailers & wholesalers*
- *buyers often practice reciprocity, buying from suppliers who also buy from them*
- *buyers often lease equipment rather than buying it out right*

Participants in international buying process:

- Initiators / Users
  - who use the product - often initiate buying & define specs.
- Influencers
  - often help define specs., & info. for evaluation of the products
- Deciders / Approvers
  - who approve the final supplier/product
- Buyers
  - the persons who makes actual purchase
- Gatekeepers
  - who control flow of info. out of the organization

Major influences on international business buyers:

- **Environmental factors**
  - level of primary demand

- economic outlook
- cost of money
- supply conditions
- rate of technological change
- political & regulatory developments
- competitive developments

- **Organizational factors**
  - objectives
  - policies
  - procedures
  - organizational structure
  - systems
- **Interpersonal**
  - authority, status, empathy, persuasiveness
- **Individual**
  - age, education, job position, risk attitude

Importance of international business marketing tools:

• Telemarketing & direct mail	34%
• Merchandise incentives	14%
• Exhibits	13%
• Travel & entertainment	11%
• Advertising	10%
• other incentives (travel, sweep stakes)	5%
• Public relations	4%
• Research	4%
• Others	5%

Lesson # 32

INTERNATIONAL TARGET MARKETING

International target marketing … why?

Products & selling methods do not appeal to all buyers in the same way. Buyers for most products are too numerous, too widely scattered, too varied in their needs and buying practices. Different companies vary widely in their abilities to serve customers.

Since the foremost marketing objective of firms has been to satisfy the needs and wants of target customers better than competition, firms need to focus and align their resources and efforts to suit the target customers to succeed.

The point of target marketing is to identify consumer groups that are most likely to purchase specific goods and services. Research into consumer behavior shows that marketing targeted at certain demographic segments can influence that group's spending habits.

The best thing about using target marketing techniques is that sellers have a biographical sketch of their customers. This sketch allows businesses to implement the marketing strategies that will most impress their intended audience. Another benefit of target marketing is that it saves money. With a knowledge of who their target is, companies save on advertising dollars and postage costs because they're sure to receive more of a response from those who need their products.

Target Marketing is a Better Use of Resources:

A marketer’s marketing budget is going to be most effective when he effectively reaches the selected target market. When we look at the big picture and sort through the marketing jargon, the benefit of target marketing is simple—efficiency. Solid target marketing is a method to more efficiently reach the international customers. Target marketing is a better use of a marketer’s most valuable resources, i.e. time and money, to generate additional revenue. It is as straightforward as that. Now, let’s talk more about how to get there.

A marketer’s goal is to get to know as much information as he can about his existing or prospective customers. The more he knows about his customers, the better he will be able to make decisions that will enhance his ability to communicate and connect with them.
As a marketer who do you consider will benefit the most from your products and services? Think of the people and their most common characteristics and attributes. One of the best ways to identify your target market is to look at your existing customer base. Who are your ideal clients? What do they have in common? If you do not have an existing customer base, or if you are targeting a completely new audience, speculate on who they might be, based on their needs and the benefits they will receive. Investigate competitors or similar businesses in other markets to gain insight.

Steps in target marketing:

Target marketing is a three step process;

Market segmentation

– *dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing strategies*

Market targeting

– *the process of evaluating each market’s attractiveness and selecting one or more segments to* *enter*

Market positioning

– *arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers*

Lesson # 33

INTERNATIONAL MARKET SEGMENTATION

Market segmentation is the process in marketing of dividing a market into distinct subsets (segments) that behave in the same way or have similar needs. Because each segment is fairly homogeneous in their needs and attitudes, they are likely to respond similarly to a given marketing strategy. That is, they are likely to have similar feelings and ideas about a marketing mix comprised of a given product or service, sold at a given price, distributed in a certain way, and promoted in a certain way.

Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private sector. Small segments are often termed niche markets or specialty markets. However, all segments fall into either consumer or industrial markets. Although it has similar objectives and it overlaps with consumer markets in many ways, the process of Industrial market segmentation is quite different.

The process of segmentation is distinct from targeting (choosing which segments to address) and positioning (designing an appropriate marketing mix for each segment). The overall intent is to identify groups of similar customers and potential customers; to prioritise the groups to address; to understand their behaviour; and to respond with appropriate marketing strategies that satisfy the different preferences of each chosen segment.

Improved segmentation can lead to significantly improved marketing effectiveness. With the right segmentation, the right lists can be purchased, advertising results can be improved and customer satisfaction can be increased.

Basis for segmenting consumer markets:

Geographic
- *nations, regions, states, counties, cities, neighborhoods, climate, population density etc.*

Demographic
- *age, gender, family size, family life cycle, income, occupation, education, religion, race, nationality etc.*

Psychographic
- *social class, lifestyle, personality etc.*

Behavioral
- *purchase occasion, benefits sought, user status, user rate, loyalty status, readiness status, attitude toward product etc.*

Basis for segmenting business markets:

- **Demographic**s
  - *industry, company size, location*
- **Operating variables**
  - *technology, user/non-user status, customer capability*
- **Purchasing approaches**
  - *purchasing function organization*
  - *power structure*

- *nature of existing relationships*
- *general purchase policies*
- *purchasing criteria*

- **Situational factors**
  - *urgency, specific application, size of order*

- **Personal characteristics**
  - *buyer-seller similarity, attitudes towards risk, loyalty*

Lesson # 34

INTERNATIONAL MARKET SEGMENTATION
Segmenting International Markets

Segmenting international markets:

Like domestic markets, international markets can also be segmented on the following criteria;

- geographic location
- economic factors
- political & legal factors
- cultural factors
- intermarket segmentation *(segment consumers with similar profile but different countries)*

Basis for country segmentation:

Country markets can be segmented on the basis of their economic status or socio-economic variables;

Economic Status Grouping:
Based on GNP per capita & level of industrialization / market sophistication.

- First World:
include advanced industrialized nations of Western Europe, North America, <u>Japan & Australia, New Zealand</u>.

- Second World:
High income oil exporter and newly industrialized countries.

- Third World:
Group of countries that need time & technology rather than massive foreign aid to build modern developed economics.

- Fourth World:
Centrally planned communist run nations.

- Fifth World:
Countries with few presently known resources – people living in massive poverty.

Socio – economic variables:

Stages of economics development

- Traditional Societies
Countries in this group are in endless quagmire of enormous poverty, <u>low productivity & high illiteracy</u>

- Pre-conditions for take-off
Advances in sciences & technology enter the agriculture sectors. First steps are taken to develop infrastructure.

- The take-off
  Infrastructure is mainly in place spurring city centered industries.

- The drive to maturity
  Countries at this stage are able to produce a wide variety of products. Service sector gains prominence.

- High Mass – Consumption
  Sizeable middle class with significant discretionary incomes have highly developed services sector.

