Wollo University

College of Business and Economics

Department of Maketing Management

Prepared by

Tesfaye Shiferaw (MA in Marketing Management)

Bewketu Zeleke (Master of Commerce)

Editor

Girma Moges (BA in Marketing Management)

August, 2019

Dessie, Ethiopia

Table of Contents

Content **page**

Module Introduction

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

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

2. Whether or not a company wants to participate directly in international business, it can-not escape the effect of the ever-increasing number of domestic firms exporting, importing, and/or manufacturing abroad; the number of foreign-based firms operating in most markets; the growth of regional trade areas; the rapid growth of world markets; and the increasing number of competitors for global markets.

Module Description

In the era of globalization, international marketing is given much emphasis and plays crucial role in the development of a nation. It includes basic concepts of international marketing and its environment; Relationship between international marketing and international trade; theory of comparative advantage; world trade situation and international marketing, analysis of marketing across national trade blocks' applications of marketing principles to international marketing, analysis of marketing across national boundaries, different levels of international marketing involvement; various ways of international market entry strategies, marketing-mix element decision in international marketing process of practical international marketing; Opportunities and challenges of international marketing for Developing Countries like Ethiopia.

Module Objective:

At the end of the course students will be able to:

- ✓ Know the strategic implications of competition in different countries.
- ✓ Differentiate an approach and framework for identifying and analyzing the important cultural and environmental factors.
- ✓ Know how to identify idea in seeking market opportunities outside the home country
- ✓ Know the importance of viewing international marketing management strategies from a global perspective.
- ✓ Describe the trends in International Trade;
- ✓ Analyze International Marketing environment;
- ✓ Explain the various international market entry modes/strategies.
- ✓ Know about multinational companies and their international business operation;
- ✓ Explain the various approaches of marketing mix strategies in the international Market context
- ✓ Discuss the formality of export/Import, International finance, insurance (risk management) and quality control.

CHAPTER ONE

OVERVIEW OF INTERNATIONAL MARKETING

Chapter objective:

After accomplishing this chapter students should Able to;

- ✓ Define international marketing,
- ✓ Identify the major tasks of international marketing,
- ✓ Identify international marketing orientations
- ✓ Identify the major challenges of international marketing, and
- ✓ Identify the different stages of international marketing involvement
- ✓ Explain why companies engaged in an international marketing

1. Introduction

Today, the marketing organizations are not restricted to their national borders. The entire world is open for them. New markets are springing forth in emerging economies like – China, Indonesia, India, Korea, Mexico, Chile, Brazil, Argentina, and many other economies all over the world. In today's global market opportunities are on a par with the expansion of economies, with the increasing purchasing power, and with the changing consumer taste and preferences.

Broadly, international marketing refers to the exchange process across nations. It has gained prominence with the ever increasing global trade and linkages. Whether or not a company wants to participate directly in international business, it cannot escape the effect of numerous companies engaged in exports, imports, and/or manufacturing abroad and the multinationals operating in the domestic markets giving direct and indirect competition. The advances in information technology have facilitated the process of marketing across countries. This trend of globalization of the scope of business has made it essential for the corporate managers to understand international marketing operations.

The economic, social, and political changes affect the practice of business worldwide, the business organizations have to remain flexible enough to react rapidly to changing global trends to be competitive.

1.1Definition of international marketing

Definition 1 International marketing is the performance of business activities designed to plan, price, promote, and direct the flow of the company's products to consumers or users **in more than one nation** for a profit. It is marketing **across boundaries**.

Definition 2 International marketing can also be defined as the process of planning and conducting transactions **across the national borders** to create exchange that satisfies the objectives of individuals and organizations.

1.2 Domestic marketing Vs IM

One way to understand the concept of international marketing is to examine how international marketing differs from similar concepts. **Domestic marketing** is concerned with the marketing practices within a researcher's or marketer's home country. From the perspective of domestic marketing, marketing methods used outside the home market are **foreign marketing**.

Similarities between Domestic and International Marketing

- ☞ Marketing concepts, processes and principles are universally applicable. That is they are applicable in both of them. In international marketing like domestic marketing retains the basic marketing principles of customer satisfaction and exchange.
- ☞ The marketers' activities are the same wherever one is performing business. There must be product, exchange, people, setting fair price, accessing the product to the buyers etc. In any marketing, we need the blending of the four ingredients of marketing mix.

Differences between Domestic and International Marketing

Although the marketing discipline is universal markets and customers are quite differentiate. This means that marketing practices must vary from country to country. Each person is unique and each country is unique. This reality of differences means that we cannot always directly apply experience from one country to another. If the customers, competitors, channels of distribution and available media are different, it may be necessary to change our marketing plan**.** the following are some areas of differentiation:

☞ **Factors / forces affecting the domestic market:**

- ✓ Controllable factors: the four Ps, organization objectives, resources (financial, manpower, facilities etc), management etc.
- ✓ Uncontrollable factors: government policies, and regulations (tax, VAT, price ceiling and floor), political, technological, physical, demographic, economic and cultural environment of own country.

☞ **Factors affecting the international market:**

- ✓ International marketing involves large number of uncontrollable variables than the domestic marketing like competition, legal restraints, government controls, politics, inconsistent consumer behavior, different levels of technology, and levels of economic development of domestic and foreign countries in which the international marketer operates. The international marketer faces two or more sets of uncontrollable variables originating from various countries.
- ✓ The domestic marketer faces relatively homogeneous market while the international marketer faces fragmented and diverse markets. Etc.

1.3 *International Marketing Orientations*

Different **attitudes** towards company's involvement with international marketing process are called international marketing orientations. The **management's thinking, philosophy and guiding** principles towards the internalization of the company's operations will divide the level of involvement of the firm's resources, including its marketing activities and talents". In this statement Paul and Kapoor talk about the EPRG framework introduced by Wind, Douglas and Perlmutter, who stress that "the key assumption underlying the EPRG framework is that the degree of internalization to which management is committed affects the specific international strategies and decision rules of the firm". The Perlmutter's EPRG framework consists of 4 stages in the international operations' evolution. The EPRG framework includes:

1. Ethnocentric approach;
2. Polycentric approach;
3. Regiocentric approach;
4. Geocentric approach;

Ethnocentric Approach

Ethnocentric approach underlines host countries superiority. In other words, it is associated with orientation directed first of all at the home country management, "the home country knows best culture is applied". Overseas operations are considered only as an additional Extension of the local market. Paul pinpoints that in this approach "management philosophy, domestic technology, strategies and even personnel are far more superior to foreign operations and are a perfect fit for foreign operations as well". Companies oriented on ethnocentric approach are distinct with their complex structure in home country, while structure in other countries stays very simple. Such companies do not adapt their products to the needs and wants of other countries where they have operations. Ranchhod and Marandi come up with a good summary of ethnocentric approach, saying that this international marketing orientation "tends to ignore much of the opportunities outside the domestic market while those that venture outside tend to operate on the basis of "**standardized" or "extension approach**" marketing and do not engage in adaptation of any noticeable degree". On one hand this approach sometimes can work as advantage for the company when it views foreign markets as "**a means of disposing of surplus domestic production"**. On the other hand, the company may experience a lot of difficulties to survive in foreign markets as its brands will not be accepted by consumers of that country due to cultural differences as they are completely ignored by the headquarters. In this case the company still will have two choices: to continue its operations only in its domestic market; or change its international marketing orientation to a more appropriate one according to nowadays requirements of the international brands' consumers. The example of such change is NISSAN which in the first years of its existence on international arena was following ethnocentric approach by selling its cars abroad exactly as they were sold in their domestic market in Japan, after several years of its international trading the company realized that ethnocentric international marketing orientation is no longer relevant for some industries including automobile industry in which they were operating and changed its approach to polycentric.

Polycentric Approach

A company following this orientation gives an equal importance to every country's domestic market, as there is a belief in uniqueness of every market and its need to be addressed in an individual way. "The plans are devised to operate through individually established businesses, i.e. either by wholly owned subsidiaries or through marketing subsidiaries, separately in each country, allowing complete autonomy to units to operate as separate profit centres independent of head office". When following this approach a company has to be a leader in technological leadership, produce high quality products or its production costs should be very low. It can also concentrate its attention on foreign markets which have similar consumer needs and conditions similar to domestic market. Among disadvantages of this orientation is low possibility of the economies of scale, high prices of products due to high investments in the research of foreign markets and adaptation of products to the needs and wants of particular countries. Examples of companies marketing their brands according to this approach are: Ford Motors, Suzuki, Toyota, General Motors, Nissan, etc. – all these companies adapt their brands to specific needs of each country's consumer.

Regiocentric Approach

In this approach segmentation of the markets is fulfilled on the basis of similarities in terms of regions. A company finds economic, cultural or political similarities among regions in order to cover the similar needs of potential consumers. For example, countries of former USSR can form one group as needs and tastes of consumers of these countries are very similar as they were representatives of one nation not so long ago. The same products and strategies can be used in such set of countries like Denmark, Norway, Finland and Sweden or Pakistan, Bangladesh and India as they possess a strong regional identity and belong to the same cultural dimensions. Pepsi and Coca-Cola are examples of international companies which are successfully using this international marketing orientation.

Geocentric Approach

This orientation favors neither home country nor foreign countries where the company operates. It is also called a global approach the main idea of which is to target “global consumers” who have similar tastes. The main idea of this orientation is to borrow from every country what is best. The limitation is that it fully depends on constant global market research, which requires a lot of investment and time. This approach is for companies with an impressive capital that want “to become world leaders” , in this quest “…manufacturers offer homogeneous, identifiable and often interchangeable services and products in order to integrate them for worldwide operational efficiency”. The European Silicon Structures is a pure example of geocentric international marketing orientation: the company is incorporated in Luxembourg, its headquarter was established in Munich, research facilities are in England, and France has its factory; the company went even further by assigning its eight directors from seven different countries.

1.4 International trade concepts

In the common parlance, the terms **international marketing** and foreign marketing or **foreign trad**e are used interchangeably. But actually they are different issues. The term foreign trade is used when we want to talk about trade between nations. It has a macro perspective whereas international marketing (IM) has a managerial perspective. IM deals with issues which concern a firm and not the nation as a whole and therefore the questions raised in each area are of a different nature as we shall see it later.

International marketing is not also the same thing as international trade. Only a part of international trade flows represents international marketing further, there is a category of international marketing which is not captured by the international trade statistics.

Why do Countries trade?

A nation trades because it expects to gain something from its trading partner. One may ask whether trade is like a zero-sum game, in the sense that one must lose so that another will gain. The answer is ‘No’, because though one does not mind gaining benefits as someone else’s expense, no one wants to engage in a transaction that includes a high risk of loss. For trade to take place, both nations must anticipate gain from it. In other words, trade is a positive sum game.

There are several different reasons why one country may have something that another country wants. Perhaps one country is not able to produce the item in question. Maybe people in the country want cars to drive but there are no car manufacturers in the country so cars have to be brought in from another country.

Theories of trade are those theories that explain why and how international trade benefits countries involved in it. Many such theories advanced so far. Some that gained popularity, however, are the following ones:

1. Absolute Cost Advantage

Adam Smith asserted that nations trade with each other so as to realize gains from that venture. Smith said that the wealth of a nation is not shown by the stock of precious stones but by its capacity to produce goods and services. He said that a country has to engage in production of goods and services where it has an absolute advantage and export those goods, while it imports goods of which its trading partner has absolute advantage.

The theory states that international trade can occur basing on the country's level of production efficiency. The resources will then be used efficiently and output will increase. The increase in the output of both commodities measures the gains from specialization in production available to be divided between the two nations through trade.

Simple Illustration of Absolute Advantage

Adam Smith saw trade as beneficial to both parties of an exchange as long as there is specialization for example a shoemaker will benefit from trading with a tailor and vice versa.

Assumptions

The world is made up of two countries Zimbabwe and Namibia. These countries produce two goods only, X and Y. There is one major factor of production which determines price and value of a commodity. The factor is homogenous and is labor. Price and value of a commodity (product produced for resale) is determined by the number of hours spent in production of the commodity. That is it is the number of hours that determines the exchange values.

Table 1. Production per labour per hour

Country			
		Good X	Good Y
Zimbabwe		10 hrs	20 hrs
Namibia		20 hrs	10 hrs

Zimbabwe is efficient in producing commodity X therefore has an absolute advantage in producing X. Namibia has absolute advantage in the production of commodity Y since it is efficient in producing Y. Exchange in this case takes place if the countries specialize in producing those goods that they have an absolute advantage. Zimbabwe will shift resources from Y production to X production. Through trade Zimbabwe is able to save 10 hours by buying commodity Y as well as Namibia. The 10 hours that Zimbabwe saved as well as Namibia shows the gains from trade.

Each country should specialize so that the world will enjoy the lower costs of production per unit in all goods being produced. This increases the total output of the commodities therefore will increase consumption of each country. Smith says fundamental objectives of trade activities should not be interfered with, in other words, he advocates for free trade.

Criticism

Only a small percentage of trade can be explained by this theory. Most of today's world trade cannot this concept.

1. **Comparative or Relative Cost Advantage**

David Ricardo (1772-1823) states that countries should specialize in producing goods where they can do it efficiently. Each country should specialize in the production of a commodity for which it has less opportunity cost.

Assumptions

1. Two countries
2. . Fixed endowment of resources that are identical.
3. . Factors of production are perfectly mobile between alternative uses within a country;
4. . Returns to factors of production are also the same.

5. Factors of production are perfectly immobile externally.
6. A labour theory of value is employed, that is the relative value of a good is dependent on its relative labor content.
7. Technology is fixed for both countries.
8. There are also constant returns to scale.
9. There is full employment, no government intervention, there is perfect competition, and no transport costs.

According to the theory, even if Zimbabwe is more efficient than Namibia in producing both goods, trade between them is still beneficial to both.

Simple Illustration of Comparative Advantage

David Ricardo postulates that absolute advantage is not always a prerequisite for international trade. Trade can also be beneficial when one country is more efficient in the production of both goods. Comparative advantage is determined not by absolute values but by labour productivity ratios. The following example illustrates this law or principle.

Suppose there are only two countries, Zimbabwe and Namibia, and the production per labour per hour is given as in the table.

Table 2 (a). Production per labour per hour

Country			
		Good X	Good Y
Zimbabwe		120 hours	100 hours
Namibia		80 hours	90 hours

Table 2 (b). Opportunity cost

Country			
		Good X	Good Y
Zimbabwe		100/120=0.83	120/100=1.2
Namibia		90/80=1.125	80/90=0.889

The opportunity cost of producing Good X in Zimbabwe is Good Y / Good X=100/120 = 5/6 = 0.83, and Good Y is Good X / Good Y = 120/100=1.2. For Namibia Good Y, 80/90 = 8/9 = 0.889 and Good X, 90/80 = 9/8 = 1.125. This means in order to produce one unit of Good Y, Zimbabwe should give up 1.2 hours of producing Good X. Therefore it is better for Zimbabwe to produce Good X which has a smaller opportunity cost. With trade Zimbabwe can import a unit of Good Y at a cost less than 1.2 of Good X and therefore gains 0.2 which it can spend on her own production of Good X. 0.2 is the gain of Zimbabwe.

Namibia, for one unit of Good Y it will be able to get 1 hour of production of Good X and free up time which again represent a gain to Namibia. So it will be good for Zimbabwe to specialize in production of Good X because it spends less hours and exchange that with Namibia. Namibia should specialize in Good Y production because it spends fewer hours and trade for Good X. The principle states that even if a country has absolute advantage of producing all goods, trade and specialization will still derive some benefits to both countries provided each has a comparative cost advantage. Thus the theory assumes barter trade.

Criticisms

The theory is a static model, that is, it does not take changes in production process into consideration for example changes in technology and interaction between production processes. It also assumes the use of one factor of production i.e. does not consider the use of other factors of production such as land and capital. The use of two goods is unrealistic because countries produce many goods simultaneously. It assumes that labour is only mobile nationally.

It assumes that exchange is based on barter trade. The theory does not consider effects of trade on income distribution, it assumes zero transport costs. The theory also looks at the supply side only and not the demand side of trade.

Sources of Comparative Advantage

Three main sources are explained below:

Technology

Technological differences emanate from knowledge that is accumulated through experience or as a result of innovation. If a country possesses a production process that is superior to the processes used by other countries, this could be a source of that country's comparative advantage.

Resource Endowments

Many countries are endowed with different quantities and qualities of scarce resources as well as different proportions of factors of production. This becomes a source of comparative advantage.

Differences in Tastes or Demand

Technology and resource endowments emphasize the conditions of supply in the various countries. However, relative prices cannot be determined on the basis of supply considerations alone. The force of demand is also important in the determination of a country's comparative advantage. Rising demand in the market encourages specialization and higher productivity. For example, if consumers in Namibia have a relative preference for good X, whereas consumers in Zimbabwe have a relative preference for good Y, pre-trade relative prices will differ between Namibia and Zimbabwe even if they have similar resource endowments and production techniques. Tastes or demand differences are thus also important in explaining trade flows.

2. Factor Endowment Theory

The principles of absolute and relative or comparative advantage provide a primary basis for trade to occur, but the usefulness of these principles is limited by their assumptions. One basic assumption is that the advantage, whether absolute or relative, is solely determined by labor in terms of time and cost. Labor then determines comparative production costs and subsequent product prices for the same commodity.

If labor is indeed the only factor of production or even a major determinant of product content, countries with high labor cost should be in serious trouble.

An interesting fact is that Japan and Germany, in spite of their very high labor costs, have remained competitive and have performed well in trade. This suggests that absolute labor cost is only one of several competitive inputs that determine product value.

It is misleading to analyze labor costs without also considering the quality of that labor. A country may have high labor cost on an absolute basis, yet this cost can be relatively low if productivity is high. Countries with low wages tend to have lost productivity. Any subsequent productivity gains usually result in higher wages and currency appreciation.

Furthermore, the price of a product is not necessarily determined by the amount of labor it embodies, regardless of whether the efficiency of labor is an issue or not. Since product price is not determined by labor efficiency alone, other factors of production (factor endowments) must be taken into consideration, including land and capital (i.e., equipment). Together, all of these production factors contribute significantly to the creation of value within a particular product.

- One reason for the importance of identifying other factors of production is that different commodities require different factor inputs and that no country is well-endowed in all production factors.
- The varying proportion of these factors embodied in various goods has a great deal of impact on what a country should produce.
  - Corn, for instance, is best produced where there is an abundance of land (relative to labor and capital), even though corn can be grown in most places in the world.
  - Oil refining, in contrast, requires relatively more capital and relatively less labor and land because of expensive equipment and specialized personnel.
  - In clothing production the most important input factor is that the economy is labor-intensive.
- The varying factor inputs and proportions for different commodities, together with the uneven distribution of such factors of production in different regions of the world, are the basis of the Heckscher-Ohlin **theory of factor endowment.** This theory holds that the inequality of relative prices is a function of regional factor endowments and that comparative advantage is determined by the relative abundance of such endowments and that comparative advantage is determined by the relative abundance of such endowments. According to Ohlin, there is a mutual interdependence among production factors, factor movements, income, prices, and trade. A change in one affects the rest. Prices of factors

and subsequent product prices in each region depend on supply and demand, which in turn are affected by the desires of consumers, income levels, quantity of various factors, and physical conditions of production.

- Since countries have different factor endowments, a country would have a relative advantage in a commodity that embodies in some degree that county's comparatively abundant factors. A country should thus export that commodity that is relatively plentiful (i.e., in comparison to other commodities) within the relatively abundant factor (i.e., in comparison to other countries). This exported item can then be exchanged for goods that would use large quantities of the country's scarce factors if domestically produced. Countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce. For instance, Ethiopia exports products that make use of land and labor which are relatively abundant to it and imports that were made using intensive capital which is relatively scarce to it.
- Therefore, a country that is relatively abundant in labor but relatively scarce in capital is likely to have a comparative advantage in the production of labor-intensive goods and to have deficiencies in the production of capital-intensive goods. This concept explains why China, a formidable competitor in textile products, has to depend on U.S. and European firms for oil exploration within China itself.
- Michael Porter in 1990 has further reinforced this theory. He has determined the advanced factors of production in addition to the aforementioned factors. These advanced factors are:
    - Communication infrastructure
    - Sophisticated and skilled labor
    - Research facilities
    - Technological know-how

3. The Product Life Cycle Theory

It was initially introduced by Raymond Vernon. It was developed and verified by economists to explain trade in context of comparative advantage, describes the diffusion process of an innovation across national boundaries. The life cycle begins when a developed country, having a new product to satisfy consumer needs, wants to exploit its technological breakthrough by selling abroad. Other advanced nations soon start up their own production facilities, and before long less developed countries do the same. In other words products are invented and first introduced to the high income countries then to middle income countries and finally reach to low income countries through product diffusion theory. Efficiency /comparative advantage shifts from developed countries to developing nations. Finally, advanced nations, no longer cost-effective, import products from their former customers. The moral of this process could be that an advanced nation becomes a victim of its own creation.

Put differently, products go through a cycle during which high income and mass consumption countries initially export, then they gradually loss their export market position and finally become importers of new products from the country of invention and then shift from the position of importers to exporters. Finally, LDCs shift from being importers to exporters of the product. These shifts correspond to the stages in the PLC.

1.5 Export marketing and IM

Exporting is an integral part of all international business, whether the company is large or small, or markets in one country or is a global marketer. Goods manufactured in one country, destined for another, must be moved across borders to enter the distribution system of the target market. Since any countries do not offer a large enough opportunity to justify local production, exporting allows a company to centrally manufacture its products for several markets and, therefore, to obtain economies of scale. Furthermore, since exports add volume to an already existing production operation located elsewhere, the marginal profitability of such exports tend to be high. A firm has two basic options for carrying out its export operations – ***Indirect and direct exporting***

Forms of Export

A firm has two basic options for carrying out its export operations.

1. **Indirect Exporting**: It occurs when markets are contacted through a domestically located (in exporter’s country of operation) intermediary. It involves the use of intermediaries who handle all documentation, physical movement of goods, and channels of distribution for sale. Several types of intermediaries located in the domestic market are ready to assist a

manufacturer in contacting foreign markets or buyers. The major advantage for using a domestic intermediary lies in that individual's knowledge of foreign market conditions. Particularly for companies with little or no experience in exporting, the use of domestic intermediary provides the exporter with readily available expertise. The most common types of intermediaries are

- Export house buying locally on its own account or for foreign principals. In this case, the sale will be a purely domestic one with the export house arranging the export of goods.
- Trading company with established distribution outlets. These trading companies have well connected distribution outlets in the countries in which they operate and are able to handle a diverse product range.
- Piggybacking (now subsumed under strategic alliances) uses the distribution channel of another company in related field. It seems to attract large companies rather than small, but it enables a non-exporter to exploit the distribution channels of an exporting company with a complementary, non-competing product. For the exporter, piggybacking offers the advantage of widening the product range carried, using the sales force to the full, and earning additional revenue from carrying products into distribution channels, which would have to be served anyway. For the domestic company, there is the obvious advantage of a ready-made overseas market with an experienced international exporting firm at the ready. There is less risk than doing it alone and there is direct access to the market, as the channels of distribution already exist.

2. ***Direct Exporting*****:** It occurs when a company exports through intermediaries located in the foreign market. Under direct exporting, an exporter must deal with a large number of foreign contacts, possibly one or more for each country the company plans to enter. While a direct exporting operation requires a larger degree of expertise, this method of market entry does provide the company with a greater degree of control over its distribution channels than would indirect exporting. Some of the available intermediaries for direct exporting include agents and distributors. Alternatively, a company may opt to establish its own sales subsidiary in the foreign country. The sales subsidiary assumes the role of the independent distributor by stocking the manufacturer's products, selling to buyers; and assuming the credit risk. The sales subsidiary offer the manufacturer, full control of selling operations in a foreign market. This may be important if the company's

products require the use of special marketing skills, such as advertising or selling. The exporter finds it possible to transfer to export not only the product but also the entire marketing program that often makes the product a success.

1.6 Strategic Marketing

What is strategy?

- Strategy in it strictest sense refers to means and not ends.
- Strategy is all about how an organization will achieve its objectives

Table 1.1 some clarification about strategy

Objective	***Strategy***	***Tactics***
The goal, aim to which all the resources of the Business is directed.	The means of achieving the objects	Maneuvers on the field of battle
This means that objectives are about things we want to achieve – not about how we should achieve them	This means that strategies are concerned with how we achieve the objectives and action	Tactics are driven the strategy and the realities of the battleground /Market place
Objective always start with the word **To…**	Strategies should always start with the word **By ….**	Strategies should always start with the word **By ….**

1.6.1 Definition of Strategic Marketing

While all marketers do not agree on a common definition of strategic marketing, the term generally refers to a company plan that allocates resources in ways to generate profits by positioning products or services and targeting specific consumer groups. It is seen as a process consisting of: analyzing environmental, market competitive and business factors affecting the corporation and its business units, identifying market opportunities and threats and forecasting future trends in business areas of interest for the enterprise, and participating in setting objectives and formulating corporate and business unit strategies, Selecting market target strategies for the product-markets in each business unit, establishing marketing objectives as well as developing, implementing and managing the marketing program positioning strategies in order to meet market target needs. The process highly considers creating superior customer value resulting in the creation of superior shareholder value and a sustainable competitive advantage

1.6.2 FACTORS IN MARKETING STRATEGY

Whatever strategy you ultimately choose must take into account several factors like:

The company's position in the market

Factors like market share or sales volume should be analyzed, that is to say , every aspect which can contribute to determine the level of strength of the company respecting customers and competitors. It is also to take into account the following factors:

The company's mission, policies, objectives and resources.

This shows the importance of the values in the foundation of the company, reason why it will center bound aspects to products and services as well as to marks and marketing strategies.

Your competitors marketing strategies.

We should not only "know our company" but also the behavior of the "competitors' potential and the capacity to add and remove it in products, segments, markets, distribution channels, etc. One of the clearest indicators that a company thinks, and it acts with mentality of strategic marketing it is the level of depth that makes of its competitors. "Victorious warriors win the battle first and then they go fight… To get knowledge about the purchasing behaviors, motivations and perceptions of those who are the direct responsible of products it will also be key when strategic decisions in marketing. There exist multitude of failures in marketing and more concretely in the formulation and implementation of the strategy due to a lack of data about the consumers.

