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International Marketing

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Chapter one: Nature of International Marketing

1.1. Definition of International marketing

Literature offers several various definitions of international marketing:

International marketing consists of findings and satisfying global customer needs better than the competition, both domestic and international and coordinating marketing activities within the constraints of the global environment.

International marketing covers companies that have made a strategic decision to enter foreign markets, have made appropriate organizational changes and marketing mix adaptations.

A definition by the AMA (American Marketing Association) describes international marketing as the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

The word multinational implies that marketing activities are undertaken in several countries and they should somehow be coordinated across nations.

1.2. Stages of International Marketing Involvement

In general, a business can be placed in at least one of five distinct but overlapping phases of international marketing involvement.

1.2.1. No Direct Foreign Marketing

In this phase, there is no active cultivation of customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies and other foreign customers who come directly to the firm. Or products reach foreign markets via domestic wholesalers or distributors who sell abroad on their own without explicit encouragement or even knowledge of the producer.

1.2.2. Infrequent Foreign Marketing

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 As domestic demand increases and absorbs surpluses, foreign sales activity is withdrawn.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

1.2.3. Regular Foreign Marketing

At this level, the firm has permanent productive capacity devoted to the production of goods to be marketed on a continuing basis in foreign markets. A firm may employ foreign or domestic overseas middlemen or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus for products presently being produced is to meet domestic market needs. Investments in marketing and management effort and in overseas manufacturing and/or assembly are generally begun in this phase.

1.2.4. International Marketing

Companies in this phase are fully committed and involved in international marketing activities. Such companies seek markets throughout the world and sell products that are a result of planned production for markets in various countries. This generally entails not only the marketing, but also the production of goods throughout the world. At this point, a company becomes an international or multinational marketing firm dependent on foreign revenues.

1.2.5. Global Marketing

At the global marketing level, companies treat the world, including their home market, as their market. This is one step further than the multinational or international company that views the world as a series of country markets (including their home market) with unique sets of market characteristics for which products and marketing strategies must be developed. A global company develops an overall strategy and image to reflect the existing commonalities of market needs among many countries to maximize returns through some global standardization of its business activities – as much as it is culturally possible to achieve efficiencies.

1.3. Management orientations

The world view of a company's personnel can be described as ethnocentric, polycentric, regiocentric, and geocentric. The orientations are collectively known as the EPRG framework.

1.3.1. Ethnocentric Orientation:

a) A person who assumes that his/her home country is superior to the rest of the world.

b) Associated with national arrogance or feelings of national superiority.

c) At some companies, the ethnocentric orientation means that opportunities outside of the home country are routinely ignored (*domestic* companies).

d) Ethnocentric companies that conduct business outside their home country are known as *international* companies – they believe products that succeed in the home country are superior.

e) Leads to a standardized or extension approach – the belief that products can be sold everywhere without adaptation.

f) Foreign operations or markets are viewed as inferior or subordinate to the home market.

g) Foreign markets are mostly view as an opportunity to dispose of surplus domestic production.

Sixty years ago, most business enterprises—and especially those located in a large country like the United States—could operate quite successfully with an ethnocentric orientation. Today، however, ethnocentrism is one of the major internal weaknesses that must be overcome if a company is to transform itself into an effective global competitor.

1.3.2. Polycentric Orientation:

a) The opposite view of ethnocentrism and the belief that each country in which you do business is unique.

b) This assumption allows each subsidiary to develop its own unique marketing strategies in order to succeed.

c) The term *multinational company* is often used to describe such a structure.

d) Leads to a localized or adaptation view that assumes products MUST be adapted to succeed.

Unilever, the Anglo-Dutch consumer-products company, once exhibited a polycentric

orientation. For example, its Rexona deodorant brand had 30 different package designs and 48 different formulations. Advertising was also executed on a local basis

1.3.3. Regiocentric Orientation:

a) The region becomes the relevant geographic unit; Management's goal is to develop a regionally integrated strategy.

b) A U.S. company that focuses on the countries included in the North American Free Trade Agreement (NAFTA)—namely, the United States, Canada, and Mexico—has a regiocentric orientation.

c) For decades, a regiocentric orientation prevailed at General Motors: Executives in different parts of the world—Asia-Pacific and Europe, for example—were given considerable autonomy when designing vehicles for their respective regions.

