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LECTURES

INTERNATIONAL MARKETING

(for 3rd-year full-time students specialties
073 – Mamagement, 281 – Public administration)

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PREFACE

Today the corporate world cannot survive with restricting themselves within the domestic boundaries. As the consumers across countries become more universal in nature, the need to look at the whole world as a market is growing. Whether or not a company wants to participate directly in international business, it cannot escape ever-increasing competition from international firms. We are coming to a situation where hardly any company can claim that it is a domestic one. The globalisation of the marketplace is already a reality, but it led us to some misunderstandings. Generally, the concept of global marketing views the world as one market and is based on identifying and targeting cross-cultural similarities. In our opinion, the global marketing concept is based on the premise of cultural differences and is guided by the belief that each foreign market requires its own culturally adapted marketing strategies. The global marketing strategy is thus different from the globalisation of the market. One has to do with efficiency of operations, competitiveness and orientation, the other with homogeneity of demand across cultures.

The aim of this course is to introduce the students to International Marketing, which explains how International Markets operate in an International Environment. An elementary approach is used in the module, which emphasizes the reasons for undertaking International Market analysis and their interpretation. An international perspective is maintained throughout the text. The objective of the problems is to enhance the student's understanding of analytical techniques- more emphasis on policy and managerial implications of International Marketing. The module focuses on International skills required to be an effective manager. It will develop the student's ability to identify and appreciate effective ways of getting the objective fulfilled. It also develops practical applications ability and knowledge and how these can be used in the decision-making process.

THEME 1 INTRODUCTION TO INTERNATIONAL MARKETING

1.1 Understanding of International Marketing.
1.2 Stages of International Marketing Involvement.
1.3 The Various Management Orientations.
1.4 Benefits of International Marketing.

1.1 Understanding of International Marketing

The first mentions of international marketing have appeared at the beginning of the 60th of the last century. Expediency of use of such marketing it has been caused by need of ensuring effective international trade in the goods and the services which volume has reached the considerable sizes. At the beginning of the 60th international trade becomes the main component of the international economic relations that a little positive influence on a condition of world economy as a whole. Further development of international trade has provided deeper division of labor between the separate countries and promoted further integration of national economies into the world. Under such circumstances firms of the different countries began to look for more favorable conditions for the business activity in foreign markets thanks to which development they increased outputs of products and deepened specialization.

Thus, positive changes in the international economic relations which caused globalization and integration of the national economies. Nowadays the internationalization of business is accelerating. The globalization of markets and competition necessitates that all managers pay attention to the global environment.

International marketing is the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. The only difference between the definitions of domestic marketing and international marketing is that in the latter case, marketing activities take place in more than one country. This apparently minor difference, "in more than one country," accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes, and principles are universally applicable, and the marketer's task is the same, whether doing business in Paris, London or Mumbai. Business's goal is to make a profit by promoting, pricing, and distributing products for which there is a market.

The difference between domestic and international marketing is not with different concepts of marketing but with the environment within which marketing plans must be implemented. The uniqueness of foreign marketing comes from the range of unfamiliar problems and the variety of strategies necessary to cope with different levels of uncertainty encountered in foreign markets. Competition, legal restraints, government controls, weather, fickle consumers, and any number of other uncontrollable elements can, and frequently do, affect the profitable outcome of good, sound marketing plans. Generally speaking, the marketer cannot control or influence these uncontrollable elements but instead must adjust or adapt to them in a manner consistent with a successful outcome. What makes marketing interesting is the challenge of molding the controllable elements of marketing decisions (product,

price, promotion, distribution, and research) within the framework of the uncontrollable elements of the marketplace (competition, politics, laws, consumer behavior, level of technology, and so forth) in such a way that marketing objectives are achieved. Even though marketing principles and concepts are universally applicable, the environment within which the marketer must implement marketing plans can change dramatically from country to country or region to region. The difficulties created by different environments are the international marketer's primary concern.

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

Basic principles (fig. 1.1.) the international marketing comes up directly from its essence.

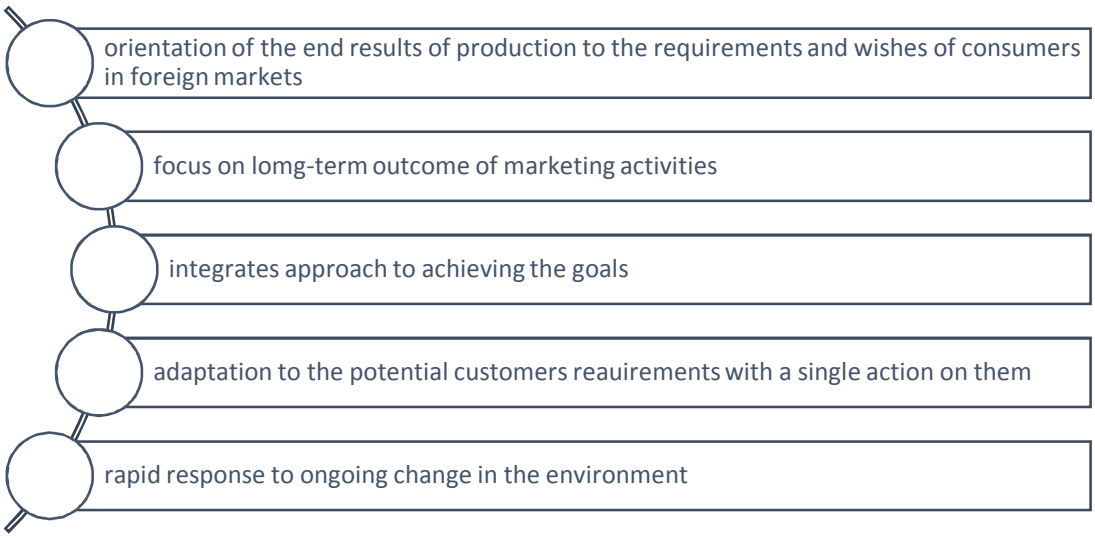

Figure 1.1 – Principles of international marketing

Subjects of the international marketing can be:

- multinational corporations (in the sphere production and a services sector);
- global companies;
- exporters;
- importers.

Multinational corporations (Transnational Corporation (TNC), Multinational Enterprise, Multinational Company, Multinational Corporation) – the enterprise which unites legal entities of any organizational and legal forms and kinds of activity in two and more countries and carries out carrying out the interconnected policy and the general strategy thanks to one or several centers of decision-making (by definition UNCTAD).

The global companies – business units which in the international activity use the concept of global marketing.

Exporters – firms which make production in the national territory and sell it in the world market.

Importers – firms which have suppliers or partners from cooperation abroad. Such firms cannot be Multinational Corporation or exporters.

On character of the subject of marketing actions distinguish: the international marketing of Multinational Corporation which is the most advanced and technologically developed; international marketing of small and medium-sized companies.

1.2 Stages of International Marketing Involvement

Once a company has decided to go international, it has to decide the degree of marketing involvement and commitment it is prepared to make. These decisions should reflect considerable study and analysis of market potential and company capabilities—a process not always followed. Researchers have revealed a number of factors favoring faster internationalization:

1) companies with either high-technology and/or marketing-based resources appear to be better equipped to internationalize than more traditional manufacturing kinds of companies;

2) smaller home markets and larger production capacities appear to favor internationalization;

3) firms with key managers well networked internationally are able to accelerate the internationalization process.

Many companies begin tentatively in international marketing, growing as they gain experience and gradually changing strategy and tactics as they become more committed. Others enter international marketing after much research and with fully developed long-range plans, prepared to make investments to acquire a market position and often evincing bursts of international activities. One study suggests that striking a balance between the two approaches may actually work best, with a variety of conditions and firm characteristics to be evaluated.

Regardless of the means employed to gain entry into a foreign market, a company may make little or no actual market investment—that is, its marketing involvement may be limited to selling a product with little or no thought given to the development of market control. Alternatively, a company may become totally involved and invest large sums of money and effort to capture and maintain a permanent, specific position in the market. In general, one of five (sometimes overlapping) stages can describe the international marketing involvement of a company (fig. 1.2).

Although the stages of international marketing involvement are presented in a linear order, a firm does not always progress from one stage to another; quite to the contrary, a firm may begin its international involvement at any one stage or be in more than one stage simultaneously.

No Direct Foreign Marketing. A company in this stage does not actively cultivate customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies as well as

foreign customers who directly contact the firm. Or products may reach foreign markets via domestic wholesalers or distributors who sell abroad without the explicit encouragement or even knowledge of the producer. As companies develop Web sites on the Internet, many receive orders from international Internet users. Often an unsolicited order from a foreign buyer is what piques the interest of a company to seek additional international sales.

Figure 1.2 – Stages of international marketing involvement

Infrequent Foreign Marketing Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterized by their temporary nature; therefore, sales to foreign markets are made as goods become available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is reduced or even withdrawn. In this stage, little or no change is seen in the company organization or product lines. However, few companies fit this model today, because customers around the world increasingly seek long term commercial relationships.

The first two stages of international marketing involvement are more reactive in nature and most often do not represent careful strategic thinking about international expansion. Indeed, putting strategic thinking on the back burner has resulted in marketing failures for even the largest companies.

The consensus of researchers and authors in this area suggests three relatively distinct approaches to strategic decisions in firms involved in international markets:

1. Regular foreign marketing
2. Multidomestic or international marketing
3. Global marketing

Regular Foreign Marketing At this level, the firm has permanent productive capacity devoted to the production of goods and services to be marketed in foreign markets. A firm may employ foreign or domestic overseas intermediaries, or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus of operations and production is to service domestic market needs. However, as overseas demand grows, production is allocated for foreign markets, and products may be adapted to meet the needs of individual foreign markets. Profit expectations from foreign markets move from being seen as a bonus in addition to

regular domestic profits to a position in which the company becomes dependent on foreign sales and profits to meet its goals.

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

Global marketing. At the global marketing level, the most profound change is the orientation of the company toward markets and associated planning activities. At this stage, companies treat the world, including their home market, as one market. Market segmentation decisions are no longer focused on national borders. Instead, market segments are defined by income levels, usage patterns, or other factors that frequently span countries and regions. Often this transition from international marketing to global marketing is catalyzed by a company's crossing the threshold at which more than half its sales revenues comes from abroad. The best people in the company begin to seek international assignments and the entire operation—organizational structure, sources of finance, production, marketing, and so forth—begins to take on a global perspective.

International operations of businesses in global marketing reflect the heightened competitiveness brought about by the globalization of markets, interdependence of the world's economies, and the growing number of competing firms from developed and developing countries vying for the world's markets. *Global companies* and *global marketing* are terms frequently used to describe the scope of operations and marketing management orientation of companies in this stage.

1.3 The Various Management Orientations

The form and substance of a company's response to global market opportunities depend greatly on management's assumptions or beliefs — both conscious and unconscious— about the nature of the world. The worldview of a company's personnel can be described as ethnocentric, polycentric, egocentric, and geocentric. Management at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism. The orientations are collectively known as the EPRG framework.

Ethnocentric Orientation. The ethnocentric orientation means company personnel see only similarities in markets and assume the products and practices that succeeded in the home country will, due to their demonstrated superiority, be successful anywhere.

At some companies, the ethnocentric orientation means that opportunities outside the home country are ignored. Such companies are sometimes called domestic companies. Ethnocentric companies that do conduct business outside the home country can be described as international companies; they adhere to the notion that the products that succeed in the home country are superior and, therefore, can be

sold everywhere without adaptation. In the ethnocentric international company, foreign operations are viewed as being secondary or subordinate to domestic ones.

An ethnocentric company operates under the assumption that "tried and true" headquarters' knowledge and organizational capabilities can be applied in other parts of the world. Although this can sometimes work to a company's advantage, valuable managerial knowledge and experience in local markets may go unnoticed.

Polycentric Orientation. The polycentric orientation is the opposite of ethnocentrism. The term polycentric describes management's often-unconscious belief or assumption that each country in which a company does business is unique. This assumption lays the ground work for each subsidiary to develop its own unique business and marketing strategies in order to subsidiary to develop its own unique business and marketing strategies in order to succeed; the term multinational company is often used to describe such a structure.

Regiocentric and Geocentric Orientations. In a company with a regiocentric orientation, management views regions as unique and seeks to deep an integrated strategy. The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a "worldview" that sees similarities and differences in markets and countries and seeks to create a global strategy that is fully responsive to local needs and wants. A regiocentric manager might be said to have a worldview on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two.

The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively. A crucial difference between the orientations is the underlying assumption for each. The ethnocentric orientation is based on a belief in home country superiority. The underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that it is impossible and futile to attempt to transfer experience across national boundaries.

1.3. Benefits of International Marketing

International marketing daily affects consumers in many ways, though its importance is neither well understood nor appreciated. Government officials and other observers seem always to point to the negative aspects of international business. Many of their charges are more imaginary than real. The benefits of international marketing must be explicitly discussed in order to dispel such notions.

Survival. Because most countries are not fortunate in terms of market size, resources, and opportunities, they must trade with others to survive. International competition may not be a matter of choice when survival is at stake. International expansion was necessary when foreign firms entered a domestic market. However, only firms with previously substantial market share and international experience could expand successfully. Moreover firms that retrenched after an international expansion disappeared.

Growth of Overseas Markets. Marketers cannot ignore the vast potential of international markets. The world market is more than four times larger than the U.S market. A slowing of the growth of the some countries population and changing lifestyles explain why the growth of other markets should be viewed with a critical eye. Developing countries, in spite of economic and marketing problems, are excellent markets.

Sales and Profits Foreign markets constitute a large share of the total business of many firms that have wisely cultivated markets abroad. Many large companies have done very well because of other overseas customers.

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 for variable demand. Such markets even out fluctuations by providing outlets for excess production capacity.

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.

Employment. Improves the world's GNP and enhances employment generally for all nations. Importing products and foreign ownership can provide benefits to a nation. According to the institute for International economics – a private, nonprofit research institute – the growth of foreign ownership has not resulted in a loss of jobs, and foreign firms have paid their workers the same, as have domestic firms. People working in an exporting industry are more likely to be college educated to earn higher wages, and to be in a good position to benefit from worldwide growth.

Standards of Living Trade affords countries and their citizen's higher standards of living than otherwise possible. Without trade, product shortages force people to pay more for less. Trade also makes it easier for industries to specialize and gain access to raw materials. While at the same time fostering competition and efficiency. A diffusion of innovations across national boundaries is a useful by – product of international trade. A lack of such trade would inhibit the flow of innovative ideas.