The projected life cycle stage

The implications of the product life are key when defining the marketing strategy since they try to foresee (with a certain level of inaccuracy) which will be the evolution of the sales in the future. Offering a "simile" with the biological cycle of life. This aspect is also related with the visualization of future behaviors. One of the most interesting applications is the one of determining the best moment or good moment in which the company should enter in the market keeping in mind the positions of the competitors, the level of uncertainty in the environment, etc.. This is an interesting possible future field of investigation.

Mistakes can affect a business in a regular way since sometimes the managers cannot be able to assign resources in an appropriate way and keep balance in the marketing strategies. For example, it can be that “too optimistic managers” have a tendency to launch products to the market without the appropriate assignment of resources, while other too conservative do not invest enough in new developments just because they are too focused in profitability. Marketing strategies must be carefully timed taking into account seasonal factors, economic conditions, etc,

1.6.3 Strategy tools

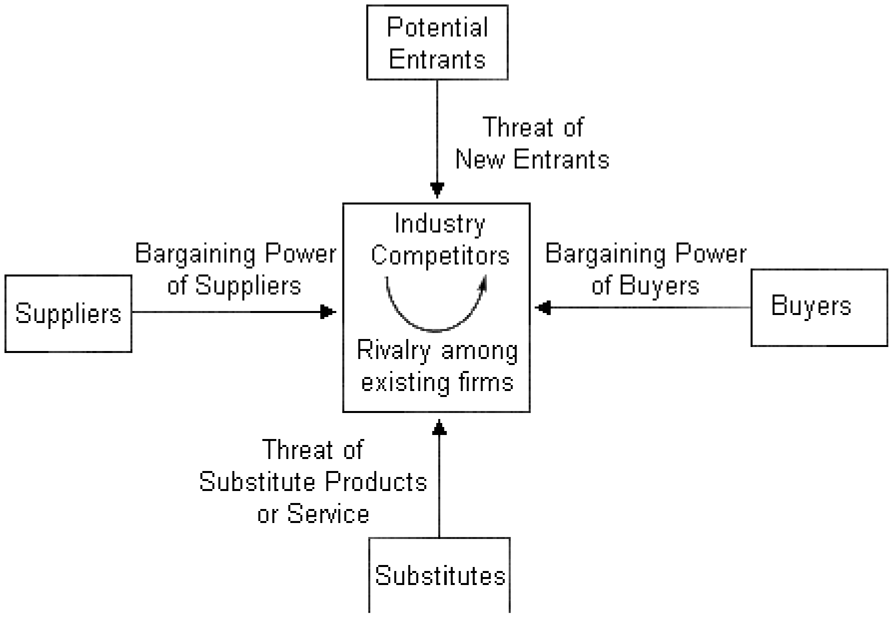
Strategy tools help in visualizing and analyzing the micro and macro environment, the external and internal factors concerning a company which need to be taken into account when creating and developing a marketing strategy. A solid marketing strategy includes a SWOT (Strengths, Weakness, Opportunities and Threats) analysis of a business and the results of the SWOT analysis guide the marketing strategy).

The SWOT analysis captures both the internal and the external environment at both micro and macro levels. The strengths, weaknesses, opportunities and threats are identified and analyzed.

Despite SWOT being an internal analysis of a company, the opportunities and threats represent the external, environmental influences, possible future events and circumstances that can either deteriorate or improve the current situation.

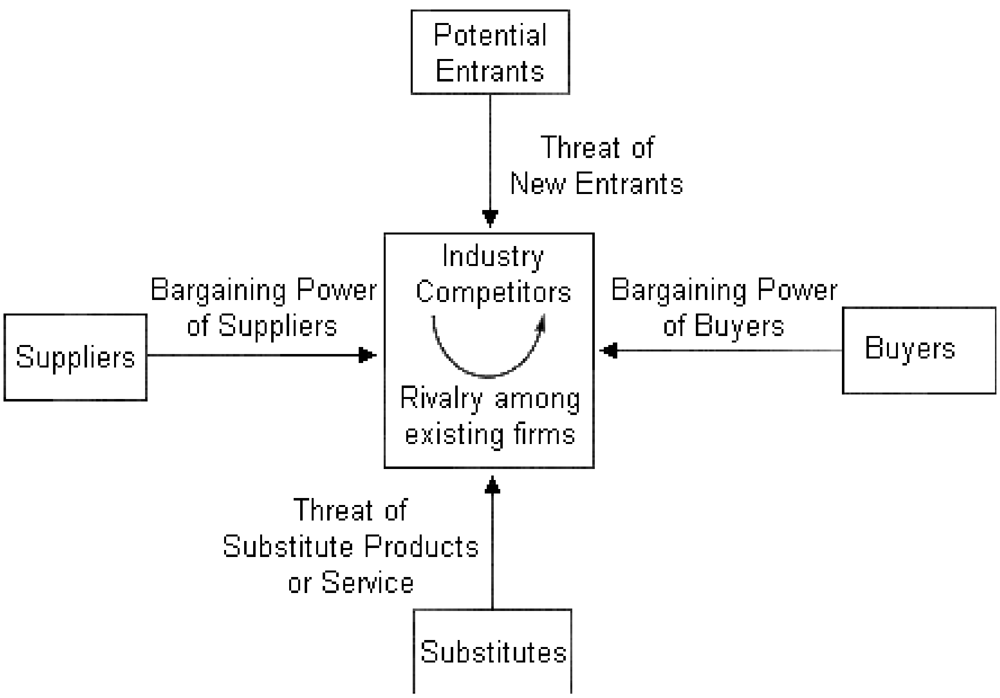
Porter's Five Forces of Competition is a framework for industry analysis and business strategy development; it derives from the five forces that determine the competitive intensity and therefore attractiveness of a market, in other words, the overall industry profitability. This tool helps to see the forces more clearly and to respond to them strategically. There are variations, such as the Six Forces Model by Brandenburger, Nalebuff, Grove, Jones et al. including the Five Forces by Porter: Competition, New entrants, End users/Buyers, Suppliers, Substitutes, and one more force, the Complementary product/The Government/The Public, widening the scope of the analysis.

The purpose of using Porter's 5 forces of competition as one of the tools is to evaluate the market and competition, the micro environment, in other words, to make a competitive analysis. It is an assessment of the strengths and weaknesses of both current and new potential competitors.


Potential
Entrants
Threat of
New Entrants
Bargaining Power
of Suppliers
Suppliers
Industry
Competitors
Rivalry among
existing firms
Bargaining Power
of Buyers
Buyers
Threat of
Substitute Products
or Service
Substitutes

Porter's five forces model of competition is one of the most recognized framework for the analysis of business strategy. The five forces determine the competitive intensity and thus the attractiveness of a market. The five forces model consists of an analysis which is dependent on four entities which are external to the firm as well as the fifth force, the Industry structure.
The five forces are defined as follows:

- The threat of the entry of new competitors
- he intensity of competitive rivalry
- The threat of substitute products or services
- The bargaining power of customers
- The bargaining power of suppliers



Porter's Five Forces

I. Rivalry

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect and firms are not unsophisticated passive price takers. Rather, firms strive for a competitive advantage over their rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

When a rival acts in a way that elicits a counter-response by other firms, rivalry intensifies. The intensity of rivalry commonly is referred to as being cutthroat, intense, moderate, or weak, based on the firms' aggressiveness in attempting to gain an advantage.

In pursuing an advantage over its rivals, a firm can choose from several competitive moves:

- Changing prices - raising or lowering prices to gain a temporary advantage.
- Improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself.
- Creatively using channels of distribution - using vertical integration or using a distribution channel that is novel to the industry. The intensity of rivalry is influenced by the following industry characteristics:

1. A larger number of firms increase rivalry because more firms must compete for the same customers and resources. The rivalry intensifies if the firms have similar market share, leading to a struggle for market leadership.
2. Slow market growth causes firms to fight for market share. In a growing market, firms are able to improve revenues simply because of the expanding market.
3. High fixed costs result in an economy of scale effect that increases rivalry. When total costs are mostly fixed costs, the firm must produce near capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry.
4. High storage costs or highly perishable products cause a producer to sell goods as soon as possible. If other producers are attempting to unload at the same time, competition for customers intensifies.
5. Low switching costs increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.
6. Low levels of product differentiation are associated with higher levels of rivalry. Brand identification, on the other hand, tends to constrain rivalry.
7. Strategic stakes are high when a firm is losing market position or has potential for great gains. This intensifies rivalry.
8. High exit barriers place a high cost on abandoning the product. The firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. A

common exit barrier is asset specificity. When the plant and equipment required for manufacturing a product is highly specialized, these assets cannot easily be sold to other buyers in another industry. A diversity of rivals with different cultures, histories, and philosophies make an industry unstable. There is greater possibility for mavericks and for misjudging rival's moves. Rivalry is volatile and can be intense. Industry Shakeout**:** A growing market and the potential for high profits induce new firms to enter a market and incumbent firms to increase production. A point is reached where the industry becomes crowded with competitors, and demand cannot support the new entrants and the resulting increased supply. The industry may become crowded if its growth rate slows and the market becomes saturated, creating a situation of excess capacity with too many goods chasing too few buyers. A shakeout ensues, with intense competition, price wars, and company failures.

II. Threat of Substitutes

In Porter's model, substitute products refer to products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products - as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

The competition engendered by a Threat of Substitute comes from products outside the industry. The price of aluminum beverage cans is constrained by the price of glass bottles, steel cans, and plastic containers. These containers are substitutes, yet they are not rivals in the aluminum can industry. To the manufacturer of automobile tires, tire retreads are a substitute. Today, new tires are not so expensive that car owners give much consideration to retreading old tires. But in the trucking industry new tires are expensive and tires must be replaced often. In the truck tire market, retreading remains a viable substitute industry. In the disposable diaper industry, cloth diapers are a substitute and their prices constrain the price of disposables.

III. Buyer Power

The power of buyers is the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a **monopsony** - a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality few pure monopolies exist, but frequently there is some asymmetry between a producing industry and buyers. The following tables outline some factors that determine buyer power.

Table 1. Buyer Power

Buyers are Powerful if:	**Example**
Buyers are concentrated - there are a few buyers with significant market share	DOD purchases from defense contractors
Buyers purchase a significant proportion of output - distribution of purchases or if the product is standardized	Circuit City and Sears' large retail market provides power over appliance manufacturers
Buyers possess a credible backward integration threat - can threaten to buy producing firm or rival	Large auto manufacturers' purchases of tires
Buyers are Weak if:	**Example**
Producers threaten forward integration - producer can take over own distribution/retailing	Movie-producing companies have integrated forward to acquire theaters
Significant buyer switching costs - products not standardized and buyer cannot easily switch to another product	IBM's 360 system strategy in the 1960's
Buyers are fragmented (many, different) - no buyer has any particular influence on product or price	Most consumer products
Producers supply critical portions of buyers' input - distribution of purchases	Intel's relationship with PC manufacturers

IV. Supplier Power

A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. The following tables outline some factors that determine supplier power.

Table 2. Supplier *Power*

Suppliers are Powerful if:	**Example**
Credible forward integration threat by	Baxter International, manufacturer of

suppliers	hospital supplies, acquired American Hospital Supply, a distributor
Suppliers concentrated	Drug industry's relationship to hospitals
Significant cost to switch suppliers	Microsoft's relationship with PC manufacturers
Customers Powerful	Boycott of grocery stores selling non-union picked grapes
Suppliers are Weak if:	**Example**
Many competitive suppliers - product is standardized	Tire industry relationship to automobile manufacturers
Purchase commodity products	Grocery store brand label products
Credible backward integration threat by purchasers	Timber producers relationship to paper companies
Concentrated purchasers	Garment industry relationship to major department stores
Customers Weak	Travel agents' relationship to airlines

V. Threat of New Entrants and Entry Barriers

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are ***barriers to entry***.

Barriers to entry are more than the normal equilibrium adjustments that markets typically make. For example, when industry profits increase, we would expect additional firms to enter the market to take advantage of the high profit levels, over time driving down profits for all firms in the industry. When profits decrease, we would expect some firms to exit the market thus restoring market equilibrium. Falling prices, or the expectation that future prices will fall, deters rivals from entering a market. Firms also may be reluctant to enter markets that are extremely uncertain, especially if entering involves expensive start-up costs. These are normal accommodations to market conditions. But if firms individually (collective action would be illegal collusion) keep prices artificially low as a strategy to prevent potential entrants from entering the market, such **entry-deterring pricing** establishes a barrier.

. Barriers to entry arise from several sources:

1. **Government creates barriers.** Although the principal role of the government in a market is to preserve competition through anti-trust actions, government also restricts competition through the granting of monopolies and through regulation. Industries such as utilities are considered natural monopolies because it has been more efficient to have one electric company provide power to a locality than to permit many electric companies to compete in a local market

2. **Patents and proprietary knowledge serve to restrict entry into an industry.** Ideas and knowledge that provide competitive advantages are treated as private property when patented, preventing others from using the knowledge and thus creating a barrier to entry.

3. **Asset specificity inhibits entry into an industry.** Asset specificity is the extent to which the firm's assets can be utilized to produce a different product. When an industry requires highly specialized technology or plants and equipment, potential entrants are reluctant to commit to acquiring specialized assets that cannot be sold or converted into other uses if the venture fails. Asset specificity provides a barrier to entry for two reasons: First, when firms already hold specialized assets they fiercely resist efforts by others from taking their market share. New entrants can anticipate aggressive rivalry. For example, Kodak had much capital invested in its photographic equipment business and aggressively resisted efforts by Fuji to intrude in its market. These assets are both large and industry specific. The second reason is that potential entrants are reluctant to make investments in highly specialized assets.
4. **Organizational (Internal) Economies of Scale.** The most cost efficient level of production is termed **Minimum Efficient Scale** (**MES**). This is the point at which unit costs for production are at minimum - i.e., the most cost efficient level of production. Barriers to exit will work similarly to barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, a firm must compete. Some of an industry's entry and exit barriers can be summarized as follows:

Table 3. threat of new entrants

Easy to Enter if there is:	**Difficult to Enter if there is:**
Common technology	Patented or proprietary know-how
Little brand franchise	Difficulty in brand switching
Access to distribution channels	Restricted distribution channels
Low scale threshold	High scale threshold
Easy to Exit if there are:	**Difficult to Exit if there are:**
Salable assets	Specialized assets
Low exit costs	High exit costs
Independent businesses	Interrelated businesses

1.7 Opportunities and challenges of IM

International marketing situation at present can be explained by changing competitive structure coupled with shifting demand throughout the world with increasing globalization and information age business firms/companies must properly deal with foreign competitors, customers and suppliers. Companies face high competition in all dimensions both from domestic and foreign firms.

They face the following problems / challenges:

- Increasing global competition
- Income gap
- Environmental deterioration—pollution, over flooding, desertification etc.
- Infrastructural neglect / shortage—absence of roads, telephone and transportation services.
- Economic stagnation, declination
- Rapid technological changes
- Shortages of skilled man power

- Other economic, political, social and cultural problems must be considered while one intends to cater in the international market.

The opportunities that international marketers face include:

1. **Survival and growth**

For companies to survive, they need to grow. Because most countries are not fortunate in terms of market size, resources, and opportunities in their domestic market, they must trade with others to survive. Foreign markets provide the opportunity to achieve economies of scale so as to be competitive global firms. International competition may not be a matter of choice when survival is at stake. Studies of some industries found that international expansion was necessary when foreign firms entered a domestic market.

2. **Sales and profits**

Foreign markets constitute a large share of the total business of many firms that have wisely cultivated markets abroad. Some multinational companies (MNC) clearly emphasize the importance of overseas markets.

3. **Diversification**

Demand for most products is affected by such cyclical factors as recession and such seasonal factors as climate. The unfortunate consequence of these variables is sales fluctuations, which can frequently be substantial enough to cause layoffs of personnel.

One way to diversify a company's risk is to consider foreign markets as a solution to variable demand. Such markets even out fluctuate by providing outlets for excess production capacity.

4. **Inflation and price moderation**

The benefits of export are readily self-evident. Imports can also be highly beneficial to a country because they constitute reserve capacity for the local economy. Without imports (or with severely restricted imports), there is no incentive for domestic firms to moderate their prices. The lack of imported product alternatives forces consumers to pay more, resulting in inflation and excessive profits for local firms. This development usually acts as a prelude to workers' demand for higher wages, further exacerbating the problem of inflation.

5. **Employment**

International trade improves the world's GDP and enhances employment generally for all nations. Unfortunately, there is no question that globalization is bound to hurt some workers whose employers are not cost competitive. Some employers may also have to move certain jobs overseas so as to reduce costs.

1.8 Concepts of foreign exchange and balance of payment

1.8.1 Foreign Exchange (Forex)

- Foreign exchange is a financial asset involving a cash claim by residents of one country against the residents of other countries. Foreign exchange can be held in different forms such as:
  - Currency (paper money and coin)
  - Cheques (e.g., travelers cheque)
  - Letter of credit
  - Bill of exchange
- Foreign exchange transactions involve the purchase or sale of one national currency against another. The easiest way to understand this type of transaction is to view money as just another product that customers are willing to buy and sell. Like other products, money can be considered as branded, and the Ethiopian birr, the U.S. dollars, French franc, Japanese yen, and so on are simply some of the brand names for a money "product." Some of these brand names carry more prestige and are more desirable than others, much like brand names of consumer products.
- People often wonder why it is necessary to have many different currencies. Obviously, it would be preferable to have just one worldwide currency that could be used anywhere on Earth, similar to the U.S. dollar's being used and accepted in all fifty states. But a global currency is presently impossible because of two uncontrollable factors—national sovereignty and inflation.
- Under normal circumstances, it is very rare for a country to adopt another country's currency as its own. One exception is Liechtenstein. It signed a customs treaty with Switzerland in 1923, making the Swiss franc its official currency. Moreover, Liechtenstein's customs affairs are administered by Switzerland.

- ➲ Many Americans, knowing that the dollar is widely accepted, do not understand why the U.S. dollar cannot become a global currency and why other nations resist replacing their national currencies with the U.S. dollar. The resistance perhaps can be better understood if one imagines the table being turned. Would the American public be willing to abandon the dollar and replace it with a new global currency? The fact that the United States is so unwilling to embrace the metric system in spite of its demonstrated superiority underscores this point clearly. Because of *national pride*, no nation wants to give up its identity and sovereignty, and this includes its national currency. National pride may also explain Great Britain's reluctance to allow the pound to join the European Monetary System (EMS), especially since the British believe that the pound has a more role in the international financial world. Great Britain withdrew the pound from the EMS in 1992.
- ➲ A less emotional but often uncontrollable issue is *inflation,* which reduces the value of money (i.e., purchasing power). Since it is impossible for all nations to have an identical inflation rate, the effect of inflation on the value of various currencies is uneven. In Argentina, the inflation rate was greater than 400 percent in 1984, and it accelerated to more than 800 percent later, forcing the government to adopt the austral as its new currency in 1985. Inflation in the U.S. at the same time was running in the single digits. After World War I, the value of the German mark stood 4 trillion marks to a dollar.
- ➲ These examples should make clear that it is impractical for any single currency to be used on a worldwide basis while maintaining constant value in all countries.

Exchange Rate

- Purchase of foreign goods and services can be thought of as involving two sequential transactions: purchase of foreign currency and purchase of foreign goods.

- Purchase of foreign currency is made through the foreign exchange rate. Thus, an exchange rate is the rate at which one currency is converted into another, or a ratio that measures the value of one currency in terms of another currency. With it, one is able to compare domestic and foreign prices.

  Example of exchange rate:

Currency	Buying Rate	Selling Rate
USD	29.0915	29.67333
Pound	33.5861	34.257822
Euro	32.5301	33.180702

Source: Commercial Bank of Ethiopia (2019-08-15)

- In finance, the exchange rate (also called the foreign exchange rate, forex or FX rate) between two currencies specifies how much one currency is worth in terms of the other.

The foreign exchange rate is simply a price—the price of one national currency as expressed by the value of another. This exchange price, once established, allows currencies to be exchanged one for another. The exchange rate, however, is more than just price of a currency. It affects the cost of imported goods and exported goods; the country's rate of inflation; and a firm's profit, output, and employment.

Much like the price of any other product, the price of a currency is determined by the demand and supply of that currency. When the currency is in demand, its price increases. But if a currency's supply increases without any corresponding increase in demand, its value declines.

With the excess of imports comes an excess of supply of money because a large volume of money must be generated to pay for all the imports. With excess money in circulation, the business community, as well as the general population, begins having doubts about its value, making the currency appear overvalued. In contrast, excess export results in too much demand for the exporting nation's currency, since foreign buyers require large amounts to pay for goods. The currency then becomes expensive because of its scarcity, and its real value increases.

The demand of a currency is determined by several factors. Some of these include the following:

1. Domestic and foreign prices of goods and service
2. Trading opportunities within a country
3. The country's export and import performance

1.8.2 Balance of payment

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and, if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance.

But in practice this is rarely the case and, thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

The Balance of Payments Divided

The BOP is divided into three main categories: the current account, the capital account and the financial account. Within these three categories are sub-divisions, each of which accounts for a different type of international monetary transaction.

A. The Current Account

The current account is used to mark the inflow and outflow of goods and services into a country. Earnings on investments, both public and private, are also put into the current account.

Within the current account are credits and debits on the trade of merchandise, which includes goods such as raw materials and manufactured goods that are bought, sold or given away (possibly in the form of aid). Services refer to receipts from tourism, transportation (like the levy that must be paid in Egypt when a ship passes through the Suez Canal), engineering, business service fees (from lawyers or management consulting, for example), and royalties from patents and copyrights. When combined, goods and services together make up a country's balance of trade (BOT). The BOT is typically the biggest bulk of a country's balance of payments as it makes up total imports and exports.

If a country has a balance of trade deficit, it imports more than it exports, and if it has a balance of trade surplus, it exports more than it imports.

Receipts from income-generating assets such as stocks (in the form of dividends) are also recorded in the current account. The last component of the current account is unilateral transfers. These are credits that are mostly worker's remittances, which are salaries sent back into the home country of a national working abroad, as well as foreign aid that is directly received.

B. The Capital Account

The capital account is where all international capital transfers are recorded. This refers to the acquisition or disposal of non-financial assets (for example, a physical asset such as land) and non-produced assets, which are needed for production but have not been produced, like a mine used for the extraction of diamonds.

The capital account is broken down into the monetary flows branching from debt forgiveness, the transfer of goods, and financial assets by migrants leaving or entering a country, the transfer of ownership on fixed assets (assets such as equipment used in the production process to generate income), the transfer of funds received to the sale or acquisition of fixed assets, gift and inheritance taxes, death levies, and, finally, uninsured damage to fixed assets.

C. The Financial Account

In the financial account, international monetary flows related to investment in business, real estate, bonds and stocks are documented.

Also included are government-owned assets such as foreign reserves, gold, special drawing rights (SDRs) held with the International Monetary Fund, private assets held abroad, and direct foreign investment. Assets owned by foreigners, private and official, are also recorded in the financial account.

1.9 Barriers to international trade

Free trade makes a great deal of sense theoretically because it increases efficiency and economic welfare for all involved nations and their citizens. In practice, free trade is woefully (sadly) ignored by virtually all countries. Despite the advantages, nations are inclined to discourage free trade.

Trade barriers can be classified into eight categories:

1. Import Policies (e.g., tariffs, quotas, licensing, and customs barriers);
2. Standards, testing, labeling, and certification;
3. Government procurement;
4. Export Subsidies;
5. Lack of intellectual property protection;
6. Services barriers (e.g., restrictions on the use of foreign data processing);
7. Investment barriers; and

8. Other barriers.

Tariff Marketing Barriers

Tariff, derived from a French word meaning rate, price, or list of charges, is a customs duty or a tax on products that move across borders. Tariffs can be classified in several ways. The classification scheme used here is based on direction, purpose, length, rate, and distribution point. These classifications are not necessarily mutually exclusive. Let's see some of them hereunder.

1. ***Direction: Import and Export Tariffs***

Tariffs are often imposed on the basis of the direction of product movement that is, on imports or exports, with the latter being the less common one. When export tariffs are levied, they usually apply to an exporting country's scarce resources or raw materials (rather than finished manufactured products).

2. ***Purpose: Protective and Revenue Tariffs***

The distinction between protective and revenue tariff is based on purpose. The purpose of a protective tariff is to protect home industry, agriculture, and labor against foreign competitors by trying to keep foreign goods out of the country.

The purpose of a revenue tariff, in contrast is to generate tax revenues for the government. Compared to a protective tariff, a revenue tariff is relatively low.

Japanese tax is more of a protective tariff.

3. *Rates: Specific, Advalorem, and Combined*

Specific duties-are fixed or specified amount of money per unit of weight, gauge, or other measure of quantity. Based on a standard physical unit of a product, they are specific rates of so many birr, dollars or cents for a given unit of measure (e.g., Birr10/gallon, $2/ton, etc.) Product costs or prices are irrelevant in this case.

Advalorem duties- Are duties "according to value?"

- They are stated as a fixed percentage of the invoice value and are applied as a percentage of the dutiable value of the imported goods. Japan's advalorem tariffs on beef and processed cheese are 25% and 35% respectively.

- These are the opposite of specific duties since the percentage is fixed but the total duty is not.
- Based on these duties, there is a direct relationship between the total duties collected and the prices of products. That is the absolute amount of total duties collected will increase or decrease with the prices of imported products.
- The strength of advalorem method is that it provides a continuous and relative protection against all price levels of a particular product. Such protection becomes even more critical when inflation increases prices of imports. If specific duties were used, their effect lessens with time because inflation reduces the proportionate effect.
- Another advantage is that advalorem duties provide an easy comparison of rates across countries and across products.

Combined Rates-Are also called compound duties

* Are combinations of the specific and advalorem duties on a single product?
* They are duties based on both the specific rate and the advalorem rate that are applied on important product. For example, the tariff may be 10 cents per pound plus 5% advalorem. Under this system, both rates are used together, though in some countries only the rate producing more revenue may apply.