1.3.4. Geocentric Orientation:

a) A company with a geocentric orientation views the entire world as a potential market and strives to develop integrated global strategies.

b) A company whose management has adopted a geocentric orientation is sometimes known as a global or transnational company.

c) Serves world markets from a single country or sources globally for the purposes of focusing on select country markets.

d) Tend to maintain their association with a particular headquarters country. (Harley-Davidson and Waterford) serve world markets from the US and Ireland, respectively.

1.4. Driving forces for international marketing

There are many factors contributing to the growth of international marketing. These are as the following:

1.4.1. Market Needs and Effort and the information revolution

The common elements in human nature provide an underlying basis for the opportunity to create and serve global markets.. Most global markets do not exist in nature; marketing efforts must create them. For example, no one needs soft drinks, and yet today in some countries per capita soft drink consumption exceeds the consumption of water. Marketing has driven this change in behavior, and today the soft drink industry is a truly global one. The information revolution is one reason for the trend toward convergence. The revolution is fueled by a variety of technologies, products, and services, including satellite dishes; globe-spanning TV networks, widespread access to broadband Internet; and Facebook, Twitter, YouTube, and other social media. Taken together, these communication tools helps consumers around the world compare their own lifestyles and standards of living with those in other countries.

1.4.2. communication and transportation improvements

The time and cost barriers associated with distance have fallen tremendously over the past

100 years. One essential characteristic of the effective global business is face-to-face communication among employees and between the company and its customers. That fact, plus the advent of new communication technologies, such as e-mail, fax, video

Teleconferencing , Wi-Fi, and broadband Internet, means that managers, executives, and customers can link up electronically from virtually any part of the world without traveling at all.

A similar revolution has occurred in transportation technology. The costs associated with physical distribution, both in terms of money and time, have been greatly reduced as well

1.4.3. Multilateral Trade Agreements

A number of multilateral trade agreements have accelerated the pace of global integration. In Europe, the expanding membership of the European Union is lowering boundaries to trade within the region. NAFTA is expanding trade between the United States, Canada and Mexico.

1.4.4. product development costs

The pressure for globalization is intense when new products involve major investments and long periods of development. This is true for pharmaceuticals, where new product typically cost $50 million to $100 million to develop over a period of six to ten years. The enormous cost and risk of new product development must be recovered in the global marketplace, as no single national market is large enough to support investments of this size.

1.4.5. Quality

Global companies “raise the bar” for all competitors in an industry. When a global company establishes a benchmark for quality, competitors must quickly make their own improvement and come up to par. Global marketing strategies can generate greater revenue and greater operating margins, which, in turn, support design and manufacturing quality.

1.4.6. Leverage

A global company possesses the unique opportunity to develop leverage. In the context of global marketing, **leverage** means some type of advantage that a company enjoys by virtue of the fact that it has experience in more than one country.

Four important types of leverage exist:

a) **Experience Transfers** – A global company can leverage its experience in any market in the world by drawing on management practices, strategies, products, advertising appeals, or sales or promotional ideas that have been market-tested in one country and applied to another .

b) **Scale Economies** – The global company can take advantage of its greater manufacturing volume to obtain traditional scale advantages. Finished products can be manufactured by combining components manufactured in scale-efficient plants in different countries.

c) **Resource Utilization** – A global company has the ability to scan the entire world to identify people, money, and raw materials that will enable it to compete most effectively in world markets .

d) **Global Strategy** – The global company's greatest advantage is its global strategy. A global strategy is built on an information system that scans the world business environment to identify opportunities, trends, threats, and resources. A global strategy is a design to create a winning strategy on a global scale.

1.5. Restraining Forces for international marketing

Important restraining forces include management myopia, organizational culture, national controls, and opposition to globalization.

1.5.1. Management myopia and organizational culture

In many cases, management simply ignores opportunities to pursue global marketing. A company that is "nearsighted" and ethnocentric will not expand geographically. Myopia is also a recipe for market disaster if headquarters attempts to dictate when it should listen. Global marketing does not work without a strong local team that can provide information about local market conditions. Executives at Parker

Pen once attempted to implement a top-down marketing strategy that ignored experience gained by local market representatives. Costly market failures resulted in Parker's buyout by managers of the former UK subsidiary. Eventually, the Gillette Company acquired Parker.