THEME 2 INTERNATIONAL MARKETING ENVIRONMENT

2.1 Economic Environment
2.2 Political and Legal Dimensions in the International Marketing
2.3 Social and Cultural Environment.

2.1 Economic Environment

The economic level of a country is the single most important environmental element to which the foreign marketer must adjust the marketing task. The stage of economic growth within a country affects the attitudes toward foreign business activity, the demand for goods, the distribution systems found within a country, and the entire marketing process.

In static economies, consumption patterns become rigid, and marketing is typically nothing more than a supply effort. In a dynamic economy, consumption patterns change rapidly. Marketing constantly faces the challenge of detecting and providing for new levels of consumption, and marketing efforts must be matched with ever-changing market needs and wants. The current level of economic development dictates the kind and degree of market potential that exists, while knowledge of the dynamism of the economy allows the marketer to prepare for economic shifts and emerging markets.

Economic development is generally understood to mean an increase in national production reflected by an increase in the average per capita gross domestic product (GDP) or gross national income (GNI).Besides an increase in average per capita GNI or GDP, most interpretations of the concept also imply a widespread distribution of the increased income.

Within the past decade, there have been several remarkable changes in the world economy that hold important implications for business. The likelihood of business success is much greater when plans and strategies are based on the new reality of the changed world economy:

• Capital movements rather than trade have become the driving force of the world economy.

• Production has become “uncoupled” from employment.

• The world economy dominates the scene. The macroeconomics of individual countries no longer control economic outcomes.

• The growth of commerce via the Internet diminishes the importance of national.

Stages of Market Development

1. Low-Income Countries

For the current 2019 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $995 or less in 2017. They constitute 37 percent of the world population but less than 3 percent of world GNP. The following characteristics are shared by countries at this -income level:

1. Limited industrialization and a high percentage of the population engaged in agriculture and subsistence farming
2. High birthrates
3. Low literacy rates
4. Heavy reliance on foreign aid
5. Political instability and unrest
6. Concentration in Africa, south of the Sahara

In general, these countries represent limited markets for all products and are not significant locations for competitive threats.

2. Lower-middle-income Countries

Lower-middle-income countries (also known as less developed countries or LDCs) are those with a GNI per capita between $996 and $3,895. These countries constitute 39 percent of the world population but only 11 percent of world GNP. These countries are at the early stages of industrialization.

3. Upper-middle-income Countries

Upper middle-income economies are those with a GNI per capita between $3,896 and $12,055. These countries account for 7 percent of world population and almost 7 percent of world GNP In these countries, the percentage of population engage in agriculture drops sharply as people move to the industrial sector and the degree of urbanization increases. Many of the countries in this stage are rapidly industrializing. They have rising wages and high rates of literacy and advanced education, but they still have significantly lower wage costs than the advanced countries. Countries hi this stage of development frequently become formidable competitors and experience rapid, export-driven economic growth.

4. High-income Countries

High countries, also known as advanced, industrialized, postindustrial, are those with a GNI per capita of $12,056 or more.

With the exception of a few oil-rich nations, the countries in this category reached their present income level through a process of sustained economic growth. These countries account for only 16 percent of world population but 82 percent of world GNP.

There is a difference between the industrial and the postindustrial societies that goes beyond mere measures of income. The sources of innovation in postindustrial societies are derived increasingly from the codification of theoretical knowledge rather than from “random” inventions. Other characteristics are the importance of the service sector (more than 50 percent of GNP); the crucial importance of information processing and exchange; and the ascendancy of knowledge over capital as the key strategic resource, of intellectual technology over machine technology, and of scientists and professionals over engineers and semiskilled workers. Other aspects of the postindustrial society are an orientation toward the future and the importance of interpersonal relationships in the functioning of society.

Product and market opportunities in a postindustrial society are more heavily dependent on new products and innovations than in industrial societies. Ownership levels for basic products are extremely high in most households. Organizations seeking to grow often face a difficult task if they attempt to expand share of existing markets. Alternatively, they can endeavor to create new markets.

Ideally, GNP and other measures of national income should be calculated on the basis of purchasing power parities or through direct comparisons of actual prices for a given product. This would provide an actual comparison of the standards of living in the countries of the world. Unfortunately, these data are not available ill regular statistical reports.

2.2 Political and Legal Dimensions in the International Marketing

Global marketing activities take place within the political environmental of governmental institutions, political parties, and organisations through which a country's people and rulers exercise power. Any company doing business outside its home country should carefully study the government structure in the target country and analyze salient issues arising from the political environment. These include the governing party's attitude toward sovereignty, political risk, the threat of equity dilution, and expropriation.

National – States and Sovereignty. Sovereignty can be defined as supreme and independent political authority. A sovereign state was considered free and independent. It regulated trade, managed the flow of people into and out of its boundaries, and exercised undivided jurisdiction over all persons and property within its territory. It has the right, authority, and ability to conduct its domestic affairs without outside interference and to use it international power and influence with full discretion.

Government actions taken in the name of sovereignty occur in the context of two important criteria a country's state of development and the political and economic system in place in the country. Many governments in developing countries exercise control over their nations' economic development by passing protectionist laws and regulations. Their objective is to encourage economic development by protecting emerging or strategic industries.

Conversely, when many nations reach advanced stages of economic development, their governments declare that (in theory, at least) any practice or policy that restrains free trade is illegal. Antitrust laws and regulations are established to promote fair competition. Advanced country laws often define and preserve a nation's social order; laws may extend to political, cultural, and even intellectual activities and social conduct.

Political risk – the risk of a change in government policy that would adversely impact a company's ability to operate effectively and profitably—can deter a company from investing abroad. When the perceived level of political risk is lower, a country is more likely to attract investment. The level of political risk is inversely proportional to a country's stage of economic development all other things being equal, the less developed a country, the greater the political risk. The political risk of the triad countries, for example, is quite limited as compared to a country in an earlier stage of development in Africa, Latin America, or Asia.

Taxes It is not uncommon for accompany to be incorporated in one place, do business in another, and maintain its corporate headquarters in a third. This type of diverse geographical activity requires special attention to tax laws. Many companies make efforts to minimize their tax liability by shifting the location of income. For example, it has been estimated that tax avoidance by foreign companies doing business in the United States costs the US government several billion dollars each year in lost revenue. In one approach, called earning stripping, foreign companies reduce earnings by making loans to us. Affiliates rather than using direct investment to finance US activities. The U.S subsidiary can deduct the interest it pays on such

loans. There by reducing it tax burden. There are no universal international laws governing the levy of taxes on companies that do business across national boundaries. To provide fair treatment, many governments have negotiated bilateral tax treaties to provide tax credits for taxes paid abroad. The United States has dozens of such agreements in place. Un 1977, the organisation for economic cooperation and Development (OECD) passed the model Double taxation convention of income and capital to help guide countries in bilateral negotiations. Generally, foreign companies are taxed by the host nation up to the level imposed in the home country, an approach that does not increase the total tax burden to the company.

Dilution of Equity Control Political pressure for national control of foreign owned companies is a part of the environment of global business in lower- income countries. The foremost goal of national governance is to protect the right of national sovereignty, especially in all aspects of domestic business activity. Host nation governments sometimes attempt to control ownership of foreign owned companies operating within their borders. In underdeveloped countries, political pressures frequently cause

First, look at the range of possibilities. There is no single best solution, and each company should look at itself and tat the country situation to decide on strategy.

Second, companies should use the law to achieve their own objectives. The experiences of many companies demonstrate that by satisfying government demands, it is possible to take advantage of government concessions, subsidies, and market protection.

Third, anticipate government policy changes. Create a win-win situation. Companies that take initiatives are prepared to act when the opportunity arises. It takes time to implement changes; the sooner a company identifies possible government directions and initiatives, the sooner it will be in a position to propose its own plan to help the country achieve its objectives.

Fourth, listen to country managers. Country managers should be encouraged to anticipate government initiative and to propose company strategy for taking advantage of opportunities created by the government policy. Local managers often have the best understanding of the political environment. Experience suggests that they are in the best position to know when issues are arising and how to turn potential adversity into opportunity through creative responses.

Expropriation. The ultimate threat a government can pose toward a company is expropriation. Expropriation refers to governmental action to dispossess a company or investor. Compensation is generally provided to foreign investors, although not often in the “prompt, effective, and adequate” manner provided for by international standard. Nationalization occurs if ownership of the property for by international standard. Nationalization occurs if ownership of the property or assets in question is referred to as confiscation. Short of outright expropriation or nationalization, the phrase creeping expropriation has been applied to severe limitations on economic activities of foreign forms in certain developing countries. These have included limitations on repatriation of profits, arrangements. Other issues are increased local content requirements, quotas for hiring local nationals, price controls, and other

restrictions affecting return on investment. Global companies have also suffered discriminatory tariffs and no tariff barriers that limit market entry of certain industrial and consumer goods, as well as discriminatory laws on patents and trademarks. Intellectual property restrictions have had the practical effect of eliminating or drastically reducing protection of pharmaceutical products.

The legal environment of the international marketing is defined by existence of rules of law which regulate both business activities in general, and foreign economic activity in particular. Thus legal bases of business in foreign markets are regulated by norms of the international private law. Taking into account that integration of the separate states constantly amplifies, the world market develops, internationalization of economic processes is carried out, and there is also a unification of norms of international law. Thus each of the countries substantially independently forms norms of such right. Thus, each firm which carries out business activity in foreign markets should consider the legal environment of the state, the countries in which it present, and also to consider on existence of the international legal environment.

Proceeding from it, allocate three levels of the right:

– national right;
– supranational right;
– international law.

Before deciding the decision on an exit to foreign markets, experts in marketing should learn legal system of each country in which it is going to carry out the business activity. Legal systems of each of the countries have the specific features.

The supranational right is defined by set of the national norms created by the separate states, as a rule, in some region (for example, in EU).

The international law is defined by set of the unique rules of law which regulate foreign economic activity of physical and legal entities, and also the separate states in the world markets.

2.3 Social and Cultural Environment

Culture affects every part of our lives, every day, from birth to death, and everything in between. It affects how we spend money and how we consume in general.

There are many ways to think about culture. Sociologists define culture as “Ways of Living“, built up by a group of human beings, which are transmitted from one generation to another. So culture resides in the individual’s mind.

Culture includes both conscious and unconscious values, ideas, attitudes, and symbols that shape human behavior *and that are transmitted from one generation to the next.* In this sense, culture does not include one-time solutions to unique problems, or passing fads and styles.

Culture and Its Characteristics

1. Culture is prescriptive. It prescribes the kinds of behavior considered acceptable in the society. The prescriptive characteristics of culture simplifies a

consumer's decision making process by limiting product choices to those which are socially acceptable.

2. Culture is socially shared. Culture, out of necessity, must be based on social interaction and creation. It cannot exist by itself. It must be shared by members of a society, thus acting to reinforce culture's prescriptive nature.

3. Culture facilitates communication. One useful function provided by culture is to facilitate communication. Culture usually imposes common habits of thought and feeling among people. Thus, within a given group culture makes it easier for people to communicate with one another. But culture may also impede communication across groups because of a lack of shared common cultural values.

4. Culture is learned. Culture is not inherited genetically-it must be learned and acquired. Socialization or enculturation occurs when a person absorbs or learns the culture in which he or she is raised.

5. Culture is subjective. People in different cultures often have different ideas about the same object. What is acceptable in one culture may not necessarily be so in another. In this regard, culture is both unique and arbitrary.

6. Culture is enduring. Because culture is shared and passed along from generation to generation, it is relatively stable and somewhat permanent. Old habits are hard to break, and people tend to maintain its own heritage in spite of a continuously changing world.

7. Culture is cumulative. Culture is based on hundreds or even thousands of years of accumulated circumstances. Each generation adds something of its own to the culture before passing the heritage on to the next generation.

8. Culture is dynamic. Culture is passed along from generation to generation, but one should not assume that culture is static and immune to change.

Humans make *adaptations* to changing environments through *innovation*. Individuals learn culture from social institutions through *socialization* (growing up) and *acculturation* (adjusting to a new culture). Individuals also absorb culture through role modeling, or imitation of their peers. Finally, people make decisions about consumption and production through *application* of their cultural-based knowledge. More details are provided below.

Geographical influences manifest themselves in our deepest cultural values developed through the millennia, and as geography changes, humans can adapt almost immediately.

Material Culture is divided into two parts, technology and economics. Technology includes the techniques used in the creation of material goods; it is the technical know-how possessed by the people of a society. Economics is the manner in which people employ their capabilities and the resulting benefits. Included in the subject of economics is the production of goods and services, their distribution, consumption, means of exchange, and the income derived from the creation of utilities.

Social institutions including *family, religion, school, the media, government*, and *corporations* all affect the ways in which people relate to one another, organize their activities to live in harmony with one another, teach acceptable behavior to

succeeding generations, and govern themselves. The positions of men and women in society, the family, social classes, group behavior, age groups, and how societies define decency and civility are interpreted differently within every culture.

Elements of culture: values, rituals, symbols, beliefs, and thought processes. International marketers must design products, distribution systems, and promotional programs with due consideration of each of the five.

Underlying the cultural diversity that exists among countries are fundamental differences in *cultural values*, that is, the importance of things and ideas. The most useful information on how cultural values influence various types of business and market behavior comes from seminal work by Geert Hofstede. Studying more than 90,000 people in 66 countries, he found that the cultures of the nations studied differed along four primary dimensions. Subsequently, he and hundreds of other researchers have determined that a wide variety of business and consumer behavior patterns are associated with three of those four dimensions. The four dimensions are as follows:

1) the Individualism/Collective Index (IDV), which focuses on self-orientation;
2) the Power Distance Index (PDI), which focuses on authority orientation;
3) the Uncertainty Avoidance Index (UAI), which focuses on risk orientation;
4) and the Masculinity/Femininity Index (MAS), which focuses on assertiveness and achievement.

A variety of studies have shown cultural values can predict such consumer behaviors as word-of-mouth communications, impulsive buying, responses of both surprise and disgust, the propensity to complain, responses to service failures, and even movie preferences.

Life is filled with *rituals*, that is, patterns of behavior and interaction that are learned and repeated. The most obvious ones are associated with major events in life.

The importance of understanding the *language* of a country cannot be overestimated. The successful marketer must achieve expert communication, and this requires a thorough understanding of the language as well as the ability to speak it. Carelessly translated advertising statements not only lose their intended meaning but can suggest something very different, obscene, offensive, or just plain ridiculous.