Non-tariff Marketing Barriers

Tariff, though generally undesirable, are at least straightforward and obvious. Non-tariff barriers, in comparison, are more elusive or non-transparent. Tariffs have declined in importance, while non-tariff barriers have become more prominent. Often disguised, the impact of non-tariff barrier can be just as devastating, if not more, as the impact of tariffs.

There are several hundred types of non-tariff barriers. Following are some of them. Each category contains a number of different non-tariff barriers.

Subsidies: According to GATT, "subsidy is a "financial contribution" provided directly or indirectly by a government and which confers a benefit." Subsidies can take sales tax, freight, insurance, and infrastructure. Subsidized loans for priority sectors, preferential rediscount rates, and budgetary subsidies are among the various subsidy policies of several Asian countries.

License or permit**:** Not all products can be freely imported; controlled imports require license or permits. For example, importations of distilled spirits, wines, malt, beverages, arms, ammunition, and explosive into the United States require a license issued by the Bureau of Alcohol, Tobacco, and Firearms. India requires license for all imported goods.

An article is considered prohibited if not accompanied by a license. It is not always easy to obtain an import license, since many countries will issue one only if goods can be certified as being necessary.

Inspection: Inspection is an integral part of product clearance. Goods must be examined to determine quality and quantity. This step is highly related to other customs and entry procedures.

First, inspection classifies and values products for tariff purpose. Second, inspection reveals whether imported items are consistent with those specified in the accompanying documents and whether such items require any licenses. Third, inspection determines whether products meet health and safety regulations in order to make certain that food products are fit for human consumption or that the products can be operated safely.

Fourth, inspection prevents the importation of prohibited articles. Marketers should be careful in stating the amount and quality of products, as well as in providing an accurate description of products. Any deviation from the statements contained in invoices necessitates further measurements and determination, more delay, and more articles.

Product Requirements: For goods to enter a country, product requirements set by that country must be met. Requirements may apply to:

- ***A.*** ***Product standards****:* each country determines its own product standards to protect the health and safety of its consumers. Such standards may also be erected as barriers to prevent or to slow down importation foreign goods. Because of U.S. grade, size, quality, and maturity requirements, many Mexican agricultural commodities are barred from entering the United States.
- ***B.*** ***Product specifications:*** can be written in such away as to favor local bidders and to keep out foreign suppliers. For example, specifications can be extremely detailed, or they can be written to closely resemble domestic products. Thus, they can be used against foreign suppliers who cannot satisfy the specifications without expensive or lengthy modification.
- ***C.*** *Packaging, labeling, and marking*: these are considered together because they are highly interrelated. Many products must be packaged in certain way for safety and other reasons. Canada requires canned foods to be packed in specified can sizes, and instructions contained within packages or on them must be in English and French. The

Canadian Labeling Act also requires all imported clothing to have labels in both languages. Marking and labeling may apply either to products themselves or to their packages. An Italian judge ordered a seizure of bottled Coke because he felt that the ingredients listed on the bottle cap were not properly described and labeled. France requires all imported goods to carry labels of origin, and so does the United States.

Quotas**:** Quotas are a quantity control on imported goods. Generally, they are specific provisions limiting the amount of foreign products imported in order to protect local firms and to conserve foreign currency. Quotas can be used for export control as well.

An export quota is sometimes required by national planning to preserve scarce resources.

From a policy standpoint, a quota is not a desirable as a tariff since a quota generates no revenues for a country.

Summary

When companies involve in the international market, these markets will face different tasks and challenges. International operations of business in more than one nation reflect the heightened competitiveness brought about by the globalization of markets, interdependence of the worlds economics, and the growing number of competing firms from developed and developing countries competing for the international markets. Global companies and global marketing are terms frequently used to describe the scope of operations and marketing management orientation of companies at this stage.

As mentioned earlier, companies rarely fit neatly into any one of the above stages international marketing involvement: the definitions are more to give the reader a sense of varying degrees of involvement and commitment. Companies may begin in one stage and move to another or stay at the same stage. Companies at different stages have different attitudes toward their foreign operations and as they evolve from one stage to another, their orientation or attitudes toward international operations also change. Experience shows that a significant change in the international orientation of a firm occurs when the company relies on foreign markets to absorb permanent production surpluses and depends on foreign profits. The complexity and sophistication of international marketing activity is greater and the degree of internationalization to which management is philosophically committed is more intense between the first and last stages of international involvement. Such commitment affects the specific international strategies and decisions.

Chapter review questions

Part I: say true if the statement is correct and false if it is incorrect on the space provided only.

1. International marketing involves decision making issues at the level of macroeconomic policy makers whereas international trade is at a firm's management level.
2. A market for domestic marketing is more homogeneous than for international marketing.
3. A balance of payment statement is prepared by every single firm.

Part II. Circle only on the best of your choice from given alternatives

1. One of the following is odd,
   A. Global competition C. environmental deterioration
   B. Risk Diversification D. infrastructural negligence E. none
2. Which of the following does not show the similarity of International marketing and domestic marketing?
   A. Universality of marketing principles
   B. Type of marketers' task
   C. Scope of tasks of marketers
   D. A & C
   E. B &C
3. According to international product lifecycle theory, which country is the first to import invented product
   A. Advanced nations C. poor nations
   B. Less developed countries D. middle income countries E. none

4. If company uses strategic alliance with another company that makes/sells non-competing but related product, such approach of indirect exporting is said to be
   A. Piggybacking C. export housing

B. Trading house D. subsidizing E. dominating

5. According to one of the following trade theory, countries are having trade because of the principle of diffusion of product.

   A. Absolute cost advantage C. factor endowment
   B. Comparative advantage D. international product life cycle E) None

Part III: Discuss the following questions briefly

1. Define international marketing.

____

____

2. How does international marketing differ from domestic marketing?

Explain the difference between international marketing and international trade.

____

3. Why trade not a zero-sum game?

____

____

____

4. Explain the meaning of International marketing orientation.

____

____

____

5. Differentiate the concepts of Ethnocentrism, polycentrism, Regocentrism and Geocentrism. .

____

____

____

6. How export is related to international marketing?

7. Discuss the different forms of export.

8. Define strategic marketing.

9. Discuss factors affecting strategic marketing.

10. Discuss porter’s five forces model of industry competition in detail.

11. Discuss the opportunities of international marketing.

12. Discuss the challenges of international marketing.

13. Clearly explain the meaning of foreign exchange.

14. Discuss the relationship between foreign exchange and exchange rate.

15. Define the concept of balance of payment.

16. Explain the various components of balance of payment.

Answer key for self-check exercises: True/False and Choice part

True/False: 1. False 2. True 3. False

Multiple choice: 1. B 2. C 3. D 4. A 5. D

CHAPTER II

INTERNATIONAL MARKETING ENVIRONMENT

Chapter objective:

After accomplishing this chapter the students should be able to:

- Identify the environments that affects an international marketing,
- Identify how the culture affects an international marketing
- Identify how political and legal systems of home country, host country, and international regulations affects an international marketing,
- Identify how the Economic environment affects an international marketing.

2. Introduction

As companies involved in the international market, they will face different environments. International company marketers should develop marketing programs, which are easily adjustable to different environments.

Dear learners! In this chapter, we will discuss how the cultural, political and economic environment of the different country affects the company's marketing program.

The culture we live in answerers such question as is tea or coffee the preferred drink? Is black or white worn at a funeral? What type of food is eaten for breakfast?

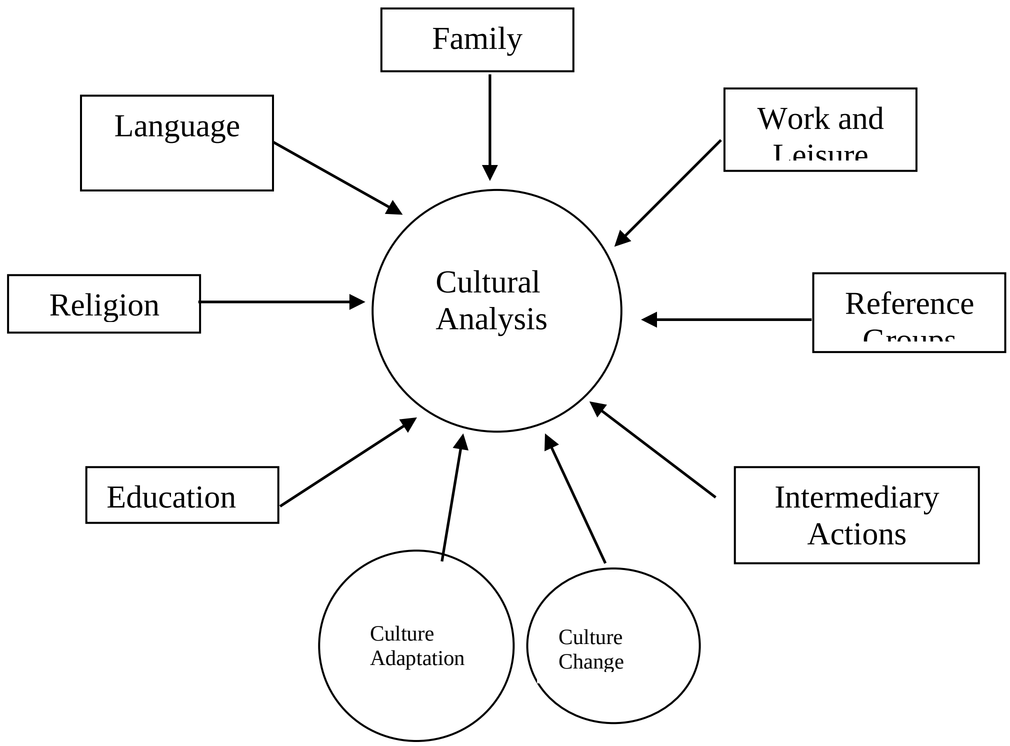
The type of economic integration-the country has with other countries, the economic status of the country and the income level of the society can affect the international company.

The political situation of the country also affects the company. For example, the political stability, the type of government exists and the legal system existed in the country affects the international company.

2.1 Cultural environment

Anthropology, the study of humans, is a discipline that focuses on the understanding of human behavior. Cultural anthropology examines all human behaviors that have been learned, including social, linguistic, and family behaviors. Culture includes the entire heritage of a society transmitted by word, literature or any other form. It includes all traditions, habits, religion, art, and language Children born anywhere in the world have the same essential needs for food shelter, and clothing. But as they grow, children will develop desires for, nonessential things. The development and priority of these wants are based of messages from families and peers and is the socialization process that reflects each person's culture. Culture reflects the human aspect of a person's environment; it consists of beliefs, morals, customs, and habits learned from others. The role of culture in modern society is evolving as more and more economies are becoming interlinked; as trade grows, heritage and traditions also become shared. Samuel Huntington argues that with the fall of communism, conflict in the post-Cold War era will be between the major cultures of the world rather than between nations. Huntington identifies the cultures of the world as western (United States, Western Europe, Australia), Orthodox (former Soviet republics, central Europe), Confucian (China, Southeast Asia), Islamic (Middle East), Buddhist (Thailand), Hindu (India), Latin American, African, and Japanese.

Figure 2-1 Cultural Analysis



Cultural Influences on Marketing

The function of marketing is to earn profits from the satisfaction of human wants and needs. In order to understand and influence the consumer's wants and needs, marketers must understand the culture, especially in an international environment. Figure 2.1 illustrates how culture affects buyer behavior. As the figure shows, culture is embedded in elements of the society such as religion, language, history, and education. These elements send direct and indirect messages to consumers regarding the selection of goods and services. The culture we live in answers such questions as, Is tea or coffee the preferred drink? Is black or white worn at a funeral? What type of food is eaten for breakfast?

One of the most difficult tasks for global marketers is assessing the cultural influences that affect their operations. In the actual marketplace there are always several factors working simultaneously, and it is extremely difficult to isolate any one factor. Frequently, *cultural differences* have been held accountable for any noticeable differences between countries. However, when environmental factors differ, what is thought to be *cultural* may in fact be attributable to other factors.

Quite often, when countries with both economic and cultural differences are compared, the differences are credited solely to the varying cultural systems. The analyst should be aware that although many of the differences are culturally-based, other environmental factors, such as level of economic development, political system, or legal system, may be responsible for these differences.

Elements of Culture

Language

Language is a key component of culture because most of a society's culture finds its way into the spoken language. Thus, in many ways, language embodies the culture of the society. Knowing the language of a society can become the key to understanding its culture. But language is not merely a collection of words or terms. Language expresses the thinking pattern of a culture-and to some extent even forms the thinking. International marketing communications are heavily affected by the existence of different languages. Advertising has to be adjusted to each language, and personal contacts are made difficult by a widely existing language barrier. To overcome this language barrier, businesspeople all over the world have relied on three approaches: the direct translation of written material, interpreters, and the acquisition of foreign language skills.

Translations are made for a wide range of documents, including sales literature, catalogs, advertising, and contracts. Though this increases the initial costs of entering a market, few companies can conduct their business over the long run without translating material into the language of their customers. However, if handled carelessly, it may result in serious damages to the organization.

Both translation services and translators depend on translating one language into another. In many situations, it is almost impossible to fully translate a given meaning into a second language. When the original idea, or thought, is not part of the second culture, the translation may be meaningless. Brand names have been particularly affected by this problem because they are not normally translated. Consequently, a company may get into difficulty with the use of a product name in a foreign country, even though its advertising message is fully translated. For example, General Motors' Chevy Nova in Spanish translates as "does not go" certainly not the right name for a car, and Coca-Cola translated into Chinese means "bite the wax tadpole.

In contrast, a soft drink was launched in Japan with the brand name Pocari Sweat. To Japanese consumers, this name conveyed a positive, healthy, thirst quenching image, and the drink became a market leader. Japanese consumers reacted to the brand name strictly because of its modern- (foreign-) sounding name not its content or meaning. Needless to say, this success was credited to a local firm.

Today, companies tend to choose product names carefully and test them in advance to ensure that the meaning in all major languages is neutral and positive. They also want to make sure that the name can be easily pronounced. Language differences may have caused many blunders, but careful translations have now reduced the number of international marketing mistakes. However, the language barrier still remains, and companies that do more to overcome this barrier frequently achieve better results.

Non-Verbal Language

However, achieving some fluency in a foreign language is not the only cultural barrier to cross. At least as important is the use of nonverbal communication, or *body language*. Sometimes referred to as the "silent language," this includes such elements as touching, the distance between speakers, facial expressions, and speech inflection, as well as arm and hand gestures. Former U.S. president George Bush during a visit to Australia gave the "V for Victory" sign with his palm turned inward, not realizing this was equivalent to the middle finger salute in the United States. Mexicans happily come within a half-meter of a stranger for a business discussion, whereas Asians, Nordics, Anglo-Saxons, and Germanic peoples consider space within one meter as personal space. So when a Mexican moves closer than 16 to 18 inches to an English person, the English person feels invaded and steps back, giving the Mexican the message that he or she does not want to do business. For Latinos, Arabs, and Africans, proximity is a sign of confidence. Obviously, understanding cultural space differences is important to overall communication."

.

Religion

Many businesspeople ignore the influence religion may have on the marketing environment. There still are, however, religious customs that remain a major factor in international marketing today.

Religion impacts people’s habits, their outlook on life, the products they buy, the way they buy them, even the newspapers they read. Acceptance of certain types of food, clothing, and behavior are frequently affected by religion, and such influence can extend to the acceptance or rejection of promotional messages as well. Religion is one of the most sensitive elements of a culture. When the marketer has little or no understanding of a religion, it is easy to offend customers unintentionally.

Religion can provide the basis for trans-cultural similarities under shared beliefs in Islam, Buddhism, or Christianity, for example. Major holidays are often tied to religion. These holidays will be observed differently from one culture to the next, to the extent that the same holiday may have different connotations. The international manager must see to it that local holidays are taken into account in the scheduling of events, ranging from fact-finding missions to marketing programs, and in preparing local work schedules.

The role of women in business is tied to religion, especially in the Middle East, where they are not able to function as they would in the West. This affects management in two ways: the firm may not be able to use women managers or personnel in certain countries, and women's role as consumers and influencers in the consumption process may be altogether different. Access to women in Islamic countries, for example, may be available only by using female sales personnel, direct marketing, and women's specialty shops. International marketing managers must be aware of religious divisions in the countries of operation. The impact of these divisions may range from hostilities, as in Sri Lanka, to below-the-surface suspicion – for example, in many European markets where Protestant and Catholic are the main religious divisions.

Christianity

Christmas is one Christian tradition that, at least in respect to consumption, remains an important event for many consumer goods industries. Retailers traditionally have their largest sales around that time. However, Christmas can be used as an illustration of the substantial differences in customs among even largely Christian societies. A large U.S.-based retailer of consumer electronics found out about these differences the hard way when it opened its first retail outlet in the Netherlands. The company planned the opening to coincide with the start of the Christmas selling season, as this would allow the firm to show a profit in the first year, and advertising space was bought accordingly in late November and December. The results were less than satisfactory, however, because major gift giving in Holland takes place not on December 25, Christmas Day, but on St. Nicholas Day, December 6, the Dutch traditional day of gift giving. Thus the opening of the company's retail operation was late and missed the major buying season.

Islam

The Islamic culture has many specific implications for international marketers. One example of the effect of religious beliefs on international marketing is the prohibition of pork products and alcoholic beverages in the Middle East. When beef or poultry is exported to a Muslim country, the animal must be killed in the "halal" method. Recognition of religious restrictions can reveal opportunities as well as liabilities, as evidenced by the successful launch of several nonalcoholic beverages in some Middle Eastern countries.

The prohibition of usury has led to quite different practices with respect to lending in Arab Societies. Since this law prohibits interest payments, special Islamic banks were formed. These banks maintain three types of accounts- nonprofit accounts with a very small minimum deposit and the right of immediate withdrawal without notice, profit-sharing deposit accounts, and social services funds. These banks do not charge a fixed rate of interest on loans. Instead, the "interest payment" is levied according to the profits derived from the funds employed. Thus, the depositors get earnings on their deposits, depending on the amount of profits earned by the bank. Such Islamic banks now exist in many countries, particularly Egypt, Saudi Arabia, Kuwait, Sudan, Dubai, and Jordan.

Another marketing challenge related to Islam was faced by Gillette when it wanted to introduce its shaving products in Iran. Islam discourages its follower from shaving, which made it difficult for Gillette's local distributor to secure advertising space. In the end, the distributor visited one local newspaper after another until he finally met an advertising manager without a beard. The distributor convinced the advertising manager that shaving sometimes was unavoidable, such a' when a person had a head injury as a result of an accident, and that Gillette blade would be best. The advertising manager consulted with his clergyman and, having' obtained the latter's permission, accepted the ad. As a result, other newspapers followed, and Gillette Blue was launched.

Education

The extent of education affects marketing on two levels. First, there is the problem of literacy. A low literacy level not only affects earning potential, and thus the level of consumption, but it also determines the communication options for marketing programs. A second concern is for how much young people earn. In those countries where many of the youth have considerable earnings by age twenty, the value, or potential of the youth market is quite different from those countries where a substantial number of youths do not enter the job market until age twenty-one or twenty-two.

The Family

The role of the family varies greatly between cultures, as do the roles that the various family members play. Across cultures, we find differences in family sizes, in the employment of women, and in many other factors of great interest to marketers. Particularly since the family is a primary reference group and has always been considered an important determinant of purchasing behavior, these differences are of interest. In some countries, such as China, the family is valued more than individuals or even country resulting in a situation where individuals have no right in a family or expenses are shared. In such cultures product advertising appeals must focus on family benefits, not individual benefits.

Family structure is also one cultural factor affecting international marketing decisions. The term ***nuclear family*** is normally used to refer to the immediate family group father, mother, and children living together. In cultures such as United States and some Western Europe countries, their family refers to only the nuclear family. However, for many cultures, the **extended family**-including grandparents, in-laws, aunts, uncles, and so on is of considerable importance.

In many societies, the role of the male as head of household is more pronounced, and in some cultures (as in Africa, Asia, and Latin America) the differences tend to be substantial. This male dominance coincides with a lower rate of participation by women in the labor force outside the home. On the average, this results in a lower family income, since double wage earners increase the average family income. The number of children per family also shows substantial variations by country or culture. In many eastern European countries and in Germany, one child per family is fast becoming the rule, whereas families in many developing countries are still large by western standards.

.

Work and Leisure

The attitudes a society holds toward **work** have been documented to have a substantial impact on a society's or culture's economic performance. David McClelland has maintained that it is not a country's external resources that determine its economic rise but its level of entrepreneurial spirit in exploiting existing resources. What was found to be crucial was the orientation, or attitudes, toward achievement and work. Cultures with a high level of achievement motivation were found to show a faster rise in economic development than those with low achievement motivation.

By the same token, different societies have different views about the amount of **leisure time** that is acceptable. Society significantly influences work and leisure through statutory holiday allowances and public holidays. A study of 25,000 people in 23 countries revealed that European countries give employees 25 to 40 days of vacation annually, whereas U.S., Japan, Mexico, and the Philippines require only 5 – 10 vacation days. Moreover, the working hours in Europe are shorter than U.S., Japan, and Mexico. This difference has implications **on how people use their vacation times as well.**

Reference Groups

Reference groups are people such as family, friends, and experts that consumers turn to for advice on product purchases. Past experience clearly indicates that the concept of reference group influence applies to many cultures. Differences can be found in the types of relevant reference groups and in the nature of their influence on individual consumers.

2.2 Economic environment

The political environment of a country matters because: (1) when economic freedoms are restricted so may be the ability of an international marketing to operate in the most efficient manner, and (2) when political freedoms are restricted there are both ethical and legal risks concerns that have to be considered.

Economic variables relating to the various markets characteristics population, income, consumption patterns, infrastructure , geography, and attitudes toward foreign involvement in the economy. These data are readily available but should be used in conjunction with other more interpretive data because the marketer's plans often require a long term approach

The assessment of a foreign market environment should start with the evaluation of economic variables relating to the size and nature of the markets. Because of the large number of worthwhile alternatives, initial screening of markets should be done efficiently yet effectively enough, with a wide array of economic criteria, to establish a preliminary estimate of market potential

There are four broad types of economic systems: market, command, mixed, and state directed. In reality almost all are mixed to some extent, for even the most market oriented systems have some governmental controls on business and even the most command based systems either explicitly allow some free markets to exist or have black markets for some goods and services. Yet, all countries can be considered to be at some point on a continuum between pure market and pure command.

1. **Market economy**:

In a pure market economy, the goods and services that a country produces, as well as the quantity in which they are produced, is not planned by anyone. Rather price and quantity are determined by supply and demand**.**

For a market economy to work there must be no restrictions on either supply or demand -

- no monopolistic sellers or buyers.

2. Command economy:

In a pure command economy, the government plans what goods and services a country produces, the quantity in which they are produced, and the price at which they are sold.

Resources are allocated "for the good of society." The government owns most, if not all, businesses, including even small businesses like the bread bakery and the local farm.

Command economies are found in communist countries where collectivist goals are given priority over individual goals.

2. **Mixed economy**:

A mixed economy includes some elements of each. In Canada, for example, while most business is privately owned and operated under market principles, health care, electrical power, and liquor distribution are run by state owned enterprises in most provinces.

In a state-directed economy, the government plays a significant role in directing the investment activities of private enterprises through “industrial policy.” Both Japan and South Korea are often cited as examples of state-directed economies. In both situations, the government has played a significant role in directing investment. This direction has helped in the creation of some leading international firms. For a state-directed economy to work well, state bureaucrats must make better decisions than capital markets on the allocation of resources. While state bureaucrats may be able to take a longer-term perspective than capital markets, they may also prove to be intransigent and resistant to making necessary changes. The difficulties many South East Asian countries faced in 1997-98 highlight some of the limitations of a state-directed economy. Resisting whims of the market has both its good and bad points.

2.3 Political – Legal environment

Political and legal factors often play a critical role in international marketing activities. Even the best business plans can go wrong as a result of unexpected political or legal influences, and the failure to anticipate these factors can be the downfall of an otherwise successful business venture.

Of course, a single international political and legal environment does not exist. The business executive must be aware of political and legal factors on a variety of planes. For example, while it is useful to understand the complexities of the host-country legal system, such knowledge does not protect against a home-country-imposed export embargo.

We will examine the political-legal environment from the manager's point of view. In making decisions about his or her firm's international marketing activities, the manager will need to concentrate on three areas: the political and legal circumstances of the *home country*; those of the *host country*; and the *bilateral and multilateral agreements*, treaties, and laws governing the relations between host and home countries.

1. **Home Country Political and Legal Environment**

No manager can afford to ignore the policies and regulations of the country from which he/she conducts international marketing transactions. Wherever a firm is located, it will be affected by government policies and the legal system.

Many of these laws and regulations may not be designed specifically to address international marketing issues, yet they can have a major impact on a firm's opportunities abroad. Minimum wage legislation, for example, affects the international competitiveness of a firm using production processes that are highly labor intensive. The cost of domestic safety regulations may significantly affect the pricing policies of firms in their international marketing efforts.

Other legal and regulatory measures, however, are clearly aimed at international marketing activities. Some may be designed to help firms in their international efforts.

Apart from specific areas that result in government involvement, the political environment in most countries tends to provide general support for the international marketing efforts of the country's firms. For example, a government may work to reduce trade barriers or to increase trade opportunities through bilateral and multilateral negotiations. Such actions will affect individual firms to the extent that they affect the international climate for free trade.

Often, however, governments also have specific rules and regulations restricting international marketing. Such regulations are frequently political in nature and are based on the fact that governments believe commerce to be only one objective among others, such as foreign policy and national security. Four main areas of governmental activities are of major concern to the international marketer here. **These are**: embargoes or trade sanctions, export controls, import controls, and the regulation of international business behavior.

Embargoes and Sanctions

The terms trade sanctions and embargoes as used here refer to governmental actions that distort the free flow of trade in goods, services, or ideas for decidedly adversarial and political, rather than economic, purposes. To understand them better, it is useful to examine the backing and legal justifications under which they are imposed.

Trade sanctions have been used quite frequently and successfully in times of war or to address specific grievances. The basic idea was that economic sanctions could force countries to behave peacefully in the international community.

Over the years, economic sanctions and embargoes have become a major tool of foreign policy for many countries. Often they are imposed unilaterally in the hope of changing a country's government or at least changing its policies. Reasons for the impositions have varied, ranging from human rights to nuclear nonproliferation to antiterrorism.