Lesson # 35

INTERNATIONAL MARKET SEGMENTATION
Basis for Country Segmentation

Basis for country segmentation:

Continuing our discussion of the earlier session other basis for segmenting country markets are in the following;

Political Conditions:

- Political variables form another basis for country segmentation.
- Economic System - *Free market, mixed or centrally planned.*
- Political setups - *Democracies, dictatorships, communist dictatorships & monarchies*
- Political Risk

Cultural Variables:

- Cultural traits provide another basis to classify countries i.e., religion, language, education, aesthetic preferences etc.
- Marketers can also rely on a well established measurement scales for culture-based market segmentation.
-
- Hofstede’s four cultural dimensions can also be used for segmenting country markets

  1. Individualism versus collectivism
  2. Power distance
  3. Uncertainly avoidance
  4. Masculinity - feminity

- Behavior Based Segments
  - *Degree of brand / supplier loyalty*
  - *Usage rate (per capita consumption)*
  - *Product market penetration*
  - *Benefits sought after (Product concept)*
-
- Life Style
  - *Attitudes*
  - *Opinions*
  - *Values*

- Geographic Grouping
- Grouping on Religion
- Inter-market segmentation / Global segments
- *Similar group of consumers across countries may be combined to form a viable segment.*

Requirements for effective international segments:

While an international marketer may identify many possible segments in the target markets, these need to be evaluated for viability and business potential. Chosen segments need to satisfy the following four aspects for implementation of effective marketing strategies and profitability;

Potential in segments should be measurable

- *size, purchasing power, profiles of people*

Segments should be accessible for marketing programs

- *segment can be effectively reached and served*

Segments should be substantial

- *segments are large and profitable enough to serve*

It should be possible to implement marketing action programs

- *effective programs can be designed for attracting & serving the segment*

Lesson # 36

INTERNATIONAL MARKET SEGMENTATION
International Market Targeting

International market targeting:

International marketers need to evaluate available international segments for their potential and actionability to choose most viable market segments for targeting;

Evaluating market segments

Market segments can be evaluated on the following criteria;

- segment size & growth
- segment's structural analysis
  - competition within the segment
  - existing or potential substitute products
  - relative power of buyers / suppliers
- company's objectives & resources
  - environment, social responsibility, if it is core business, can employ skills & resources superior to those of competition

Market coverage strategy:

Factors needed to be considered when choosing a market coverage strategy

- company resources and capabilities
- degree of product variability
- product's stage in the life-cycle
- market variability
- competitors' marketing strategies

Product differentiating variables:

- Product
  - *features, performance, conformance, durability, reliability, reparability, style, design*
- Services
  - *ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair*
- Personnel
  - *competence, courtesy, credibility, reliability, responsiveness, communication*
- Channel
  - *coverage, expertise, performance*
- Image
  - *symbol, written and audiovisual media, atmosphere, events*

Service differentiating variables:

- People

- Physical environment
- Process
- Image

|Defining 'Positioning':

A product's position is how potential buyers see the product. Positioning is expressed relative to the position of competitors. The term was coined in 1969 by Al Ries and Jack Trout in the paper *"Positioning" is a game people play in today's me-too market place"* in the publication *Industrial Marketing*. It was then expanded into their ground-breaking first book, "Positioning: The Battle for Your Mind".

Positioning is something (perception) that happens ***in the minds of*** the target market. It is the aggregate perception the market has of a particular company, product or service in relation to their perceptions of the competitors in the same category. It will happen whether or not a company's management is proactive, reactive or passive about the on-going process of evolving a position. But a company can positively influence the perceptions through enlightened strategic actions.

In marketing, **positioning** has come to mean the process by which marketers try to create an image or identity in the minds of their target market for its product, brand, or organization. It is the 'relative competitive comparison' their product occupies in a given market as perceived by the target market.

Re-positioning involves changing the identity of a product, relative to the identity of competing products, in the collective minds of the target market.

De-positioning involves attempting to change the identity of competing products, relative to the identity of your own product, in the collective minds of the target market.

Positioning in international market segments for competitive advantage:

can be positioned based on

- *product attributes*
- *product benefits*
- *usage occasions*
- *classes of users*

can also be positioned relative to competition

- *against a competition*
- *away from competitors*
- *against product classes*

combination of above strategies

International positioning strategies:

- Developing a positioning theme involves the quest for a unique selling proposition (USP). In this regard there are two choices: target a universal segment across countries or pursue different segments across countries. Similarly MNC's may select same positioning world-wide or positioning themes that are tailored to individual markets.

- Universal Segment / Uniform Positioning Theme
The challenge is to come-up with a selling proposition that makes consumers tick everywhere and that transcends local peculiarities.
- Universal Segment / Different Positioning Themes
- Different Segments / Different Positioning Themes

Choosing and implementing a positioning strategy:

Identify possible competitive advantages*(offering consumers greater value)*

- product differentiation
  - features, performance, style & design, consistency, durability, reliability, reparability
- services differentiation
  - delivery, installation, repair, customer training
- personnel differentiation
- image differentiation

Selecting the right competitive advantages

- how many differences to promote
- which differences to promote – the differences should be
  - *important*
  - *distinctive*
  - *superior*
  - *communicable*
  - *pre-emptive*
  - *affordable*
  - *profitable*
- Should develop a unique selling position (USP) for a brand
- avoid over / under / confused positioning

P

Positioning errors:

- As companies increase the number of claims for their brand, they risk disbelief and a loss of clear positioning. In general a company must avoid four major positioning errors:
  - Underpositioning
    - *buyers have only a vague idea of the brand*
  - Overpositioning
    - *buyers may have too narrow an image of the brand*
  - Confused positioning
    - *buyers may have a confused image of the brand resulting from the company's making too many claims or changing the brand's positioning too frequently*
  - Doubtful positioning
    - *buyers may find it hard to believe the brand claims in view of the product's features, price, or manufacturer*

Global segmentation and positioning:

- A common theme in many findings on global marketing is the growing convergence of consumer needs.
- This phenomenon of increasing globalization is especially visible for many upscale consumer goods and a variety of business to business goods and services that are bought by multinational customers.
- At the same time, new technological advances in interactive marketing open up many untapped opportunities for increasingly refined segmentation.
- This paradox, the increasing homogenization of customer needs versus the possibilities offered by micro-marketing, offers a challenge to global marketers entering the twenty first century.

Global segmentation process:

- Five procedural steps may be followed to gain information and insights into the segmentation criteria for classifying world markets.

1. *Developing a market taxonomy for classifying world markets.*
2. *Segment all countries into homogenous groups having common characteristics.*
3. *Determine theoretically the most efficient method of serving each group.*
4. *Choose the group in which the marketer's own perspective (its product / service and strengths) is in line with the requirements of the group.*
5. *Adjust this ideal classification to the constraints of the real world (existing commitments, legal and political restrictions, practicality, and so forth)*

Basis for country segmentation:

The first step in doing international market segmentation is deciding which criteria to use in the task. Literally hundreds of country characteristics could be used as inputs. However, for the segmentations to be meaningful, there should be a linkage between the market segments and the response variable (s) the company is interested in.

Demographics:

Demographic variables age structure, population size, degree of urbanization, ethnic composition and death / birth rates are among the most popular segmentation criteria. They are easy to assess. Moreover, information on population variables is mostly reasonably accurate and readily available.

The manner in which countries are to be grouped will depend, to a large extent, on the nature of company's product or product lines. Companies marketing capital goods may find economic variables more relevant for segmentation. On the other hand, companies in the consumer durable-goods field may find that grouping countries by personal consumption expenditures is a more meaningful way to study world-wide activities.

Socio-economic variables

Per capita income

The usual caveats in using per capita income as an economic development indicator apply also when this measure is used for country segmentation.