Language may be one of the most difficult cultural elements to master, but it is the most important to study in an effort to acquire some degree of empathy. Many believe that to appreciate the true meaning of a language it is necessary to live with the language for years.

The relationship between language and international marketing is important in another way. Recent studies indicate that a new concept, *linguistic distance*, is proving useful to marketing researchers in market segmentation and strategic entry decisions. Linguistic distance has been shown to be an important factor in determining differences in values across countries and the amount of trade between countries. The idea is that crossing “wider” language differences increases transaction costs.

Of course, much of what we learn to believe comes from religious training. But to consider matters of true faith and spirituality adequately here is certainly

impossible. Moreover, the relationship between superstition and religion is not at all clear. However, many of our beliefs are secular in nature.

Each of the five cultural elements must be evaluated in light of how they might affect a proposed marketing program. Newer products and services and more extensive programs involving the entire cycle, from product development through promotion to final selling, require greater consideration of cultural factors. Moreover, the separate origins and elements of culture interact, often in synergistic ways. Therefore, the marketer must also take a step back and consider larger cultural consequences of marketing actions.

Successful foreign marketing begins with *cultural sensitivity*—being attuned to the nuances of culture so that a new culture can be viewed objectively, evaluated, and appreciated. Cultural sensitivity, or cultural empathy, must be carefully cultivated. Besides knowledge of the origins and elements of cultures, the international marketer also should have an appreciation of how cultures change and accept or reject new ideas. The point is that culture matters. It is imperative for foreign marketers to learn to appreciate the intricacies of cultures different from their own if they are to be effective in foreign markets.

THEME 3 RESEARCHES OF THE WORLD MARKETS IN INTERNATIONAL MARKETING

3.1 Main Directions and Features, Types and Stages of Market Researches.
3.2 Global Market Segmentation
3.3 Targeting and Positioning in the International Markets

3.1 Main Directions, Features, Types and Stages of Market Researches

The basic purpose of the international marketing consists in revealing real needs of consumers of goods in the foreign markets and better to provide their satisfaction, than it is done by competitors. The international market research is studying of some problem in a foreign market and development on this basis of recommendations about providing its effective decision.

Marketing research is traditionally defined as the systematic gathering, recording, and analyzing of data to provide information useful to marketing decision making. Although the research processes and methods are basically the same, **international marketing research** involves two additional complications. First, information must be communicated across cultural boundaries. Second, the environments within which the research tools are applied are often different in foreign markets. Rather than acquire new and exotic methods of research, the international marketing researcher must develop the capability for imaginative and deft applications of tried and tested techniques in sometimes totally strange milieus.

Breadth and Scope of International Marketing Research. The basic difference between domestic and foreign market research is the broader scope needed for foreign research, necessitated by higher levels of uncertainty. Research can be divided into three types on the basis of information needs:

1) general information about the country, area, and/or market;

2) information necessary to forecast future marketing requirements by anticipating social, economic, consumer, and industry trends within specific markets or countries;

3) specific market information used to make product, promotion, distribution, and price decisions and to develop marketing plans. In domestic operations, most emphasis is placed on the third type, gathering specific market information, because the other data are often available from secondary sources.

A country's political stability, cultural attributes, and geographical characteristics are some of the kinds of information not ordinarily gathered by domestic marketing research departments, but they are required for a sound assessment of a foreign market. This broader scope of international marketing research includes the following types of information:

1. Economic and demographic. General data on growth in the economy, inflation, business cycle trends, and the like; profitability analysis for the division's products; specific industry economic studies; analysis of overseas economies; and key economic indicators for major foreign countries, as well as population trends, such as migration, immigration, and aging.

2. Cultural, sociological, and political climate. A general noneconomic review of conditions affecting the division's business. In addition to the more obvious subjects, it covers ecology, safety, and leisure time and their potential impacts on the division's business.

3. Overview of market conditions. A detailed analysis of market conditions that the division faces, by market segment, including international.

4. Summary of the technological environment. A summary of the state-of-the-art technology as it relates to the division's business, carefully broken down by product segments.

5. Competitive situation. A review of competitors' sales revenues, methods of market segmentation, products, and apparent strategies on an international scope.

The Research Process. A marketing research study is always a compromise dictated by the limits of time, cost, and the present state of the art. A key to successful research is a systematic and orderly approach to the collection and analysis of data. As a whole, the **research process** should follow these steps:

1. Define the research problem and establish research objectives.
2. Developing a research plan.
3. Collecting data.
4. Analyzing data.
5. Presenting the research findings.

Although the steps in a research program are similar for all countries, variations and problems in implementation occur because of differences in cultural and economic development.

Step 1: Defining the Problem and Establishing Research Objectives.

The research process should begin with a definition of the research problem and the establishment of specific research objectives. The major difficulty here is

converting a series of often ambiguous business problems into tightly drawn and achievable research objectives. In this initial stage, researchers often embark on the research process with only a vague grasp of the total problem.

Step 2: Developing a Research Plan

After defining the problem to be studied or the question to be answered, the marketer must address a new set of questions. What is this information worth to me in dollars (or yen, etc.)? What will we gain by collecting these data? What would be the cost of not getting the data that could be converted into useful information? Research requires the investment of both money and managerial time, and it is necessary to perform a cost benefit analysis before proceeding further.

In some instances, a company may pursue the same course of action no matter what the research reveals. Even when more information is needed to ensure a high-quality. Decision, a realistic estimate of a formal study may reveal that the cost to perform research is simply too high. A great deal of potentially useful data already exists; utilizing such data instead of commissioning a major study can result in significant savings. In any event, during the planning step, methodologies, budgets, and time parameter are all spelled out. Only when the plan is completed should the next step be undertaken.

Step 3: Collecting Data

Are data available in company files, a library, industry or trade journals, or on-line? When is the information needed? Marketers must address these issues as they proceed to the-data collection step of the research. Using readily available data saves both money and time. A formal market study can cost hundreds of thousands of dollars and take many months to complete with no guarantee that the same conditions are still relevant.

Problems in International Marketing Research. Because of its complexity, international marketing may encounter difficulties that are uncommon in domestic marketing research. One problem is that intelligence must be gathered for many markets-over 100 countries in some cases-and each country poses a unique challenge. A second problem is the frequent absence of ***secondary data*** (data from published and third-party sources). A third problem is the frequent difficulty in gathering ***primary data*** (data gathered firsthand through interviews and field research).

*Problems with Secondary Data. T*he quantity and quality of marketing-related data available in the different countries vary significant. Secondary data for market analysis are less available for many foreign markets and low per capita income countries tend to have weaker statistical sources than those with higher per capita income. Another problem relating to the availability of data is researchers' language skills.

Available data may not have the level of reliability necessary for confident decision making for many reasons.

Comparability of available data is the third shortcoming faced by foreign marketers.

Furthermore, even though many countries are now gathering reliable data, there are generally no historical series with which to compare the current information.

Comparability of data can even be a problem when the best commercial research firms collect data across countries, and managers are well advised to query their vendors about this problem.

Problems with Primary Data. Much of marketing research involves getting information from people about their perceptions concerning a company's products, brands, prices, or promotion. People differ from country to country in their income levels, culture, attitudes, and understanding of business issues, including specific items on surveys and questionnaires. Hence, personal interviews require skilled interviewers. Telephone surveys may work poorly and give biased results in countries with low rates of telephone penetration, such as in most of Africa and in countries such as China and India. The use of mall-intercept techniques to obtain personal interviews may give erroneous results because malls are not as widespread in many countries even in Europe, and then subgroup of people visiting a mall may be unrepresentative of the broader audience. Mail surveys require a developed postal system, good mailing lists, and an educated population.

Accurate and complete street addresses are necessary to give representative samples for mail questionnaires. If mail and telephone surveys are not practical, the researcher is left with personal interviewing as an alternative. The research designer must be able to translate not only the words but also the concepts. The cultural gap must be bridged by the research designer.

Step 4: Analyzing Research Data

Demand Pattern Analysis Industrial growth patterns provide an insight into market demand. Because they generally reveal consumption patterns, production patterns are helpful in assessing market opportunities. Additionally, trends in manufacturing production indicate potential markets for companies that supply manufacturing inputs. At the early stages of growth in a country, when per capita incomes are low, manufacturing centers on such necessities as food and beverages, textiles, and other forms of light industry.

Market Estimation by Analogy Estimating market size with available data presents challenging analytic tasks. When data are unavailable, as is frequently the case in both less developed and industrialized countries, resourceful techniques are required. One resourceful technique is estimation by analogy. There are two ways to use this technique. One way is to make cross-sectional comparisons, and the other is to displace a time series in time. The first method, cross-sectional comparisons, amounts simply *to* positing the assumption that there is an analogy between the relationship of a factor and demand for a particular product or commodity in two countries.

Cluster Analysis The objective of cluster analysis is to group variables into clusters that maximize within group similarities and between group differences. Cluster analysis is well suited to global marketing research because similarities and differences can be established between local, national, and regional markets of the world.

Because there are numerous analysis techniques and different assumptions may be used, the net conclusions that may be drawn from market research may vary significantly.

Step5: Presenting the Findings.

The report based on the marketing research must be useful to managers as input to the decision-making process. Whether the report is presented in written form, orally, or electronically via videotape, it must relate clearly to the problem or opportunity identified in step 1. Many managers are uncomfortable with research jargon and complex quantitative analysis. Results should be clearly stated and - provide a basis for managerial action. Otherwise, the report may end up on the shelf where it will gather dust and serve as a reminder of wasted time and money. As the data provided by a corporate information system and marketing research become increasingly available on a worldwide basis, it becomes possible to analyze marketing expenditure effectiveness across national boundaries. Managers can then decide where they are- achieving the greatest marginal effectiveness for their marketing expenditures and can adjust expenditures accordingly.

3.2 Global Market Segmentation

Global market segmentation is the process of dividing the world market into distinct subsets of customers that behave in the same way or have similar needs, or, in another words, it is the process of identifying specific segments-whether they be country groups or individual consumer groups-of potential customers with homogeneous attributes who are likely to exhibit similar buying behavior."

Professor Theodore Levitt advanced the thesis that consumers in different countries increasingly seek variety, and that the same new segments are likely to show up in multiple national markets. Thus, ethnic or regional foods such as sushi, falafel, or pizza might be in demand anywhere in the world. Levitt suggested that this trend, known variously as the *pluralization of consumption* and *segment simultaneity*, provides an opportunity for marketers to pursue one or more segments on a global scale.

Today, global companies (and the advertising agencies that serve them) are likely to segment world market according to one or more key criteria: geography, demographics (including national income and size of population), psychographics (values, attitudes, and lifestyles), behavioral characteristics, and benefits sought. It is also possible to cluster different national markets in terms of their environments (e.g., the presence or absence of government regulation in a particular industry) to establish groupings. An other powerful tool for global segmentation is horizontal segmentation by user category.

Geographic Segmentation Geographic segmentation is dividing the world into geographic subsets. The advantage of geography is proximity: Markets in geographic segments are closer to each other and easier to visit on the same trip or to call on during the same time window. Geographic segmentation also has major limitations: The mere fact that" markets are in the same world geographic region does not meant that they are similar". The differences in the markets in countries sometimes

overwhelm their similarities. Some scientists pointed that geography was ranked lowest as a basis for market segmentation.

Demographic Segmentation Demographic segmentation is based on measurable characteristics of populations such as age, gender, income, education, and occupation. A number of demographic trends aging population, fewer children, more women working outside the home, and higher incomes and living standards-suggest the emergence of global segments.

For most consumer and industrial products, national **income** is the single most important segmentation variable and indicator of market potential. Annual per capita income varies widely in world markets, from a lowest in the Congo to a highest in Luxembourg.

Many global companies also realize that for products with a low enough price-for example soft drinks, and some packaged goods-population is a more important segmentation variable than income. Thus, China and India, with respective populations of 1.4 billion and 1.3 billion, might represent attractive target markets. Procter & Gamble, Unilever, Johnson & Johnson, and other packaged-goods companies are targeting and developing the China market, lured in part by the possibility that as many - as 100 million Chinese customers are affluent enough to spend, say, 14 cents for a single use pouch of shampoo.

Age Segmentation Age is another useful demographic variable. One global segment based on demographics is global teenagers-young people between the ages of 12 and 19. Young consumers may not yet have conformed to cultural norms; indeed, they may be rebelling against them. This fact, combined with shared universal wants, needs, desires, and fantasies (for name brands, novelty, entertainment, trendy, and image-oriented products), make it possible to reach the global teen segment with a unified marketing program. This segment is attractive both in terms of its size (about 1.3 billion) and its multi-billion dollar purchasing power.

The global elite is normally associated with older individuals who have accumulated wealth over the course of a long career, it also includes movie stars, musicians, elite athletes, and others who have achieved great financial success at a relatively young age.

Gender Segmentation In 2000, Nike generated $1.4 billion in global sales of women's shoes and apparel, a figure representing 16 percent of total Nike sales. Nike executives believe its global women's business is poised for big growth. To make it happen, Nike is opening concept shops inside department stores and creating free-standing retail stores devoted exclusively to women. In Europe, Levi Strauss is taking a similar approach. In 2003, the company opened its first boutique for young women, Levi's for Girls, in Paris.

Psychographic Segmentation Psychographic segmentation involves grouping people in terms of their attitudes, values, and lifestyles.

Data are obtained from questionnaires that require respondents to indicate the extent to which they agree or disagree with a series of statements. In the United States, psychographics is primarily associated with SRI International, a market

research organization whose original VALS and updated V ALS 2 analyses of U.S. consumers are widely known.

Behavior segmentation focuses on whether or not people buy and use a product, as well as how often, and how much they use or consume. Consumers can be categorized in terms of **usage rates:** for example, heavy, medium, light, and non-user. Consumers can also be segmented according to **user status:** potential users, non-users, ex-users, regulars, first-timers, and users of competitors' products.

Benefit Segmentation Global benefit segmentation focuses on the numerator of the **value equation-the** *B* in $V = B/P$. This approach can achieve excellent results by virtue of marketers' superior understanding of the problem a product solves or the benefit it offers, regardless of geography. Marketers of health and beauty aids also use benefit segmentation.

Vertical Versus Horizontal Segmentation

Vertical segmentation is based on product category or modality and price points.