The problem with sanctions is that frequently a unilateral imposition has not produced the desired result. Sanctions may make the obtaining of goods more difficult or expensive for the sanctioned country, yet achievement of the purported objective almost never occurs. Moreover, unilateral embargoes expose businesses from that country to competitive disadvantage and thus are often fought by business interest. In order to work, sanctions need to be imposed multilaterally, a goal that is clear, yet difficult to implement. Quite often individual countries have different relationships with the country subject to the sanctions, and for one reason or another they cannot or do not wish to terminate trade relations.

In addition, sanctions imposed by governments always raise the issue of compensation for the domestic firms that are affected. Obviously, a cutoff of trade with certain regions may result in significant losses of business, forcing selected firms to bear the brunt of governmental policy. Trying to impose sanctions slowly, in order to ease the burden on these firms, undercuts their ultimate chance for success. The international marketer often finds himself caught in this political web and loses business as a result. Frequently a firm can anticipate sanctions based on its evaluations of the international political climate. Nevertheless, even if substantial precautions are taken, firms may still suffer substantial losses.

Export Controls

Many nations have export control systems designed to deny the acquisition of strategically important goods to adversaries or at least to delay their acquisition. Some countries require that an exporter get export license for certain products from the appropriate government offices before the export can take place.

The international marketing repercussions of export controls have become increasingly important. To design a control system that is effective and, in consideration of important national concerns, restricts some international business activities is one thing. It is quite another when controls lose their effectiveness and when, because of a control system, firms are placed at a competitive disadvantage with firms in other countries whose control system is less severe or nonexistent.

Import Controls

Many nations exert substantial restraints on international marketers through import controls. This is particularly true of countries that suffer from major balance-of-trade deficits or major infrastructural problems. In these countries, either all imports or the imports of particular products are controlled through mechanisms such as tariffs, voluntary restraint agreements, or quota systems. On occasion, countries cut off imports of certain products entirely in order to stimulate the development of a domestic industry.

For the international marketer, such restrictions may mean that the most efficient sources of supply are not available, because government regulations restrict importation from those sources. The result is either second best products or higher costs for restricted supplies. This in turn means that the customer is served less well and often has to pay significantly higher prices.

A second major problem resulting from import controls is the downstream change in import composition that results from these controls. For example, if the import of copper ore is restricted, either through voluntary restraints or through quotas, producing countries may opt to shift their production systems and produce copper wire instead, which they then export. As a result, initially narrowly defined protectionist measures may have to snowball in order to protect one downstream industry after another.

A final major problem that confronts the policymaker is that of efficiency. Import controls that are frequently designed to provide breathing room to a domestic industry either to grow or to recapture its competitive position often turn out not to work. Rather than improve the productivity of an industry, such controls provide it with a level of safety and a cushion of increased income, yet let overall technological advancement fall behind. Alternatively, supply may respond to artificial stimulation and grow totally out of proportion.

Regulation of International Business Behavior

Home countries may implement special laws and regulations in order to ensure that the international business behavior of their firms is conducted within the legal, moral, and ethical boundaries considered appropriate. The definition of appropriateness may vary from country to country and from government to government. Therefore such regulations, their enforcement, and their impact on firms may differ substantially among nations.

Some areas in which the United States attempts to govern the international marketing activities of its firms: **boycotts and corruption**.

Arab nations, for example, have developed a blacklist of companies that deal with Israel. In addition, Arab customers frequently demand from their suppliers assurances that the source of the products purchased is not Israel, and that the company does not do any business with Israel. The goal of these actions clearly is to impose a boycott on business with Israel. Because of U.S. political ties to Israel, the U.S. government in response to these Arab actions has adopted a variety of laws to prevent U.S. firms from complying with this boycott. These laws include a provision to deny foreign income tax benefits to companies that comply with the boycott and also to require notification of the U.S. government in case any boycott requests are received. U.S. firms that comply with the boycott are subject to heavy fines and denial of export privileges.

In addition, U.S. firms operating overseas are affected by U.S. laws against bribery and corruption. In many countries, payments or favors are a way of life, and "a greasing of the wheels" is expected in return for government services; because of diverging standards of behavior applied to businesses in different countries.

2. **Host Country Political and Legal Environment**

The host country environment, both political and legal, affects the international marketing operations of firms in a variety of ways. The good manager will understand the country in which the firm operates so that he or she is able to work within the existing parameters and can anticipate and plan for changes that may occur.

Political Action and Risk

Firms usually prefer to conduct business in a country with a stable and friendly government, but such governments are not always easy to find. Therefore international managers need to analyze the host country's government, its policies, and its stability to determine the potential for political change that could adversely affect corporate operations.

Political risk occurs in every nation, but the range of risks varies widely from country to country. In general, political risk is lowest in countries with a history of stability and consistency. Conversely, political risk is highest in nations lacking this kind of history.

A manager will want to think twice before conducting business in a country in which the likelihood of conflict and violent change is high. If conflict breaks out, the firm and its employees will possibly face violence in the form of guerrilla warfare, civil disturbances, or terrorism. Such violence often has an anti-industry element, making companies and their employee’s potential targets.

Possible actions of governments:

What sort of changes in policy result from the various events described? The range of possible actions is broad. All of them can affect international marketing operations, but not all are equal in weight. Except for extreme cases, companies do not usually have to fear violence against employees, although violence against company property is quite common. Common also are changes in policy that take a strong nationalist and anti-foreign investment stance. The most drastic steps resulting from such policy changes are usually confiscation and expropriation.

Expropriation was an appealing action to many countries because it demonstrated nationalism and transferred a certain amount of wealth and resources from foreign companies to the host country immediately. It did have costs to the host country, however, to the extent that it made other firms more hesitant to invest in the country. Expropriation does not relieve the host government of providing compensation to the former owners. However, these compensation negotiations are often prolonged and result in settlements that are frequently unsatisfactory to the owners. The use of expropriation as a policy tool has sharply decreased over time.

Confiscation is similar to expropriation in that it results in a transfer of ownership from the foreign firm to the host country. It differs, however, in that it does not involve compensation for the firm. Some industries are more vulnerable than others to confiscation and expropriation because of their importance to the host country economy and their lack of ability to shift operations. For this reason, sectors such as mining, energy, public utilities, and banking have been targets of such government actions.

Confiscation and expropriation constitute major political risks for foreign investors. Other government actions, however, are nearly as damaging. Many countries are turning from confiscation and expropriation to more subtle forms of control, such as **domesticatio**n. The goal of domestication is the same, to gain control over foreign investment, but the method is different. Through domestication, the government demands partial transfer of ownership and management responsibility, and imposes regulations to ensure that a large share of the product is locally produced and a larger share of the profit is retained in the country.

Ways to lessen the risk:

Managers face political and economic risk whenever they conduct business overseas, but there may be ways to lessen the risk. In order to reduce the risk of government intervention, a firm needs to demonstrate that it is concerned with the host country's society and that it considers itself an integral part of the host country rather than simply an exploitative foreign corporation. Ways to do this include intensive local hiring and training practices, good pay, more charity, and more socially useful investment. In addition, a company can form joint ventures with local partners in order to demonstrate a willingness to share its benefits with nationals. Although such actions will not guarantee freedom from risk, they will certainly lessen the exposure.

Local borrowing can be taken as another strategy to reduce political risk. Financing local operations from indigenous banks and maintaining a high level of local accounts payable maximize the negative effect on the local economy if adverse political actions were taken. Typically, host governments do not expropriate themselves, and they are reluctant to cause problems for their local financial institutions.

It is also advisable to minimize fixed investment in the host country by taking actions like **leasing facilities instead of buying them**. It is also possible to purchase insurance to cover political risk. Such an action turned out to be effective during the United Nations Security Council’s worldwide embargo on Iraq, companies collected $100- $200 million from private insurers and billions from government-owned insurers.

Other actions that can be taken by corporations to protect against political risk consist of the **close monitoring of political developments**. Increasingly, private sector firms offer assistance in such monitoring activities, permitting the overseas corporation to discover potential trouble spots as early as possible and react quickly to prevent major losses.

1. **The International Environment**

In addition to the politics and laws of both the home and the host countries, the international marketer must consider the **overall international political and legal environment**. Relations between countries can have a profound impact on firms trying to do business internationally.

International Politics

The effect of politics on international marketing is determined by both the bilateral political relations between home and host countries and by multilateral agreements governing the relations among groups of countries.

The government-to-government relationship can have a profound effect, particularly if it becomes hostile. International political relations do not always have harmful effects on international marketers. If bilateral political relations between countries improve, business can benefit.

The good international marketer will be aware of political currents worldwide and will attempt to anticipate changes in the international political environment, good or bad, so that his or her firm can plan for them.

International Law

International law plays an important role in the conduct of international business. Although no enforceable body of international law exists, certain treaties and agreements respected by a number of countries profoundly influence international business operations. As an example, the World Trade Organization (WTO) defines internationally acceptable economic practices for its member nations. Although it does not directly affect individual firms, it does affect them indirectly by providing a more stable and predictable international market environment.

2.4 Technological environment

Technology is a universal factor that crosses national and cultural boundaries. Technology is truly “stateless”, there are no cultural boundaries limiting its application. Once a technology is developed, it soon becomes available everywhere in the world.

The concept of the global village is commonly accepted today and indicates the importance of communication in the technological environment. The rapid growth of fax machines, portable (mobile) telephones, and computer communication devices points to the evolution of unrestricted communication flows changes in other technologies will be equally rapid and will have a major effect on business in general.

High technology will be equally rapid and will have a major effect on business in general. High technology is expected to become one of the more volatile areas of economic activity order of magnitude changes in technology can totally wipe out private and public national investment in a high-technology sector. In the hard-hitting race toward technological primacy, some nations will inevitably fall behind and others will be able to catch up only with extreme difficulty.

Even firms and countries that are at the leading edge of technology will find it increasingly difficult to marshal the funds necessary for further advancements. For example, investment is semiconductor technology are measured in billions rather than millions of dollars and do not bring any assurance of success. Not to engage in the race however, will mean falling behind quickly in all areas of manufacturing when virtually every industrial and consumer product is "smart" due to its chief technology. To spread the necessary financial commitments and to reduce the risk of permanent losses by participants in the race, firms will increasingly share technology provided that payment is made for shared information.

2.5 *WORLD TRADE ORGANIZATION (WTO)*

Virtually all nations seek to pursue their best interests in international trade. The result is that sooner or later international trade and marketing can be disrupted. To prevent or at least alleviate any problems, there is a world organization in Geneva known as the WTO (with **General Agreement on Tariffs and Trade** (**GATT**) as its predecessor). Created in January 1948, the objective of GATT is to achieve a broad, multilateral, and free worldwide system of trading. For example, its code requires international bidding on major projects. GATT provides the forum for tariff negotiations and the elimination of trade discrimination.

The four basic principles of GATT are:

1. Member countries will *consult* each other concerning trade problems.
2. The agreement provides a framework for *negotiation* and embodies results of negotiations in a legal instrument.
3. Countries should protect domestic industries *only through tariffs*, when needed and if permitted. There should be no other restrictive devices such as quotas prohibiting imports.

4. Trade should be conducted on a *nondiscriminatory basis*

The world trade organization (WTO) is an international body dealing with rules relating to international business operations. The organization is responsible for global agreements, negotiations and ensures regulations and rule made by all is obeyed by all. And to keep various trade policies/rules within agreed limits and bounds. It came into existence on 1st January 1995 as a result of the Uruguay round of trade negotiations (URTN). It aims at:

- Facilitating trade among countries by creating conditions for competition that are fair and equitable.
- It encouraging to enter into negotiations for the reduction of tariffs and the removal of other barriers to trade
- Requires them to apply a common set of rules to trade in goods and services.
- This body is responsible for overseeing the multilateral trading system which has gradually evolved over the past years

At the beginning, GATT and the WTO coexisted, but GATT ceased to exist after a one-year period. The WTO, being more permanent and legally secure, will have more authority to settle trade disputes, and will serve along with the International Monetary Fund and the World Bank to monitor trade and resolve disputes. The WTO will encompass the current GATT structure as well as the Uruguay round agreements. It will provide a single, coordinated mechanism to ensure full, effective implementation of the trading system, and it will also provide a permanent, comprehensive forum to address the new or evolving issues of the global market.

The WTO's strengthened dispute settlement system should be better able to limit the scope for unilateral and bilateral actions outside the multilateral system. Under GATT's dispute resolution system, the USA and other members could and indeed did veto the decisions of arbitration boards.

As a result, nations could refuse to adopt negative decisions. For example, a GATT panel twice found that the European Union's oilseed subsidies impeded the tariff-free access to the EU market that was promised to the USA in a 1962 trade agreement; yet the EU failed to adequately reform subsidies harmful to US oilseed producers.

Under the WTO, a nation's veto of a panel's decision is eliminated. Other important changes under the new dispute settlement mechanism include: (1) fixed time limits for each stage of the dispute settlement process, (2) automatic adoption of dispute settlement reports, (3) automatic authority to retaliate on request if recommendations are not implemented, (4) creation of a new appellate body to review panel interpretations of WTO agreements, and (5) improved procedural transparency and access to information in the dispute settlement process. The new procedures yield a panel ruling within sixteen months of requesting consultations.

Unfortunately for the USA, one early finding involved a challenge of Venezuela and Brazil concerning an Environmental Protection Agency (EPA) regulation governing US imports of gasoline. The WTO panel ruled that the EPA's treatment of imported gasoline was inconsistent with GATT provisions.

The WTO has 148 members. China, wanting the prestige of being a founding member, tried unsuccessfully to complete its negotiations in 1994 on an accelerated basis. China felt that it should not be held to the same terms which apply to industrialized countries. The USA, however, wanted China to fully observe the WTO rules. After years of negotiation with the EU and the USA, China has finally gained membership. Nepal, one of the poorest countries, became the 148th member in 2003.

Supporters of the WTO have long argued that a reduction of trade barriers will boost global trade.
However, there is hardly any rigorous empirical investigation of whether the WTO has an impact on trade or trade policy. While one recent study shows that any impact is very little, another IMF study disagrees with that conclusion.

THE BENEFITS AND USEFULNESS OF WORLD TRADE ORGANIZATION

a. Member countries are obliged to ensure that their (User) national registration; regulations and procedures are in full conformity with the provisions of these agreement
b. The system helps promote peace.
c. Dispute are handled constructively
d. Rules make life easier for all

e. Freer trade cuts the costs of living.
f. It provides more choice of products and qualities.
g. Trade raises incomes
h. Trade stimulate economic growth
i. The basic principles makes life more efficient
j. Government are shielded

The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictable and freely as possible.

Norms for joining WTO

In the first stage of the accession procedures, the applicant government is required to provide the WTO with a memorandum covering all aspects of its trade and economic policies having a bearing on WTO agreements. This memorandum becomes the basis for a detailed examination of the accession request in a working party.

Alongside the working party‘s efforts, the applicant government engages in bilateral negotiations with interested members ‘government to establish its concessions and commitments on goods and its commitments on services. This bilateral process, among other things, determines the specific benefits for WTO members in permitting the applicant to accede. Once both, the examination of the applicant‘s trade regime and market access negotiations, are complete the working party draws up basic terms of accession.

Finally, the results of the working party‘s deliberations contained in its report, a draft protocol of accession, and the agreed schedules resulting from the bilateral negotiations are presented to the General Councilor the Ministerial Conference for adoption. If a two-thirds majority of WTO members vote in favour, the applicant is free to sign the protocol and to accede to the Organization; when necessary, after ratification in its national parliament or legislature.

2.6 Regional economic integration

Economic integration has been one of the main economic developments affecting world markets since World War II. Countries have wanted to engage in economic cooperation to use their respective resources more effectively and to provide larger markets for member-country producers. Some integration efforts have had quite ambitious goals, such as political integration; some have failed as the result of perceptions of unequal benefits from the arrangement or parting of ways politically. Exhibit 2-2, a summary of the major forms of economic cooperation in regional markets, shows the varying degrees of formality with which integration can take place. These economic integration efforts are dividing the world into trading blocs. Each type of economic integration is discussed below.

Free Trade Association	Free trade among members
Customs Union	Common External Trade Policy
Common Market	Factor Mobility
Economic Union	Harmonization of Economic Policies

Exhibit 2-2: Forms of Economic Integration in Regional Market
Levels of Economic Integration

i. Free Trade Area

The free trade area is the least restrictive and loosest form of economic integration among nations. In a free trade area, all barriers to trade among member countries are removed. Goods and services are freely traded among member countries. Each member country maintains its own trade barriers vis-à-vis nonmembers.

ii. Customs Union

The customs union is one step further along the spectrum of economic integration. As in the free trade area, members of the customs union dismantle barriers to trade in goods and services among members. In addition, however, the customs union establishes a *common trade policy with respect to nonmembers*. Typically, this takes the form of a *common external tariff*, whereby imports from nonmembers are subject to the same tariff when sold to any member country.

iii. Common Market

The common market amounts to a customs union covering the exchange of goods and services, the prohibition of duties in exports and imports between members, and the adoption of a common external tariff in respect to nonmembers. In addition, *factors of production (labor, capital, and technology) are mobile among members*. *Restrictions on immigration and cross-border investment are abolished.* The importance of factor mobility for economic growth cannot be overstated. When factors of production are mobile, then capital, labor, and technology may be employed in their most productive uses.

Despite the obvious benefits, members of a common market must be prepared to cooperate closely in monetary, fiscal, and employment policies. Furthermore, although a common market will enhance the productivity of members in the aggregate, it is by no means clear that individual member countries will always benefit.

iv. Economic Union

The creation of a true economic union requires *integration of economic policies* in addition to the free movement of goods, services, and factors of production across borders. Under an economic union, members will *harmonize monetary policies, taxation, and government spending.* In addition, *a common currency* is to be used by members. This could be accomplished, de facto, by a system of fixed exchange rates. Clearly, the formation of an economic union requires members *to surrender a large measure of their national sovereignty to supranational authorities* in community wide institutions such as the European Parliament. The final step would be a political union calling for political unification.

Exhibit 2-3: Major Regional Trade Agreements

AFTA	ASEAN Free Trade Area Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam
ANCOM	Andean Common Market Bolivia, Colombia, Ecuador, Peru, Venezuela
APEC	Asia Pacific Economic Cooperation Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore,

	South Korea, Taiwan, Thailand, United States
CACM	Central American Common Market Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
CARICOM	Caribbean Community Anguilla, Antigua, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St Kitts-Nevis, St Lucia, St Vincent and the Grenadines, Trinidad- Tobago
COMESA	Common Market of East and Southern Africa Angola, Burundi, Comoros, D.R. Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe.
ECOWAS	Economic Community of West African States Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo
EU	European Union Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom
EFTA	European Free Trade Association Iceland, Liechtenstein, Norway, Switzerland
GCC	Gulf Cooperation Council Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
LAIA	Latin American Integration Association Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela
MERCOSUR	Southern Common Market Argentina, Bolivia, Brazil, Chile, Paraguay, Uruguay
NAFTA	North American Free Trade Agreement Canada, Mexico, United States
SAARC	South Asian Association for Regional Cooperation Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

Summary

Economic variables relating to the various markets characteristics population, income, consumption patterns, infrastructure , geography, and attitudes toward foreign involvement in the economy. These data are readily available but should be used in conjunction with other more interpretive data because the marketer's plans often require a long term approach. Data on the economic environment produce a snap shoot of the past; in some cases, old data are used to make decisions affecting operations two years in the future. Even if the data are recent, they cannot themselves indicate the growth and the intensity of development. Some economies remain stagnant, plague by natural calamities, internal problems, and lack of export markets, whereas some witness booming economic development.

Economic data provide a baseline from which other more market/product specific and even experiential data can be collected understanding the composition and interrelationship between economic indicators is essential for the assessment of the other environment and their joint impact on market potential. The international marketer needs to understand the impact of the economic environment on social development.

The emergence of economic integration in the world economy poses unique opportunities and challenges to the international marketer .Eliminating barriers between member markets and erecting new ones vis-à-vis nonmembers will call for adjustments in past strategies to fully exploit the new situations.

Chapter review questions

Part I

Say true if the statement is correct and false if the statement is incorrect

1. In custom union member countries will have a common currency.
2. International policies and laws will not affect an international company.
3. Expropriation is a transfer of foreign company to host country government without compensation.

Part II

Choose the best answer from the alternatives given under each question

1. One of the following is not an action, which is taken by host country government

    A. Expropriation C. Confiscation

B. Domestication D. Nationalization E. None

2. Which of the following mechanism that an international company used to lessen risks

A. Local borrowing

B. Leasing of facilities

C. Minimizing fixed investment

D. All

E. None

Part III: Discuss the following questions briefly

1. Discuss the elements of culture and their international marketing implications.

____

____

____

2. Discuss the different economic systems.

____

____

____

3. Mention economic variables affecting international marketing

____

____

____

4. Discuss how the home-country and host-country political-legal environment is affecting international marketing.

____

____

____

____

____

____

5. Explain political risk an international firm could face in the host-country government.

6. Discuss possible solutions international companies should employ to reduce risks emanated from actions of host-country government.

7. Discuss how the technological environment is affecting international marketing.

8. Mention the basic principles of GATT.

9. Differentiate GATT from WTO.

10. List the benefits to be gained from membership of WTO.

11. Explain the norms of joining WTO.

12. Discuss the different levels of regional integrations in light of international marketing.

Answer key for review Questions: for true/false and multiple choice sections

Part I: 1**.** False 2. False 3. False

Part II: 1. E. 2. D.

CHAPTER III

MARKET ENTRY DECISIONS

Chapter objective

After covering this chapter the students will:

- Identify the different modes through which companies will enter in to an international market,
- Identify the criteria to evaluate the relative importance of a particular mode of entry
- Sort out the advantages and Disadvantages of each market entry modes

3. Introduction

When a firm is considering interning a foreign market the question arises as to the best means of achieving. There are basically eight to inter a foreign market exporting, Turnkey projects, licensing, strategic alliance, franchising, management contract, joint venturing, with a host-country firm and setting up a wholly owned subsidiary in the host country each country mode has advantages and disadvantages, mangers need to considers this carefully when deciding which entry mode to be used.

3.1 Analyzing international marketing

3.1.1 Index for international marketing

International marketing has become more and more important over the years with the increasing trend of internationalization. Faced with too many choices, marketers have the challenge of determining which international markets to enter and the appropriate marketing strategies for those countries. Therefore, marketing index serve as an indicator of the situations of the international market.

An index is

1. A statistical indicator that measures changes in the economy in general or in particular areas. An example is the cost-of-living index
2. A reference point against which measurements are taken for purposes of making future adjustments. An adjustable-rate mortgage might begin with an interest rate of 6 percent and provide that it will increase or decrease in a like percentage as the increase or decrease between today's quoted price for 10-year Treasury bonds and the price on the loan's annual anniversary date. We would say that 10-year T-bonds are the index

Statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month. Indexes measure the ups and downs of stock, bond, and some commodities markets, in terms of market prices and weighting of companies in the index

The international l Marketing Index, compiled by World Economics, provides a unique monthly indicator of the state of the global marketing industry, by tracking current conditions among marketers.

The global marketing panel consists of experienced executives working for brand owners, media owners, creative and media agencies and other organizations serving the marketing industry.

3.2 Assessing company resources for export involvement

Internal company assessment is the first to be assessed**.** The decision to export or not should rest on an analysis of the company's readiness to export and the product's readiness for the targeted export destination. Below is a list of factors to be considered to achieve this analysis.

- Top management commitment
- Adequate managerial and qualified staff resources
- Sufficient production capacity (includes factory space, warehousing, machinery, and accessibility of raw materials to meet the export order)
- Adequate financial resources to purchase capital equipment spare parts, raw materials as well as working capital.
- Ability to produce and adapt products with real export potential using cost-effective methods

- Ability to provide after-sales services in the importing country, if required.
- It is a prerequisite to have skilled and experienced personnel to handle the various aspects of export marketing.

3.3 Selecting a market entry mode

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

1. ***Speed of market entry desired***. If speed is required, building up a wholly owned subsidiary is too slow and so acquisition and licensing or exporting will be the likely ways to ensure quick effective distribution in the foreign market.
2. ***Costs to include direct and indirect costs***. Subjectivity which is ever present may force a wrong decision. Commitment to establishing a market presence does not mean blindness to facts. Possible savings may be outweighed by indirect costs such as freight, strikes, or disruptions to output, lack of continuity with the power supply, or irregularity in the supply of raw materials. Against this, the cost of doing nothing has to be considered; this may be higher than the attendant risks of moving into a relatively unknown market.
3. ***Flexibility required-*** The laws of a country exist to protect that country's nationals. There is as yet no such thing as international law. In disputes between two countries the domestic law of a neutral third country is often called on, so that domestic law then becomes used for a purpose for which it *was* never designed: international disputes.
4. ***Risk factors -*** including political risk and economic as well as competitive risk. In a dynamic market, time is of the essence. No product remains ‘new' forever. Getting the product to market is important but so, too, is avoiding the creation of a competitor, a common criticism of licensing. Risk may be diminished by minimizing the investment stake in the company by accepting a local joint-venture partner.
5. ***Investment payback period-*** Shorter-term payback may be realized from licensing and franchising deals, whereas joint ventures or wholly owned subsidiaries will tie up capital for a number of years.

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

3.4 Entry modes: Direct exporting activities, agents, distributors, franchising, and licensing, Direct investment activities, wholly owned subsidiaries, and joint ventures

1. Exporting

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

Advantages:

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

Disadvantages:

On the other hand, exporting has a number of drawbacks. First, exporting from the firm's home base may not be appropriate if there are lower-cost locations for manufacturing the product abroad (i.e. if the firm can realize location economies by moving production elsewhere). Thus, particularly for firms pursuing global or transnational strategies, it may be preferable to manufacture in a location where the mix of factor conditions is most favorable from a value-creation perspective and to export to the rest of the world from that location. This is not so much an argument against exporting as an argument against exporting from the firm's home country.