- Monetization of transactions within a country - per capita GNP may not be a good basis of comparing countries due to purchasing power parity (PPP)
- Grey and Black sectors of the economy - *Many countries have a sizable gray sector – consisting of largely untaxed or under taxed exchanges.*
- Income Disparities - *Per-capita GNP may be misleading due to wide income disparities.*

Issues in international market segmentation:

Technical Issues:

- Poor data quality
- “Noisy” Variables because of reporting errors sampling mistakes
- Presence of Outliers

Managerial Issues:

- Stability of segments overtime
- Managerial usefulness - *country segmentation based on macro-economic aggregates seldom bear any resemblance to sales-pattern-based groupings.*

Effective international market segmentation:

- Market Segment is a “craft” rather than a “science”.
- Guidelines for effective segmentation are:

1. Keep things simple

- *There is no need to exhaust each possible permutation & combination of variables. Ultimately, the goal is to come up with a viable set of target markets that will allow the company to peruse its goals effectively.*

2. Consider several levels of aggregation, not just one.

- *As more disaggregate levels of aggregations are considered, a wide range of possible segmentation schemes open up.*

3. Two ways to fine tune an existing segmentation scheme

- *Realize that there are always two ways to augment precision; either sub-divide an existing variable (e.g. low/high income becomes low/medium/high income) or introduce a new segmentation variable.*

Communicating and delivering the chosen positioning:

– It is easier to come up with a good positioning strategy than to implement it

– establishing a position or changing one is difficult & takes a long time but can quickly be lost

Lesson # 37

INTERNATIONAL MARKETING MIX - PRODUCT POLICY
Product and Branding Decisions

The marketing mix:

The marketing mix approach to marketing is a model of crafting and implementing marketing strategies. It stresses the "mixing" or blending of various factors in such a way that both organizational and consumer (target markets) objectives are attained. The model was developed by Neil Borden (Borden, N. 1964) who first started using the phrase in 1949. Borden claims the phrase came to him while reading James Culliton's description of the activities of a business executive:

> (An executive is) "a mixer of ingredients, who sometimes follows a recipe as he goes along, sometimes adapts a recipe to the ingredients immediately available, and sometimes experiments with or invents ingredients no one else has tried." (Culliton, J. 1948)

Logic: Marketers have four tools to use to develop an offering to meet the needs of their targeted customers. Collectively they are called the marketing mix. The "four Ps" of marketing are: **p**roduct, **p**rice, **p**lace, and **p**romotion. Collectively these are called the *marketing mix*. More comprehensively they are viewed as:

- product, service, or program – something of value you are offering the customer, client, or park visitor
- price – what the customer, client, or park visitor pays (direct costs are financial, indirect or alternative costs are such things as time it takes and the things people give up if they choose your offering)
- place, distribution, location, or accessibility – where the transaction takes place, perhaps in a park
- promotion or communication – this is how you inform the target market about the benefits in your marketing mix

Collectively these are the tools organizations uses to develop offerings to satisfy their target market(s) … the only tools at their disposal. Remember: If your marketing mix doesn't meet their needs they will not be satisfied – and if they aren't satisfied you are unlikely to meet your objectives.

The marketing mix should be viewed as an *integrated* and *coordinated* package of benefits that reflect the characteristics of customers and various targeted publics and satisfy their needs, wants, and expectations. Note that the elements of the marketing mix should be *integrated* because *each element of the mix usually has some impact, direct or indirect, on the other three.* For example, if you improve the product or service you probably have to change the price because it costs more to produce. Although you may not have to change where the product is delivered to the customer, you will almost certainly have to change the promotion or communication with the customer because you need to tell the customer about the changes you have made in the product and how the changes will make it more desirable and satisfying.

One problem in many organizations is that different divisions may be responsible for different elements of the marketing mix. This happens even in well managed organizations. The result is that the offering is confusing to the target market. Lack of communication among divisions makes this problem worse. And if they don't share the same view of organizational objectives, the problem is worse still.

Product: The *product, service, or program* includes both tangible and intangible elements. The tangible, of course, are those things that the customer can see, touch, feel, taste, or smell. The intangible include such things as the image of the offering … which includes the image of the organization making the offering, the psychological aspects of pricing (high price to many customers is equated with high quality – and vice versa).

Price: The *price* is what the customer pays. It includes direct and indirect costs as well as opportunity costs. The benefits of the product have to be great enough to warrant the price. Price includes all costs associated with the product, service, or program.

Place: The *place* is where the customer receives the product, service, or program. The place of delivery, including all of its resources, is part of what the consumer buys. A place that meets his or her needs better may be worth more. The place may be a park, a visitor center in the park, or an interpretive exhibit along a trail. In setting its strategy, the organization must determine how much the target market is willing to pay for atmosphere and physical resources of place.

Promotion:*Promotion* includes all forms of communication you use to communicate the benefits of your offering to the target market(s). The objective is to persuade the customer in such a way that he or she recognizes that your offering is uniquely qualified to meet his or her needs. The term *promotion mix* is commonly used to refer to the types of communication that are available: advertising, public relations, personal selling, publicity, and sales promotion. Some authors include direct marketing. Word of mouth, though seldom discussed, is powerful promotion.

Product: A part of the marketing mix:

Product is actually a complex, multidimensional concept. It is defined broadly enough to include services, programs, and attitudes and includes whatever you are offering the target market in an effort to meet their needs. It involves all tangible and intangible aspects of the good or service you offer your target market. These are things which have value and are balanced against the value you expect to receive from the target consumer. *Product* can also be interpreted as programs, activities, interpretation, as well as services.

Product Mix: Every organization has a *product mix* that is made up of *product lines*. *Product lines* contain *product items*. Each *product item* is a *product* or *service* as well as the *brand*, *package*, and *services* associated with it. There are six components as follows:

- Services: Interpreters in visitor centers are providing an information service.
- Package: In the product world this is the container. In the NPS world this could be the surroundings in which a program is delivered. The atmosphere of a visitor center might be considered the package in which the visitor center experience is delivered.
- Brand: The brand is the identity (name or symbol or any other form) and all of the image attributes that are associated with the identity.
- Product Item: A distinct unit within a product line that is distinguishable by size, price, appearance, function, or some other attribute. A guided hike along a particular trail might be a product item.
- Product Line: A group of products within a product mix that are closely related, either because they meet the same need, function in a similar manner, or share some other characteristic. Interpretation might be considered a product line.
- Product Mix (assortment): the set of all product lines and items that an organization offers its target market(s).
- **Product Life Cycle:** Products, services, programs, activities, etc., don’t last forever! They have a life … and then, often, they die. Businesses have a clear signal … customers quit making a purchase. But government agencies do not receive such a clear cut signal. Unfortunately, they

can continue to offer these outdated programs, services, etc., and operate outmoded facilities long after they should have been retired … and would have in the business sector.

The product life cycle is generally considered to have four stages:

- Introduction: a period of slow program growth as it is introduced to the target market.
- Growth: a period of rapid market acceptance.
- Maturity: a period of a slowdown in sales growth due to acceptance by most of the potential buyers.
- Decline: the period when sales turn downward because the offering no longer meets the needs of the target market as it once did.

Not all products experience a full life cycle. Some never take off in growth. Further, the length of time it takes a product or service to go through the cycle varies drastically. There are “staple” programs, for instance, that will probably always be around. To guard against problems associated with continuing to offer products, programs, etc., that no longer meet the needs of the target market, Edward Mahoney of Michigan State University suggests a periodic audit of programs and services. He defines an audit as a critical, unbiased review, from the customer’s point of view, at two different levels:

- individual programs, facilities, services; and,
- the mix (product line) of programs, facilities and services offered by an organization.

Offerings which no longer meet the needs of the target market are modified or withdrawn and resources reallocated elsewhere in order to use them more effectively in pursuit of organizational objectives.