3.3 Global targeting and positioning

Targeting is the act of evaluating and comparing the identified groups and then selecting one or more of them as the prospect(s) with the highest potential. A marketing mix is then devised that will provide the organization with the best return on sales while simultaneously creating the maximum amount of value to consumers.

Criteria For Targeting

The three basic criteria for assessing opportunity in global target markets are the same as in single-country targeting: current size of the segment and anticipated growth potential; competition; and compatibility with the company's overall objectives and the feasibility of successfully reaching a designated target.

1. Current Segment Size and Growth Potential After segmenting the market by one or more of the criteria just discussed, the next step is to assess the attractiveness of the identified segments. This part of the process is especially important when sizing up emerging country markets as potential targets. It is at this stage that global marketers should be mindful of several potential pitfalls associated with the market segmentation process.

2. Potential Competition

A market or market segment characterized by strong competition may be a segment to avoid or one in which to utilize a different strategy. Often a local brand may present competition to the entering multinational.

3. Compatibility and Feasibility

If a market segment is judged to be large enough, and if strong competitors are either absent or deemed to be vulnerable, then the final consideration is whether a company can and should target that market. The feasibility of targeting a particular segment can be negatively impacted by various factors. For example, significant regulatory hurdles may be present that limit market access. This issue is especially important in India, for example, three to five years are required to build an effective distribution system for many consumer products. This fact may serve as a deterrent to

foreign companies that might otherwise be attracted by the apparent potential of India's large population.

Selecting a Global Target Market Strategy

If, after evaluating the identified segments in terms of the three criteria presented earlier, a decision is made to proceed, an appropriate targeting strategy must be developed. There are three basic categories of target marketing strategies: standardized marketing, concentrated marketing, and differentiated marketing.

1. Standardized Global Marketing

Standardized global marketing is analogous to mass marketing in a single country. It involves creating the same marketing mix for a broad market of-potential buyers.

The appeal of standardized global marketing is clear: greater sales volume, lower production costs, and greater profitability. The same is true of standardized global communications: lower production costs and, if done well, higher quality and greater effectiveness of marketing communications.

2. Concentrated Global Marketing

The second global targeting strategy involves devising' a marketing mix to reach a single segment of the global market.

3. Differentiated Global Marketing

The third target marketing strategy is a variation of concentrated global marketing. It entails targeting two or more distinct market segments with different marketing mixes. This strategy allows a company to achieve wider market coverage.

Positioning is the location of your product in the mind of your customer. Thus, one of the most powerful tools of marketing is not something that a marketer can do to the product or to any element of the marketing mix: Positioning is what happens in the mind of the customer. The position that a product occupies in the mind of a customer depends on a host of variables, many of which "are controlled by the marketer".

After the global market has been segmented and one or more segments have been targeted it is essential to plan a way to reach the target(s). To achieve this task, marketers use positioning. In today's global market environment, many companies find it increasingly important to have a unified global positioning strategy.

Positioning Strategies

Some study suggests that global positioning is most effective for product categories that approach either end of a "high-touch high-tech" continuum. Both ends of the continuum are characterized by high levels of customer involvement and by a shared "language" among consumers.

High-tech Positioning

Such products are frequently purchased on the basis of concrete product features, although image may also be important. Buyers typically already possess or wish to acquire considerable technical information. High-tech products may be divided into three categories: technical products, special-interest products, and demonstrable products.

1. Technical Products Computers, chemicals, tires, and financial services are just a sample of the product categories whose buyers have specialized needs, require a great deal of product information, and share a common "language." Marketing communication for high-tech products should be informative and emphasize features.

2. Special-Interest Products Although less technical and more leisure or recreation oriented, special-interest products also are characterized by a shared experience and high involvement among users. Again, the common language and symbols associated with such products can transcend language and cultural barriers.

High-touch Positioning Marketing of high-touch products requires less emphasis on specialized information and more emphasis on image. Like high-tech products, however, high-touch categories are highly involving for consumers. Buyers of high-touch products also share a common language and set of symbols relating to themes of wealth, materialism, and romance. The three categories of high-touch products are products that solve a common problem, global village products, and products with a universal theme.

1. Products That Solve a Common Problem

At the other end of the price spectrum from high tech, products in-this category provide benefits linked to "life's little moments." Ads that show friends talking over a cup of coffee in a cafe or quenching thirst with a soft drink during a day at the beach put the product at the center of everyday life and communicate the benefit offered in a way that is understood worldwide.

2. Global Village Products

Channel fragrances, designer fashions, mineral water, and pizza are all examples of products whose positioning is strongly cosmopolitan in nature. Fragrances and fashions have traveled as a result of growing worldwide interest in high-quality, highly visible, high priced products that often enhance social status. However, the lower-priced food products just mentioned show that the global village category encompasses a broad price spectrum. In global markets, products may have a global appeal by virtue of their country of origin.

3. Products That Use Universal Themes

As noted earlier, some advertising themes and product appeals are thought to be basic enough that they are truly transnational. Additional themes are materialism (keyed to images of well- being or status), heroism (themes include rugged individuals or self sacrifice), play (leisure/recreation), and procreation (imagesof courtship and romance). It should be noted that some products can be positioned in more than one way, within either the high-tech or high-touch poles of the continuum.

THEME 4 DEVELOPING INTERNATIONAL MARKETING STRATEGIES

4.1 Planning for Global Markets

4.2 Alternative Market-Entry Strategies

4.1. Planning for Global Markets

Planning is a systematized way of relating to the future. It is an attempt to manage the effects of external, uncontrollable factors on the firm's strengths, weaknesses, objectives, and goals to attain a desired end. Furthermore, it is a commitment of resources to a country market to achieve specific goals. In other words, planning is the job of making things happen that might not otherwise occur.

Planning allows for rapid growth of the international function, changing markets, increasing competition, and the turbulent challenges of different national markets. The plan must blend the changing parameters of external country environments with corporate objectives and capabilities to develop a sound, workable marketing program. A strategic plan commits corporate resources to products and markets to increase competitiveness and profits.

Planning relates to the formulation of goals and methods of accomplishing them, so it is both a process and a philosophy. Structurally, planning may be viewed as corporate, strategic, or tactical. International **corporate planning** is essentially long term, incorporating generalized goals for the enterprise as a whole. **Strategic planning** is conducted at the highest levels of management and deals with products, capital, research, and the long- and short-term goals of the company. **Tactical planning**, or market planning, pertains to specific actions and to the allocation of resources used to implement strategic planning goals in specifi c markets. Tactical plans are made at the local level and address marketing and advertising questions.

A major advantage for a multinational corporation (MNC) involved in planning is the discipline imposed by the process. An international marketer who has gone through the planning process has a framework for analyzing marketing problems and opportunities and a basis for coordinating information from different country markets. The process of planning may be as important as the plan itself, because it forces decision makers to examine all factors that affect the success of a marketing program and involves those who will be responsible for its implementation. Another key to successful planning is evaluating company objectives, including management's commitment and philosophical orientation to international business. Finally, the planning process is a primary medium of organizational learning.

Company Objectives and Resources. Defining objectives clarifies the orientation of the domestic and international divisions, permitting consistent policies. The lack of well-defined objectives has found companies rushing into promising foreign markets only to find activities that conflict with or detract from the companies' primary objectives.

Foreign market opportunities do not always parallel corporate objectives; it may be necessary to change the objectives, alter the scale of international plans, or abandon them. One market may offer immediate profit but have a poor long-run outlook, while another may offer the reverse. Only when corporate objectives are clear can such differences be reconciled effectively.

International Commitment The planning approach taken by an international firm affects the degree of internationalization to which management is philosophically committed. Such commitment affects the specific international

strategies and decisions of the fi rm. After company objectives have been identified, management needs to determine whether it is prepared to make the level of commitment required for successful international operations—commitment in terms of dollars to be invested, personnel for managing the international organization, and determination to stay in the market long enough to realize a return on these investments.

A company uncertain of its prospects is likely to enter a market timidly, using inefficient marketing methods, channels, or organizational forms, thus setting the stage for the failure of a venture that might have succeeded with full commitment and support by the parent company. Any long-term marketing plan should be fully supported by senior management and have realistic time goals set for sales growth. Occasionally, casual market entry is successful, but more often than not, market success requires long-term commitment.

The Planning Process Whether a company is marketing in several countries or is entering a foreign market for the first time, planning is essential to success. The first-time foreign marketer must decide what products to develop, in which markets, and with what level of resource commitment.

For the company that is already committed, the key decisions involve allocating effort and resources among countries and product(s), deciding on new market segments to develop or old ones to withdraw from, and determining which products to develop or drop. Guidelines and systematic procedures are necessary for evaluating international opportunities and risks and for developing strategic plans to take advantage of such opportunities. The process illustrated in Figure 4.1 offers a systematic guide to planning for the multinational firm operating in several countries.

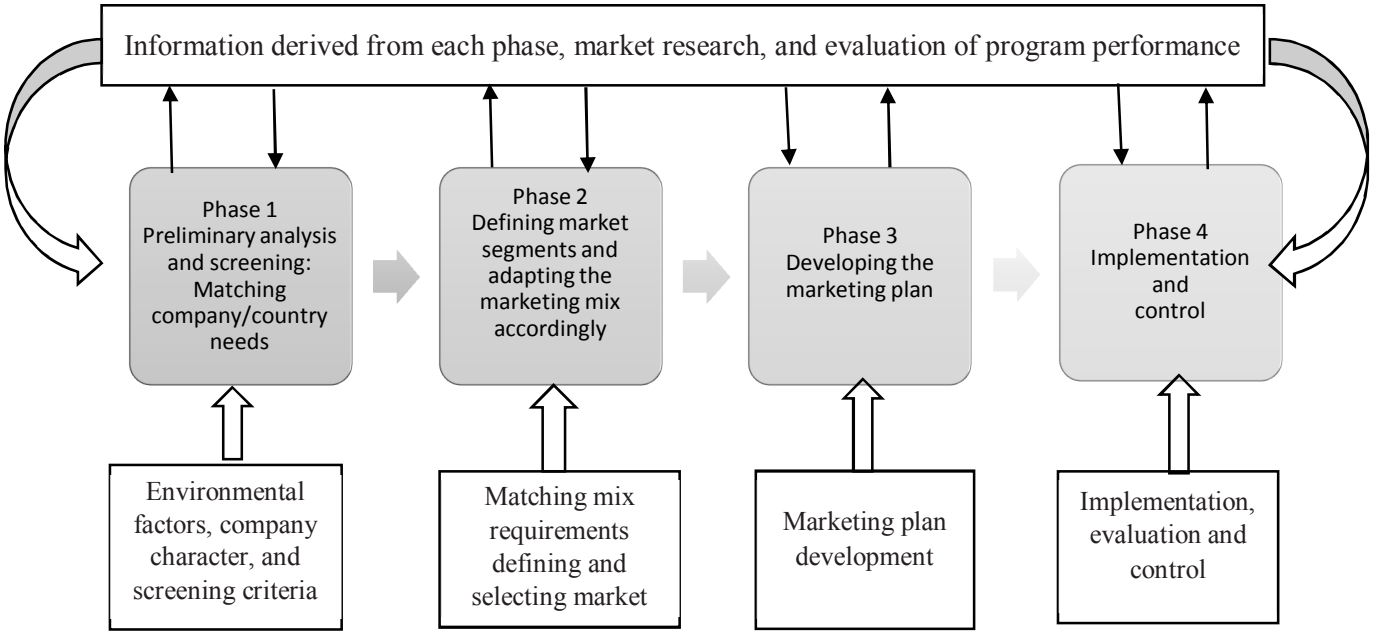

Figure 4.1 – International Planning Process

Phase 1: Preliminary Analysis and Screening—Matching Company and Country Needs. Whether a company is new to international marketing or heavily

involved, an evaluation of potential markets is the first step in the planning process. A critical first step in the international planning process is deciding in which existing country market to make a market investment. A company's strengths and weaknesses, products, philosophies, modes of operation and objectives must be matched with a country's constraining factors and market potential. In the first part of the planning process, countries are analyzed and screened to eliminate those that do not offer sufficient potential for further consideration. Emerging markets pose a special problem because many have inadequate marketing infrastructures, distribution channels are underdeveloped, and income levels and distribution vary among countries.

Phase 2: Defining Target Markets and Adapting the Marketing Mix Accordingly. A more detailed examination of the components of the marketing mix is the purpose of Phase 2. Once target markets are selected, the marketing mix must be evaluated in light of the data generated in Phase 1. Incorrect decisions at this point lead
to products inappropriate for the intended market or costly mistakes in pricing, advertising, and promotion. The primary goal of Phase 2 is to decide on a marketing mix adjusted to the cultural constraints imposed by the uncontrollable elements of the environment that effectively achieves corporate objectives and goals.

Phase 3: Developing the Marketing Plan. At this stage of the planning process, a marketing plan is developed for the target market—whether it is a single country or a global market set. The marketing plan begins with a situation analysis and culminates in the selection of an entry mode and a specific action program for the market. The specific plan establishes what is to be done, by whom, how it is to be done, and when. Included are budgets and sales and profit expectations. Just as in Phase 2, a decision not to enter a specific market may be made if it is determined that company marketing objectives and goals cannot be met.

Phase 4: Implementation and Control. Although we present the model as a series of sequential phases, the planning process is a dynamic, continuous set of interacting variables with information continuously building among phases. The phases outline a crucial path to be followed for effective, systematic planning.

With the information developed in the planning process and a country market selected, the decision regarding the entry mode can be made. The choice of mode of entry is one of the more critical decisions for the firm because the choice will define the firm's operations and affect all future decisions in that market.

4.2 Alternative Market-Entry Strategies

A company has four different modes of foreign market entry from which to select: exporting, contractual agreements, strategic alliances, and direct foreign investment. The different modes of entry can be further classified on the basis of the equity or nonequity requirements of each mode. The amount of equity required by the company to use different modes affects the risk, return, and control that it will have in each mode. For example, indirect exporting requires no equity investment and thus has a low risk, low rate of return, and little control, whereas direct foreign investment

requires the most equity of the four modes and creates the greatest risk while offering the most control and the potential highest return.