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

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

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

2. Turnkey Projects

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

Advantages:

The know-how required to assemble and run a technologically complex process, such as refining petroleum or steel, is a valuable asset. The main advantage of turnkey project is that they are a way of earning great economic returns from that asset. The strategy is particularly useful in cases where foreign direct investment (FDI) is limited by host-government regulations. For example, the governments of many oil-rich countries have set out to build their own petroleum refining industries and, a step toward that goal, have restricted FDI in their oil and refining sectors. Since many of these countries lacked petroleum-refining technology, however, they had to gain it by entering into turnkey projects with foreign firms that had the technology. Such deals are often attractive to selling firm because they would probably have no other way to earn a return on their valuable know-how in that country.

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

Disadvantage

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

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

3. Licensing

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

Advantages:

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

Disadvantages

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

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

A third problem with licensing is the risk associated with licensing technological know-how to foreign companies. Technological know-how constitutes the basis of many multinational firms' competitive advantage. Most firms wish to maintain control over how their know-how is used, and a firm can quickly lose control over its technology by licensing it. Many firms have made the mistake of thinking they could maintain control over their know-how within the framework of a licensing agreement. RCA Corporation (A US company), for example, once licenses its color TV technology to a number of Japanese firms including Matsushita and Sony. The Japanese firms quickly assimilated the technology, improved upon it, and used it to enter the U.S. market. Now the Japanese firms have a bigger share of the U.S. market than the RCA brand.

On the other hand, there are ways of reducing the risks of this occurring. One way is by entering into a cross-licensing agreement with a foreign firm. Under a cross-licensing agreement, a firm might license some valuable intangible property to a foreign partner, but in addition to a royalty

payment, the firm might also request that the foreign partner license some of its valuable know-how to the firm. Such agreements are reckoned to reduce the risks associated with licensing technological know-how , since the licensee realizes that if it violates the spirit of a licensing contract (by using the knowledge obtained to compete directly with the licensor), the licensor can do the same to it. Cross-licensing agreements enable firms to hold each other “hostage,” which thereby reduces the probability that they will behave opportunistically toward each other.
Another way of reducing the risk associated with licensing is to link an agreement to license know-how with the formation of a join venture in which the licensor and licensee take an important equity stake. Such an approach aligns the interests of licensor and licensee, since both have a stake in ensuring that the venture is successful.

4. Franchising

In many respects, franchising is similar to licensing, although franchising tends to involve longer-term commitments than licensing. Franchising is basically a specialized form of licensing in which the franchisor not only sells intangible property to the franchisee (normally a trademark), but also insists the franchisee agree to abide by strict rules as to how it does business. The franchisor will also often assist the franchisee to run this business on an ongoing basis. As with licensing the franchisor typically receives a royalty payment that amounts to some percentage of the franchisee’s revenues. Whereas licensing is pursued primarily by manufacturing firms, franchising is employed primarily by service firms. McDonald’s provides us with a good example of a firm that has grown by using a franchising strategy. McDonald’s has set down strict rules as to how franchisees should operate a restaurant. These rules extended to control over the menu, cooking methods, staffing policies, and the design and location of a restaurant. McDonald’s also organizes the supply chain for its franchisees and provided management training and financial assistance for franchisees.

Advantages

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

Disadvantage:

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

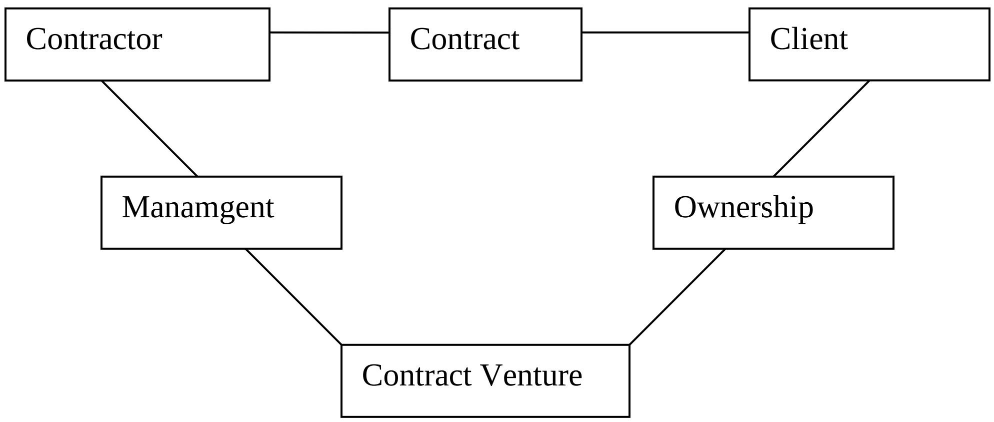
A more significant disadvantage of franchising is quality control. The foundation of franchising arrangements is that the firm’s brand name conveys a message to consumers about the quality of the firm’s product. Thus, a business traveler checking in at a Hilton International hotel in Addis Ababa can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

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

5. Management contracts

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

Exhibit 3-1 Relationships in Management Contracts



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

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

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

Advantages:

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

1. Dissatisfaction with an existing licensing agreement where the licensee or franchisor does not show sufficient marketing, financial or other expertise to develop the business.
2. The expropriation or nationalization of a subsidiary where the parent company's commercial expertise is still required.
3. The development of a consultancy or technical aid contract into a total management contract.
4. Fees for management services may be easier to transfer, and subject to less tax than royalties or dividends.
5. Under-employed- skills and resources are common factors in deciding to opt for management contracts. The licensing specialist may he in a position to negotiate the contracts and employ a number of other experts available at head office on the project. An airline, for instance, may have a depth of expertise which is under-employed managing the number of aircrafts the company owns. In these circumstances, managing another airline can. bring in extra revenue with little extra expenditure.
6. The contracts provide a useful contribution to a global strategy. They are particularly appropriate to the more difficult markets in the less developed countries.
7. Management contracts can provide support to other business arrangements, tike technical agreements and joint ventures, and general support for existing markets where domestication or expropriation are likely. Minority equity holdings are also safeguarded in this way.
8. For countries, this method brings the advantages of foreign expertise without the drawbacks of foreign ownership. There are advantages when funding is sought; the existence of a contract is likely to give extra confidence to the bankers.

Disadvantages:

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

6. Joint Ventures

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

Advantages:

Joint ventures have a number of advantages. First, a firm is able to benefit from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems. Second, when the development costs and/or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner. *Third, in* many countries political considerations make joint ventures the only feasible entry mode. Furthermore, research suggests that Joint ventures with local partners face a low risk of being subject to nationalization or other forms of government interference. This appears to be because local equity partners, who may have some influence on host-government policy, have a vested interest in speaking out against nationalization or government interference.

Disadvantages:

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

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

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

7. Strategic Alliances

It is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective. It is a situation when each partner brings a particular skill or resource-usually, they are complementary- and by joining forces, each expects to profit from the other's experience. In alliance, two entire firms pool their resources directly in a collaboration that goes beyond the limits of a joint venture. Although a new entity may be formed, it is not a requirement. Typically, alliances involve distribution access, technology transfers, or production technology, with each partner contributing a different element to the venture.

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

Reasons for going into strategic alliances include

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

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

Problems

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

8. Wholly Owned Subsidiaries

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

Advantages:

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

Disadvantages:

On the other hand, establishing a wholly owned subsidiary is generally the most costly method of serving a foreign market. Firms doing this must bear the full costs and risks of setting up overseas operations. The risks associated learning to do business in a new culture are less if the firm acquires an established host-country enterprise. However, acquisitions raise a whole set of additional problems, including those associated with trying to bring together divergent corporate cultures. These problems may more than offset any benefits derived by acquiring an established operation.

Summary

The decisions to enter an export trade market should be taken after careful analysis of the advantages and disadvantages involved. The decision involves both internal and external analysis. Internal to the company and external decisions should be made.

Internal company assessment is the first to be assessed in terms of adequate managerial
and qualified staff resources; sufficient production capacity (includes factory space, warehousing, machinery, and accessibility of raw materials to meet the export order); adequate financial resources to purchase capital equipment, spare parts, raw materials as well as working capital; ability to produce and adapt products with real export potential using cost-effective methods; and etc.

After factors internal to the company are assessed and decided, basic decisions that a firm contemplating foreign market should be made. These are which markets to enter, when to enter those markets, and on what scale?

Once a firm has decided to enter a foreign market, the question arises as to the best mode of entry. There are six different ways to enter an international market. These includes: exporting, turnkey projects, licensing, franchising, establishing joint ventures with a host country firm, setting up a new wholly owned subsidiary in the host country. Each entry mode has advantage and disadvantages. Managers need to consider these carefully when deciding which to use based on their advantage and their disadvantages.

Chapter review questions

Part I: Choose the best answer from the alternatives given under each question

1. One of the following is not advantages of licensing
   A. Penetration of new market
   B. Retain a market where no foreign investment
   C. Reducing risk
   D. Offers strong right to control functional operations
   E. None
2. ______ can be a specialized form licensing with strict long-term commitment .
   A. Franchising
   B. Licensing
   C. Management contract
   D. Joint venture
   E. Ternkey project
   F. A & B
3. One of the following is not a criterion to select an entry mode
   A. Cost
   B. Flexibility require
   C. Risk factor
   D. Investment payback period
   E. All
   F. None

Part II: discuss the following questions

1. Discuss entry mode selection criteria.

2. Discuss the advantage and disadvantages of exporting as a market entry mode.

3. Describe the meaning of turnkey project.

4. Discuss the advantages and disadvantages of turnkey project as an entry mode.

5. Describe the meaning of licensing.

6. Explain the advantage and disadvantages of licensing as an entry mode.

7. Differentiate franchising from licensing.

8. Explain the advantages and disadvantages of franchising.

9. Describe the meaning of management contract.

10. Discuss the advantages and the disadvantages of management contract.

11. Describe the meaning of joint venture as an entry mode.

12. Discuss the advantages and disadvantages of joint venture.

13. Describe the meaning of strategic alliance.

14. Discuss the advantages and disadvantages of strategic alliance.

15. Describe the meaning of wholly-owned subsidiary.

16. Discuss the advantages and disadvantages of wholly-owned subsidiary as an entry mode.

Answer key for multiple type of questions

1. D 2. B 3. F

CHAPTER IV

PRODUCT POLICY DECISIONS

Chapter objectives

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

- ✓ Explain product standardization or modification
- ✓ Discuss branding, packaging and after sale service from international perspective

4. Introduction

Product policy realized by a company on the international market is usually quite different than the one realized on a domestic market. It is affected by the fact that in this case both the macro-environment of the company and its competitive environment may be extremely different from the domestic environment. Decisions concerning a product on foreign markets are the first step of a firm in planning the whole composition of marketing-mix, comprising also an assessment, distribution and promotion

4.1 Product Adaptation vs standardization

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

The core of a firm's international operations is a product or service. This can be defined as the complex of tangible and intangible elements that distinguishes it from the other entities in the market place.

4.1.1 Adaptation/Modification

The firm's success depends on how good its product or service is and on how well the firm is able to differentiate the product from the offerings of competitors. Products can be differentiated by their composition by their country of origin, by their tangible features such as packaging or quality, or by their augmented features such as warranty.

A. Physical or Mandatory Requirements

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

Some changes are obvious with relatively little analysis; a cursory examination of a country will uncover the need to rewire electrical goods for a different voltage system, simplify a product when the local level of technology is not high, or print multilingual labels where, required by law. Electrolux, for example, offers a cold-wash-only washing machine in Asian countries where electric power is expensive or scarce. But other necessary changes may surface only after careful study of an, intended market.

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

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

B. Product Alternatives

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

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

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

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

4.1.2 Product standardization

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

4.2. *Factors encouraging standardization and adaptation*

Factors Encouraging Standardization

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

1. *High Costs of Adaptation*

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

2. *Industrial Products*

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

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

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

4. Marketing to Predominantly Similar Countries

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

5. Centralized Management and Operating via Exports

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

6. *Economies of Scale in Production*

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

7. *Economies in Research and Development*

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

8. *Economies in Marketing*

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

Factors Encouraging Adaptation

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

1. *Differences in Technical Standards*

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

2. *Consumer and Personal Use Products*

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

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

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

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

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

5. *The Impact of Cultural Differences*

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

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

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

4.3 Branding and its types, brand piracy

There are many different definitions of a brand, the most effective description however, is that a brand is a name or symbol that is commonly known to identify a company or its products and separate them from the competition. A brand is the identity of a specific product, service, or business.

A brand can take many forms, including a name, sign, symbol, color combination or slogan. A legally protected brand name is called a trademark. The word brand has continued to evolve to encompass identity - it affects the personality of a product, company or service. Branding is a way of clearly highlighting what makes your product or service different to and more attractive than, your competitors'.

A well-known brand is generally regarded as one that people will recognize, often even if they do not know about the company or its products/services. These are usually the businesses name or the name of a product, although it can also include the name of a feature or style of a product.

The intelligent use of design, advertising, marketing, service proposition, and corporate culture can all help to generate associations in people's minds that will benefit your business.
Successful branding is about promoting your strengths. You need to be sure that you can always deliver your promises using these strengths, sometimes referred to as 'brand values'. You can start by thinking about what your business is good at and what you believe in as a business.
Brand piracy: is the act of naming a product in a manner which can result in confusion with other better known brands. It can occur with either partial integration of the name of the better known brand, or simply by changing the spelling of the product's name.
Ex: using “Adibas” that leads to confusion with “Adidas”

This is the unauthorized and therefore illegal use of a brand name or product which has trademark, patent, or copyright protection. It is a form of property right theft which is common in many countries of the world.

4.4 Packaging and Labeling

4.4.1 Packaging: Functions and Criteria

Much like the brand name, packaging is another integral (fundamental) part of a product. Packaging is probably the cheapest, quickest, and easiest way to adapt a product to make it more suitable for foreign markets. Such adaptation goes beyond the matter of language and involves the question of altering appeals. The issues relevant to marketing revolve around the relative importance of the package’s dual roles of protection and promotion.

Packaging serves two primary purposes: functional and promotional. First and foremost, a package must be functional in the sense that it is capable of protecting the product at minimum cost. While protection is important, a package's promotional power cannot be ignored. Since the same product sells in different countries often for different reasons, package design can do much to express and present a product in a way that is preferred by customers in each market. The package must be convenient and easy for buyers to use. In addition, it should help sell the product by attracting the buyer's attention, identifying the product, and providing a reason to buy. Another way of looking at this is to apply the VIEW test in each market:

- **V** – Visibility: the package must be easily distinguished from the visual competition.
- **I** – Information: the package must quickly communicate the nature of its contents.
- **E** – Emotional impact: the design must create favorable impressions in the mind of the consumer.
- **W** – Workability: the package must function as protection and must also be efficient in home use.

Some amount of standardization is desirable, particularly for consumer goods that may be sold by self-service. Language may or may not be a problem. In various parts of Europe such as Denmark, is not uncommon to find products form English-speaking countries packaged using English. However, in some countries (for example, Germany and the United States) you may need to use the country's language if you really want to tap the full potential of the market. The Canadian market requires bilingual packaging: English and French. In still other areas, a company can export to selective markets using its own language because it is similar to that of the market. For example, Danish, Swedish and Norwegian companies can use their own language in the other two markets.

Using standardized dimensions for packages leads to reductions in cost and generates some benefits. Some of these are as follows:

- Reduction of dimensions to a few standards sizes and facilitates the machine packing of merchandise.
- Standardized package sizes facilitate production of the fewer types of packages and shipping boxes.

- Uniform package dimensions permit a balanced format for display and for self-service selling.
- Standardized sizes simplify, expedite, and cut the cost of handling and shipping.

Standardization may be advantageous from the point of view of facilitating consumer convenience in purchasing, and possibly disadvantageous in terms of consumers' abilities to evaluate the characteristics of products of different producers, when such products come in identical package sizes.

A potential problem is that countries may differ in their preferences for different packaging materials. The relative role of paper, plastic, glass, wood, and metal can vary in foreign markets. Unit size and internal packaging may also differ.

Attempting to sell golf balls in Japan in the usual four to a package can be troublesome since the Japanese word for 'four' sounds like the word for 'death.' In the United States food products like crackers are sold with multiple papers wrapped packages inside a box whereas in other parts of the world the tendency is to use bulk package within the box.

Another issue regarding packaging arises through ecological problems. This has impact on materials to be used and how they are used.

Mandatory Package Modification

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

Several countries require bilinguality (e.g., French and English in Canada and French in Flemish in Belgium). This requirement may force the manufacturer to increase package size or shorten message and product name, as a bilingual package must have twice the space for copy communications.

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

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

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

Optional Package Modification

Optional modification of package, although not absolutely necessary, may have to be undertaken for marketing impact or for facilitating marketing activities. Optional or discretionary packaging modification, in contrast, is a more controllable variable within a marketers' marketing mix.

Usually, discretionary packaging is more related to product promotion, and it can take on the same importance as mandatory packaging. Soft-drink containers are a good example of how packaging requirements must be observed. In many countries, bottles are manufactured in metric sizes because of government requirements. And the containers must be made of glass because consumers abroad regard plastic throwaway bottles as being wasteful.

Therefore, both mandatory and optional packaging changes should be considered at the same time.

In selecting or modifying a package, a marketer should consider local conditions related to purchasing habits. Products conventionally sold in packs in the United

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

One helpful sign that should reduce packaging confusion is the European Union's standardization attempt. Changes in EU's food packaging requirements should allow foreign food manufacturers and packaging agents to follow one unified EU regulation. Although size requirements differ by product, the EU has harmonized the sizes of sealed packages and containers. The uniformity assists consumers in comparing prices for the same quantity, thus abolishing the need for unit pricing. EU packaging regulations also help to promote conservation by decreasing the amount of paper utilized in packaging.

Because there is no EU-wide general product-labeling directive, manufacturers have to label their products differently for each country, thus increasing expenses. There is also a question about language requirements. The EU suggests that most products should have at least two EU official languages so as to increase the marketability of the products. In terms of what is to be placed on the product label, EU officials recommend the following:

1. The name of the product,
2. The name of the manufacturer of distributor within the marketing country,
3. Any care conditions,

4. Special storage conditions,
5. Country of origin, especially where labels might mislead,
6. metric requirements, and
7. List of chemicals/ingredients included.

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

For most packaging applications, marketers should keep in mind that foreign consumers are more concerned with the functional aspect of a package than they are with convenience. As such, there is usually no reason to offer the great variety of package sizes or styles demanded by Americans. Plastic and throwaway bottles are regarded as being wasteful, especially in LDCs, where the labor cost for handling returnable is modest. Non-American consumers prefer a package to have secondary functions. A tin box or a glass bottle can be used after the product content is going to store something else. Empty glass containers can be sold by consumers to recoup a part of the purchase price.
From the marketing standpoint, the promotional function of packaging is just as critical as the functional aspect. To satisfy the Japanese preference for beautiful packaging, Avon upgraded its inexpensive plastic packaging to crystalline glass. Similarly, BSR packs its product into two cartons, one for shipping and one for point-of-purchase display, because Japanese buyers want a carton to be in top condition.

4.4.2 Labeling

A **label** is a piece of paper, polymer, cloth, metal, or other material affixed to a container or article, on which is printed a legend, information concerning the product, addresses, etc. A label may also be printed directly on the container or article. Labels have many uses: product identification, name tags, advertising, warnings, and other communication. Special types of labels called digital labels (printed through a digital printing) can also have special constructions.

Regulations in many countries require that detailed product composition and nutritional information be provided, as well as warning messages in the case of products that may be harmful or hazardous. Firms may also want to provide instruction for proper product use, in which case readability and the quality of communication matter. Merely translating text from the home country's language may not be sufficient. Country regulations may also require that information be presented in all of a country's or region's official languages. These languages complexities motivate manufacturer to use icons, diagrams, and cartoons to instruct consumer in the use of their products. Such pictorial descriptions transcend languages and make it easier to introduce products into new markets.

4.5 After sales service

After sale service is defined as customer support following the purchase of a product or service. After sale service involves a continuous interaction between the service provider and the customer throughout the post purchase product life cycle. At the time the product is sold to the customer, this interaction is formalized by a mutually agreed warranty or service contract. The exact terms of the warranty or service contract, the characteristics of the customer base, and nature of the sold product influence the after sales service provider.

After sales service includes a package of different services provided to customers after they have concluded the purchase deal.

Objectives of After Sale Service

In these days international market scenario, after sales service is taken as competitive advantage tool that enables firms to win the competition.

The main objective of the after-sales is to keep the customer satisfied through trust, credibility and sense of security conveyed by the organization, and building lasting relationships that contribute to increased performance for sustainable results.

Overall, after sale service has advantages like:

- Competitive advantage
- Customer satisfaction
- Long- term customer relationship, customer retention and loyalty
- New product success and development
- High profit
- Differentiation
- Branding

Components of After Sales Service

There are seven elements of after sale support which must be provided to customers over the working lifetime of product these are:

1. Installation: - for many products the first element of product support following the sale is installation. This is usually performed for complex product or where personnel from the manufacturing company or their representatives involve safety issues.

2. User training: - the complexity of some type equipment necessitates that manufacturers provide good training for users. Many computers based and complex products include functions that help users learn to use them more efficiently.

3. Documentation: - most products have some form of documentation and industries such as medical electronics plays key role. Typical form of documentation covers equipment operation, installation, maintenance, and repair. Good documentation can lead to lower support cost.

4. Maintenance and repair: - maintenance and repair are an important element of product support, which has required companies to invest significant resource. Preventive maintenance is undertaken to clean, refurbish or replace parts of equipment which otherwise would be liable to fail. Mechanical parts, for example, normally require regular maintenance as in the case of cars.

5. Online support: - telephone advice on product is a major element of customer support in many industries. Product experts give online consulting to customers to help them use products more or, sometimes to trace the cause of fault (troubleshooting).

6. Warranties: - manufacturers of most products offer warranty and, in some markets such as automobiles. Manufacturers try to gain a competitive advantage by offering longer warranty periods.

Warranty reduces the financial risk of owning products and therefore it is an important element of customer support.

7. Upgrades: - offering customer the chance to enhance the performance of the existing products can be an important aspect of support. For example, computer-manufacturers offer upgrades, because they increase the working lifetime of products and can be a significant source of revenue. Original equipment manufacturers have a competitive advantage in this because they normally have records of where equipment has been sold which could benefit from upgrading.

Summary

Marketing knowledge and skills acquired in one's own country not always can be applied on international markets. This concerns among others product strategy, which is the most important issue in the marketing mix. Product policy realized by a company on the international market is usually quite different than the one realized on a domestic market. It is affected by the fact that in this case both the macro-environment of the company and its competitive environment may be extremely different from the domestic environment. Decisions concerning a product on foreign markets are the first step of a firm in planning the whole composition of marketing-mix. The most important issues associated with shaping product policy in the international marketing include decisions involved in product standardization or adaptation, branding, packaging, innovation strategies. Standardization means offering by the company the same or similar product on all foreign markets, whereas adaptation (individualization) relies on its adjustment to the requirements resulting from cultural, social, political and economic differences occurring between foreign markets. Brand is an important strategic resource of an company operating on the international market. A company must decide what kind of brand strategy will implement and what are the strengths and weaknesses of this decision. Packaging constitutes an integral element of a product. It is a visual means of communication. Offering products on foreign markets requires adjustment of packaging to specific conditions but also to legal regulations on these markets.

Chapter review questions

Part I: Say true if the statement is correct and false if it is incorrect.

1. In Industrial products are more likely to be standardized than to be adapted.

2. Product Standardization more available in the organization where centralized management and operation is acculturated

Part II: Put a circle only on the best of your choice from given alternatives

1. One of the following indicates the characteristics of successful package,

A. Easily distinguishable from visual competition

B. Quick to communicate the nature of product's content

C. Creates favorable impression in the mind of customer

D. A &C

E. All

2. Suppose that a global Chinese popular car making company is using "xenok" as brand name for all of its products; however, a new competing South Korean company in the same market is using "Zenok" as it brand name, such act of the later company is said to be,

A. Brand identity C. brand policy

B. Brand piracy D. brand politics E. none

3. One of the following is **no**t an integral part of product mix decision of firm,

A. Packaging C. branding

B. Labeling D. A &B E. none

Part III: Answer the following questions briefly

1. Distinguish standardization from adaptation.

____

____

2. Discuss factors encouraging standardization.

____

____

____

3. Discuss factors encouraging adaptation.

4. Define the concept of brand.

5. Define the concept of brand piracy.

6. Describe business implication of brand piracy.

7. Define the meaning of packaging.

8. Explain the functions of package.

9. Discuss the optional and mandatory package modifications.

10. Explain the meaning of a package.

11. List the functions of labels.

12. Describe the meaning of after sale service.

13. Mention the objectives of after sale service.

14. Discuss the components of after sale service.

Answer key for review questions: true/false and choice sections

True/false: 1. True 2. True

Multiple choices: 1. E. 2. C 3. E

CHAPTER V

PROMOTION STRATEGY IN INTERNATIONAL CONTEXT

Chapter Objectives:

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

- ✓ Discuss personal selling, exhibitions, trade fairs, public relations, sales promotion, global advertisement and campaign transferability

5. Introduction

Many companies today sell their products nationally as well as internationally and deal with international companies as either suppliers or competitors, which make their involvement in international issues more significant. Further, the increasing use of the Internet, English as an international language and the modernization of countries and regions around the world also promote the growth of international marketing communication.

The basic principles and practices of marketing communication do not change when marketing internationally. They do, however, need to be integrated with the various and differing social and cultural factors and languages in a foreign country. Marketers face the challenge of ensuring that all brand communications are strategically consistent when presenting brand messages.

In international markets, companies cannot create and communicate a consistent message about a product and deliver it across all markets if they want to be successful. They must ensure that their brand communication and advertising campaigns fit the tastes and sensitivities of each culture and its target market segments. They must respond to the trends and complexities of foreign markets to gain and maintain competitive advantage in different international markets

5.1 Advertising in the global situations

Advertising is the most commonly referred to component of the promotion mix. It is the popular element of promotion and has been variously defined as being: 'paid-for communication, addressed to the public (or some of it) with the purpose of influencing the opinion or behavior of those to whom it is addressed'; and 'any paid form of non-personal presentation and promotion of ideas, goods or services by an individual sponsor'.

Most advertising is communicated through a range of media; the press, television, radio and cinema, categorized as 'above the line' advertising. '**Above the line'** refers to media advertising which earns a commission for the advertising agency from the media, as opposed to '**below the line' promotion expenditure which does not. 'Below the line**' promotion includes expenditure on sponsorship, sales promotion, exhibitions and competitions. Direct mail is usually classified as a 'below the line' medium.