There are five product levels:

- **Core product** – what the buyer is really buying
  - *the problem-solving services or core benefits that consumers are really buying when they obtain a product*
- **Generic product –** a basic version of the product
- **Expected product** – attributes that combine to deliver core product benefits
  - *quality level, features, design, a brand name, packaging*
- **Augmented product** – additional consumer services and benefits built around the core & actual products
- **Potential product** – all the augmentations and transformations that the product might undergo in future

International product classification:

- Consumer products
  - *convenience*
  - *shopping*
  - *specialty*
  - *unsought*
- Industrial products

- material & parts
  - *raw materials*
  - *manufactured materials & parts*
- capital items
  - *with installation & accessory equipment*
- supplies & services

New international product competition:

The new international competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value

Product related decisions to be made by and international marketer:

Individual product decisions:

International marketers need to make individual product related decisions on the following aspects.

- Product attributes
  - product quality – *ability to perform its functions*
    - quality level
    - consistency
  - product features
    - customer value vs company cost
  - product style
    - style
    - function

- Packaging

- Labeling
  - identifies the product
  - grades the product
  - describes the product *(price, features, contents, methods of usage, expiry-date etc)*
  - promotes the product

- Product-support services
  - augment actual product

Product line decisions:

A product line is *a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges*

- product-line length
  - *stretching downward*
  - *stretching upward*
  - *stretching both ways*

- filling in the product-line
- product-line modernization
- product-line featuring
- product-line pruning

Product mix decisions:

Product mix (or product assortment) is the set of all product lines and items that a particular seller offers for sale to international buyers

- Width
- Length
- Depth
- Consistency

Branding:

A brand is a collection of images and ideas representing an economic producer; more specifically, it refers to the concrete symbols such as a name, logo, slogan, and design scheme. Brand recognition and other reactions are created by the accumulation of experiences with the specific product or service, both directly relating to its use, and through the influence of advertising, design, and media commentary. A brand is a symbolic embodiment of all the information connected to a company, product or service. A brand serves to create associations and expectations among products made by a producer. A brand often includes an explicit logo, fonts, color schemes, symbols, sound which may be developed to represent implicit values, ideas, and even personality.
The brand, and "branding" and brand equity have become increasingly important components of culture and the economy, now being described as "cultural accessories and personal philosophies".

Some marketers distinguish the psychological aspect of a brand from the experiential aspect. The experiential aspect consists of the sum of all points of contact with the brand and is known as the brand experience. The psychological aspect, sometimes referred to as the brand image, is a symbolic construct created within the minds of people and consists of all the information and expectations associated with a product or service.
Marketers engaged in branding seek to develop or align the expectations behind the brand experience, creating the impression that a brand associated with a product or service has certain qualities or characteristics that make it special or unique. A brand image may be developed by attributing a "personality" to or associating an "image" with a product or service, whereby the personality or image is "branded" into the consciousness of consumers. A brand is therefore one of the most valuable elements in an advertising theme, as it demonstrates what the brand owner is able to offer in the marketplace. The art of creating and maintaining a brand is called brand management. This approach works not only for consumer goods B2C (Business-to-Consumer), but also for B2B (Business-to-Business), see Philip Kotler & Waldemar Pfoertsch.
A brand which is widely known in the marketplace acquires brand recognition. Where brand recognition builds up to a point where a brand enjoys a critical mass of positive sentiment in the marketplace, it is said to have achieved brand franchise. One goal in brand recognition is the identification of a brand without the name of the company present. For example, Disney has been successful at branding with their particular script font (originally created for Walt Disney's "signature" logo), which it used in the logo for go.com.

Brand equity measures the total value of the brand to the brand owner, and reflects the extent of brand franchise. The term brand name is often used interchangeably with "brand", although it is more correctly used to specifically denote written or spoken linguistic elements of a brand. In this context a "brand name" constitutes a type of trademark, if the brand name exclusively identifies the brand owner as the commercial source of products or services. A brand owner may seek to protect proprietary rights in relation to a brand name through trademark registration.

Brand energy is a concept that links together the ideas that the brand is experiential, that it is not just about the experiences of customers/potential customers but all stakeholders and the idea that businesses are essentially more about creating value through creating meaningful experiences than generating profit. Economic value comes from businesses' transactions between people whether they be with customers, employees, suppliers or other stakeholders. But for such value to be created people first have to have positive associations with the business and/or its products and services and be energised to behave positively towards them – hence brand energy.
It has been defined as: 'The energy that flows throughout the system that links businesses and all their stakeholders and which is manifested in the way these stakeholders think, feel and behave towards the business and its products or services'

The act of associating a product or service with a brand has become part of pop culture. Most products have some kind of brand identity, from common table salt to designer clothes. In non-commercial contexts, the marketing of entities which supply ideas or promises rather than product and services (e.g. political parties or religious organizations) may also be known as "branding".
Consumers may look on branding as an important value added aspect of products or services, as it often serves to denote a certain attractive quality or characteristic. From the perspective of brand owners, branded products or services also command higher prices. Where two products resemble each other, but one of the products has no associated branding (such as a generic, store-branded product), people may often select the more expensive branded product on the basis of the quality of the brand or the reputation of the brand owner.

Advertising spokespersons have also become part of some brands.

Summary of the importance of a brand:

- International consumers view brand as an important part of a product & branding can add value to a product.
- A brand is a name, term, sign, symbol, or design, or a combination of above
- A brand is a seller's promise to deliver consistently a specific set of features, benefits & services to buyers
- A brand can deliver up to six levels of meaning
  - *attributes*
  - *benefits*
  - *values*
  - *culture*
  - *personality*
  - *user*

Brand equity:

- The value of a brand, based on the extent to which it has;
  - high brand loyalty
  - name awareness
  - perceived quality
  - strong brand associations
  - channel relationships
  - patents & trademarks

Major branding decisions an international marketer needs to take:

- brand – no brand
- brand name selection
- brand sponsor
  - manufacturer’s brand
  - private brand
  - licensed brand
  - co-branding
- brand strategy
  - new brands
  - line extensions
  - brand extensions
  - multibrands
- brand repositioning

Lesson # 38

INTERNATIONAL MARKETING MIX – PRODUCT POLICY
Product Planning

International product planning:

Product management is an organizational function within a company dealing with the product planning or product marketing of a product or products at all stages of the product lifecycle. Product Management is also a collective term used to describe the broad sum of diverse activities performed in the interest of delivering a particular product to market. From a practical perspective, product management is an occupational domain which hold two professional disciplines: product planning and product marketing. This is because the product's functionality is created for the user via product planning efforts, and product value is presented to the buyer via product marketing activities.

Product planning and product marketing are very different but due to the collaborative nature of these two disciplines, some companies erroneously perceive them as being one discipline, which they call product management. Done carefully, it is very possible to functionally divide the product management domain into product planning and product marketing, yet retain the required synergy between the two disciplines.

Product planning typically deals with these activities:

- Defining new products and gathering market requirements
- Product Life Cycle considerations
- Product portfolio management
- Product differentiation

Product marketing typically deals with these activities:

- Product positioning and outbound messaging
- Promoting the product externally with press, customers, and partners
- Bringing new products to market

Product management typically deals with these closely-related functions:

- Product planning
- Product marketing
- Program management
- Project management

Product planning related decisions:

- which product to introduce in which countries
- what modifications to make in the products
- what new products to add

- what brand name to use
- what guarantees and warranties to give
- what after-sales service to offer
- when to enter the market

International product design strategies – to differentiate:

In marketing, **product differentiation** is the modification of a product to make it more attractive to the target market. This involves differentiating it from competitors' products as well as one's own product offerings. In economics, successful product differentiation leads to monopolistic competition and is inconsistent with the conditions for perfect competition, which include the requirement that the products of competing firms should be perfect substitutes.