1.5.2. National Controls/Barriers to Entry

Every country protects local enterprise and interests by maintaining control over market access and entry. Today, tariff barriers have been largely removed in the high-income countries. The significant barriers are the so-called non-tariff barriers that make it difficult for foreign companies to gain access to a domestic market. The worldwide movement toward deregulation and privatization, by breaking the link between government and enterprise, is an initiative that will lead to a significant opening up of formerly closed markets.

1.5.3. Opposition to globalization

To many people around the world, globalization and global marketing represent a threat. The term globaphobia is sometimes used to describe an attitude of hostility toward trade agreements, global brands, or company policies that appear to result in hardship for some individuals or countries while benefiting others.

1.6. Benefits of international marketing

The main benefits of international marketing are discussed below:

1.6.1. Survive and growth

Every country is not that fortunate as USA in terms of infrastructure, size, resources and opportunities. Hence, they must trade with other countries to survive.. Hong Kong cannot survive without food and water from China. The countries of Europe have had similar experience since most of the European nations are relatively small in size. Without foreign market, European firms would not have sufficient economies of scale to allow them to be competitive with US firms.

1.6.2. Sales and profits

The largest single market in the world in terms of national income is the United States, representing roughly 25 percent of the total world market for all products and services. U.S. companies that wish to achieve maximum growth potential must "go global," because 75 percent of world market potential is outside their home country. Management at Coca-Cola clearly understands this; about 75 percent of the company's operating income and two-thirds of its operating revenue are generated outside North America.

1.6.3. Diversification

In the international market cyclical factors as recession and such seasonal factors as climate affect the demand for most of the product. Due to these variables there are sales fluctuations, which frequently is substantial enough to cause, lay off of personnel. One way of diversifying a company's risk is to consider foreign markets as a solution for variable demands.

1.6.4. Standards of living

Trade affords countries and their citizen's higher standard of living than otherwise possible. Without trade, product shortages force people to pay more for less. Products taken for granted such as coffee and bananas may become unavailable overnight. Life in most of the countries will be more difficult were it not being for the many strategic metals that must be imported. Trade also makes it easier for industries to specialize and gain access to raw materials, while at the same time fostering competition and efficiency.

1.6.5. Employment and placements:

Tariff barriers and trade restrictions in certain countries contributed significantly to the great depression of 1930 and have the potential to cause widespread unemployment again. Unrestricted trade on the other hand, improves the world's GNP and enhances employment generally for all nations. With the liberalization of economic policy 1991, India has gained tremendously with the inflow of foreign direct investment as a result of which the employment in the country has tremendously improved.

1.6.6. Sales promotion:

Foreign markets constitute a large share of total business of many firms that have cultivated market abroad. Many large US companies have done very well because of their overseas customers. IBM and Compaq sell more computers abroad than at home. The case of Coca-Cola clearly emphasizes the importance of overseas markets. Coca-Cola is coming up with milk based products as majority of the Indians and Asians do not relish the taste of sparkling drinks which are supposed to be having caffeine and is addictive.

1.6.7. Inflation and wholesale price index:

The best way to control inflation is to earn foreign exchange through exports. Imports can also be highly beneficial to a country because they constitute reserve capacity of the local economy. Without 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.

CASES

Case 1-1:

In 2009, Italy's Fiat acquired a 20 percent stake in Chrysler, another iconic American company. Are you familiar with Fiat? What do you think CEO Sergio Marchionne hope to accomplish with this deal? How might Chrysler benefit from the alliance?

CEO Sergio Marchionne hopes to turn Fiat into a transnational company serving global markets and utilizing global supply chains. His strategy might be to turn Fiat into a geocentric company. Chrysler might benefit from the alliance by becoming a "global" brand instead of just an "American icon."

Case 1-2-

Overview: Today, McDonald's golden arches are one of the most recognized symbols in the world, just behind the Olympic rings. While growth within the U.S. has slowed, the picture outside the U.S. has appeared brighter, until recently. However, globally, taste profiles and consumer desires are changing. McDonald's has responded to these changes by altering their basic products (when necessary) to fit the requirements of the local markets. While not always successful, it has proven to be a winning strategy.