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

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

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

5.2 Advertising standardization versus local adaptation

Pattern of Advertising: Plan Globally, Act Locally

A product is more than a physical item; it is a bundle of satisfactions the buyer receives. This package of satisfactions or utilities includes the primary function of the product along with many other benefits attributed to the values and customs of the culture. Different cultures often seek the same value or benefits from the primary function of a product; for example, the ability of an automobile to get from point A to point B, a camera to take a picture, or a wristwatch to tell time. But while agreeing on the benefit of the primary function of a product, other features and psychological attributes of the item can have significant differences.

Consider the different market-perceived needs for a camera. In the United States, excellent pictures with easy, foolproof operation are expected by most of the market; in Germany and Japan, a camera must take excellent pictures but the camera must also be state-of-the-art in design. In Africa, where penetration of cameras is less than 20 percent of the households, the concept of picture-taking must be sold. In all three markets, excellent pictures are expected (i.e., the primary function of a camera is demanded) but the additional utility or satisfaction derived from a camera differs among cultures. There are many products that produce such different expectations beyond the common benefit sought by all. Thus, many companies follow a strategy of pattern advertising, a global advertising strategy with a standardized basic message allowing some degree of modification to meet local situations. As the popular saying goes, "*Think Globally, Act locally*." In this way, some economies of standardization can be realized while specific cultural differences are accommodated.

5.3 Personal selling

As with domestic marketing, personal selling has many roles within international marketing that centre around the intention of affecting a sale through the use of individual sales personnel. Personal selling can take various forms, ranging from the sales assistant in a shop to the sales engineer negotiating product design with the buyer of an industrial organization to the telephone customer service assistant offering special rates for calling family and friend numbers. At an international level, personal selling becomes more complex as it has to be sensitive to the culture and expectations of the potential customer. A sales approach used in one country may not be viable for another and *vice versa*. The resources to support the preferred approach will differ. In this way, in the US, it is common practice to sell books through a door-to-door sales force, but in other countries, it would be impractical and unacceptable to use such an approach. Books are also sold through conventional retail outlets, using shop assistants to encourage sales.

However, with the advent of e-commerce Internet selling (through www.amazon.co.uk) increasingly books are sold direct to the consumer without the help of personal selling. For these reasons, despite the same product being sold, the personal selling role differs according to circumstance, the product or service being sold and the consumer targeted..

It should be appreciated that, with the advent of e-commerce selling through the Internet, traditional approaches are being questioned. It is likely that both the Internet and the traditional routes will become more integrated over time to the advantage of all concerned.

5.4 Exhibitions/ trade fairs

A **trade fair (trade** show, **trade exhibition**, or **expo**) is an **exhibition** organized so that companies in a specific industry can showcase and demonstrate their latest products and services, meet with industry partners and customers, study activities of rivals, and examine recent market trends and opportunities.

Many names are used to indicate events whose main purpose is to bring buyers and sellers together and promote trade. For example, the term *Trade Fair*, *Trade Exhibition* and *Trade Show* are often used to indicate the same type of event. They can be *multi-sector* (*General Fairs*) or, as it is becoming predominant, *single-sector*. In this case they are often referred to as *Specialized Trade Fairs*. This guide deals with these events that will be simply called "trade fairs". It can be useful to review other types of trade events.

Benefits of Exhibitions

1. Economic functions

The exhibition industry takes over important economic functions. In the exhibition centre supply and demand are brought together. Exhibitions offer a inter- active platform to the market participants. They contribute to the development and revival of markets and market segments.

2. **Trade function**: Transactions of goods, services and information
3. **Transparency function**: it offers market overview information
4. **Development function**: Support of the commercial development of nations, regions and cities

Two main actors are considered here and they constitute the audience axes of the event: the exhibitors and the visitors.

Motivations of exhibitors and visitors

Before any decision is taken with respect to organizing a trade fair, it is important to understand what determines the choice of participation by exhibitors and visitors, their needs and expectations. The success and failure of the event depend on that. The answer might appear obvious: to make business, but, if this is the core motivation, the reality is somehow more complex; Organizing a trade fair means to place on the market a service that is already widely available. The question therefore is what makes a new trade fair attractive, that is which distinctive features may differentiate it from others and generate the interest of the participants, knowing that participation can be fairly costly and participants would obviously expect a return from their investment.

Numbers are important: quite often data on participation (how many exhibitors and visitors) are used as a parameter of success and a selling factor. But the quantitative dimension is not the only one, and in any case not applicable to a new trade fair. A qualitative asset is similarly important and it becomes essential in the case of a new trade fair. In this case quality is not intended as the value assigned by the customers to the service, but it refers to the uniqueness or specialty of the event in the market and to the way the event is perceived and to its capacity to fulfill expectations. A marketing approach needs then to be applied, whose starting point is evidently the “customer

The driving motivations for participation in a trade fair for an exhibitor is the opportunity to:

- ❖ Showcase its products or services and reach a targeted audience;
- ❖ Create or reinforce the visibility and raise the awareness and interest about its supply capacity;
- ❖ Attend to inquiries and disseminate information;
- ❖ Identify new potential customers or strengthen relations with the existing ones;
- ❖ Establish backward and forward business linkages;
- ❖ Identify agents;
- ❖ Negotiate offers which may result in actual orders;
- ❖ Develop the relationship network;
- ❖ Meet potential

Motivation for participation in a trade fair anyhow is not only linked to the supplier-client relation, but it has many aspects of a more horizontal nature:

- ❖ Exploring the market and observing the trends;
- ❖ Exchanging experiences;
- ❖ Gathering information e.g.:
- ❖ − Keeping abreast of product and industry innovations;
- ❖ − Knowing what competitors do;
- ❖ − Learning latest sales and promotion techniques.
- ❖ Comparing quality, price, and marketing mix performance;
- ❖ Attending technical sessions/conferences/symposia and other similar functions organized within the
- ❖ trade fair as side events;
- ❖ Visiting local industry;

- ❖ Having the opportunity for some tourism

5.5 Public relations/ publicity

Public relations (PR) is a form of ‘unpaid’ promotion and is used alongside ‘above the line’ advertising in the media and ‘below the line’ promotion support. It involves achieving awareness for the product, or service, without undertaking conventional paid advertising.

This awareness is gained by persuading persons to mention the product within a public arena for no direct payment, e.g. mentioning the name of the firm, or its products and services, within a television commentary or a magazine editorial. PR sets out to achieve a favourable image for the product, or service, being promoted primarily by using press and television coverage to create influential public awareness. However, the promoter has limited control over the message put forward by the editorial team, which acts independently, so messages can be favourable or unfavorable with considerable influence over the overall promotion campaign. At an international level, it is even more difficult to control the message being portrayed, which makes the achievement of a consistent and favorable PR image across all targeted markets demanding.

Alongside the internal staff, firms often use PR agencies to promote a favorable image for the corporate organization. Such agencies operate through personal networks using their communication skills to maintain good relations with influential persons within the media. Usually, they coordinate the provision of publicity material for the organization. They issue press releases covering news items that editors are encouraged to publicize within their media. At an international level, the challenge is increased with the larger number of persons involved. Commonly, country-specific PR agencies are used because their personnel have close ties to the local media. Care has to be taken that all concerned are working to spread the same corporate objective. An incident in one part of the world can have a devastating effect on the whole organization.

5.6 Sales promotion

Sales promotions are the 'activities that stimulate consumer purchases and improve retailer or middlemen effectiveness and co-operation'. They include money-off coupons, in-store demonstrations, samples, gifts, product tie-ins, contests and sponsorship of special events such as concerts, fairs and sport competitions. Sales promotions are short-term efforts directed to the consumer and/or retailer to achieve such specific objectives as:

1. . consumer-product trial and/or immediate purchase;
2. consumer introduction to the store;
3. gaining retail point-of-purchase displays;
4. encouraging stores to stock the product;
5. supporting and augmenting advertising and personal sales efforts

Sales promotion can be powerful in supporting general advertising. It is targeted more towards potential consumers and takes place nearer to the actual purchase activity than general advertising. It provides the individual potential purchaser with an impetus to purchase a particular product, or service, rather than other competing products. For example, the purchase of a given number of cans of Heineken lager might give the purchaser a 'free' T-shirt, while the purchase of another brand would give no additional gift. The potential purchaser is encouraged to buy the brand with the potential for the free gift.

Many sales promotion practices are nationally orientated and cannot be readily used for international campaigns. National legislation, as well as cultural expectations, prevents some types of sales promotion. For example, free gifts like plastic gnomes are commonly placed in Kellogg's cereal packets in the UK, but they are not allowed in Norway and Sweden where promotion cannot be targeted towards children under 12 years of age. Some countries use promotional methods not seen in others, as is the case of the use of small aeroplanes to fly along beaches in Spain trailing flags with promotional messages encouraging the purchase of goods such as rice, vitamins and sun cream.

Sponsorship is another sales promotion method. A sponsor may support events, persons or groups of persons (teams) to gain public awareness and purchases of its product or service.

Sponsorship can be used to in-crease awareness and esteem, to build the brand identification, to-enhance the brand's positioning and sales, and to circumvent advertising restrictions in some countries.

Just as with media, the effectiveness of sponsorship varies across geographic regions and should be taken into consideration when planning programs in individual countries or measuring program effectiveness.

The sponsor gains public confidence that encourages brand loyalty and purchase of the sponsor's product. Typically, sponsors have supported events such as the Olympic Games, the Football World Cup, and the World Expo. Major international sponsors include the MNCs Coca-Cola, IBM and Nike, as well as cigarette firms Benson & Hedges and Marlborough, and alcoholic drink producers Guinness (beer) and Glenlivet (whisky). Commonly, persons that are sponsored are successful sportsmen and women with whom the sponsor wishes to be associated. The golf or tennis player agrees to wear, or display, the sponsor's product in public (while playing the game) to encourage the public to purchase the product. Teams of persons that are sponsored include football and rugby teams, Formula 1 racing car teams and so on.

There can be difficulties with sponsorship agreements, especially sponsorship of individuals and teams. The high cost of endorsing contracts and the growing risk of being associated with drugs rows and other scandals involving sports stars have persuaded many sponsors, including Fila, the Italian sportswear group, Reebok and Nike of the US, to sponsor events rather than individuals. For example, although Fila is well known for sponsoring individual players such as Bjorn Borg, Boris Becker, Mark Philippoussis and Jelena Dokic, in 1999 Fila signed a US $12m contract to sponsor the Super 9 tournaments of the Association of Tennis Professionals (ATP) men's tennis tour for the next three year.

Expenditures on sponsorship are rising and expected to continue to do so. Two causes for this trend are increases in corporate mergers and cause marketing. Many companies that are consolidating want to quickly increase awareness of the merger and to establish a new image. Cause marketing, which is the use of marketing funds to enhance a cause while acting as a good corporate citizen, is gaining popularity. In the United States, Clairol Professional Care Products supports AIDS research while Avon supports breast cancer research.

Sponsorship, however, does have its distracters. Many people claim the Olympics are over commercialized and that sponsors “McDonaldize” local events. Needless to say, these people are in the minority given the wide acceptance of sponsorship, but some may generate negative publicity for the company.

5.7 Campaign transferability

The growing intensity of international competition, coupled with the complexity of multinational marketing, demands that the international advertiser function at the highest creative level. Advertisers from around the world have developed their skills and abilities to the point that advertisements from different countries reveal basic similarities and a growing level of sophistication. To complicate matters further, boundaries are placed on creativity by legal, language, cultural, media, production, and cost limitations.

Legal Considerations

Laws that control comparative advertising vary from country to country in Europe. Therefore, major consideration when undertaking cross-border promotion is accommodating the regulation in different countries. Such regulation may be controlled by legislation or by general practice, in particular where industry codes of practice act as constraints. For example, a toy or confectionery maker wanting to run a pan-European TV advertising campaign has to consider the different rules and regulations for each country concerned. In Sweden advertising targeted at children is forbidden; some countries require advertisements for sweets to carry a toothbrush symbol, and others have rules intended to curb advertisers from encouraging children to exercise ‘pester power’. The same maze of national rules exists when it comes to promoting alcohol, tobacco, pharmaceuticals and financial services. There are diverse regulations on how much of the human body can be revealed, whether prices can be discounted for special offers and the use of free gifts in sales promotion. In Germany, it is illegal to use any comparative terminology; you can be sued by a competitor if you do. Belgium and Luxembourg explicitly ban comparative advertising, whereas it is clearly authorized in the U.K., Ireland, Spain, and Portugal. The directive covering comparative advertising will allow implicit comparisons that do not name competitors, but will ban explicit comparisons between named products. The European Commission has issued several directives to harmonize the laws governing advertising. However, member states are given substantial latitude to cover issues under their jurisdiction. Many fear that if the laws are not harmonized, member states may close their borders to advertising that does not respect their national rules.

Advertising on television is strictly controlled in many countries. In Kuwait, the government-controlled TV network allows only 32 minutes of advertising per day, in the evening. Commercials are controlled to exclude superlative descriptions, indecent words, fearful or shocking shots, indecent clothing or dancing, contests, hatred or revenge shots, and attacks on competition. It is also illegal to advertise cigarettes, lighters, pharmaceuticals, alcohol, airlines, and chocolates or other candy.

Language Limitations

Language is one of the major barriers to effective communication through advertising. The problem involves different languages of different countries, different languages or dialects within one country. Impulsive handling of language has created problems in nearly every country.

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

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

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

Cultural Diversity

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

The problems associated with communicating to people in diverse cultures present one of the great creative challenges in advertising. Communication is more difficult because cultural factors largely determine the way various phenomena are perceived. If the perceptual framework is different, perception of the message itself differs. Therefore, Reconciling an international advertising and promotion effort with the cultural uniqueness of markets is the challenge confronting the international or global marketer.

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

Media Limitations

Limitations on creative strategy imposed by media may diminish the role of advertising in the promotional program and may force marketers to emphasize other elements of the promotional mix.

A marketer's creativity is certainly challenged when a television commercial is limited to 10 showings a year with no two exposures closer than 10 days, as is the case in Italy. Creative advertisers in some countries have even developed their own media for overcoming media limitations.

Production and Cost Limitations

Creativity is especially important when a budget is small or where there are severe production limitations, poor-quality printing, and a lack of high-grade paper. For example, the poor quality of quality publications has caused Colgate-Palmolive to depart from its customary heavy use of print media in the West for other media in Eastern Europe. Newsprint is of such low quality in China that a color ad used by Kodak in the West is not an option. Kodak's solution has been to print a single-sheet color insert as a newspaper supplement.

The necessity for low-cost reproduction in small markets poses another problem in many countries. For example, hand-painted billboards must be used instead of printed sheets because the limited number of billboards does not warrant the production of printed sheets. In Egypt, static-filled television and poor-quality billboards have led companies such as Coca-Cola and Nestle to place their advertisements on the sails of feluccas, boats that sail along the Nile. Feluccas, with their triangle sails, have been used to transport goods since the time of the pharaohs and serve as an effective alternative to attract attention to company names and logos.

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

Summary

The basic principles and practices of marketing communication do not change when marketing internationally. They do, however, need to be integrated with the various and differing social and cultural factors and languages in a foreign country. Marketers face the challenge of ensuring that all brand communications are strategically consistent when presenting brand messages.

Review questions

Part I: choose the best answer from given alternatives

1. Which of the following tools of promotion is the most challenging as it requires a direct interactive confrontation with host country culture?
   A. Public relation C. personal selling
   B. Publicity D. advertising E. none

2. One of the following factor determine advertising campaign transferability in international market,
   A. Media limitations C. language limitation
   B. Presence of cultural diversity D. legal situations E. all

Part II: Answer the following questions briefly

1. Differentiate above the line promotion from below the line promotion.
   ____
   ____
2. Define advertising.
   ____
   ____
   ____
3. Discuss with example how global planning and local acting can be needed in advertising for international market.

____
____
____

4. Why personal selling for international market is more complex than its use for domestic market?

5. Describe the meaning of trade fair/exhibition.
6. Explain the function of trade fair.
7. Mention the motivation behind participating in trade fair exhibitions.
8. Describe the meaning of public relation.
9. Describe the meaning of sales promotion.
10. Mention the objectives of sales promotion.

11. What should firms take into account while using sales promotion from international market context?

12. Discuss factors affecting transferability of a firm's promotional campaign in international market.

.

Answer key for multiple type questions

1. C 2. E

CHAPTER VI

PRICING AND TERMS OF PAYMENT

Chapter objectives

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

- ✓ Describe price standardization, export quotation terms, payment methods in international context
- ✓ Discuss transfer pricing, bartering and counter trading

Introduction

Price policy is an essential part of the marketing mix. Its importance in international marketing is based on the fact that through achieved prices the economic benefits of various transactions among the partners are divided. In other words, the level of reached prices directly influences the profitability of the transactions.

Active marketing in several countries compounds the number of pricing problems and variables relating to price policy. Price and terms of sale cannot be based on domestic criteria alone.

Pricing globally is much trickier than pricing in the home market, due to issues such as problems of currency fluctuations and devaluations, price escalation through tariffs, difficult-to-assess credit risks, and different quotations, dumping charges, transfer prices and price controls. In addition, the price is then compared and analysed by competitors, distributors and consumers. In global marketing, the level of price is sometimes less important than currencies quoted, methods of payment and credit extended.

Price is often misunderstood and overlooked, especially, when a product‘s price does not reflect the quality/value the consumer perceives in the product. Consumers want a fair price which can be either high or low as long as it reflects the perceived value of the product. However, this is often not the case.

Of all the tasks facing the international marketer, determining what price to charge is one of the most difficult. It is further complicated when the company sells its product to consumers in different country markets.

Pricing Objectives: Price decisions are viewed in two ways: pricing as an active instrument of accomplishing marketing objectives, or pricing as a static element in a business decision. If prices are viewed as an active instrument the company uses price to achieve a specific objective, whether a targeted return on profit, a targeted market share, or some other specific goal.

3. Approaches to International Pricing:

Cost and market considerations are important; a company cannot sell goods below cost of production and remain in business, and it cannot sell goods at a price unacceptable in the market place; Firms unfamiliar with overseas marketing and firms producing industrial goods orient their pricing solely on a cost" basis. Firms employ pricing as part of the strategic mix, however, are aware of such alternatives as market segmentation from country to country or market to market, competitive pricing in the marketplace, and other market-oriented pricing factors including cultural differences in perceptions of pricing.

6.1.1 Full-Cost versus Variable-Cost Pricing: Whether to use variable cost or full cost in pricing their goods. In *variable-cost pricing*, the firm is concerned only with the marginal or incremental cost of producing goods to be sold in overseas markets. Such firms regard foreign sales as bonus sales and assume that any return over their variable cost makes a contribution to net profit. They may be subject to charges of dumping. Variable-cost (*or marginal-cost*) pricing is a practical approach to pricing when a company has high fixed costs and unused production capacity. Any contribution to fixed cost after variable costs are covered is profit to the company.

Full-cost pricing approach is suitable when a company has high variable costs relative to its fixed costs. In such cases, prices are often set on a cost-plus basis, that is, total costs plus a profit margin. Both variable-cost and full-cost policies are followed by international marketers.

6.1.2 *Skimming versus Penetration Pricing*: which policy to follow depends on the level of competition, the innovativeness of the product, market characteristic, and company characteristics.

A company uses *skimming* when the objectives is to reach a segment of the market that is relatively price insensitive and thus willing to pay a premium price for the value received. If limited supply exists, a company may follow a skimming approach in order to maximize revenue and to match demand to supply. When a company is the only seller to a new or innovative product, a skimming price may be used to maximize profits until competition forces a lower price. Skimming often is used in markets with only two income levels: the wealthy and the poor. Costs prohibit setting a price that will be attractive to the lower-income market, so the marketer charges a premium price and directs the product to the high-income, relatively price-insensitive segment.

A *penetration pricing policy* is used to stimulate market and sales growth by deliberately offering products at low prices.

Penetration pricing most often is used to acquire and hold share of market as a competitive maneuver. However, in country markets experiencing rapid and sustained economic growth, and where large shares of the population are moving into middle-income classes, penetration pricing may be used to stimulate market growth even with minimum competition. Penetration pricing may be a more profitable strategy than skimming if it maximizes revenues as a base for fighting the competition that is sure to come.

4. International pricing strategies versus domestic pricing strategies

Setting the right price for a product or service can be the key to success or failure. Even when the international marketers produces the right product, promotes it correctly, and initiates the proper channel of distribution, the effort fails if the product is not properly priced.

An offering's price must reflect the quality and value the consumer perceives in the product. Of all the tasks facing the international marketer, determining what price to charge is one of the most difficult. It is further complicated when the company sells its product to consumers in different country markets.

Competition intensifies among multinational and home based companies. Price becomes increasingly important as a competitive tool and how price competition changes the structure of a market. The manager's responsibility is to set and control the actual price of goods in different markets in which different sets of variables are to be found: different tariffs, costs, attitudes, competition, currency fluctuations, and methods of price quotation.

Table 6.0 Sample Cost-Plus Calculation (example) of Product Cost showing their difference		
	Domestic Sale	Export Sale
Factory price	$7.50	$7.50
Domestic freight	.70	.70
subtotal	8.20	8.20
Export documentation		.50
subtotal		8.70
Ocean freight and insurance		1.20
subtotal		9.90
Import duty (12 percent of landed cost)		1.19
subtotal		11.09
Wholesaler markup (15 percent)	1.23	
subtotal	9.43	
Importer/distributor markup		2.44
subtotal		13.53
Retail markup (50 percent)	4.72	6.77
Final consumer price	$14.15	$20.30

5. Price standardization

Price strategy for international markets based on setting a price for the product as it leaves de factory. At its simplest it involves setting a fixed world price at the headquarters of the firm. This fixed world price is then applied in all markets after taking account of factors such as foreign exchanges rates and variance in the regularity context. This pricing strategy might be appropriate if the firm sells to very large customers, who have companies in several countries. In such a situation the firm might be under pressure from the customer only to deliver at the same price to every country subsidiary, throughout the customer´s multinational organization. Another advantage of price standardization includes the potential for rapid introduction of new products in international markets and the presentation of a consistent price image across markets.

When this strategy is appropriate?

- Reduction of trade barriers
- Decreasing transportation cost
- Presence of active retailers/**grey markets**/global sourcing
- Improved communication and information flow
- Increasing brand globalization/standardization

N.B The grey market, also referred to as the parallel market, is a market where a product is bought and sold outside of the manufacturer's authorized trading channels. The grey market is where the unofficial trading of a company's shares, usually before they are issued in an initial public offering (IPO), happens. The distribution channels involved in the grey market are legal but are not provided by the original.

This situation occurs when goods are bought from a place where it is available and cheap, either at retail or at wholesale and import them in a legal way to the target market. Then these goods are sold at a price that is lower than the normal market price, but high enough for the entrepreneur to make profit. International efforts for promoting free trade that includes harmonized national standards and low tariffs help this type of arbitrage, whenever producers try to follow extreme disparate pricing. In grey market, tracking the number of sales is very difficult because of its nature. Goods available in grey market can either be new or existing. Some of the common types of grey market goods are electronic goods like camera, video gaming consoles, dolls, etc

The difference between a product's price in the primary country, and the landed cost from another country (this is the cost to acquire the product from another country – it includes the exchange rate adjusted price, shipping, tariffs, and transfer costs) is called the grey market differential.

If the grey market differential (GMD) is positive – meaning that the landed cost from another country is less than the product's price in the primary country – then your customers' procurement departments will be incentivized to purchase from abroad and pay less for the product than if they purchased it in the primary country, which decreases your overall global profits. The grey market differential, multiplied by the volume of demand in the primary country is the amount of profit at risk – labeled grey market risk – that your company faces with that particular product between the two countries.

What can one do o manage grey market risk and battle intelligent global procurement departments? The first step in the process is to setup notifications when grey markets exist that should be managed.

This should be done with at least two different types of alerts:

- When the grey market risk breaches a specified level
- When an individual part has violated a pre-determined price-collar, based on the probability of arbitrage.

Being alerted on grey market risk can occur on a relative. On a relative basis, an alert should be triggered when the grey market risk for any given country or region is above the moving average for all regions as a whole. Thus, you will constantly address your high risk areas of business.

6.4 price differentiation

Opposed to standardization is the differentiation strategy. This involves responding to differences in customer preferences arising out of cultural, social, and religious barriers that divide nations. This strategy does help in building up sales volumes, but the cost is prohibitive when done at a global level. Imagine Levis, Benetton, Coke, McDonald‘s, Burger King, and Tacobell having to differentiate their marketing mix to suit different cultural preferences. They will not be able to derive economies of scale and hence their cost of operations in a market will be much higher. This will push up prices for consumers or else they will be out of business. Further, these global firms will never be able to ensure identical brand image across the world market.

Nonetheless, local preferences and conditions will need to be woven into the marketing mix. The more acceptable route is that of localizing the marketing mix. This involves decentralizing decision making at the local affiliate level. This is useful especially when it comes to areas like marketing communication, distribution, and to a limited extent, in the packaging area. For example, Sunsilk shampoo from Unilever could achieve a higher penetration in the toiletries market in South Asia only when it introduced sachet packs for single use and priced it at an affordable level. Maggi noodles, marketed by Nestle, could achieve a resounding success only when it included cooking instructions in its TV commercials and on the pack and also added taste makers to suit Indian taste buds. However, these and other successful global firms do not leave critical decisions like brand image, brand identity, product focus or positioning to local affiliates a study showed that two successful global firms, Nestle and Coca-Cola, standardized their product decisions but adapted their advertising, sales promotion, distribution, and customer service to suit local country preferences and conditions .The authors of this study maintain that local aspirations and strong managements in major country markets must be respected and persuaded to accept standardized products. Even the headquarters needs to listen to local managers and do not rigidly implement their standardized marketing mix in countries showing distinctive customer preferences or needs.

The success of global marketing is based on gaining cooperation from affiliate managers in implementing the strategy. The approach of the headquarters towards affiliates has to focus on both the means and the ends

6. Price Escalation

People are surprised to find goods that are relatively inexpensive in their home country priced outrageously high in other countries. Natural tendency to assume that such prices are a result of profiteering/exploitation, manufacturers often resolve to begin exporting to crack these new, profitable foreign markets only to find that, in most cases, the higher prices reflect the higher costs of exporting.