The changes are usually minor; they can be merely a change in packaging or also include a change in advertising theme. The physical product need not change, but it could. The major sources of product differentiation are as follows.

- Differences in quality or design among output (product)
- Ignorance of buyers regarding the essential characteristics and qualities of goods they are purchasing
- Pervasive sales promotion activities of sellers and, in particular, advertising
- Possibility of developing significant product differentiation through advertising is greatly enhanced for so called “gift goods” or “prestige goods”
- Differentiation in the locations of sellers of the same good where the product fills no technical function but rather can satisfy many different sort of personal needs or uses (psychological or physical).

The objective of this strategy is to develop a position that potential customers will see as unique. If your target market sees your product as different from the competitors', you will have more flexibility in developing your marketing mix. A successful product differentiation strategy will move your product from competing based primarily on price to competing on non-price factors (such as product characteristics, distribution strategy, or promotional variables).

Differentiation has been shown to impact firm performance positively both theoretically and empirically. Differentiation primarily impacts performance through two mechanisms:

- Reduced price sensitivity: Consumers may become willing to pay a premium price for the differentiating factor/s.
- Reducing directness of competition: As the product becomes more different, categorization becomes more difficult and hence draws fewer comparisons with its competition.

Most people would say that the implication of differentiation is the possibility of charging a price premium; however, this is a gross simplification. If customers value the firm's offer, they will be less sensitive to aspects of competing offers; price may not be one of these aspects. Differentiation makes customers in a given segment have a lower sensitivity to other features (non-price) of the product.

The disadvantage of this repositioning is that it usually requires large advertising and production expenditures.

An international firms product design strategies would depend on the following factors;

- nature of product

- market development
- legal requirements
- cost / benefit relationship
- competition
- support system
- physical environment
- market conditions

Lesson # 39

INTERNATIONAL MARKETING MIX - PRODUCT POLICY
International Product Strategies

In international markets managers need to decide the level of standardization and adaptation they have to achieve in terms of their products and related communication.

Standardization of product strategies:

- Standardization means offering a uniform product on regional or worldwide base may be with minor changes.
- Customization leverages cross-border differences in needs & wants of the firm's target customers.
- Forces that favor a globalized product strategy are:
  - Common customer needs & buying behavior
  - Economies of scale in production, R&D, marketing and cost savings
  - Lesser time required in introducing into new markets
  - Global consumers & consumer mobility
  - Home country image
  - Similar technical specs for industrial & consumer products
  - Operating via exports of uniform products
  - Better marketing performance
  - Consistency in product design & selling techniques
  - Establishes a common image
  - Success in one market can be duplicated in other markets

  Standardization may lead to substantial opportunity lost

Adaptation of product strategies:

- Obligatory adaptation due to laws and regulations of foreign countries
- Discretionary adaptation (on the choice of the marketer)
  - to better suit varying customer needs
  - differing use conditions
  - due to different market factors
  - company's resources / product objectives
  - product life-cycle stage

International product and communication strategies:

International marketers may choose on of the flowing five product and communication strategies in the international markets:

1. Product & Communication Extension: Dual Extension
- Early entrants often opt for this strategy.
- Small companies with few resources typically prefer this option.
- Also works for the company which targets a "global" customer with similar needs.
- Offers substantial savings coming from economics of scale.

- The downside is that it might alienate foreign customers who may switch to another competing brand that is more tuned with their needs.

2. **Product Extension – Communication Adaptation**
   - takes care of difference across countries in the cultural or competitive environment.
   - retains scale economics on manufacturing side, the firm sacrifices potential savings on the advertising front.

3. **Product Adaptation – Communication Extension**
   - local market circumstances often favor or require case of product adaptation (may be due to Govt. regulations)
   - Many companies add to their product portfolio via acquisition of local companies adding new brands as an expansion strategy
   - While product may differ, cultural similarities that stretch to consumers using the product present an opportunity for a harmonized communication.
   - Within such control, clever marketing ideas can be transferred from one country to another, despite the product-related differences.

4. **Product & Communication Adaptation – Dual Adaptation**
   - Differences in both cultural & physical environment across countries call for a dual adaptation strategy.
   - Many be due to different Govt. regulations regarding products as well as communication.

5. **Product Invention**
   - Develop new products from scratch from common need & opportunities around the world – instead for simply adapting existing products or services to the local market conditions.
   - Produce products of global scope.

Today managers focus on degree of Globalization rather than striving for standardized or localized products. What elements of a product should be tailored to local market needs & which ones to leave unchanged?

Two approaches that are being commonly used in international product design are;

Modular Approach:
- *This approach consists of developing a range of product parts that can be used worldwide.*
- *Scale economics flow from the mass-production of more or less standard product components at a few sites.*
- *Popular in automotive industry*

Core-Product Approach:
- *Design of mostly uniform core-product*
- *Attachments are added to core-product to match local market needs*

Balancing act between Standardization and adaptation is very tricky.
- Too much standardization (over standardization) stifles initiative & experimentation at the local subsidiary level
- Too much customization may lose the foreigness appeal of imported brands hence becoming me-too brands.

Lesson # 40

INTERNATIONAL MARKETING MIX – PRODUCT POLICY
Packaging, Labeling and Warranties

Product packaging:

Product packaging is the art and science of creating boxes, covers, tubes, bags and other containers that are sturdy enough to protect the product inside, and that are effective promotional pieces in themselves. To a very large degree, the quality of design work on the package affects how well your products sell. When shopping, you reach for products whose packaging is attractive and looks professional, and you instinctively shy away from unattractively packaged products. The design of the container along with the images, logos, marketing text, ingredients and fine print, all go into creating something people will feel confident to buy. Therefore it is essential that packaging be of the highest quality so that it acts as your in-store salesperson.

Issues in packaging in international markets:

International marketers need to take into account the following factors for deciding appropriate packaging in various international markets;

- changes in climates across countries
- lengthy & difficult transportation
- lengthy periods on shelves
- varying sizes of packaging
- different consumer preferences in packaging
- some standardization needed to make the product recognizable
- growing environmental consciousness
- different types of channels of distribution
- different cost pressures
- environmental concerns

Issues in labeling:

International marketers also need to design appropriate labeling for various markets, to cater for the market differences as well as to adhere to regulations. In the following are the list of issues marketers face in labeling in international markets;

- different languages of foreign markets
- information details to be provided
- instructions for use
- different price or currencies
- different promotions
- consumer preferences in various markets (color, wording style etc..)
- rules and regulations of foreign countries

Issues in warranty and service policies:

International marketers also face issues, whether to standardize or to localize warranty and service policies in international markets. Factors favoring standardization or localization of warranty and service policies in international markets are listed below;

- **Factors favoring standardization**
  - presence of multinational customer
  - goods purchased in one market but consumed elsewhere
  - products affecting human health and safety
  - standardized products

- **Factors favoring localization**
  - different competitive situation
  - different quality levels in different markets
  - different use conditions
  - lack of international service network
  - stronger guarantees when the company is entering in new market (marketing tactic)
  - barriers to import of replacement parts and traveling of foreign staff
  - availability of human resources & ability of local distributors

Strategies to cope with negative country of origin (COO) stereotypes:

Marketers of products from developing world often face negative attitudes from the customers in developed countries. There are ways in which international marketers attempt to address this issue though product policy, pricing, distribution and communication;

Product Policy:
- Select a brand name that disguises the country of origin or even involves a favorable COO (Giordano Bossini)
- Sheer innovation & drive for superior quality also help firms to overcome COO biases in the long run.