1-Identify the key elements in McDonald's global marketing strategy (GMS). In particular, how does McDonald's approach the issue of standardization? Does McDonald's think global and act local? Does it also think local and act global?

Answer:

The popularity of American-style hamburgers, fries, and soft drinks is growing around the world, supporting Levitt's view of the global village. Also, the restaurants themselves offer the consumers a chance to experience for themselves a fast food legend. However, students should point out that, in many locations, menu items are adapted according to the customs and tastes of individual countries. McDonald's offers an ideal example of "global localization."

With McDonald's offering of local tastes and a combination of American fare, McDonald's thinks globally (product adaption) and acts globally (standardization).

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Multiple choice questions

1-The popularity of American-style hamburgers, fries, and soft drinks is growing around the world, supporting Levitt's view of the……….

A-international market B- global village

C-international village D-global market

2-A person who assumes that his/her home country is superior to the rest of the world.

A-ethnocentric orientation B-poly centric orientation

C-geocentric orientation D-regiocentric orientation

3- Leads to a localized or adaptation view that assumes products MUST be adapted to succeed.

A-ethnocentric orientation B-poly centric orientation

C-geocentric orientation D-regiocentric orientation

4- means some type of advantage that a company enjoys by virtue of the fact that it has experience in more than one country.

A-competitive advantage B-economies of scale

C-leverage D-relative advantage

Essay questions

Identify the driving force of international marketing -1

(answer time 10 minutes paragraph 1-4)

2-write down the main types of leverage

(answer time 10 minutes paragraph 1-4-6-)

3-identify the restraining forces for the international marketing

4-identify stages of international marketing involvement)

(answer time 10 minutes paragraph 1-2)

Chapter two: International Social and Cultural Environment

2.1. Culture and Its Characteristics

2.1.1. Definitions and Origins of Culture

Geert Hofstede refers to culture as the *"software of the mind" and argues that it provides a guide for humans on how to think and behave; it is a problem-solving tool*.

Anthropologist and business consultant Edward Hall provides a definition even more relevant to international marketing managers:

"The people we were advising kept bumping their heads against an invisible barrier. . . . We knew that what they were up against was completely different way of organizing life, of thinking, and of conceiving the underlying assumptions about the family and the state, the economic system, and even Man himself".

Most traditional definitions of culture center around the notion that culture is the *Sum of the values, rituals, symbols, beliefs, and thought processes that are learned and shared by a group of people, then transmitted from generation to generation*.

So culture resides in the individual's mind. But the expression "a culture" recognizes that large collectives of people can, to a great degree, be like-minded.

It is important to note that; both differences and similarities characterize the world's cultures, meaning that the task of the global marketer are twofold.

First, marketers must study and understand the country cultures in which they will be doing business.

Second, this understanding must be incorporated into the marketing planning process.

2.1.2. Culture main 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.

Smoking, for instance, was once socially acceptable behavior, but recently it has become more and more undesirable – both socially and medically.

2- Culture is socially shared.

Culture 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. For example, at one time Chinese parents shared the preference of wanting their girl children to have small feet. Large feet, viewed as characteristic of low class people. As a result, parents from the upper class bound a daughter's feet tightly so that her feet would not grow large.

3-Culture facilitates 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. Therefore, standardized advertising messages may face difficulties in international markets.

4-Culture is learned.

Culture is not inherited genetically – it must be learned and acquired. The ability to learn culture makes it possible to absorb new cultural trends.

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.

6-Culture is enduring.

Because culture is shared and passed along from generation to generation, it is relatively stable and somewhat permanent.