Other reasons for Cost Escalation includes:-

A. Costs of Exporting: Generally the cause of the disproportionate difference in price between the exporting country and the importing country, here termed price escalation, is the added costs incurred as a result of exporting products from one country to another. Shipping costs, insurance, packaging, tariffs, longer channels of distribution, larger middlemen margins, special taxes, administrative costs, and exchange rate fluctuations.

B. Taxes, Tariffs and Administrative Costs: Taxes include tariffs, ad tariffs are one of the most pervasive features of international trading.

Tariff is typically expressed as the rate of duty and may be levied as specific, ad valorem, or compound.

Fees for import certificates or for other administrative processing can assume such levels that they are, in fact, import taxes. Many countries have purchase or excise taxes, which apply to various categories of goods; value added or turnover taxes, which apply as the product goes through a channel of distribution; and retail sales taxes. Such taxes increase the end price of goods but, in general, do not discriminate against foreign goods. Tariffs are the primary discriminatory tax that must be taken into account in reckoning with foreign competition.

A variety of administrative costs are directly associated with exporting and importing a product. Export and import licenses, other documents, and the physical arrangements for getting the product from port of entry to the buyer’s location mean additional costs. Although such costs are relatively small, they add to the overall cost of exporting.

C. Inflation: In countries with rapid inflation or exchange variation, the selling price must be related to the cost of goods sold, and the cost of replacing the items.

When payment is likely to be delayed for several months or is worked out on a long-term contract, inflationary factors must be figured into the price. Soaring inflation in many developing countries makes widespread price controls a constant threat.

Companies use a variety of techniques to inflate the selling price to compensate for inflation pressure and price controls. They may charge for extra services, inflate costs in transfer pricing, or break up products into components and price each component separately.

Inflation causes consumer prices to escalate and the consumer is faced with ever-rising prices that eventually exclude many consumers from the market.

D. Exchange Rate Fluctuations: All major currencies are floating freely relative to one another, no one is quite sure of the future value of any currency. Companies are insisting that transactions be written in terms of the vendor/sellers company's national currency, and forward hedging is becoming more common. If exchange rates are not carefully considered in long-term contracts, companies find themselves unwittingly giving 15 to 20 percent discounts. Exchange rate differentials mount up.

E. Varying Currency Values: Risks result from the changing values of a country's currency relative to other currencies.

When the value of the dollar is weak relative to the buyer's currency, companies generally employ cost-plus pricing. To remain price competitive when the dollar is strong. Companies must find the ways to offset the higher price caused by currency values.

Currency exchange rate swings are considered by many global companies to be a major pricing problem. Price strategies need to reflect variations in currency values. The cost of reaching a market with relatively small potential may be high. High operating costs of small specialty stores like those in Mexico and Thailand lead to high retail prices. Intense competition in certain world markets raises the cost or lowers the margins available to world business. With experience, a firm that prices on a cost basis operates in a realm of reasonably measurable factors.

Exhibit 18.2

Export Strategies under Varying Currency Conditions

When Domestic [American] Currency Is WEAK . . .	When Domestic [American] Currency Is STRONG . . .
Stress price benefits	Engage in nonprice competition by improving quality, delivery, and aftersale service
Expand product line and add more-costly features	Improve productivity and engage in vigorous cost reduction
Shift sourcing and manufacturing to domestic market	Shift sourcing and manufacturing overseas
Exploit export opportunities in all markets	Give priority to exports to relatively strong-currency countries
Conduct conventional cash-for-goods trade	Deal in countertrade with weak-currency countries
Use full-costing approach, but use marginal-cost pricing to penetrate new/competitive markets	Trim profit margins and use marginal-cost pricing
Speed repatriation of foreign-earned income and collections	Keep the foreign-earned income in host country and slow collections
Minimize expenditures in local, host-country currency	Maximize expenditures in local, host-country currency
Buy needed services (advertising, insurance, transportation, etc.) in domestic market	Buy needed services abroad and pay for them in local currencies
Minimize local borrowing	Borrow money needed for expansion in local market
Bill foreign customers in domestic currency	Bill foreign customers in their own currency

F. Middleman and Transportation Costs: Channel length and marketing patterns vary widely, but in most countries channels are longer and middleman margins higher than in the United States. Besides channel diversity, the fully integrated marketer operating abroad faces various unanticipated costs because marketing and distribution channel infrastructures are underdeveloped in many countries. Added expenses for warehousing and handling or small shipments and may have to bear increased financing costs when dealing with underfinanced middlemen. Marketer must rely on experience and marketing research to ascertain middleman costs.

If the goods go over water, insurance, packing, and handling are additional costs not generally added to locally produced goods.

Such costs add yet another burden because import tariffs in many countries are based on the landed cost, which includes transportation, insurance, and shipping charges. These costs add to the inflation of the final price.

Approaches to Reducing Price Escalation:

1. Lowering Cost of Goods: If the manufacturer's price can be lowered, the effect is felt throughout the chain.

2. Lowering Tariffs: Tariffs account for a large part of price escalation, companies seek ways to lower the rate. Reclassified into a different, and lower, customs classification.

Differential rates between fully assembled, ready-to-use products and those requiring some assembly, further processing, the addition of locally manufactured component parts, or other processing that adds value to the product and can be performed within the foreign country.

Repackaging also may help to lower tariffs.

3. Lowering Distribution Costs: Shorter channels can help keep prices under control. Designing a channel that has fewer middlemen may lower distribution costs by reducing or eliminating middleman markup. Besides eliminating markups, fewer middlemen may mean lower overall taxes. Some value-added tax on goods are taxed each time they change hands. The tax may be cumulative or noncumulative. A cumulative value-added tax is based on total selling price and is assessed every time the goods change hands. Obviously, in countries where value-added tax is cumulative, tax alone provides a special incentive for developing short distribution channels.

4. Using Foreign Trade Zones to Lessen Price Escalation: Free trade zones (FTZs) or free ports to facilitate international trade. More than 300 of these operate throughout the world, storing or processing imported goods. In a free trade or FTZ, payment of import duties is postponed until the product leaves the FTZ area and enters the country.

An FTZ is, in essence, a tax-free enclave and not considered part of the country as far as import regulations are concerned. When an item leaves an FTZ and is imports officially into the host country of the FTZ , all duties and regulations are imposed.

Utilizing FTZs can to some extent control price escalation resulting from the layers of taxes, duties, surcharges, freight charges, and so forth. Foreign trade zones permit many of these added charges to be avoided reduced, or deferred so that the final price is more competitive. One of the benefits of the FTZ in controlling prices is the exemption from duties on labor and overhead costs incurred in the FTZ in assessing the value of goods.

By shipping unassembled goods to an FTZ in an importing country, a marketer can lower costs in a variety of ways:

- Tariffs may be lower because duties are typically assessed at a lower rate of unassembled goods versus assembled goods.
- If labor costs are lower in the importing country, substantial savings may be realized in the final product cost.
- Ocean transportation rates are affected by weight and volume; thus unassembled goods may quality for lower freight rates.
- If local content, such as packaging or component parts, can be used in the final assembly, tariffs may be further reduced.

Free trade zone is an important method for controlling price escalation.

5. Dumping: Marginal (variable) cost pricing, as discussed earlier, is a way prices can be reduced to stay within a competitive price range. The market and economic logic of such pricing policies can hardly be disputed, but the practices often are classified as dumping and are subject to severe penalties and fines. Various economies define dumping differently. One approach classifies international shipments as dumped if the products are sold below their cost of production. Another approach characterized dumping as selling goods in a foreign market below the price of the same goods in the home market.

(WTO) rules allow for the imposition of a dumping duty when goods are sold at a price lower than the normal export price or less than the cost in the country of origin increased by a reasonable amount for the cost of sales and profits. A countervailing duty or minimum access volume (MAV) which restricts the amount a country will import, may be imposed on foreign goods benefiting from subsidies whether in production, export or transportation.

For duties to be invoked, it must be show that prices are lower in the importing country than in the exporting country and that producers in the importing country are being directly harmed by the dumping

Dumping is rarely an issue when world markets are strong. In the 1980s and 1990s dumping became a major issue for a large number of industries when excess production capacity relative to home-country demand caused many companies to price their goods in a marginal-cost basis. In a classic case of dumping prices are maintained in the home-country market and reduced in foreign markets.

Enforcement of dumping legislation is causing international marketers to seek new routes around such legislation. Assembly in the importing country is a way companies attempt to lower prices and avoid dumping charges. However, these *screwdriver plants*, as they are often called, are subject to dumping charges if the price differentials reflect more than the cost savings that result from assembly in the importing country. Another subterfuge is to alter the product so that the technical description will fit a lower duty category.

6. **Leasing in International Markets:** Equipment leasing has become increasingly important as a means of selling capital equipment in overseas markets.

Leases usually run one to five years, with payments made monthly or annually included in the rental fee are servicing, repairs, and spare parts.

Just as contracts for domestic and overseas leasing arrangements are similar, so are the basic motivations and the shortcomings. For example;

- Leasing opens the door to a large segment of nominally financed foreign firms that can be sold on a lease option but might be unable to buy for cash.
- Leasing can ease the problems of selling new, experimental equipment, because less risk is involved for the users.
- Leasing helps guarantee better maintenance and service on overseas equipment.
- Equipment leased and in use helps to sell other companies in that country.
- Lease revenue tends to be more stable over a period of time than direct sales would be.

In a country beset with inflation, lease contracts that include maintenance ad supply parts (as most do) can lead to heavy losses toward the end of the contract period.

Further countries were leasing in most attractive are those where spiraling inflation is most likely to occur. The added problems of currency devaluation, expropriation, or other political risks are operative longer than if the sale of the same equipment is made outright. In light of these perils, leasing incurs greater risk than does outright sale’ however there is definite trend toward increased use of this method of selling internationally.

6.6 Export quotation terms

Many export transactions, particularly initial export transactions, begin with the receipt of an inquiry from abroad that is followed by a request for a quotation. The preferred method for export is **a pro forma invoice**, which a quotation is prepared in invoice format.

A quotation describes the product, **states** a price for it, sets the time of shipment, and specifies the terms of the sale and terms of the payment. Since the foreign buyer may not be familiar with the product, the description of it in an overseas quotation usually must be more detailed than in a domestic quotation. The description should include the following 15 points:

1. Seller's and buyer's names and addresses.
2. Buyer's reference number and date of inquiry.
3. Listing of requested products and brief description.
4. Price of each item (it is advisable to indicate whether items are new or used and to quote in U.S. dollars to reduce foreign-exchange risk).
5. Appropriate gross and net shipping weight (in metric units where appropriate).
6. Appropriate total cubic volume and dimensions packed for export(in metric units where appropriate).
7. Trade discount (if applicable).
8. Delivery point.
9. Terms of sale.
10. Terms of payment.
11. Insurance and shipping costs.
12. Validity period for quotation.
13. Total charges to be paid by customer.
14. Estimated shipping date from U.S. port or airport.
15. Currency of sale.

Pro forma invoices are not used for payment purposes. In addition to the 15 items previously mentioned, a pro forma invoice should include two statements. One that certifies the pro forma invoice is true and correct and another that gives the country of origin of the goods. The invoice should also be clearly marked "pro forma invoice."

Pro forma invoices are models that the buyer uses when applying for an import license, opening a letter of credit or arranging for funds. In fact, it is a good practice to include a pro forma invoice with any international quotation, regardless of whether it has been requested or not. When final commercial invoices are being prepared prior to shipment, it is advisable to check with the U.S. Department of Commerce or another reliable source for any special invoicing requirements that may be required by the importing country.

If a specific price is agreed upon or guaranteed by the exporter, the precise period during which the offer remains valid should be specified. Additionally, it is very important that price quotations state explicitly that they are subject to change without notice.

6.7 Methods of payment

1. **Consignment**

When a consignment is used, goods are shipped but ownership is retained by the seller.

This means that the product is furnished on a deferred-payment basis, and once the product is sold the seller is reimbursed by the consignee. In effect, the seller is providing full financing for the consignee. The problem with consignment sales is that a high degree of risk prevails. First of all, it is costly to arrange for the return of merchandise that is unsold. In addition, due to the distance involved, the seller has difficulty keeping track of the inventory and its condition. Certain safeguards are thus necessary.

2. **Open account**

With an open account, goods are shipped without documents calling for payment, other than the invoice. The buyer can pick up goods without having to make payment first. The advantage with the open account is simplicity and assistance to the buyer, who does not have to pay credit charges to banks. In return the seller expects that the invoice will be paid at the agreed time. A major weakness of this method is that there is no safeguard against default, since a tangible payment instrument does not exist. The lack of payment instrument also makes it difficult to sell the account receivable. To compound the problem, the buyer often delays payment until the merchandise is received – a standard practice in many countries. Because of the inherent risks of an open account, precautions should be taken. The seller must determine the integrity of the buyer by relying on prior experience, or through a credit investigation.

3. **Cash in advance**

The seller may want to demand cash in advance when:

· The buyer is financially weak or an unknown credit risk.

· The economic/political conditions in the buyer's country are unstable.

· The seller is not interested in assuming credit risk, as in the case of consignment and open account sales.

Because of the immediate uses of money and the maximum protection, sellers naturally prefer cash in advance. The problem, of course, is that the buyer is not eager to tie up its money, especially if the buyer has some doubt about whether it will receive the goods as ordered. By insisting on cash in advance, the seller shifts the risk completely to the buyer, but the seller may end up losing the sale by this insistence.

4. **Bill of exchange (draft)**

A means of financing international transactions is through a bill of exchange or draft, which is a request for payment. The request is an unconditional order in writing from one person (drawer) requiring the person to whom it is addressed (drawee) to pay the payee or bearer on demand or at a fixed or determinable time. The drawer, usually the exporter, is the maker or originator of the draft requesting payment. The drawee, usually the buyer, is the party responsible for honoring or paying the draft. The payee may be the exporter, the exporter's bank, the bearer, or any specified person. In short, a draft is a request for payment. It is a negotiable instrument that contains an order to pay a payee. As noted by John Stuart Mill many years ago, the purpose is to save expense and minimize the risk of transporting precious metals from place to place as payment of imports. The bill of exchange simply allows banks to make adjustments by debiting or crediting accounts maintained in buyer or seller names with other banks.

The transaction process occurs in this way. The drawee accepts the draft by signing an acceptance on the face of the instrument. If the buyer does not accept (sign) the bill, the buyer is not given the attached documents to obtain goods from the steamship company, since the shipment is made on the negotiable order bill of lading. In practice, banks are responsible for payment collection. The original order bill of lading is endorsed by the shipper and sent to the buyer's bank along with the bill of exchange, invoices, and other required documents (e.g., consular invoice, insurance certificate, inspection certificate).

Once notified by the bank, the buyer pays the amount on the draft and is given the bill of lading, which allows the buyer to obtain the shipment. There are two principal types of bill of exchange: sight and time.

A **sight draft**, as the name implies, is drawn at sight, meaning that it is paid when it is first seen by the drawee. A sight draft is commonly used for either credit reasons or for the purpose of title retention.

A **time (usance** or **date) draft** is drawn for the purpose of financing the sale or temporary storage of specified goods for a specified number of days after sight (e.g., thirty, sixty, ninety days, or longer). It specifies payment of a stated amount at maturity.

As such, it offers less security than a sight draft since the sight draft demands payment prior to the release of shipping documents. The time draft, on the other hand, allows the buyer to obtain shipping documents to draw up merchandise when accepting the draft, even though the buyer can actually defer payment.

5. Letter of credit (L/C)

An alternative to the sight draft is a sight letter of credit (L/C). As a legal instrument, it is a written undertaking by a bank through prior agreement with its client to honor a withdrawal by a third party for goods and services rendered.

The document, issued by the bank at the buyer's request in favor of the seller, is the bank's promise to pay an agreed amount of money on its receipt of certain documents within the specified time period. Usually, the required documents are the same as those used with the sight draft. In effect, the bank is being asked to substitute its credit for that of the buyer. The bank agrees to allow one party to the transaction (the seller, creditor, or exporter) to collect payment from that party's correspondent bank or branch abroad.

Drafts presented for payment under the L/C are thus drawn on the bank. The importer can repay the bank by either making an appropriate deposit in cash or borrowing all or part of the money from the bank. The drawee (buyer) is usually responsible for the collection charges by banks at home and overseas.

The ***issuing bank,*** as a rule, issues letters of credit for its current customers only, even if collateral is offered by someone else. In contrast, the ***advising bank*** is bank which notifies the exporter that an L/C has been issued. The issuing bank forwards the L/C to the advising bank (its foreign correspondent), which is usually selected for its proximity to the beneficiary. In the case of a *confirming bank* the same services are performed as the advising bank but also the confirming bank becomes liable for payment. There are several types of letters of credit, including revocable, irrevocable, confirmed, unconfirmed, standby, back-to-back, and transferable.

Revocable letter of credit

With a revocable L/C, the issuing bank has the right to revoke its commitment to honor the draft drawn on it. Without prior warning or notification to the seller, the bank can cancel or modify its obligation at any time before payment – even after shipment has already been made. Since the bank's commitment is not legally binding, the protection to the seller is minimal. Exporters generally do not want to accept a revocable L/C.

Irrevocable letter of credit

This type of L/C is much preferred to the revocable letter of credit. In this case, once the L/C is accepted by the seller, it cannot be amended in any way or cancelled by the buyer or the buyer's bank without all parties' approval. It is possible, however, for the buyer who receives proper documents but unsuitable goods because of fraud to obtain an injunction preventing the banker from paying the fraudster.

Confirmed letter of credit

For the exporter, it is highly desirable for the L/C to be confirmed through a bank in the exporter's country because the exporter then receives an additional guarantee of payment from a second bank (i.e., the confirming bank).The advising bank sends a cover letter along with the original L/C to the exporter, stating that the L/C has been confirmed.

For example, an Ethiopian exporter is in a much better position if there is an Ethiopian bank that accepts the responsibility of paying the letter of credit in case of refusal to do so by the buyer and/or the buyer's bank (i.e., issuing bank in a foreign country).

Unconfirmed letter of credit

When the L/C is not confirmed by a bank in the seller's country, the certainty is less and payment slower. An unconfirmed letter of credit may still be acceptable as long as the foreign bank that issues it is financially strong. In fact, some multinational banks are so well known that they prohibit letters of credit issued by them to be confirmed because confirmation would tarnish their prestige. However, letters of credit can still be confirmed confidentially. It is possible to combine the several types of L/C. A letter of credit can be revocable and confirmed, irrevocable and unconfirmed, and so on.

6.8 Export credit/sales terms

The most commonly applied terms of sale in the global marketplace are the international commercial terms, or Incoterms. A complete list of these important terms and their definitions is provided in *Incoterms 2000*, a booklet issued by the International Chamber of Commerce (ICC). Following are a few of the more frequently used terms in international trade:

- *CIF* stands for cost, insurance, and freight to a named overseas port. The seller quotes a price for the goods (including insurance), all transportation, and miscellaneous charges to the point of debarkation from the vessel. (The term is used only for ocean shipments.)
- *CFR* applies to cost and freight to a named overseas port. The seller quotes a price for the goods that includes the cost of transportation to the named point of debarkation from the vessel. The buyer covers the cost of insurance. (The term applies only for ocean shipments.)
- *CPT* (carriage paid to) and *CIP* (carriage and insurance paid to) apply to a named destination. These terms are used in place of CFR and CIF, respectively, for all modes of transportation, including intermodal.
- *EXW* (ex works) means "from a named point of origin" (e.g., ex factory, ex mill, ex warehouse); the price quoted applies only at the point of origin (i.e., the seller's premises). The seller agrees to place the goods at the buyer's disposal at the specified place within a fixed time period. All other obligations, risks, and costs beyond the named point of origin are the buyer's.

- *FAS,* or free alongside ship, refers to the seller's price quote for the goods, including the charge for delivery of the goods alongside a vessel at the named port of export. The seller handles the cost of wharfage, while the buyer is accountable for the costs of loading, ocean transportation, and insurance. It is the seller's responsibility to clear the goods for export. FAS, as the term implies, is used only for waterborne shipments.
- *FCA,* or free carrier, refers to a named place within the country of origin of the shipment. This term defines the seller's responsibility for handing over the goods to a named carrier at the named shipping point. According to *Incoterms 2000,* the named shipping point may be the seller's premises. In that case, it is the seller's responsibility to clear the goods for export from the United States. The term may be used for any mode of transport.

FOB, or free on board, refers to a named port of export in the country of origin of the shipment. The seller quotes the buyer a price that covers all costs up to and including the loading of goods aboard a vessel. (FOB is used only for ocean shipments.) as with other "F" terms, it is the seller's responsibility to clear the goods for export.

6.9Transfer pricing

The fact is that a significant volume of global trade nowadays consists of international transfers of goods and services, capital (such as money) and intangibles (such as intellectual property) within a MNE group; such transfers are called "intra-group" transactions. There is evidence that intra-group trade is growing steadily and arguably accounts for more than 30 per cent of all international transactions.

In such a situation, it becomes important to establish the right price, called the "transfer price", for intra-group, cross-border transfer of goods, intangibles and services. Transfer pricing is the general term for the pricing of cross-border, intra-firm transactions between related parties. "Transfer pricing" therefore refers to the setting of prices at which transactions occur involving the transfer of property or services between associated enterprises, forming part of an MNE group. These transactions are also referred to as "controlled" transactions, as distinct from "uncontrolled" transactions between companies that, for example, are not associated and can be assumed to operate independently ("on an arm's length basis") in reaching terms for such transactions.

In other words, the *transfer price* is the value (or price) placed on the goods, services and intangibles that are transferred within the firms, as they move from one organizational entity (e.g., a division, a unit, a subunit, a division) to another within a corporate group. Hence, while the role of *prices* is to efficiently allocate resources in the market, the role of *transfer prices* is to efficiently allocate resources within the firm.

The objectives of transfer pricing are as follows:

- Maximizing overall after-tax profits
- Reducing incident of customs duty payments
- Circumventing the quota restrictions (in value terms) on Import
- Reducing exchange exposure, circumventing exchange controls and restricting profit repatriation so that transfer firms affiliates to the parent can be maximized;
- Transferring of funds in locations so as to suit corporate working capital policies;
- Window dressing' operations to improve the apparent (i.e. reported) financial position of an affiliate so as to enhance its credit ratings.

The objects of transfer price apparently seems simple allocation of profits among the subsidiaries and the parent company, but the differences in the taxation patters in various markets makes it a complex phenomenon. Transfer prices come under the scrutiny of taxation authorities when it is different from the arm's length priced to unrelated parties. Transfer pricing involves the following stakeholders:

- Parent company
- Foreign subsidiary or joint venture or any other strategic alliance
- Strategic alliance partners
- Home country and overseas managers
- Home country governments
- Host country government

International transactions based on intra-company transfer pricing involves conflicting interests of various stakeholders. Therefore, in view of the diverse interests of stakeholders transfer pricing decisions become a formidable track. The factors influencing transfer pricing include:

- Market conditions in the foreign country
- Competition in the foreign country
- Reasonable profit for the foreign affiliate
- **Home country income taxes**
- Economic conditions in the foreign country
- Import restrictions
- Customs duties
- **Price controls**
- Taxation in the host country, e.g. withholding taxes
- Exchange controls, e.g. repatriation of profits.

Types of Transfer Pricing -

• ***Market-based transfer pricing***: It is referred to as arm's **length pricing, wherein the sales transactions occur** between two unrelated(arm's length) parties. Arm's a length pricing is preferred by taxation authorities.

Transfer pricing comes under the scrutiny of tax authorities when it is different from the arm's length price to unrelated firms.

• ***Non-market pricing***- Pricing policies that deviate from market based arm's length pricing are known as non marketing based pricing

• ***Pricing at direct manufacturing costs****:* It refers to the intra firm transactions that take place at the marketing cost.

The economic reason for associated entities charging transfer prices for intra-group trade is to be able to measure the performance of the individual entities in a multinational group. The individual entities within a multinational company group are separate profit centers and transfer prices are required to determine the profitability of the entities. Rationally, an entity having a view to its own interests as a distinct legal entity would only acquire products or services from an associated entity if the purchase price was equal to, or cheaper than, prices being charged by unrelated suppliers.

Many governments see transfer pricing as a tax evasion policy and have, in recent years, looked more closely at company returns. Rates of duty encourage the size of the transfer price: the higher the duty rate the more desirable a lower transfer price. A low income tax creates a pressure to raise the transfer price to locate income in the low tax setting. Harmonization of tax rates worldwide may make the intricacies of transfer pricing obsolete.

Government controls, like cash deposits on importers, give an incentive to minimize the price of the imported item. Profit transfer rules may apply which restrict the amount of profit transferred out of the country. Other controls look at monopoly pricing like the case of the British Government against Hoffman-La Roche, forcing the price of its tranquilizers downwards.

6.10 Bartering and counter trading

Countertrade is a generic term for parallel business transactions that link a sales contract with an agreement to purchase goods or services as a means of reducing the flow of convertible currency. For marketers suffering from "marketing myopia," it is a last ditch sales strategy.

Countertrade, one of the oldest forms of trade, is a government mandate to pay for goods and services with something other than cash. It is a practice which requires a seller, as a condition of sale, to commit contractually to reciprocate and undertake separate yet related, and a contract links these separable transactions. Countertrade may involve several products, and such products may move at different points in time while involving several countries.

Monetary payments may or may not be part of the deal.

There are three primary reasons for countertrade:

(1) countertrade provides a trade financing alternative to those countries that have international debt and liquidity problems, (2) countertrade relationships may provide developing countries and Multinational Corporations (MNCs) with access to new markets, and (3) countertrade fits well conceptually with the resurgence of bilateral trade agreements between governments.

The advantages of countertrade cluster around three subjects: market access, foreign exchange, and pricing.

Countertrade offers several advantages. It moves inventory for both a buyer and a seller. The seller gains other benefits, too. Other than the tax advantage, the seller is able to sell the product at full price and can convert the inventory to an account receivable.

The cash-tight buyer that lacks hard currency is able to use any cash received for other operating purposes; certain business initiatives that compensate and benefit the buyer. In short, a goods-for-goods deal is countertrade.
Unlike monetary trade, suppliers are required to take customers' products for their use or for resale.