Exporting. Exporting accounts for some 10 percent of global economic activity. Exporting can be either direct or indirect. With ***direct exporting***, the company sells to a customer in another country. This method is the most common approach employed by companies taking their first international step because the risks of financial loss can be minimized. In contrast, ***indirect exporting*** usually means that the company sells to a buyer (importer or distributor) in the home country, which in turn exports the product. Customers include large retailers, wholesale supply houses, trading companies, and others that buy to supply customers abroad. Early motives for exporting often are to skim the cream from the market or gain business to absorb overhead. Research recommends that a more focused and learning-based approach to a few international markets will work best for new exporters. Early involvement may also be opportunistic and come in the form of an inquiry from a foreign customer or initiatives from an importer in the foreign market.

The Internet. The Internet is becoming increasingly important as a foreign market entry method. Initially, Internet marketing focused on domestic sales. However, a surprisingly large number of companies started receiving orders from customers in other countries, resulting in the concept of international Internet marketing (IIM).

Direct Sales. Particularly for high-technology and big ticket industrial products, a direct sales force may be required in a foreign country. This requirement may mean establishing an office with local and/or expatriate managers and staff, depending of course on the size of the market and potential sales revenues.

Contractual agreements are long-term, nonequity associations between a company and another in a foreign market. Contractual agreements generally involve the transfer of technology, processes, trademarks, and/or human skills. In short, they serve as a means of transfer of knowledge rather than equity.

A means of establishing a foothold in foreign markets without large capital outlays is ***licensing***. Patent rights, trademark rights, and the rights to use technological processes are granted in foreign licensing. It is a favorite strategy for small and medium-sized companies, though by no means limited to such companies. Common examples of industries that use licensing arrangements in foreign markets are television programming and pharmaceuticals. Not many confine their foreign operations to licensing alone; it is generally viewed as a supplement to exporting or manufacturing, rather than the only means of entry into foreign markets. The advantages of licensing are most apparent when capital is scarce, import restrictions forbid other means of entry, a country is sensitive to foreign ownership, or patents and trademarks must be protected against cancellation for nonuse.

The risks of licensing are choosing the wrong partner, quality and other production problems, payment problems, contract enforcement, and loss of marketing control. Although licensing may be the least prof table way of entering a market, the risks and headaches are less than those for direct investments. It is a legitimate means of capitalizing on intellectual property in a foreign market, and such agreements can

also benefit the economies of target countries. Licensing takes several forms. Licenses may be granted for production processes, for the use of a trade name, or for the distribution of imported products. Licenses may be closely controlled or be autonomous, and they permit expansion without great capital or personnel commitment if licensees have the requisite capabilities. Not all experiences with licensing are successful because of the burden of finding, supervising, and inspiring licensees. The duration of licensing agreements depends to a large degree on technology and market uncertainties—more uncertainty favors shorter contracts.

Franchising is a rapidly growing form of licensing in which the franchiser provides a standard package of products, systems, and management services, and the franchisee provides market knowledge, capital, and personal involvement in management. The combination of skills permits flexibility in dealing with local market conditions and yet provides the parent firm with a reasonable degree of control. The franchiser can follow through on marketing of the products to the point of final sale. It is an important form of vertical market integration. Potentially, the franchise system provides an effective blending of skill centralization and operational decentralization; it has become an increasingly important form of international marketing. In some cases, franchising is having a profound effect on traditional businesses.

A **strategic international alliance (SIA)** 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. Strategic alliances have grown in importance over the last few decades as a competitive strategy in global marketing management. Strategic international alliances are sought as a way to shore up weaknesses and increase competitive strengths—that is, complementarity is key. Firms enter into SIAs for several reasons: opportunities for rapid expansion into new markets, access to new technology, more efficient production and innovation, reduced marketing costs, strategic competitive moves, and access to additional sources of products and capital. Finally, evidence suggests that SIAs often contribute nicely to profits.

International Joint Ventures. International joint ventures (IJVs) as a means of foreign market entry have accelerated sharply during the last 30 years. Besides serving as a means of lessening political and economic risks by the amount of the partner's contribution to the venture, IJVs provide a way to enter markets that pose legal and cultural barriers that is less risky than acquisition of an existing company.

A joint venture is different from other types of strategic alliances or collaborative relationships in that a joint venture is a partnership of two or more participating companies that have joined forces to create a separate legal entity. Joint ventures are different from minority holdings by an MNC in a local firm.

Four characteristics define joint ventures:

1) JVs are established, separate, legal entities;

2) they acknowledge intent by the partners to share in the management of the JV;

3) they are partnerships between legally incorporated entities, such as companies, chartered organizations, or governments, and not between individuals;

4) equity positions are held by each of the partners.

However, IJVs can be hard to manage. The choice of partners and the qualities of the relationships between the executives are important factors leading to success. Several other factors contribute to their success or failure as well: how control is shared, relations with parents, institutional (legal) environments, marketing capabilities, experience, and the extent to which knowledge is shared across partners. Despite this complexity, nearly all companies active in world trade participate in at least one international joint venture somewhere; many companies have dozens of joint ventures.

Consortia. Consortia are similar to joint ventures and could be classified as such except for two unique characteristics: they typically involve a large number of participants and they frequently operate in a country or market in which none of the participants is currently active. Consortia are developed to pool financial and managerial resources and to lessen risks. Often, huge construction projects are built under a consortium arrangement in which major contractors with different specialties form a separate company specifically to negotiate for and produce one job. One firm usually acts as the lead firm, or the newly formed corporation may exist independently of its originators.

All strategic international alliances are susceptible to problems of coordination.

Direct Foreign Investment

A fourth means of foreign market development and entry is *direct foreign investment*, that is, investment within a foreign country. Companies may invest locally to capitalize on low cost labor, to avoid high import taxes, to reduce the high costs of transportation to market, to gain access to raw materials and technology, or as a means of gaining market entry. Firms may either invest in or buy local companies or establish new operations facilities. The local firms enjoy important benefits aside from the investments themselves, such as substantial technology transfers and the capability to export to a more diversified customer base.

As with the other modes of market entry, several factors have been found to influence the structure and performance of direct investments:

1) timing—first movers have advantages but are more risky;
2) the growing complexity and contingencies of contracts;
3) transaction cost structures;
4) technology and knowledge transfer;
5) degree of product differentiation;
6) the previous experiences and cultural diversity of acquired firms;
7) advertising and reputation barriers.

This mix of considerations and risks makes for increasingly difficult decisions about such foreign investments. But as off-putting legal restrictions continue to ease with WTO and other international agreements, more and more large firms are choosing to enter markets via direct investment. The growth of free trade areas that are tariff-free among members but have a common tariff for nonmembers creates an opportunity that can be capitalized on by direct investment.

THEME 5 PRODUCT AND SERVICES FOR INTERNATIONAL MARKETS

5.1 Products: Definition and Classification.
5.2 The Essence of Quality Goods.
5.3 New Products in Global Marketing.
5.4 International Product Strategies.

5.1 Products: Definition and Classification

In the foreign markets the requirements to same goods considerably differ for each of the countries. These distinctions are largely determined by the existing level of socio-economic development of each country and the characteristic of it as a cultural environment. In this regard, a major commercial policy on foreign markets is to ensure that the goods offered diverse requirements of foreign markets. To ensure such compliance within commercial policy should make informed management decisions whose implementation allows you to create the necessary goods in foreign markets (export goods) that has rates.

A **product** can be defined as a collection of physical, psychological, service, and symbolic attributes that collectively yield satisfaction or benefits, to a buyer or user.

A number of frameworks for classifying products have been developed. A frequently used classification is based on users and distinguishes between consumer and industrial goods. Both types of goods, in turn, can be further classified on the basis of other criteria, such as how they are purchased (convenience, preference, shopping, and specialty goods) and their life span (durable, nondurable, and disposable). These and other classification frameworks developed for domestic marketing are fully applicable to global marketing.

Many companies find that, as a result of expanding existing businesses or acquiring a new business, they have products for sale in a single national market. The four product categories in the local-to-global continuum – local, national, international, and global— are described in the following sections.

Local Products. A local product is available in a portion of a national market. These products may be new products that a company is introducing using a rollout strategy, or a product that is distributed exclusively in that region.

National Products. A national product is one that, in the context of a particular company, is offered in a single national market. Sometimes national products appear when a global company caters to the needs and preferences of particular country markets.

International Products. International products are offered in multinational, regional markets. The classic international product is the Euro product, offered throughout Europe but not in the rest of the world.

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

designed to meet the needs of a national market but also, happily, meet the needs of a global market.

A product is multidimensional, and the sum of all its features determines the bundle of satisfactions (utilities) received by the consumer. To identify all the possible ways a product may be adapted to a new market, it helps to separate its many dimensions into three distinct components, as illustrated by the Product Component Model in Figure 5.1. By using this model, the impact of the cultural, physical, and mandatory factors (discussed previously) that affect a market's acceptance of a product can be focused on the core component, packaging component, and support services component. These components include all a product's tangible and intangible elements and provide the bundle of utilities the market receives from use of the product.

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

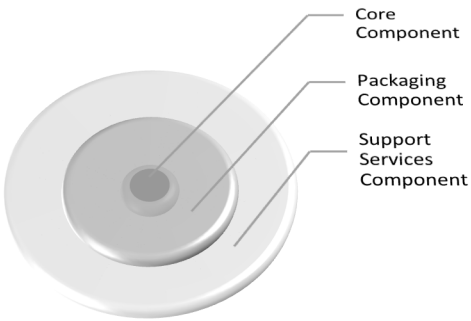

Figure 5.1 – Product Component Model

The *packaging component* includes style features, packaging, labeling, trademarks, brand name, quality, price, and all other aspects of a product's package. As with the core component, the importance of each of the elements in the eyes of the consumer depends on the need that the product is designed to serve. Packaging components frequently require both discretionary and mandatory changes.

The *support services* component includes repair and maintenance, instructions, installation, warranties, deliveries, and the availability of spare parts. Many otherwise successful marketing programs have ultimately failed because little attention was given to this product component. Repair and maintenance are especially difficult problems in developing countries. In some countries, the concept of routine maintenance or preventive maintenance is not a part of the culture.

5.2 The Essence of Quality Goods

Global competition is placing new emphasis on some basic tenets of business. It is shortening product life cycles and focusing on the importance of quality, competitive prices, and innovative products. The power in the marketplace is shifting from a sellers' to a customers' market, and the latter have more choices because more companies are competing for their attention. More competition and more choices put more power in the hands of the customer, and that of course drives the need for quality. Gone are the days when the customer's knowledge was limited to one or at best just a few different products. Today the customer knows what is best, cheapest, and highest quality, largely due to the Internet. It is the customer who defines quality in terms of his or her needs and resources.

Variation with the above characteristics of export goods from country to country target market and allow you to make it more attractive to potential customers. Thus, the following approaches:

- main characteristics of the product adapted to individual foreign markets;
- main characteristics of standardized goods and foreign markets offer a standardized product;
- for individual countries develop new products.

The above characteristics define the export product quality. Providing high quality product is a determining factor in the effective implementation of business activities in foreign markets, as a consequence of objective necessity of human needs. At first it was about the feasibility of establishing high-quality products and technology, the need for highly skilled personnel and today is important and to ensure a high quality of life. Any firm that does not pay much attention to quality cannot effectively ensure their business in foreign markets.

Quality can be defined on two dimensions: market-perceived quality and performance quality. Both are important concepts, but consumer perceptions of a quality product often have more to do with market-perceived quality than performance quality.

There are quite a lot of different definitions of "quality". This is understandable, as the term is used very broadly to the various areas of our life. Meanwhile, most often in practice some companies use this term is given in the International Standard ISO 8402 version 1994 According to this standard, quality is defined as the set of properties of an object related to its ability to meet established and projected needs. Here, the object is meant everything that can be individually examined and described. In particular, the object can be an activity or a process, product, organization, system, or any combination of them. Formulated above definition as a slightly modified version of the ISO 9000, adopted in 2000 According to the latest standards of quality describes how a set of characteristics of their product meets certain requirements. The term "quality" is somewhat expanded in the so-called "philosophy of Total Quality Management» (Total Quality Management) (Fig. 5.2.), which is a new general method for organizing the continuous quality improvement of all organizational processes, production and service. This approach has been

implemented in 60 years in Japan and the U.S. practice of award-winning companies that have achieved the highest product quality.

Figure 5.2 – Pyramid of quality

The essence of TQM displays a triangle B. Joyner. He identifies three basic postulates underlying TQM. First, the firm must be obsessed with quality, i.e. the primary and long-term goal is to achieve a high level of quality. Second, the required level of quality is achieved through the implementation of a scientific approach that allows making informed management decisions. And, thirdly, the staff of the company is to be a team, each member of which recognizes their contribution to achieving quality results of the company as a whole.

In the current practice of many firms, there are different approaches to the definition of total quality management. Without going into detail on these approaches, we note that such management occurs when Management Company directs all its efforts and the efforts of all team members to achieve the longterm fullest satisfaction of consumer's goods in the interests of the company and society at large. Total Quality Management includes both quality control and quality assurance, and policy in the field of planning and quality improvement.

The main idea of TQM is that the company needs to work not only on product quality but also on the quality of work in the company, including staff. Regarding the quality of export goods can be characterized by the presence of a set of properties that determine the ability of the product to meet the specific needs according to his purpose. Obviously, these characteristics must guarantee the safety of the product during its use by man, and they define a set of use- value, relevant inquiries of potential consumers.

5.3 New Products in Global Marketing

In theory, international marketing often as new product considered:

– modified product company within the commodity classification of products manufactured;

– a new product for the company;

– a new product to its country of origin;

– new product for specific foreign markets;

– new product for the world market.

Each of these commodities has a different degree of novelty (Fig. 5.3).