Pricing:
- Selling the product at a relatively low price will attract value-conscious customers who are less concerned about the brand's country of origin.
- For product categories where price plays a signal of quality - high price may help.

Distribution:
- Companies could influence consumer attitudes by using highly respected retailers.

Communication:
- Firm can use communication strategy to
  1. *Improve the country image.*
  2. *Bolster the brand image.*

Lesson # 41

INTRODUCING NEW PRODUCTS IN INTERNATIONAL MARKETS

In business and engineering, **new product development** (NPD) is the term used to describe the complete process of bringing a new product or service to market. There are two parallel paths involved in the NPD process : one involves the idea generation, product design, and detail engineering ; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in generating and commercializing new products within the overall strategic process of product life cycle management used to maintain or grow their market share.

Categories of new products:

- **Six categories of new products in terms of their newness to the company and to the market place:**
  - New-to-the-world products
    - new products that create an entirely mew market
  - New product-lines
    - new products that allow a company to enter an established market for the first time
  - Additions to existing product-lines
    - new products that supplement a company's established product lines *(package sizes, flavors, so on)*
  - Improvements or revisions to existing products
    - new products that provide improved performance or greater perceived value and replace existing products
  - Repositioning
    - existing products that are targeted to new markets or new market segments
  - Cost reductions
    - new products that provide similar performance at lower cost

Issues in new product development:

The companies need the development of original products, product improvements, product modifications & new brands on a consistent basis to survive competition but most new products fail.

- New-product failure
  - nearly 80% of new packaged consumer goods & line extensions fail
  - nearly 33% of new industrial products fail at launch

- New successful products
  - are unique superior products
    - *higher quality, new features & offer higher value*
  - have well-defined concept
    - *by carefully defining and assessing the target markets, product requirements & benefits*

To remain successful companies must continuously develop new products - but the odds weigh heavily against success. The solution lies in strong new-product planning

Successful new products are the ones;

- that have relative advantage
- have compatibility with other technology and distribution systems

- allow trialability / divisibility for buyers to try and learn
- can be judged through observation
- just right in terms of complexity of technology and use
- offer value for the price

The new product development process:

Successful new product development process consists of eight major steps;

1. Idea generation:

systematic search for new-product ideas

- internal sources
- customers
- competitors
- distributors
- suppliers
- others

2. Idea screening:

to spot good ideas and drop poor ones

- is the product truly useful to consumers & society
- availability of market
- does it mesh well with company's objectives & strategies
- do we have the people, skills & resources to make it succeed
- does it deliver more value to customers than competing products
- is it easy to advertise and distribute
- availability of technology
- availability of raw materials
- risk exposure, profitability, cost/benefit
- government priority
- any other factor
- CRITICAL SUCCESS FACTOR

3. **Concept development & testing**

- product concept is a detailed version of the new-product idea stated in meaningful consumer terms
- concept development **-** *a new product idea is developed into alternative product concepts*
- concept testing **-** *calls for testing new-product concepts with groups of target customers*

4. **Marketing strategy development**

- describe target market
- planned product positioning
- planned sales & market share
- & profit goals for first few years

5. **Business analysis**

- a review of the sales, costs & profit projections for a new product to find out whether these factors satisfy the company's objectives
- sales forecast
- estimation of costs & profits

6. **Product development**

7. **Test marketing -** *in realistic market setting*

8. **Commercialization** *(launch)*

Introducing new products to the world markets:

- Waterfall Model:
  - *Global phased roll out – new products tickle down in a cascade like manner.*

- Sprinkler Model:
  - *Simultaneous worldwide entry.*
  - *Growing prominence of universal segments.*
  - *Concerns about competitive pre-emption in the foreign markets.*

The waterfall strategy of segmentation entry is preferable over the sprinkler model when ;

1. The lifecycle of the products is relatively long

2. Non-favorable conditions govern the foreign market, such as:
   - *Small foreign markets (compared to home market)*
   - *Slow growth*
   - *High fixed cost of entry*

3. Weak competitive climate exists in the foreign market, because of such things as
   - Very weak local competitors
   - Competitors willing to cooperate
   - No competitors

Superior quality can reduce a customer's life-cycle ownership costs, enhancing customer loyalty, repeat buying, and word-of-mouth advertising ISO 9004 suggests the roles that marketing should play:

- Take the lead in establishing quality requirements for the company by determining customer needs and communicating them throughout the company
- Translate customers needs into specifications including performance and sensory characteristics, installation configuration, statutory and technical standards, packaging and quality standards
- Set up an information system to monitor customer satisfaction and dissatisfaction, and feedback such pertinent information to facilitate design and manufacturing changes
- Develop early warning systems to spot performance problems with new-product introductions; continuously monitor product performance against quality specifications such as reliability and safety, and track and analyze customer complaints so that corrective action can be taken in design and manufacturing

Lesson # 42

PRICING IN INTERNATIONAL MARKETS

Price: A part of the marketing mix:

The *price* is what the customer pays. It includes *direct* and *indirect* costs as well as *opportunity* costs.

Direct costs are cash outlays a customer makes in order to obtain something. An example would be admission to a national park. Direct costs are, in many cases, a relatively small part of the total cost.

Indirect costs are costs associated with obtaining something. An example would be the cost of driving to a national park, food and entertainment along the way, etc. The total of the indirect costs is often more, sometimes much more, than the direct cost.

The *total* cost is obtained by adding the direct and indirect costs.

Opportunity costs are what we give up when we do something. They can have various types of value, sometimes monetary, sometimes not. Opportunity costs include other things you could be doing instead of going to a national park. Examples might include mowing the lawn or going to a baseball game (which would be non-monetary) and not working overtime on Saturday in order to go to a national park (which would be monetary),

The *price* the park visitor pays to go to a national park is the total of all costs, including direct, indirect, and opportunity. The perceived benefits of going to a national park have to be at least as great as the total of the costs if a potential park visitor is going to make a decision to go to a park.

Determining the price:

How do you set monetary prices? There are basically two ways. I call these *cost-based* pricing and *value-based* pricing.

Cost-based pricing is based on the total of all costs associated with delivering a product or service to a customer. An example of cost-based pricing would be when an organization identifies all of the costs associated with producing a product or service, adds them up, adds a margin for profit (in the business sector) and arrives at the "price" the customer is to be charged. This type of pricing is the "floor" for pricing decisions in that it is as low as the price can be and still cover all of the costs associated with delivering the product or service. I'm unaware of applications of this type of pricing in the park service world, unless it might be applied by concessionaires.

Value-based pricing is based on an organization's perception of the value the potential customer (park visitor) might place on the product or service. An example of value-based pricing would be when an organization believes that people would pay Rs20 for a service and decides to price it at Rs20 even though the price might be set at Rs10 based on a cost-based model. This type of pricing is the "ceiling" for pricing decisions in that it is as high as the price can be and still find a willing customer. It has no relationship to the cost of production, rather it is influenced by perception of alternatives customers face.