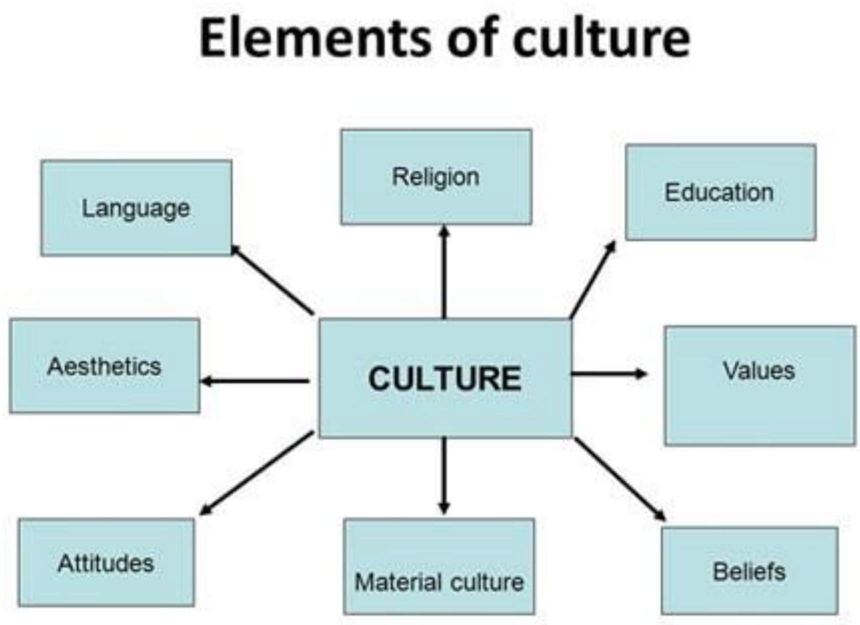
7-Culture is cumulative.

Each generation adds something of its own to the culture before passing the heritage on to the next generation. Therefore, culture tends to become broader based over time, because new ideas are incorporated and become a part of the culture. Of course, during the process, some old ideas are also discarded.

2.2. Elements of culture

There are a large number of key cultural elements that international marketers need to take into consideration when designing products, developing promotions and implementing distribution systems in foreign markets. There are varying definitions of the culture elements, including one that counts 73 cultural universals. The following elements are usually included in the concept of culture (figure2-1)

Figure 2-1 basic elements of culture



2.2.1. Material culture

Material culture refers to tools, artifacts and technology. Before marketing in a foreign culture it is important to assess the material culture like transportation, power, communications and so on. Material culture affects the level of demand, the quality and types of products demanded, and their functional features, as well as the means of production of these goods and their distribution For example, refrigerated transport does not exist in many African countries. Electric can openers and electric juicers are acceptable in the United States, but in less-affluent countries, they would be a spectacular waste because disposable income could be spent more meaningfully on better houses, clothing or food.

2.2.2. Attitudes, Beliefs, and Values

If we accept Hofstede's definition of culture as "the collective programming of the mind," then it makes sense to learn about culture by studying attitudes, beliefs, and values.

An **attitude** is a learned tendency to respond in a consistent way to a given object or entity. Attitudes are clusters of interrelated beliefs.

A **belief** is an organized pattern of knowledge that an individual holds to be true about the world. Attitudes and beliefs are related to values.

A **value** is an enduring belief or feeling that a specific mode of conduct is personally or socially preferable to another mode of conduct; values represent the deepest level of culture.

The Japanese, for example, strive to achieve cooperation, consensus, self-denial, and harmony. Because these all represent feelings about modes of conduct, they are values

Attitudes toward time: for example, in Poland, decisions are usually made quickly. In Kazachstan, cancelling a meeting at the last minute is common, whereas reliability is strictly observed in Romania.

Within any large dominant cultural group, there are likely to be **subcultures,** smaller groups with their own shared subset of attitudes, beliefs, and values; subcultures represent attractive niche marketing opportunities.

2.2.3. Relegion

Religion is a belief system that answers spiritual questions. An international marketer must be able to identify and understand how these belief systems will affect product design, sales practices, and business negotiations.

The world's major religions include Buddhism, Hinduism, Islam, Judaism, and Christianity. Here are some examples

1-The impact of religion on consumption patterns usually relates to the restriction of certain foods and beverages, for example, Jews and Muslims do not eat pork, Hindus do not eat beef, and drinking alcohol is forbidden by Islam and strict Protestants. There is no doubt that international marketing is affected by religious beliefs.

2- Saudi Arabian publications will not accept any advertisement that has a picture of a woman in it. Sleeveless dresses are considered offensive to Islamic rules, and all advertisements that include pictures of such dresses are banned in Malaysia.