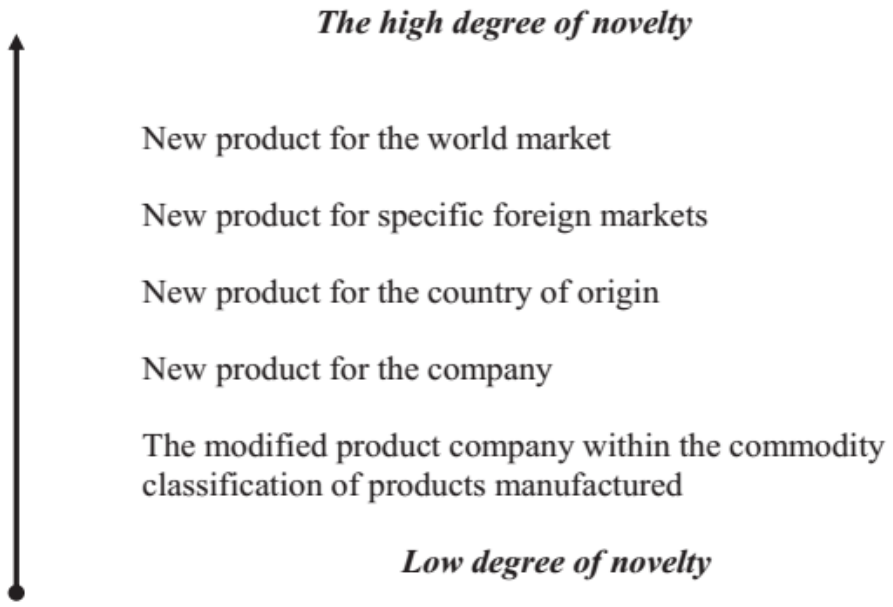

Figure 5.3 – The degree of novelty of product

Despite these differences, generally considered the seven stages of development, production and commercial development of new products in foreign markets (Figure 5.4). The greatest difficulty in developing a new product to foreign markets is the formation of ideas submitted. These ideas form the much more difficult for foreign markets than it can be made for the domestic market. In this case, the higher the degree of novelty goods, the deeper study of the environment of international marketing should be done. As already mentioned, the process of developing a new product for foreign markets, and especially for the global market is more time consuming and requires considerable financial costs, which are not always justified. In this regard, it is important for the development stage of a new product to analyze and evaluate the potential costs and determine the profitability of a new product.

There are two main approaches to solving this problem: how European and Japanese firms. European firms usually first develop and produce a prototype product, and then determine its cost. With this in mind, using the method of obtaining profit target, set the base price and assessed the possibility of selling the product at that price. If at this price cannot be provided with the necessary product sales, either revised as appropriate design changes to reduce the price of the goods, or are authorized decision not to develop its production.

Fig. 5.4. The process of developing a new product

The approach of Japanese companies to develop a new product easier. At the initial stage of developing a new product they install it possible range of prices to meet the needs of consumers and their requirements for quality goods. On this basis, determine the volume of sales and profit potential. If the eligibility of the last set allowable costs for industrial and commercial development of the product, its distribution. To these have been acceptable to the company; often require numerous talks with various departments of the company and its agents. The approach in the development and commercialization of new products that use Japanese firms enables development in a shorter time.

Studies conducted in foreign markets, show that higher levels of novelty product characteristic and a higher risk of possible rejection of the product target market. Approximately 80% of all consumer goods, which first appear on the market, are not interested in their customers and consumers. For capital goods and services in accordance with the figure at 30 and 20%. Despite this, in many cases the risk is justified. After 90% growth in sales of consumer goods in the markets of developed countries account for new products.

Analyzing the reasons for the failure of new products in foreign markets, usually distinguished such of them as:

– not fully understand the needs and requirements of users of the target market;

– incorrect positioning of the product;

– unsatisfactory quality due to production and financial problems of the company;

– reduction in product life cycle;

– insufficient account of current competition.

– exploring the reasons for the success of certain goods in foreign markets, usually as the main factors that determine it singled out

– high level of competitiveness of the goods;

– understanding of consumer behavior by the target market;

– implementation of high-level international marketing;

– high degree of synergy development, industrial and commercial development of the product.

All these factors are controlled for the firm. Therefore, the success of firms in international markets depends primarily on the firm, and the first of its managerial staff that can perform up to standard management and efficient use of international marketing.

5.4 International Product Strategies

The international product life cycle (IPLC) theory, developed and verified by economists to explain trade in a 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 LDCs do the same 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. IPLC theory has the potential to be a valuable framework for marketing planning on a multinational basis. In this section the IPLC is examined from the marketing perspective, and marketing implications for both innovators and initiators are discussed below.

Stages and Characteristics

There are five distinct stages (Stage 0 through Stage 4) in the IPLC (Tab. 5.1). Table below shows the major characteristics of the IPLC stages, with the developed country as the developer of the innovation in question, for example, USA. Exhibit shows three life-cycle curves for the same innovation: one for the initiating country (i.e., the United States in this instance), one for other advanced nations, and one for LDCs. For each curve, net export results when the curve is above the horizontal line; if under the horizontal line, net import results for that particular country. As the innovation moves through time, directions of all three curves change. Time is relative, because the time needed for a cycle to be completed varies from one kind of product to another. In addition, the time interval also varies from one stage to the next.

Table 5.1 – **IPLC Stages and Characteristics (for the initiating country)**

Stage	Import/Export	Target Market	Competitors	Production Costs
(0) Local Innovation	None	USA	Few: Local Firms	Initially High
(1) Overseas Innovation	Increasing Export	USA & advanced nations	Few: Local firms	Decline owing to economies of scale stable
(2) Maturity	Stable Export	Advanced nations & LDCs	Advanced Nations	Stable
(3) Worldwide Imitation	Declining Export	LDCs	Advanced Nations	Increase owing to lower economies of scale
(4) Reversal	Increasing Import	USA	Advanced nations & LDCs	Increase owing to comparative disadvantage

Stage O: Local Innovation

Stage 0, depicted as time 0 on the left of the vertical importing/ exporting axis, represents a regular and highly familiar product life cycle in operation within its original market. Innovations are most likely to occur in highly developed countries because consumers in such countries are affluent and have relatively unlimited wants. From the supply side, firms in advanced nations have both the technological know-how and abundant capital to develop new products Many of the products found in the world's markets were originally created in the United States before being introduced and refined in other countries. In most instances, regardless of whether a product is intended for later export or not, an innovation is initially designed with an eye to capture the U.S. market, the largest consumer nation.

Stage 1: Overseas Innovation

As soon as the new product is well developed, its original market well cultivated, and local demands adequately supplied, the innovating firm will look to overseas markets in order to expand its sales and profit. Thus, this stage is known as a "pioneering" or "international introduction" stage. The technological gap is first noticed in other advanced nations because of their similar needs and high income levels. Not surprisingly, English-speaking countries such as the United Kingdom, Canada, and Australia account for about half of the sales of U.S. innovations when such products are first introduced overseas. Countries with similar cultures and economic conditions are often perceived by exporters as posing less risk and thus are approached first before proceeding to less familiar territories

Stage 2: Maturity

Growing demand in advanced nations provides an impetus for firms there to commit themselves to starting local production, often with the help of their

government's protective measures to preserve infant industries. Thus, these firms can survive and thrive in spite of relative inefficiency. Development of competition does not mean that the initiating country's export level will immediately suffer. The innovating firm's sales and export volumes are kept stable because LDC are now beginning to generate a need for the product. Introduction of the product in LDCs helps offset any reduction in export sales to advanced countries.

Stage 3: Worldwide Imitation This stage means tough times for the innovating nation because of its continuous decline in exports. There is no more new demand anywhere to cultivate. The decline will inevitably affect the U.S. innovating firm's economies of scale, and its production costs thus begin to rise again. Consequently, firms in other advanced nations use their lower prices (coupled with product differentiation techniques) to gain more consumer acceptance abroad at the expense of the U.S. firm. As the product becomes more and more widely disseminated, imitation picks up at a faster pace. Toward the end of this stage, U.S. export dwindles almost to nothing, and any U.S. production still remaining is basically for local consumption.

Stage 4: Reversal Not only must all good things end, but misfortune frequently accompanies the end of a favorable situation. The major functional characteristics of this stage are product standardization and comparative disadvantage. The innovating country's comparative advantage has disappeared, and what is left is comparative disadvantage. This disadvantage is brought about because the product is no longer capital-intensive or technologyintensive but instead has become labor-intensive-a strong advantage possessed by LDCs. Thus, LDCs-the last imitators— establish sufficient productive facilities to satisfy their own domestic needs as well as to produce for the biggest market in the world, the United States. U.S. firms are now undersold in their own country.

THEME 6 PRICING FOR INTERNATIONAL MARKETS

6.1 Basic Pricing Concepts.
6.2 Framework for International Pricing Strategy.
6.3 Dumping and Countertrade.

6.1 Basic Pricing Concepts

Global marketers must deal with a number of environmental considerations when making pricing decisions. Among these are currency fluctuations, inflation, government controls and subsidies, competitive behavior, and market demand. Some of these factors work in conjunction with others; for example, inflation may be accompanied by government controls. Each consideration is discussed in detail next.

1. Currency Fluctuations.

Fluctuating currency values are a fact of life in international business. The marketer must decide what to do about this fact. Are price adjustments appropriate when currencies strengthen or weaken? There are two extreme positions; one is to fix the price of products in country target markets. If this is done, any appreciation or depreciation of the value of the currency in the country of production will lead to gains or losses for the seller. The other extreme position is to fix the price of products in home country currency. If this is done, any appreciation or depreciation of the home-country currency will result in price increases or decreases for customers with no immediate consequences for the seller.

2. Exchange Rate Clauses

Many sales are contracts to supply goods or services over time. When these contracts are between parties in two countries, the problem of exchange rate fluctuations and exchange risk must be addressed.

3. Pricing in an Inflationary Environment

Inflation, or a persistent upward change in price levels, is a worldwide phenomenon. Inflation requires periodic price adjustments. These adjustments are necessitated by rising costs that must be covered by increased selling prices. An essential requirement when pricing in an inflationary environment is the maintenance of operating profit margins.

Regardless of cost accounting practices, if a company maintains its margins, it has effectively protected itself from the effects of inflation

4. *Government Controls and Subsidies*

If government action limits the freedom of management to adjust prices, the maintenance of margins is definitely compromised. Under certain conditions, government action is a real threat to the profitability of a subsidiary operation.

5. Competitive Behavior

Pricing decisions are bounded not only by cost and the nature of demand but also by competitive action. If competitors do not adjust their prices in response to rising costs, management even if acutely aware of the effect of rising costs on operating margins-will be severely constrained in its ability to adjust prices accordingly. Conversely, if competitors are manufacturing or sourcing in a lowermost country, it may be necessary to cut prices to stay competitive.

6. Price and Quality Relationships

Is there a relationship between price and quality? During the past several decades several studies have indicated that the overall relationship between price and quality as measured by consumer testing organizations is quite weak. A recent four-country international study found a high degree of similarity with the results of previous studies. As a whole scientists conclude that the lack of a strong price-quality relationship appears to be an international phenomenon. This is not surprising when one recognizes that consumers make purchase decisions with limited information and rely more on product appearance and style and less on technical quality as measured by testing organization.

6.2 Framework for International Pricing Strategy

A number of different pricing strategies are available to global marketers. An overall goal must be to contribute to company sales and profit objectives worldwide. Customer oriented strategies such as market skimming, penetration, and market holding can be used when consumer perceptions, as determined by the value equation, are used as a guide. Global pricing can also be based on other external criteria such as the escalation in costs when goods are shipped long distances across national boundaries. The issue of global pricing can also be fully integrated in the product design process, an approach widely used by Japanese companies. Prices in global markets are not carved in stone; they must be evaluated at regular intervals and adjusted if necessary. Similarly, pricing objectives may vary, depending on a product's life-cycle stage and the country-specific competitive situation.

1. Market Skimming The market skimming pricing strategy is a deliberate attempt to reach a market segment that is willing to pay a premium price for a product. In such instances, the product must create high value for buyers. This pricing strategy is often used in the introductory phase of the product life cycle, when both production capacity and competition are limited. By setting a deliberately high price, demand is limited to early adopters who are willing and able to pay the price. One goal of this pricing strategy is to maximize revenue on limited volume and to match demand to available supply. Another goal of market skim-ming pricing is to reinforce customers' perceptions of high product value. When this is done, the price is part of the total product positioning strategy.

2. Penetration Pricing Penetration pricing uses price as a competitive weapon to gain market position. The ma-jority of companies using this type of pricing in international marketing are located in the Pacific Rim. Scale-efficient plants and low-cost labor allow these companies to blitz the market. It should be noted that a first-time exporter is unlikely to use penetration pricing. The reason is simple: Penetration pricing often means that the product may be sold at a loss for a certain length of time. Companies that are new to exporting cannot absorb such losses. They are not likely to have the marketing system in place (including transportation, distribution, and sales organizations) that allows global companies such as Sony to make effective use of a penetration strategy. However, a company whose product is not penetrable may wish to use penetration pricing to achieve market saturation before the product is copied by competitors.

3. Market Holding

The market holding strategy is frequently adopted by companies that want to maintain their share of the market. In single-country marketing, this strategy often involves reacting to price adjustments by competitors. For example, when one airline announces I special bargain fares, most competing carriers must match the offer or risk losing passengers. In global marketing, currency fluctuations often trigger price adjustments.

4. Cost Plus/Price Escalation

Companies new to exporting frequently use a strategy known as cost -plus pricing to gain a toehold in the global marketplace. There are two cost-plus pricing

methods: The older is the historical accounting cost method, which defines cost as the sum of all direct and I indirect manufacturing and overhead costs. An approach used in recent years is known as the estimated future cost method. Cost-plus pricing requires adding up all the costs required to get the product to where it must go, plus shipping and ancillary charges, and a profit percentage. The obvious advantage of using this method is its low threshold: It is relatively easy to arrive at a selling price, assuming that accounting costs are readily available. The disadvantage of using historical accounting costs to arrive at a price is that this approach completely ignores demand and competitive conditions in target markets. Therefore, historical accounting cost-plus prices will frequently be either too high or too low in the light of market and competitive conditions. If historical accounting cost-plus prices are right, it is only by chance.

5. Using Sourcing as a Strategic Pricing Tool

The global marketer has several options when addressing the problem of price escalation described in the last section. The choices are dictated in part by product and market competition.

6.3 Dumping and Countertrade

Dumping is an important global pricing strategy issue. GATT's 1979 Antidumping Code defined dumping as the sale of an imported product at a price lower than that nominally charged in a domestic market or country of origin in addition, many countries have their own policies and procedures for protecting national companies from dumping. The U.S. Antidumping Act of 1921, which is enforced by the U.S. Treasury, did not define dumping specifically but instead referred to unfair competition.

However, Congress has defined dumping as an unfair trade practice that results in "injury, destruction, or prevention of the establishment of American industry." Under this definition, dumping occurs when imports sold in the U.S. market are priced either at levels that represent less than the cost of production plus an 8 percent profit margin or at levels below those prevailing in the producing country.