A subset of value-based pricing is *supply/demand* pricing. In this type of pricing, an organization has a limited supply of the product or service and decides to price it just barely low enough to sell all of the limited supply. There is no relationship to the cost of production. Sometimes applications supply/demand pricing are labeled as gouging because the organization is perceived as taking advantage of the situation.

Political factors undoubtedly influence some pricing decisions, such as utilities and essential commodities. I would interpret this as politicians using a value-based price model in order to obtain public favor. No concern is shown for the cost of production. Part of the logic of this type of decision is the reality that a park is a public resource and is, at least to some extent, a public good the value of which should be available to as many citizens as possible.

In summary, pricing is quite complex. The most responsible means of pricing would probably give some consideration to all of these pricing concepts, attempting to balance the needs and desires of the public for access with the real costs associated with delivering the product or service. Responsible pricing would recognize market segmentation concepts as expressed in differing demand levels and abilities to pay and attempt to maximize revenue through pricing accordingly. The result would be either maximizing gain or minimizing loss.

Importance of price in marketing mix:

- Price is the amount of money charged for a product or a service, or the sum of the values that consumers exchange for the benefits of having or using the product or service
- Price is the only element in the marketing mix that produces revenue.
- Price is also the most flexible element of the marketing mix.
- The most common mistakes in setting prices are;
    - *pricing that is too cost oriented*
    - *prices that are not revised enough to reflect the market changes*
    - *pricing that does not take rest of the marketing mix into account*
    - *prices that are not varied enough for different products, market segments & purchase occasions*

Factors influencing international pricing:

- **Factors internal to an international firm**
    - strategic objectives
        - *cost leader, differentiation, focus*
        - *gain market share, protect market share, to maintain status quo*
        - *revenue, profit or market share maximization*
    - marketing mix policies
        - *product, place & promotion*
    - costs
        - *short term vs long term cost focus*
        - *full cost, variable cost, marginal cost pricing*
    - organizational considerations
        - *transfer pricing*
        - *cost vs profit center*

- **Factors external to an international firm**
    - nature of market (buyer or seller)
    - level of market development/sophistication
    - market demand and consumers’ ability to buy
    - competitive situation & consumer surplus
    - product life-cycle-stage
    - type of packaging, environmental issues
    - distribution & marketing costs
    - transportation costs
    - government policies, tariffs, taxes & other restrictions
    - country of origin image
    - after-sales service, warranties & guaranties
    - exchange rate fluctuation
    - environmental factors

  – hidden costs

Factors contributing the selection of final price:

- Psychological effects of price
- Influence of other marketing mix elements
- Company pricing policies
- Costs
- Impact of price on other parties
  - *distributors or dealers*
  - *company sales force*
  - *competitors*

Managing price escalation in foreign markets:

- Rearrange the distribution channel
  - *length of channel / exorbitant margins*
- Eliminate costly features (or make them optional)
  - *no-frills versions* - *sell core products*
- Downsize the product
  - *offer smaller version or a lesser count*
- Assemble or manufacture the product in foreign markets
  - *closer proximity to customers* - *lower costs*
- Adapt the product to escape tariffs and taxes
  - *by shifting it to different tax classification*

Pricing in inflationary environments:

- Modify components, ingredients, parts and/or packaging materials
- Source materials from low-cost suppliers
- Shorten credit terms
- Include escalator clauses in long-term contracts - to hedge against inflation
- Quote prices in a stable currency
- Pursue rapid inventory turnovers
- Draw lessons from other countries

Exporters strategies under varying currency conditions:

When domestic currency is WEAK…

  - Stress price benefits
  - Expand product line and add more costly features
  - Shift sourcing manufacturing to domestic market
  - Exploit export opportunities in all markets
  - Use a full-costing approach, but employ marginal-cost pricing to penetrate new or competitive markets

- Speed repatriation of foreign-earned income and collections
- Minimize expenditures in local or host country currency
- Buy needed services (advertising, insurance, transportation, etc.) in domestic market
- Bill foreign customers in their own currency

When domestic currency is STRONG…

- Engage in non-price competition by improving quality, delivery, and after-sale service
- Improve productivity and engage in vigorous cost reduction
- Shift sourcing and manufacturing overseas
- Give priority to exports to countries with relatively strong currencies
- Trim profit margins and use marginal-cost pricing
- Keep the foreign-earned income in host country; slow down collections
- Maximize expenditures in local or host country currency
- Buy needed services abroad and pay for them in local currencies
- Bill foreign customers in the domestic currency

Lesson # 43

ITERNATIONAL MARKETING CHANNELS

‘Place’ in marketing mix:

“place” *refers to the availability of the product to the customer at the time and the location where it is desired*

- Most producers do not sell their goods directly to the final users
- Between producers and the final users stands a marketing channel, a host of marketing intermediaries performing a variety of functions and bearing a variety of names
- Marketing-channel decisions are among the most critical decisions facing management
- The company’s chosen channels intimately affect all the other marketing decisions
- The company’s channel decisions involve relatively long-term commitments to other firms
- There is also a powerful inertial tendency in channel arrangements
- Distribution channels go beyond simple convenience they also affect the product’s meaning

International channel function and flows:

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who need or want them. Members of the marketing channel perform a number of key functions

- *Collection of information*
- *Promotion of the products*
- *Negotiation with customers*
- *Ordering*
- *Financing of inventories*
- *Risk sharing*
- *Delivery and physical transfer of the products to customers*
- *Payment collection*
- *Title taking & transfer*

The channel decision is very important. In theory at least, there is a form of trade-off: the cost of using intermediaries to achieve wider distribution is supposedly lower. Indeed, most consumer goods manufacturers could never justify the cost of selling direct to their consumers, except by mail order. In practice, if the producer is large enough, the use of intermediaries (particularly at the agent and wholesaler level) can sometimes cost more than going direct.

Many of the theoretical arguments about channels therefore revolve around cost. On the other hand, most of the practical decisions are concerned with control of the consumer. The small company has no alternative but to use intermediaries, often several layers of them, but large companies 'do' have the choice.

However, many suppliers seem to assume that once their product has been sold into the channel, into the beginning of the distribution chain, their job is finished. Yet that distribution chain is merely assuming a part of the supplier's responsibility; and, if he has any aspirations to be market-oriented, his job should really be extended to managing, albeit very indirectly, all the processes involved in that chain, until the product or service arrives with the end-user. This may involve a number of decisions on the part of the supplier:

Channel membership
Channel motivation

Monitoring and managing channels

Channel membership

Intensive distribution - Where the majority of resellers stock the `product' (with convenience products, for example, and particularly the brand leaders in consumer goods markets) price competition may be evident.
Selective distribution - This is the normal pattern (in both consumer and industrial markets) where `suitable' resellers stock the product.
Exclusive distribution - Only specially selected resellers (typically only one per geographical area) are allowed to sell the `product'.

Channel motivation

It is difficult enough to motivate direct employees to provide the necessary sales and service support. Motivating the owners and employees of the independent organizations in a distribution chain requires even greater effort. There are many devices for achieving such motivation. Perhaps the most usual is `bribery': the supplier offers a better margin, to tempt the owners in the channel to push the product rather than its competitors; or a competition is offered to the distributors' sales personnel, so that they are tempted to push the product. At the other end of the spectrum is the almost symbiotic relationship that the all too rare supplier in the computer field develops with its agents; where the agent's personnel, support as well as sales, are trained to almost the same standard as the supplier's own staff.

Monitoring and managing channels

In much the same way that the organization's own sales and distribution activities need to be monitored and managed, so will those of the distribution chain.
In practice, of course, many organizations use a mix of different channels; in particular, they may complement a direct salesforce, calling on the larger accounts, with agents, covering the smaller customers and prospects.