In most cases these are multiple deals that are Countertrade constitutes an estimated 5 to 30 percent of total world trade. Countertrade greatly proliferated in the 1980s. Perhaps the single most important contributing factor is Lower Developing Countries) LDCs' decreasing ability to finance their import needs through bank loans.

Types of countertrade

Main variants of countertrade:

- **Barter:** Exchange of goods or services directly for other goods or services without the use of money as means of purchase or payment.

Barter is the direct exchange of goods between two parties in a transaction. The principal exports are paid for with goods or services supplied from the importing market. A single contract covers both flows, in its simplest form involves no cash. In practice, supply of the principal exports is often held up until sufficient revenues have been earned from the sale of bartered goods. Furthermore, during negotiation stage of a barter deal, the seller must know the market price for items offered in trade. Bartered goods can range from hams to iron pellets, mineral water, furniture or olive-oil all somewhat more difficult to price and market when potential customers must be sought.

Counter purchase or offset trade or parallel barter: is probably the most frequently used type of countertrade. The seller agrees to sell a product as a set price to a buyer and receives payment in cash.

Counter purchase occurs when there are two contracts or a set of parallel cash sales agreements, each paid in cash. Unlike barter, which is a single transaction with an exchange price only implied, a counter purchase involves two separate transactions – each with its own cash value. A supplier sells a facility or product at a set price and orders unrelated on non-resultant products to offset the cost to the initial buyer. Thus the buyer pays with hard currency, whereas the supplier agrees to buy certain products within a specified period. Therefore, money does not need to change hands. In effect, the practice allows the original buyer to earn back the currency.

Buyback: occurs when a firm builds a plant in a country - or supplies technology, equipment, training, or other services to the country and agrees to take a certain percentage of the plant's output as partial payment for the contract.

Unlike counter purchase, which involves two unrelated products, the two contracts in a compensation trade are highly related. Under a separate agreement to the sale of plant or equipment, a supplier agrees to buy part of the plant's output for a number of years

- **Compensation trade**: Compensation trade is a form of barter in which one of the flows is partly in goods and partly in hard currency.

Summary

Price is an integral part of a product – a product cannot exist without a price. It is difficult to think or talk about a product without considering its price. Price is important because it affects demand, and an inverse relationship between the two usually prevails.

Price is often misunderstood, especially by many executives. Consumers do not object to price. What they object to is the lack of a relationship between the perceived value of the product and the price being charged. They want a fair price, and a fair price can be either high or low as long as it reflects the perceived value of the product in question. Too high a price causes consumers to resist making a purchase because the value is not there.

Price can be absolutely high from a cost standpoint yet relatively low from a demand standpoint, in relation to its value and other features. Therefore, price must be lower than the perceived value or exactly reflect the perceived value. For example, a markdown may be needed for damaged or obsolete goods, but a "high" price may appear to be quite reasonable when extra value is added to a product.

Consumers around the world do not mind a high price if they indeed "get what they pay for." However, this is often not the case.

Chapter review questions

Part I: say true or false

1. Transfer pricing refers to setting a price for product during intra-group trade.
2. An unconditional written document issued by the exporter for inquiring payment is called letter of credit
3. A sight draft is more beneficial for the buyer (importer) than time draft as it is flexible
7. Counter trade refers to parallel business transactions in countries where there is no hard currency deficits and problems

Part II: choose the best alternative

1. One of the following international commercial terms offers the maximum burden to an international buyer (importer) of a product,

   A. Delivered duty paid   C. Free along side ship

   B. Ex-works   D. free on board   E. none

2. __________________is parallel market where goods are bought and sold without the authorization of the manufacturer in the foreign market.

   A. Monopoly   C. damping

   B. Grey market   D. piggy backing   E. none

3. A factor that opens a way to price standardization by multinational businesses in the foreign market is,

A. Reduction of trade barriers

B. Presence of active retailers

C. Reduction of transportation costs

D. Improved communication

E. All

4. A mode of payment by which an exporter transfers all risks to the buyer (importer) by hundred percent is most likely to be

A. Cash in advance C. open account

B. Consignment D. Bill of exchange E. letter of credit

8. Recent study indicates that Ethiopia has huge potential for Geothermal energy in addition to Hydro sources it is using now; suppose that the Kenyan public company signed a contract with Ethiopian government for extracting the potential; however, Ethiopia has to offer 40 %of energy to Kenyan. This form of counter trade is said to be

A. Bartering C. buyback

B. Counter purchase D. compensation trade E. none

Part III: Answer the following questions clearly

1. Distinguish variable cost from fixed cost pricing.

____

____

____

2. Distinguish skimming pricing from penetration pricing.

____

____

3. What distinguish international pricing form domestic pricing?

4. Describe the meaning of price standardization.

5. When price standardization is is applicable?

6. Describe the concept of gray market.

7. Describe the meaning of price differentiation.

8. Explain factors contributing to price escalation.

9. What are the solutions to reduce price escalation?

10. Differentiate the following mode of payments: consignment, open account, cash in advance, bill of exchange and letter of credit.

11. Differentiate the different types of credit/sales terms developed by international chamber of commerce.

12. Define transfer pricing.

13. Mention the objectives of transfer pricing.

14. Explain the different types of transfer pricing.

15. Define the concept of counter trade.

16. Explain the different types of counter trade.

Answer key for chapter review questions: true/false and choice part

Part I: true/false: 1. True 2. False 3. False 4. False

Part II: multiple choice: 1. B 2. B. 3. E 4. A. 5. C

Chapter VII

Distribution Strategies in International Context

Chapter objectives

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

- ✓ Define what logistics is
- ✓ Explain the way to access foreign market channels of distribution
- ✓ Describe how to use free ports
- ✓ Discuss PLC

7.1 Meaning of logistic

The word 'logistics' is derived from a French word 'Ioger' that means the art of transport, supply and quartering of troops. Thus, logistics was conceptually designed for use in military so as to ensure meticulous planning and implementation of supply of weapons food, medicines, and troops in the battlefield However logistics has presently become an integral part of business.

Logistics is the part of supply chain management that plans, implements, and controls the efficient, effective forward, and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer's requirements

Conceptualization, design and implementation of a system for direct flow of goods and services across national borders is termed as 'international logistics'. Thus, logistics consists of planning and implement the strategy for procuring inputs for the production process to make goods and services available to the end customers. Logistics has two distinct components, i.e. materials management and physical distribution.

There are two categories of business logistics:

1. ***Materials management**:* In the context of export-import trade, logistics applies to the timely movement or flow of materials/products from the sources of supply to the point of manufacture, assembly, or distribution (inbound materials). This includes the acquisition of products, transportation, inventory management, storage, and the handling of materials for production, assembly, or distribution. For example, products can be assembled in Canada for distribution in Canada and the United States.
2. ***Physical distribution**:* The second phase relates to the movement of the firm's product to consumers (outbound materials). It includes outbound transportation, inventory management, and proper packaging to reduce damage during transit and storage. Materials management primarily deals with inbound flow, whereas physical distribution is concerned with the outbound flow of materials or products. Both inbound and outbound activities are interdependent and influence the company's objective of reducing cost while conforming to customer needs.

EXTERNAL INFLUENCES ON LOGISTICS DECISIONS

There are a number of external factors influence international logistics decisions:

1. ***Regulations***

Governments in many countries encourage their domestic carriers to handle their exports or imports since the provision of such transportation services contributes to the nation's balance of payments. This can be illustrated by U.S.–China trade, which is mostly transported by Chinese vessels. This occurs because the Chinese Foreign Trade Agency insists, whenever possible, on terms that allow it to control most of the transportation and thus use its state-run transport companies.

International logistics activity in the form of overseas transportation, handling of shipment, and distribution management also creates jobs. Besides the need to earn or save foreign currency and the creation of employment opportunities, governments support their national carriers to ensure national shipping capacity during war or other emergencies. Governments also control or limit the export and import of certain commodities through a host of devices, such as export controls, import tariffs, and nontariff barriers; for example, quotas or cumbersome import clearance procedures. There are also bilateral negotiations between countries on airline routes and the provision of various services, such as insurance. All this has an influence on international logistics and transportation. The process of privatization and deregulation in transportation and communications has reduced shipping costs and increased productivity. This has also increased the possibilities for different prices and services, thus underscoring the need to integrate marketing and logistics functions.

2. ***Competition***

The proliferation of new products and services and short product life cycles creates pressures on firms to reexamine their logistics systems. This often requires the need to reduce inventory, lower overall costs, and develop appropriate logistics networks and delivery systems to retain and enhance their customer base. Crucial to the success of any logistics system is also a holistic examination of the relationship among transportation, warehousing, and inventory costs in order to adapt to the changing competitive environment.

3. ***Technology***

Technology improvements, added to the deregulation of transportation and communications, have transformed the logistics industry. They have helped to increase logistics options, improve performance, and decrease costs. The use of communications technology has now integrated marketing and distribution activities with overseas customers, enabling the latter to know the date of shipment, the location of the cargo on transit, and the expected date of arrival. Importers have achieved total visibility of goods in transit and can make adjustments when a shipment is running late. Such tracking and tracing of cargo has the added advantage of synchronizing promotions and long-term inventory decisions for customers.

7.2 Accessing foreign market channels of distribution

Distribution channels are among theory may be applicable in and the most highly differentiated aspects of international marketing. Marketing about international channels of — channel decisions involve supply chain strategy at policy level and channel management at the operations level. The complexity of these decisions is increased by widely different social, cultural, economic, and political patterns. While analysis of domestic channels and the concepts embodied in channel management theory may be applicable in an international setting, generalizations about international channels of distribution can be deceptive due to the extent of country-to-country differences.

Channels are an integrative part of the marketer's activities and as such are very important. They also give a very vital information flow to the exporter. A channel is an institution through which goods and services are marketed. Channels give place and time utilities to consumers. In order to provide these and other services, channels charge a margin. The, longer the channel the more margins are added.

- In general , marketing channels generate values in three ways:
  - Channels facilitate transactions.
  - Channels provide market access.
  - Channels augment market offering with knowledge-based, value added services along with tangible products

Within the overall international distribution policy of the firm, the factors of:

- capital requirements;
- level of distribution costs;
- desired extent of control over distribution channel;
- depth of market coverage;
- product-market distribution pattern characteristics;
- competitive practices;
- legal requirements; and
- Short-term versus long-term involvement of the firm in international marketing govern the choice of distribution channels.

Basically the choice comes down to two alternatives, the producer /seller selling direct or through an international merchant or agent.

This is followed by the development of criteria for the selection of specific intermediaries. The criteria generally includes factors as **financial soundness, local government contacts, business reputation, distribution network, technical support and infrastructural facilities (esp.**

relating to heavy industrial goods), business experience and managerial expertise, commercial terms, and extent of exclusivity to the international marketer. As the selection of the channel members commit the marketer to them for a relatively long period of time, their selection involves a cautious process and a careful analysis and referencing. Some international marketers make use of an elaborate process in this regard which begins with relative rating of candidate firms on pre-determined criteria.

TYPES OF INTERNATIONAL DISTRIBUTION CHANNELS

The International Distribution channels may broadly be divided into two categories namely direct and indirect channels:

1. **Indirect Channels**:

Indirect channels, an international marketing firm has to deal with domestic agents or market intermediaries without any direct dealing with a foreign based firm. Vas the firm is not required to deal directly in overseas markets, indirect marketing channels offer the following benefits:

- Since the firm has to deal with the market intermediary in the domestic market, it needs little investment and marketing experience.
- Indirect distribution channels provide low cost opportunity to test products in the international market.

However, indirect channels have certain limitations, which are as follows:

- As the firm has to heavily depend upon domestic market intermediary, its feedback from the ultimate customers is limited.
- The firm has to part with relatively higher share of its profit margins by way of commissions and other payments.
- The firm get little insight into the market even after operating for several years.
- The firm does not develop its own contacts with the buyers in the overseas market.

2. **Direct Channels** -

Direct marketing channels involve selling of goods directly to a market intermediary or the end users or customers in overseas markets. The major benefits of using direct channels are as follow :

- The firm develops a closer relationship with overseas buyers as it comes in direct contact with them.
- The firm develops an Insight in to the markets of operations which helps in restructuring its marketing strategies as peer the market requirements.
- The firm's control over the export process is greater in direct marketing channels compared to indirect marketing channels

7.3 PLC and distribution

After the channel member is selected it is a prudent business practice to enter into a written agreement spelling out the scope of commitment to each other and thus minimizing the possibility of disputes and misunderstandings, lists the items that should be included in a typical agreement with the foreign channel members.

Items to include in an Agreement with Foreign Channel Members are:

- Name and address of both parties
- Date when the agreement goes into effect
- Duration of the agreement
- Provisions for extending or terminating the agreement
- Description of sales territory
- Establishment of discount and/or commission schedules and determination of when and how paid.
- Provisions for revising the commission or discount schedules
- Establishment of a policy governing resale prices
- Maintenance of appropriate service facilities
- Restrictions to prohibit the manufacture and sale of similar and competitive products
- Designation of responsibility for patent and trademark negotiations and/or pricing
- The assign ability or non-assign ability of the agreement and any limiting factors
- Designation of the country and state of contract jurisdiction in the case of dispute

Motivation of Channel Members

In order to get the best out of the international marketer and channel member relationship it is necessary that economic and non-economic incentives be used for the purpose. It may be emphasized that channel members being independent business entities, their key consideration for relationship is economic. If the channel member does not get an adequate economic return it is unlikely that he will put in his best in the business. In addition, regularity of contact, involvement in goal setting, better understanding of the international marketer's business, and provision of assistance in market development or other areas of deficiency of the channel members capability prove useful for getting the channel members more than what they are generally expected to contribute.

Robert Douglas Stuart suggests the following ways for strengthening the channel member's loyalty:

- Build your distributor with your company: bring him into your picture; discuss future plans as they affect his area with him, seek his advice.
- Give your distributor an effective profit margin; try to keep in mind that you want to be in business with him for several years; make him want to continue the relationship.
- Be sure he has credit terms which make him competitive, or more so, in amount and length of payment.
- Maintain regular correspondence, and make sure he can clearly understand what you have to say.
- Make a point of commenting on successful distributors in whatever communication you use in his area (advertising, publicity, sales bulletins, and so on)

Control of Channel Members

Control of channel members in international distribution though difficult yet is an important aspect of its management. Accomplishment of sales targets, market coverage and development goals, payment schedules, and profit contribution made are some of the factors on which the performance of channel members is **appraised and controlled. Constant monitoring, periodic reviews, regular communications and intermittent suggestions** help a marketer to control its channel members and keep the marketer-channel member power balance in its favor.

Legal requirements and adverse impact on reputation must be given their due weight age if and when the unavoidable decision of termination of channel member is to be taken.

7.4 Use of Free ports

Liberalization of trade in goods and services, improvement in transportation, information and communication technology (ICT), combined with free-market ideology have resulted in expeditious mobility of goods and services across borders. And therefore, regional economies across the world are quickly incorporated into a global economy. A free port, is so the result of such economic liberalization.

A free port is a free trade zone encompassing an entire port area where imported merchandise may be stored duty –free pending re-export or duty-paid entry into the importing country**.**

Therefore, a free trade zone (FTZ) is a specified area within the territorial jurisdiction of a country where there is either a minimum or no customs control on entry or exit of goods. A free port (FP) is characterized by its whole harbor plants (sheet of water, quays, wharves, warehouses, factories, etc.) that are considered by law outside the customs boundaries. FTZ's and FP's are not subject to such standard government restrictions on trade such as Customs treatment, banking laws, taxation, labour laws and economical laws and transactions. The relation between the free transit of goods within FTZ's and FP's and the corresponding increase of counterfeiting activities in these areas has become one of the most important issues relating to the protection of trademark rights.

Goods passing through FTZ's or FP's and transshipped through multiple ports, creates opportunities for counterfeiters to disguise the true country of origin of goods. Counterfeiters also take advantage of customs territories where border enforcement for transshipped or in transit goods is known to be weak, with the intention of passing the goods through those customs territories to their destination.

Therefore, the establishment of free economic zones offers so many benefits for investors/international marketers. Some of these benefits are: there are sometimes no export-import duties, no foreign exchange controls; they also enjoy tax exemptions, licensing, less strict labor legislation and better infrastructure.

From large manufacturers to individuals, any size importer or exporter can take advantage of a foreign-trade zone (FTZ). However, many companies are unaware of the sizeable cost savings and other benefits they can achieve by taking advantage of an FTZ program. Utilizing an FTZ can significantly reduce costs from customs duties, taxes and tariffs; improve global market competitiveness; and minimize bureaucratic regulations. Outside the United States, there are many other names for FTZs, including free, foreign, or export processing zones. Below are some benefits of using an FTZ.

1. **Deferral, reduction, or elimination of certain duties.** FTZs allow the most duty deferral of any kind of Customs program. Companies can bring goods into the FTZ without duties or most fees, including exemption from inventory tax.
2. **Relief from inverted tariffs.** In some cases, tariffs on U.S. component items or raw materials have a higher duty rate than the finished product, putting a U.S. manufacturer at a cost disadvantage to an importer. However, by participating in an FTZ, the U.S. manufacturer pays whichever duty is lower. In many cases the tariff of the manufactured good is zero, eliminating any costs associated with importing raw materials and goods. There is no way to take advantage of inverted tariffs without operating in an FTZ.
3. **Duty exemption on re-exports.** Since an FTZ is considered outside the commerce of the United States and U.S. Customs, a company importing components or raw material into the FTZ doesn't pay Customs duty until it enters U.S. commerce. If the good is exported from the FTZ, no Customs duty is due.
4. **Duty elimination on waste, scrap, and yield loss.** Since a manufacturer operating in an FTZ doesn't pay duties on imports until its goods leave the FTZ and enter the United States, it essentially is paying for the duties on the raw materials after they have been processed. Thus, duties owed do not include manufacturing by products, such as waste, reducing the amount of goods taxed.
5. **Weekly entry savings.** Instead of filing an entry every time a shipment enters the country, an importer operating in an FTZ only needs to file one Customs entry a week, reducing bureaucratic headaches and costs associated with entry filings. There is a 0.21-

percent merchandise processing fee for every entry, with a minimum of $25 and a maximum of $485 per entry, which is for goods with a value of over $230,952. A company with 10 shipments a week, each of which are over $230,952, would save $226,980 annually with weekly entries. Weekly entries also save on customs brokerage fees.

6. **Improved compliance, inventory tracking, and quality control.** FTZs allow companies to more closely track their inventory. By bringing goods into an FTZ warehouse that you control, you can identify and classify goods at the warehouse instead of at the port at a Customs control location.
7. **Indefinite storage.** A company can hold its goods indefinitely in an FTZ until a port opens up, or if there are quotas on a good, until they can be entered into U.S. Commerce without falling under quota restrictions.
8. **Waived customs duties on zone-to-zone transfers.** FTZs can be used to manage transshipping operations, saving money on manufacturing processing fees. While most companies are focused on using FTZs for exports, FTZs can also be used to take advantage of crossdocking and transferring goods from one FTZ to another without paying Customs duties. Many mid-level companies, in particular, are using this capability to transfer goods to FTZs both within and outside the United States.

TAKING ADVANTAGE OF AN FTZ PROGRAM

To take advantage of an FTZ, companies need to be able to track their inventory; trace manufacturing and production orders; determine whether material came from domestic or international sources; and classify goods for duty deferrals and reductions. How much a company saves by using an FTZ depends on the size of the company and its business model. Reducing merchandise processing fees alone can save a company a substantial amount of money. Larger companies may want to consider using automation to help alleviate the burden of managing the FTZ process, particularly since with high-volume operations it can be extremely difficult, if not impossible, to manage manually. The data needed for classifying goods, for example, is voluminous and frequently changes and must be pulled from country-specific lists. Software that has this information in a central repository with automatic updates can pull information from different systems, such as import/export and warehouse management systems, and use that data for Customs filing and inventory management.

Summary

Logistics is the part of supply chain management that plans, implements, and controls the efficient, effective forward, and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer's requirements. Logistics is divided into two: material and physical distribution.

An international marketer should select appropriate channels and make them work. The selection process includes the establishment of channel objectives, feasible alternatives, and the choice of appropriate channels. An international marketer should gain knowledge of the host country’s wholesale and retail patterns.

Such knowledge will provide insights into the social, economic, political and cultural factors that will affect distribution, wide variations exist in the wholesaling and retailing characteristics of developed and developing countries. Even among the advanced countries, channels differ significantly.

Answer the following questions briefly

1. Describe the meaning of logistics.

   ____

   ____

   ____

2. Explain the types of logistics.

   ____

   ____

   ____

3. Explain factors affecting international logistics.

4. Mention the values of distribution/marketing channels.

5. Explain factors affecting the choice of channel selection.

6. Explain the ways of motivating channel members.

7. Mention the ways of monitoring channel members.

8. Explain the benefits of international companies from use of free port/free trade zone.

Reference

Armstrong, G. and Kotler, P. (2012), *Marketing: An Introduction*, , 11th Edition, Pearson Education Limited, Londion

Baker, M (2003), Marketing, 5th edition, Butterworth-Heinemann, London

Belay S (2009), Export-Import Theory, Practices, and Procedures, Second Edition, Routledge, Newyork

BENNETT, R. – BLYTHE, J. (2002), *International marketing: strategy planning, market entry & implementation,* Kogan Limited, London.

BLYTHE, J. – MEGICKS, P. 2010. *Marketing Planning: Strategy, Environment and Context.* Harlow, London

BRADY, D. L. 2011. *Essential of International Marketing.* USA: M.E.Sharpe, Inc.

Cateora P, Gilly,M and Graham, J, fifteenth edition, (2011), international marketing, McGraw-Hill/Irwin, new York

Cateora, Philip R and Graham John L.(2005).*International Marketing*, New Delhi:Tata McGraw-Hill Publishing Company Limited

Chernev, A. and Kotler, P. (2012) , *Strategic Marketing Management*, , 7th Edition, Boston Irwin Inc . .

Clarke, G and Wilson, L International Marketing, FIRST EDITION, McGraw-Hill Education, London

Coteora, Philip R., (2006), International Marketing, 13 editions, Boston Irwin Inc.

Cullen, J. B. – Parboteeah , K. P. 2010. International Business. Strategy and the Multinational Company,

Czinkota , M. R. – Ronkainen , I. A. 2007. *International Marketing.* 8th edition, Thomas South-Western,

DOOLE, I. – LOWE, R. (2008)., *International Marketing Strategy: Analysis, Development and Implementation*, Cengage Learning, London .

Ghauri, P and Cateora, P(2011), International Marketing, Edinburg Business School, Heriot-Watt Uiversity, Harlow.

Hollensen , S. 2007. *Global Marketing: A Decision-Oriented Approach*. 4th Edition, Pearson Education, KOTLER, P. – ARMSTRONG, G. 2011. *Principles of Marketing*. 14th edition. New Jersey, USA : Prentice Hall

KOTLER, P. – KELLER, K. L. 2012. *Marketing management*. 14th edition. New Jersey: Pearson Education

KOTLER, P. – KELLER, K. L. 2013. *Marketing Management.* 14th edition. Praha: Grada Publishing

Kumar, N.,(2004), *Marketing as Strategy*, Harvard Business School Press, Boston. Mason, OH

Mohr, J., Sengupta, S. and Slater, S, (2010) , *Marketing of High-Technology Products and Innovations*, , 3rd Edition, Pearson, New Jersey

Onkivist, Sak and Shaw,John J.(2005). *International Marketing*. New Delhi: Prentice-Hall of India Private Limited

Onkvisit,S and Shaw,J (2004) International Marketing Analysis and strategy,Fourth edition, *Routledge*, *London*

Porter, M. (2008),*The Five Competitive Forces that Shape Strategy,* , Harvard Business Review v. 86 no.1, Publisher Pearson Publication Limited

Stone, M and McCall, J (2004), international strategic marketing, Routledge, New York

Whalley, A (2010), Strategic Marketing, Ventus publishing, London

Wollo University
College of Business and Economics
Department of Marketing Management
Assignment for the course international marketing (35%)

Name______________________ID no.____________Section____signature______

Part I: choose the best answer from given alternatives (2 points each).

1. Ethnocentrism can simply be defined as:
   A. Developing a simple diverse strategy for new markets
   B. Develop one strategy for all countries worldwide
   C. Use everywhere the same strategy as at home.
   D. Being ethnically centred on a global scale
2. All of the following are actual modes of market-entry EXCEPT:
   A. Licensing
   B. Standardization
   C. . Franchising
   D. D. Exporting
3. Adaptation refers to
   A. A strategy of offering a uniform product across a region or worldwide, with minor modifications to meet local regulations or market conditions
   B. An approach used by organizations that focus on cross border differences in the needs and wants of an organization's target consumers
   C. The energizing force that activates behavior and provides purpose and direction to it
   D. A hierarchical division of a society into relatively distinct and homogeneous groups with respect to attitudes, values and lifestyles
   E. None
4. Which one of the following is false?
   A. International logistics are becoming increasingly important to an organisation's global success.
   B. Logistics have played a critical role in the growth and development of world trade and in the integration of manufacturing on a worldwide scale

   C. The level of world trade in goods and, to some extents, services, depends to a significant degree on the availability of economical and reliable international transportation services
   D. None
3. Dumping refers to _____.
   A. Pricing that is based on the international costs and that ignores domestic fixed costs on the premise that they have to be borne regardless of whether the goods are exported.
   B. The organization wants to set at least a price that will cover all costs to needed make and sell its products.
   C. A special form of pricing-to-market in which mark-ups are adjusted to stabilize prices in the buyer's currency
   D. The export list price that is set far below the domestic price (selling at an unfair price) in export market
   E. All
4. The most common approach to standardized promotion is:
   A. Globalized advertisin
   B. Mulitdomestic Advertising
   C. Pattern advertising
   D. Local adedvertisin
   E. All

Part II: Essay questions (5 points each).

1. Discuss how international marketing is differing from domestic marketing.
2. Discuss the background to the establishment of World Trade Organization (WTO).
3. Discuss factors affecting market entry mode decisions.
4. Explain the methods of making payment in International Marketing?
5. Discuss the importance of motivating, controlling and appraising channel members based on their performance.