There are several types of dumping: sporadic, predatory, persistent, and reverse. Sporadic dumping occurs when a manufacturer with unsold inventories warts to get rid of distressed and excess merchandise. To preserve its competitive position at home, the manufacturer must avoid starting a price war that could harm its home market. One way to find a solution involves destroying excess supplies. Another way to solve the problem is to cut losses by selling for any price that can be realized. The excess supply is dumped abroad in a market where tee product is normally not sold.

Predatory Dumping is more permanent than sporadic dumping. This strategy involves selling at a loss to gain access to a market and perhaps to drive out competition. Once the competition is gone or the market established, the company uses its monopoly position to increase price. Some critics question the allegation that predatory dumping is harmful by pointing out that if price is subsequently raised by the firm that does the dumping, former competitors can rejoin the market when it becomes more profitable again.

Persistent dumping is the most permanent type of dumping, requiring a consistent selling at lower prices in one market than in others. This practice may be the result of a firm's recognition that markets are different in terms of overhead costs and demand characteristics.

The three kinds of dumping just discussed have one characteristic in common: each involves charging lower prices abroad than at home. It is possible, however, to have the opposite tactic-***reverse dumping***. In order to have such a case, the overseas demand must be less elastic, and the market will tolerate a higher price. Any dumping will thus be done in the manufacturer's home market by selling locally at a lower price.

Countertrade constitutes an estimated 5 to 30 percent of total world trade. Counter trade greatly proliferated in the 1980s. Perhaps, the sihgle most important contributing factor is LDCs' decreasing ability to finance their import needs through bank loans. 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 certain business initiatives that compensate and benefit the buyer. In short, a goods-for-goods deal is countertrade.

There are several types of counter trade, including barter, counter purchase, compensation trade, switch trading, offsets and clearing agreements.

Countertrade is a significant factor in modern international trade. In its different forms it is used as a marketing tool, as a competitive tool, as a tool to restrict trade alternatives, and as a tool to tie the trade of one country to another country. Counter trade in a modern world economy with highly developed goods, capital, and financial markets appears on its face to be an incongruous development. Counter trade is a costly, inefficient, and disruptive anomaly. Yet observers of international trade suggest that the volume of counter trade is growing. Counter trade takes place in a world of imperfection where the political and economic policies of government and industry distort the relationships between and within the goods, capital, and financial markets.

THEME 7 INTERNATIONAL MARKETING CHANNELS

7.1 Channel of Distribution Structures.
7.2 Channel Development.
7.3. Types of Intermediaries.

7.1 Channel of Distribution Structures

In every country and in every market, urban or rural, rich or poor, all consumer and industrial products eventually go through a distribution process. The **distribution process** includes the physical handling and distribution of goods, the passage of ownership (title), and—most important from the standpoint of marketing strategy—the buying and selling negotiations between producers and middlemen and between middlemen and customers. A host of policy and strategic channel selection issues

confronts the international marketing manager. These issues are not in themselves very different from those encountered in domestic distribution, but the resolution of the issues differs because of different channel alternatives and market patterns.

Each country market has a **distribution structure** through which goods pass from producer to user. Within this structure are a variety of middlemen whose customary functions, activities, and services reflect existing competition, market characteristics, tradition, and economic development.

In short, the behavior of channel members is the result of the interactions between the cultural environment and the marketing process. Channel structures range from those with little developed marketing infrastructure, such as those found in many emerging markets, to the highly complex, multilayered system found in Japan.

Traditional channels in developing countries evolved from economies with a strong dependence on imported manufactured goods. In an *import-oriented* or *traditional distribution structure,* an importer controls a fixed supply of goods, and the marketing system develops around the philosophy of selling a limited supply of goods at high prices to a small number of affluent customers. In the resulting seller's market, market penetration and mass distribution are not necessary because demand exceeds supply, and in most cases, the customer seeks the supply from a limited number of middlemen.

This configuration affects the development of intermediaries and their functions. Distribution systems are local rather than national in scope, and the relationship between the importer and any middleman in the marketplace is considerably different from that found in a mass-marketing system. The idea of a channel as a chain of intermediaries performing specific activities and each selling to a smaller unit beneath it until the chain reaches the ultimate consumer is not common in an import-oriented system. Because the importer–wholesaler traditionally performs most marketing functions, independent agencies that provide advertising, marketing research, warehousing and storage, transportation, financing, and other facilitating functions found in a developed, mature marketing infrastructure are nonexistent or underdeveloped. Thus, few independent agencies to support a fully integrated distribution system develop.

Distribution in Japan has long been considered a most effective nontariff barrier to the Japanese market The market is becoming more open as many traditional modes of operation are eroding in the face of competition from foreign marketers and as Japanese consumers continue to focus on lower prices. But it still serves as an excellent case study for the pervasive impact culture plays on economic institutions such as national distribution systems. The Japanese distribution structure is different enough from its U.S. or European counterparts that it should be carefully studied by anyone contemplating entry. The Japanese system has four distinguishing features: (1) a structure dominated by many small middlemen dealing with many small retailers, (2) channel control by manufacturers, (3) a business philosophy shaped by a unique culture,3 and (4) laws that protect the foundation of the system—the small retailer.

The density of middlemen, retailers, and wholesalers in the Japanese market is unparalleled in any Western industrialized country. The traditional Japanese structure serves consumers who make small, frequent purchases at small, conveniently located stores. An equal density of wholesalers supports the high density of small stores with small inventories. It is not unusual for consumer goods to go through three or four intermediaries before reaching the consumer—producer to primary, secondary, regional, and local wholesaler, and finally to retailer to consumer.

7.2 Channel Development

Today, few countries are sufficiently isolated to be unaffected by global economic and political changes. These currents of change are altering all levels of the economic fabric, including the distribution structure. Traditional channel structures are giving way to new forms, new alliances, and new processes—some more slowly than others, but all are changing. Pressures for change in a country come from within and without. Multinational marketers are seeking ways to profitably tap market segments that currently are served by costly, traditional distribution systems.

This same type of system is available on the Internet for both business-to business and business-to-consumer transactions. We have already seen the impact on traditional retailing within the last few years caused by e-commerce retailers such as Amazon.com, Dell Computer, eBay, and others—all of which are expanding globally. Most brick-and-mortar retailers are experimenting with or have fully developed Web sites, some of which are merely extensions of their regular stores, allowing
them to extend their reach globally.

One of the most challenging aspects of Web sales is delivery of goods.

The impact of these and other trends will change traditional distribution and marketing systems. While this latest retailing revolution remains influx, new retailing and middlemen systems will be invented, and established companies will experiment, seeking ways to maintain their competitive edge. Moreover, it is becoming more dangerous to think of competitors in terms of individual companies—in international business generally, and distribution systems particularly, a networks perspective is increasingly required. That is, firms must be understood in the context of the commercial networks of which they are a part.16 These changes will resonate throughout the distribution chain before new concepts are established and the system stabilizes.

Distribution Patterns

Even though patterns of distribution are in a state of change and new patterns are developing, international marketers need a general awareness of the traditional distribution base. The “traditional” system will not change overnight, and vestiges of it will remain for years to come. Nearly every international fi rm is forced by the structure of the market to use at least some middlemen in the distribution arrangement. It is all too easy to conclude that, because the structural arrangements of foreign and domestic distribution seem alike, foreign channels are the same as or similar to domestic channels of the same name. Only when the varied intricacies of

actual distribution patterns are understood can the complexity of the distribution task be appreciated. The following description of differences in retailing should convey a sense of the variety of distribution patterns in general, including wholesalers.

Retailing shows even greater diversity in its structure than does wholesaling. In Italy and Morocco, retailing is composed largely of specialty houses that carry narrow lines, whereas in Finland, most retailers carry a more general line of merchandise. Retail size is represented at one end by Japan's giant department store Mitsukoshi, which reportedly enjoys the patronage of more than 100,000 customers every day, and at the other extreme by the market of Ibadan, Nigeria, where some 3,000 one- or two-person stalls serve not many more customers. Some manufacturers sell directly to consumers through company-owned stores such as Cartier and Disney, and some sell through a half-dozen layers of middlemen.

Size Patterns. The extremes in size in retailing are similar to those that predominate in wholesaling. The retail structure and the problems it engenders cause real difficulties for the international marketing firm selling consumer goods. Large dominant retailers can be sold to directly, but there is no adequate way to reach small retailers who, in the aggregate, handle a great volume of sales. In Italy, official figures show there are 931,000 retail stores, or one store for every 63 Italians. Of the 269,000 food stores, fewer than 10,000 can be classified as large. Thus, retailers are a critical factor in adequate distribution in Italy.

Underdeveloped countries present similar problems. Among the large supermarket chains in South Africa, there is considerable concentration. Of the country's 31,000 stores, 1,000 control 60 percent of all grocery sales, leaving the remaining 40 percent of sales to be spread among 30,000 stores. To reach the 40 percent of the market served by those 30,000 stores may be difficult. In black communities in particular, retailing is on a small scale—cigarettes are often sold singly, and the entire fruit inventory may consist of four apples in a bowl.

Retailing around the world has been in a state of active ferment for several years. The rate of change appears to be directly related to the stage and speed of economic development, and even the least developed countries are experiencing dramatic changes. Supermarkets of one variety or another are blossoming in developed and underdeveloped countries alike. Discount houses that sell everything from powdered milk and canned chili to Korean TVs and DVD players are thriving and expanding worldwide.

Factors Affecting Choice of Channels The international marketer needs a clear understanding of market characteristics and must have established operating policies before beginning the selection of channel middlemen. The following points should be addressed prior to the selection process:

1. Identify specific target markets within and across countries.
2. Specify marketing goals in terms of volume, market share, and profit margin requirements.
3. Specify financial and personnel commitments to the development of international distribution.
4. Identify control, length of channels, terms of sale, and channel ownership.

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

Key elements in distribution decisions include the functions performed by middlemen (and the effectiveness with which each is performed), the cost of their services, their availability, and the extent of control that the manufacturer can exert over middlemen activities. Although the overall marketing strategy of the firm must embody the company's profit goals in the short and long run, channel strategy itself is considered to have six specific strategic goals. These goals can be characterized as the six Cs of channel strategy: cost, capital, control, coverage, character, and continuity. In forging the overall channel of distribution strategy, each of the six Cs must be considered in building an economical, effective distribution organization within the long-range channel policies of the company.

It should also be noted that many firms use multiple or hybrid channels of distribution because of the trade-offs associated with any one option.

Channel Management The actual process of building channels for international distribution is seldom easy, and many companies have been stopped in their efforts to develop international markets by their inability to construct a satisfactory system of channels.

Construction of the middleman network includes seeking out potential middlemen, selecting those who fit the company's requirements, and establishing working relationships with them. In international marketing, the channel-building process is hardly routine. The closer the company wants to get to the consumer in its channel contact, the larger the sales force required. If a company is content with finding an exclusive importer or selling agent for a given country, channel building may not be too difficult; however, if it goes down to the level of subwholesaler or retailer, it is taking on a tremendous task and must have an internal staff capable of supporting such an effort.

Locating Middlemen The search for prospective middlemen should begin with study of the market and determination of criteria for evaluating middlemen servicing that market. The checklist of criteria differs according to the type of middlemen being used and the nature of their relationship with the company. Basically, such lists are built around four subject areas: productivity or volume, financial strength, managerial stability and capability, and the nature and reputation of the business. Emphasis is usually placed on either the actual or potential productivity of the middleman.

Selecting Middlemen Finding prospective middlemen is less a problem than determining which of them can perform satisfactorily. Low volume or low potential volume hampers most prospects, many are underfinanced, and some simply cannot be trusted. In many cases, when a manufacturer is not well known abroad, the reputation of the middleman becomes the reputation of the manufacturer, so a poor choice at this point can be devastating.

7.3 Types of Intermediaries

Direct Channel

There are several types of intermediaries associated with both the direct and indirect channels. Exhibit 1 compares the two channels and lists the various types of domestic and foreign intermediaries.

1. Foreign Distributor

A foreign distributor is a foreign firm that has exclusive rights to carry out distribution for a manufacturer in a foreign country or specific area. Orders must be channeled through the distributor, even when the distributor chooses to appoint a subagent or subdistributor. The distributor purchases merchandise from the manufacturer at a discount and then resells or distributes the merchandise to retailers and sometimes final consumers. In this regard, the distributor's function in many countries may be a combination of wholesaler and retailer. But in most cases the distributor is usually considered as an importer or foreign wholesaler. The length of association between the manufacturer and its foreign distributor is established by a con-tract that is renewable provided the continued arrangement is satisfactory to both. In some situations, the foreign distributor is merely a subsidiary of the manufacturer.

There are a number of benefits in using a foreign distributor. Unlike agents, the distributor is a merchant who buys and maintains merchandise in its own name. This arrangement simplifies the credit and payment activities for the manufacturer. To carry out the distribution function, the foreign distributor is often required to warehouse adequate products, parts, and accessories and to have facilities and personnel immediately available to service buyers and users.

Still, the manufacturer must be careful in selecting a foreign distributor or it may end up with a distributor who is deficient in marketing and servicing the product.

2. Foreign Retailer

If foreign retailers are- used, the product in question must be a consumer product rather than an industrial product. There are several means by which a manufacturer may contact foreign retailers and interest them in carrying a product, ranging from a personal visit by the manufacturer's representative to mailings of catalogs, brochures, and other literature to prospective retailers. The use of personal selling or a visit, al-though expensive because of travel costs and commissions for the manufacturer's representative provides for a more effective sales presentation as well as for better screening of retailers for the distribution purpose. The use of direct mail, although less expensive, may not sufficiently catch the retailers' attention. For such big-ticket items as automobiles or for high-volume products, it may be worthwhile for a manufacturer to sell to retailers without going through a foreign distributor. In fact, most large retailers prefer to deal directly with a manufacturer. In Europe, for example, a number of retail food chains are becoming larger and more powerful, and they prefer to be in direct contact with foreign manufacturers in order to obtain price concessions.

3. State-Controlled Trading Company

For some products, particularly utility and telecommunication equipment, a manufacturer must contact and sell to state-controlled companies. In addition, many

countries, especially those in Eastern Europe, have state controlled trading companies, which are companies that have a complete monopoly in the buying and selling of goods.

4. *End User*

Sometimes, a manufacturer is able to sell directly to foreign end users with no intermediary involved in the process. This direct channel is a logical and natural choice for costly industrial products. For most consumer product the approach is only practical for some products and in some countries. A significant problem with consumer purchases can result from duty and clearance problems. A consumer may place an order without understanding his or her country's import regulations. When the merchandise arrives, the consumer may not be able to claim it. As a result, the product may be seized or returned on a freight-collect basis. Continued occurrence of this problem could become expensive for the manufacturer.