Vertical marketing

This relatively recent development integrates the channel with the original supplier - producer, wholesalers and retailers working in one unified system. This may arise because one member of the chain owns the other elements (often called `corporate systems integration'); a supplier owning its own retail outlets, this being 'forward' integration. It is perhaps more likely that a retailer will own its own suppliers, this being 'backward' integration. (For example, MFI, the furniture retailer, owns Hygena which makes its kitchen and bedroom units.) The integration can also be by franchise (such as that offered by McDonald's hamburgers and Benetton clothes) or simple co-operation (in the way that Marks & Spencer co-operates with its suppliers).

Alternative approaches are `contractual systems', often led by a wholesale or retail co-operative, and `administered marketing systems' where one (dominant) member of the distribution chain uses its position to co-ordinate the other members' activities. This has traditionally been the form led by manufacturers.

The intention of vertical marketing is to give all those involved (and particularly the supplier at one end, and the retailer at the other) 'control' over the distribution chain. This removes one set of variables from the marketing equations.

Other research indicates that vertical integration is a strategy which is best pursued at the mature stage of the market (or product). At earlier stages it can actually reduce profits. It is arguable that it also diverts attention from the real business of the organization. Suppliers rarely excel in retail operations and, in theory, retailers should focus on their sales outlets rather than on manufacturing facilities (Marks & Spencer, for example, very deliberately provides considerable amounts of technical assistance to its suppliers, but does not own them).

Horizontal marketing

A rather less frequent example of new approaches to channels is where two or more non-competing organizations agree on a joint venture - a joint marketing operation - because it is beyond the capacity of each individual organization alone. In general, this is less likely to revolve around marketing synergy

Effectiveness of international distribution channels:

The Five C’s Framework can be used by international marketers to determine the effectiveness of their international distribution channels;

- Coverage
  - Ability of channel to reach targeted customers to achieve market share and growth objectives
- Character
  - Compatibility of channel with the firm’s desired product positioning
- Continuity
  - Loyalty of the channel to the firm
- Control
  - Ability of the firm to control total marketing program for the product or service
- Cost
  - Investment required to establish and maintain the channel-variable associated with sales level. Fixed costs required to manage the channel: inventories, facilities, training of sales force

Control over distribution:

- Worldwide the trend is toward shorter distribution channels and closer links, if not direct relationships, with those active participants in the channel.
- Some would argue that the only way to internationalize is to move closer and closer to full control by means of wholly owned subsidiary. This is quite erroneous.
- First, we have to consider industry characteristics, the value-added of the business and what the customer actually want. Second, it is often possible to achieve close control through a commission agent or a joint venture. Control should not be equated directly with ownership.

Lesson # 44

PROMOTING IN INTERNATIONAL MARKETS

International promotions mix:

Is the total marketing communications program and comprises of five major promotional tools, that are;

> **Advertising** - *any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor*
>
> **Personal selling** - *personal presentation by the firm's sales force for the purpose of making sales & building customer relations*
>
> **Direct marketing** - *use of mail, telephone, internet, and other non-personal contact tools to communicate with customers and prospects*
>
> **Sales promotion** - *short-term incentives to encourage the purchase or sale of a product or service*
>
> **Public Relationing** - *building good relations with the company's various publics, building up a good "corporate image" & handling unfavorable events*

Developing effective international communications:

Identifying first the target audience *(individuals, groups, special publics or general public)*.

Target audience will heavily affect the communicator's decision:
- on what will be said
- how it will be said
- when it will be said
- where it will be said
- who will say it

Factors influencing the setting international promotion mix:

- type of product / market
- size / dispersion of market
- push versus pull strategy
- buyer readiness stage
- product lifecycle stage
- availability of media
- market sophistication
- nature & level of competition / clutter
- company's market position / objectives
- company's resources
- regulations

Changing face of international marketing communications:

- shifting away from mass marketing to focused marketing
- growth of direct marketing

- direct mail & catalogue marketing
- telemarketing
- television direct marketing (1-900-)
  - *home shopping channels*
- online shopping (using computer)
- internet (global reach)
- in-house, house-to-house selling

Socially responsible marketing communication needed:

- avoid fake & deceptive ads
- refrain from making exaggerated claims
- do not use bait & switch advertising
- avoid irritants (faxes, e-mails, phone calls)
- refrain from invasion of privacy
- avoid exploiting emotions (love, fear, deprivation)

International advertising environment:

- Involves complexities of cross-cultural communications
- Consumer values and behavior patterns vary from one country to another *(language, level of context needed, life styles, values, norms & customs, ethics & moral standards, taboos)*
- Differences in media and their availability
- Differences in regulations and market environment (economic, cultural, demographic, political/legal)

Advertising in developed countries:

- Emphasize consumer goods, their retailing and advertising through mass media
- Heavy advertising and economic development go hand in hand
- Restrictions in some countries

Advertising in developing countries:

- Many less developed countries are sellers' market
- Most product markets are geographically limited
- Media not highly developed
- Advertising plays a less significant role in marketing
- Do not have many resources to allocate for advertising

Advantages of international standardized advertising:

- economies of scale in production & distribution
- lower planning & control costs
- lower advertising production costs
- ability to exploit good ideas on worldwide basis
- ability to introduce new products worldwide quickly
- a consistent international brand / company image
- simplification of coordination and control of advertising programs
- targets global consumer segments

Constraints on standardizing international advertisements:

- language and attitude differences
- media availability and infrastructure
- economic differences
- local distributors
- differences in tastes & attitudes
- difference in cultures
- difference in needs & usage patterns
- difference in lifestyles
- difference in perception of product
- difference in degree of market maturity
- difference in advertising regulations
  - *advertising of "vice products" and pharmaceuticals*
  - *comparative advertisements (comparing with other brands – disallowed or a must to substantiate)*
  - *advertising towards children -disallowed*

When standardized advertising is appropriate:

- brands that can be adapted for a visual appeal that avoid the problem of trying to translate words
- brands that are promoted with image campaign based on themes that play *universal appeal*
- new high-tech products
- many luxury products targeted at rich

Lesson # 45

REVISION

In recent times markets have become truly global. It is increasingly difficult for companies to avoid the impact of competition from around the world and the convergence of the world's markets. As a result, an increasing number of companies are drawn into marketing activities outside their home countries. Modern marketers have to deal with customers who are changing, with channels of distribution that are changing, and with the technological advances that are changing the nature of their products & services and requiring them to operate imaginatively & effectively in the emerging markets. The basic nature of marketing does not change from domestic to international marketing, but marketing outside national boundaries poses special problems. International marketing, unlike domestic marketing, requires operating simultaneously in more than one kind of environment, coordinating these operations, and using the experience gained in one country for making decisions in another country. The demands are tough and the stakes are high. International marketers not only must be sensitive to different marketing environments internationally, but also must be able to balance marketing moves worldwide to seek optimum results for the company.

The purpose of International Marketing subject has been to provide students a perspective of the international marketing environment and to expose them to the real issues, challenges and opportunities of conducting business across national boundaries. The course offered students a contemporary practical knowledge of international marketing and the requisite skills to manage business in an international context. The major topics focused on understanding international marketing process, comprehending foreign environments, conducting research in international markets, marketing across cultures and modes of entry into international markets. The course also covered planning and execution of the conception, pricing, promotion and distribution of ideas, products and services in international markets.