3- In the aftermath of the September 2001 terror attacks in New York and Washington, D.C. and the subsequent American military actions in the Middle East, some Muslims have tapped into anti-American sentiment by urging a boycott of American brands.

4- The role of women in society is sometimes largely driven by the local religion. In Islamic societies, conducting market research that involves women is extremely difficult. For instance, mixing men and women in focus groups is prohibited in Saudi Arabia.

5- Religious norms can also influence advertising campaigns. In Iran, all ads need to be cleared by Islamic censors. This approval process can take up to 3 months.

2.2.4. Aesthetics

Aesthetics *refer to the ideas in a culture concerning beauty and good taste as expressed in the art, drama or dancing and the particular appreciation of color, form and as well as it affects to differences in design, colors, packaging, brand names and media messages*.

Global marketers need to understand the importance of *visual aesthetics* embodied in the color or shape of a product, label, or package.

1-In international markets, colors have more symbolic value than in domestic markets. Black, for instance, is considered the color of mourning in the United States and Europe, whereas white has the same symbolic value in China, India, and most of the Far East.

2-In Chinese cultures, red is perceived as a lucky color. During the Beijing 2008 Olympics, many multinationals in China draped their brands in red. Even Pepsi changed its iconic blue can into a red-painted can for the occasion.

3-In some cases, a standardized color can be used in all countries; examples include the distinctive yellow color on Caterpillar's earthmoving equipment. A number of companies seem to be experiencing a case of the "blues," as evidenced by names such as Bluetooth, Blue Moon, and JetBlue Airways.

4- Music is an aesthetic component of all cultures, accepted as a form of artistic expression and source of entertainment. However, music is also characterized by stylistic variation with regional or country-specific associations (e.g., For example, bossa nova rhythms are associated with Argentina; samba with Brazil; salsa with Cuba; reggae with Jamaica); music exemplifies the "think global, act local" theme.

5-Because music plays an important role in advertising, marketers must understand what style is appropriate in a given national market. Although background music can be used effectively in broadcast commercials, the type of music appropriate for a commercial in one part of the world may not be acceptable or effective in another part.

6-Respecting local cultural traditions may also generate goodwill toward the international marketer. For example, McDonald's carefully renovated a seventeenth-century building for its third outlet in Moscow.

2.2.5. Education

Education can transmit cultural ideas or be used for change, for example the local university can build up an economy´s performance.

Educational levels will have an impact on various business functions. Training programs for a production facility will have to take the educational backgrounds of trainees into account.

Education levels, or lack of it, affect marketers in a number of ways:

a. Advertising programs and labeling
b. Girls and women excluded from formal education (literacy rates),
c. Conducting market research,
d. Complex products with instructions,
e. Relations with distributors and,
f. Support sources – finance, advancing agencies etc.

2.2.6. Language and communications

Language is the most obvious and easily identifiable difference between cultures and it reflects the nature and values of a particular culture. A country´s language is the key to its culture and can be described as the mirror of the culture.

Language can be divided into two major elements:

2.2.6.1. The verbal language (vocal sounds):

Language capability plays four distinct roles in international marketing

a. language is important in information gathering and evaluation efforts (local managers of a global corporation should be the firm´s primary source of political information to assess potential risk, instructions how to use products, information about the ingredients);
b. language provides access to local society (firms that translate promotional materials and information are seen as being serious about doing business in the country);
c. language capability is increasingly important in company communication including marketing communication and brand name creation;

d. language provides more than the ability to communicate; it extends beyond mechanics to the interpretation of context. . Realize that in several cultures, "yes" will not mean "I agree" but rather only signals "I hear what you're saying," so it does not convey consent.

One impact of globalization on culture is the diffusion of the English language around the globe. Despite the fact that Sony is headquartered in Japan, the company makes it clear to job applicants in any part of the world that it does not consider English to be a "foreign language." The same is true for Finland's Nokia. Matsushita recently introduced a policy that requires all managers to pass an English-language competency test before being considered for promotion.

Translation

A marketer must be careful even when the same language is used in two or more markets, such as Great Britain and the USA.

There are significant differences between American English and British English. Different words are used to indicate the same thing. For the American apartment and elevator, the British use flat and lift respectively. People use subways in New York, but they use the underground in London.