Indirect Channel

For a majority of products, a manufacturer may find it impractical to sell directly to the various foreign parties (i.e., foreign distributors, foreign retailers, state-controlled trading companies, and end users). Other intermediaries, more often than not have to come between- these-foreign buyers and the manufacturer. This section examines the roles of those middlemen located in the manufacturer's country. With an indirect channel, a manufacturer does not have to correspond with foreign parties in foreign countries. Instead; the manufacturer deals with one or more domestic middlemen, who in turn move and/or sell the product to foreign middlemen or final users. Although there are many kinds of local sales intermediaries, all can be grouped under two broad categories: (1) domestic agents and (2) domestic merchants. The basic difference between the two is ownership (title) rather than just the physical possession of the merchandise. Domestic agents never take title to the goods, regardless of whether the agents take possession of the goods or not. Domestic merchants, on the other hand, own the merchandise, regardless of whether the merchants take possession or not. An agent represents the manufacturer. Whereas a merchant (e.g., distributor) represents the manufacturer's product. The merchant has no power to contract on behalf of the manufacturer, but the agent can bind the manufacturer in authorized matters to contracts made on the manufacturer's behalf.

THEME 8 INTERNATIONAL MARKETING COMMUNICATIONS

8.1 International Advertising
8.2 Sales Promotions in International Markets
8.3 International Public Relations
8.4 Personal Selling and Direct Marketing

8.1 International Advertising

The international marketing communications was cause by necessity of promotion of the goods on foreign markets. Result realization is creation of an

attractive image of the goods and firm with a view of prompting of potential buyers to realization of purchasing is. Promotion of the goods on a concrete foreign market are provide thanks to realization of marketing communications between a commodity producer and target audience with a view of achievement of behavior of such audience acceptable for a commodity producer.

Any marketing communications supposed availability of a source of the message, target audience and media of exchange the information. As a source the message (or a communicator) acted determined firm who performed necessary communications. It determined the whole communications, developed messages and coded them for transfer of possible target audience in a concrete foreign market. Thus the coding could be charge both to correspond division of firm, and the determined independent intermediary. The message in code is necessary to target audience in the select foreign market. Message transfer is as a result performing. Typically, there are several similar messages that compete with each other. This creates certain obstacles in the transmission of such messages are called noise.

Upon notification communicator, communicators (consumer) spend decoding messages. This process supposed:

- acquaintance with the message (awareness);
- interpretation and estimation (understanding) of the message;
- preserving in memories (storing) of the message.

Thanks to decoding of the message the consumer received some perception of object that had been described. Unconditionally, the communicator would like, that it are perception answering the purposes of communications. As far as it answered them, the communicator and aspired to estimate thanks to feedback. Thus one of approaches of an estimation of efficiency of communications which are us more often, there are an establishment of degree of awareness, understanding and storing of messages who had been transfer.

As the basic tools of a policy of promotion of the goods in foreign markets the same means of communications, as on a domestic market though the last and had the specificity was us in essence. The basic tools of promotion of the goods in foreign markets concerned (fig. 8.1).

International advertising, sales promotion, public relations and personal sales formed a so-called complex of communications or a complex of promotion of the goods in foreign markets. The importance of each of elements of a complex of communications and degree are more it's than use different for the separate countries that are determined by a number of factors, characteristic for each of the countries.

Except the list basic tools of promotion of the goods in foreign markets often enough possibilities of use of communications independently was consider during carrying out of the international exhibitions and trade fairs. Each of tools of a policy of promotion of the goods in a separate foreign market had the degree of the importance and made unequal impact on efficiency of realization of such policy.

Figure 8.1 – The basic tools of promotion in foreign markets

Four main difficulties can compromise an organization's attempt to communicate with customers in any location.

1. The message may not get through to the intended recipient. This problem may be the result of an advertiser's lack of knowledge about appropriate media for reaching certain types of audiences. For example, the effectiveness of television as a medium for reaching mass audiences will vary proportionately with the extent to which television viewing occurs with a country.

2. The message may reach the target audience but may not be understood or may even be misunderstood. This can be the result of an inadequate understanding of the target audience's level of sophistication or improper encoding.

3. The message may reach the target audience and may be understood but still may' not induce the recipient to take the action desired by the sender. This could result from a lack of cultural knowledge about a target audience.

4. The effectiveness of the message can be impaired by noise. Noise in this case is an external influence such as competitive advertising, other sales personnel, and confusion at the receiving end, which can detract from the ultimate effectiveness of the communication.

Since the turn of the century, growth in global advertising expenditures has slowed, particularly during the 2008–2009 global recession. Amid this slow growth global economic environment and fast technological churn, the advertising industry continues to undergo substantial restructuring. Also related to the technological revolution in media is a general conundrum about counting. That is, keeping track of the 100 biggest advertisers and their agencies is a relatively simple matter of record keeping and reporting. But as the nature, use, and monitoring of media churn, it becomes more difficult to define bases of comparison that support useful analyses.

Global mass media advertising is a powerful tool for cultural change, and as such, it receives continuing scrutiny by a wide variety of institutions. Some studies have shown that advertising expenditures are generally cyclical, though less so in relationship-oriented countries where managers and regulators favor stability and long-term performance. Most scholars agree that we are just beginning to understand

some of the key issues involved in international advertising, but our knowledge will continue to be quite perishable as the revolution continues.

Of all the elements of the marketing 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 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 the ad is to be effective. Reconciling an international advertising campaign with the cultural uniqueness of markets is the challenge confronting the international or global marketer. The basic framework and concepts of international advertising are essentially the same wherever employed. Seven steps are involved:

1. Perform marketing research.
2. Specify the goals of the communication.
3. Develop the most effective message(s) for the market segments selected.
4. Select effective media.
5. Compose and secure a budget based on what is required to meet goals.
6. Execute the campaign.
7. Evaluate the campaign relative to the goals specified

Of these seven steps, developing messages almost always represents the most daunting task for international marketing managers.

The key question for global marketers is whether the specific advertising message and media strategy' must be changed from region to region or country-to-country because of environmental requirements. Proponents of the one world, one voice" approach to global advertising believe that the era of the global village is fast approaching and that tastes and preferences are converging worldwide. According to the standardization argument, because people everywhere want the same products for the same rea-sons, companies can achieve great economies of scale by unifying advertising around the globe.

8.2 Sales Promotions in International Markets

Sales promotions are marketing activities that stimulate consumer purchases and improve retailer or middlemen effectiveness and cooperation. Cents-off, in-store demonstrations, samples, coupons, gifts, product tie-ins, contests, sweepstakes, sponsorship of special events such as concerts, the Olympics, fairs, and point-of-purchase displays are types of sales promotion devices designed to supplement advertising and personal selling in the promotional mix.

Sales promotions are short-term efforts directed to the consumer or retailer to achieve such specific objectives as consumer product trial or immediate purchase, consumer introduction to the store or brand, gaining retail point-of-purchase displays, encouraging stores to stock the product, and supporting and augmenting advertising and personal sales efforts. In markets in which the consumer is hard to reach because of media limitations, the percentage of the promotional budget allocated to sales

promotions may have to be increased. In some less developed countries, sales promotions constitute the major portion of the promotional effort in rural and less accessible parts of the market.

Sales promotion refers to any consumer or trade program of limited duration that adds tangible value to a product or brand. Sales promotion laws and usage vary around the world but may consist of any of the following: promotional pricing tactics, contests, sweepstakes and games, premium and specialties, dealer loaders, merchandising materials, tie-ins and cross promotions, packaging, trade shows (also known as exhibitions), and sponsorship. The EU, however, is working to harmonize promotional tactics across its member countries. It is considering "mutual recognition" that would allow a company to carry out promotional activities in another country as long as that tactic is legal in the company's I home country. The tangible value created by the promotion may come in venous forms, such as a price reduction or a "buy one, get one free" offer. The purpose of a sales promotion may be to stimulate customers to sample a product or to increase consumer demand. Trade promotions are designed to increase product availability in distribution channels.

The increasing popularity of sales promotion as a marketing communication tool can be explained in terms of several strengths and advantages. Besides providing a tangible incentive to buyers, sales promotion also reduces the perceived risk buyers may associate with purchasing the product. From the point of view of the company, sales promotion provides accountability; the manager in charge of the promotion can immediately track the results of the promotion. Moreover, some consumer sales promotions, including sweepstakes and rebates, require buyers to fill out a form and mail it to the company. This allows a company to build up information in its database, which it can use when communicating with customers in the future

As is true in advertising, the success of a promotion may depend on local adaptation. Furthermore, research has shown that responses to promotions can vary across promotional types and cultures. Major constraints are imposed by local laws, which may not permit premiums or free gifts to be given. Some countries' laws control the amount of discount given at retail, others require permits for all sales promotions, and in at least one country, no competitor is permitted to spend more on a sales promotion than any other company selling the product. Effective sales promotions can enhance the advertising and personal selling efforts and, in some instances, may be effective substitutes when environmental constraints prevent the full utilization of advertising.

8.3 International Public Relations

Creating good relationships with the popular press and other media to help companies communicate messages to their publics—customers, the general public, and governmental regulators—is the role of **public relations (PR)**. The job consists of not only encouraging the press to cover positive stories about companies but also managing unfavorable rumors, stories, and events.

A company's public relations effort should-foster goodwill and understanding among constituents both inside and outside the company. PR practitioners attempt to

I generate favorable publicity, which, by definition, is a non-paid form of communication. (in the PR world, publicity is sometimes referred. to as earned media, whereas advertising and promotions are known unearned media.) PR personnel also play a key role in responding to unflattering media reports or controversies that arise because of company activities in different parts of the globe. In such instances, PR's job is to make sure that the company responds promptly and gets its side of the story told.

The basic tools of PR include news releases, newsletters, press conferences, tours of plants and ether company facilities, articles in trade or professional journals, company publications and brochures, TV and radio talk show appearances by company personnel, special events, and homepages on Internet. As noted earlier, a company exerts complete control over the content of its advertising and pays for message placement in the media. However, the media typically receive far more press releases and other PR materials than they can use. Generally speaking, a company has little control over when, or if, a news story runs.

Indeed, even in the field of PR itself, there are often great differences between the theory and the practice. One specific area of discourse is the notion of PR as a "two-way symmetrical model" of communication that should occur between equal entities. This mode holds that public relations efforts should be oriented toward social responsibility and problem solving and be characterized by dialogue -and harmonization of interests. As such, the symmetrical model takes PR beyond an advocacy role that benefits the organization. supports the view that two-way symmetrical communication is more desirable and successful than asymmetrical PR. The two way and consensus models are presumed to be especially effective in situations with a potential for conflict between differing parties. The issues pertaining to planning a hazardous waste landfill would-be one example. However, as one expert has noted, implementation of these models remains problematic

8.4 Personal Selling and Direct Marketing

Personal selling is two-way, personal communication between a company representative and a potential customer as well as back to the company. The salesperson's job is to correctly understand the buyer's needs, match those needs to the company's product(s), and then persuade the customer to buy. Effective personal selling in a salesperson's home country requires building a relationship' with the customer; global marketing presents additional challenges because the buyer and seller may come from different national or cultural backgrounds. It is difficult to overstate the importance of a face-to-face, personal selling effort for industrial products in global markets.

The selling process is typically divided into several stages: prospecting, pre-approaching, approaching, presenting, problem solving, handling objections, closing the sale, and following up. The relative importance of each stage can vary by country or region. Persistence is also required if a global industrial marketing effort is to succeed; in some countries, however, persistence often means en-durance, a willingness to patiently invest months or years before' the effort results in an actual

sale. For example, a company wishing to enter the Japanese market must be prepared for negotiations to take from 3 to 10 years.

Prospecting is the process of identifying potential purchasers and assessing their probability of purchase. If Ford wanted to sell vans in another country where they would be used as delivery vehicle, which businesses would need delivery vehicles? Which businesses have the financial resources to purchase such a van? Those businesses that match these two needs are better prospects than those who do not. Successful prospecting requires problem-solving techniques, which involve understanding and matching the customer's needs and the company's products in developing a sales presentation. The purpose of the pre-approach or problem solving stage is to gather information on a prospective customer's problem areas and tailor a presentation that demonstrates how the company's product can solve these specific problems. If a potential customer has a grocery business, their needs in a van would be different from a customer who owns a carpentry business. The sales representative would need to select the best models of Ford vans, collect the appropriate model specifications, and so on to prepare for an effective presentation. The next two steps, the approach and the presentation, involve one or more meetings between seller and buyer. In global selling, it is absolutely essential for the sales-person to understand cultural norms and proper protocol. In some countries, the approach is drawn out as the buyer-gets to know or takes the measure of the salesperson on a personal level with no mention of the pending deal. In such instances, the presentation comes only after rapport has been firmly established. During the presentation, the salesperson must deal with objections. Objections may be of business or personal nature. A common theme in sales training is the notion of active listening; naturally, in cross-cultural selling, verbal and nonverbal communication barriers present special challenges for the salesperson. When objections are successfully overcome, the salesperson moves on to the close and asks for the order. A successful sale does not end there however; the final step of the selling process involves following up with the customer to ensure his or her ongoing satisfaction with the purchase

The use of **direct marketing** is growing rapidly in many parts of the world due to increased use of computer databases, credit cards, and toll-free numbers, as well as changing life styles. Direct marketing is a system of marketing that integrates ordinarily separate marketing mix elements to sell directly to both consumers and other businesses, bypassing retail stores and personal sales calls. It is used by virtually every consumer and business to-business category from banks to airlines to nonprofit organizations. Because the customer responds directly to the company making the offer, international considerations that apply to communications, distribution, and sales have to be considered. Direct marketing uses a wide spectrum of media, including direct mail; telephone; broadcast, including television and radio; and print, including newspapers and magazines.

The usage of direct mail, the most popular type of direct marketing, varies around the world based on literacy rates, level of acceptance, infrastructure, and culture. In countries with low levels of literacy, a medium that requires reading is not effective.

In other countries, the literacy rate may be high, but consumers are unfamiliar with direct mail and suspicious of products they cannot see. The infrastructure of a country must be developed sufficiently to handle direct mail the postal system must deliver mail on a timely basis and be free of corruption. In addition to physical infrastructure, a system for developing databases and retrieving appropriate target names and the tracking results is necessary.

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