Citizens of the two countries may sometimes use the same word or phrase when they mean different things. A billion is a thousand million to the Americans but a million million to the Britons.

Because of language importance in doing business internationally, it happened that some marketing slogans or campaigns were wrong translated. For example,

- ✓ Traficante mineral water found a great reception in Spain´s underworld (Italy) It was translates as "drug dealer"(Spain).
- ✓ American Motors tried to market its new car, the Matador, based on the image of courage and strength (USA / Europe) The name means "killer" and was not popular on the hazardous roads in the country (Puerto Rico).
- ✓ The soft drink Fresca (Arabic countries), the sales people were embarrassed as Fresca is slang for "lesbian" (Mexico).

2.2.6.2. Non-verbal language (body language)

Managers must analyze and become fluent in a diversity of culturally derived behavioral displays. Five key topics: time, space, negotiation, friendship patterns, and business agreements offer a starting point from which managers can begin to acquire the understanding necessary to do business in foreign countries.

First: Language of time

- ✓ Americans tend to value time highly – both work time and leisure time – because "time is money." They often feel that things need to be settled and completed as soon as possible and that they have no time to waste or spare.

- ✓ American negotiators tend to skip the no task activities and go directly to the agreement stage. Russians, in contrast, have formal classroom training in bargaining and chess. They are patient and careful before making a move, often taking extra time just to gain an advantage in the process of negotiation as possible and that they have no time to waste or spare.
- ✓ Asians, for instance, tend not to be punctual, but the Chinese observe strict punctuality for social occasions and appointments. In general, there is a lack of punctuality in Asia and Africa, and it is not uncommon for people to be half an hour or an hour late for an appointment.

Second: language of space

- ✓ Space also has implications for personal selling. Latin Americans are comfortable with any a few inches of distance between them and repeated embracing. Asians, on the other hand, prefer substantial conversational distance and no physical contact. For Americans, a comfortable distance is something in between these two extremes.
- ✓ Polish conversation space is closer, that Poles are "close talkers" and they like to talk about money, salary and product prices in the comparison with their country.

Third: language of agreement

- ✓ In South Korea, a businessperson considers a contract to be a loosely structured consensus statement that allows flexibility and adjustment. In some societies, agreements merely signify intention and have little relation to capacity to perform.
- ✓ In Latin America, disagreements may be viewed as personal attacks against the individual. Subordinates are expected either to support their managers openly or to keep silent.
- ✓ the different forms of disagreement may confuse American managers. When potential customers keep quiet, nod their heads, or state that they will think about it, American managers may believe that a deal is developing. But foreign buyers may stay quiet even when the product in question is clearly unsuitable for their needs, because they do not want to offend the American by saying something critical.

Fourth: language of friendship

- ✓ Americans seem to have no difficulty in developing friendship in a very short time, and this trait is carried over into business relationships.

- ✓ General Motors Corp. has learned that, in China, the Chinese dine together first before talking business, unlike the US approach of talking business before having a meal together if things go well.
- ✓ The American practice of using first names can be very offensive in other countries, where formality and respect are strongly established traditions.

Fifth: language of negotiation

- ✓ In the USA, a lack of eye contact is usually viewed as an indication that something is not quite right, but the cultural style of communication negotiation in Japan requires a great deal less eye contact between speakers. Furthermore, in Japan, periods of silence are common during interactions, and a response of silence should not come as a surprise.
- ✓ Americans' straightforward style may prove a handicap in business negotiations. Chinese negotiations are generally tough-minded, well prepared, and under no significant time constraints. They are prepared to use various tactics to secure the best deal.

2.3. Approaches to the study of culture

There are a number of approaches to the study of culture including the following

2.3.1. Context and culture

Edward T. Hall forwarded the concept of **high-** and **low-context** to explain cultural orientations.

In a **low-context culture**, messages are explicit and specific and the words carry most of the communication power. the impact of non-verbal cues on intended meaning is less important and the body language of the speaker less important in interpretation of meaning.

In a **high-context culture**, less information is contained in the verbal part of a message. More information resides in the context of communication, including the background, associations, the body language of the speakers and basic values of the communicators.

(Table 2-1) summarizes some of the ways in which high- and low- context cultures differ.

Factors and dimension	High context	Low context
Lawyers	Less important	Very important

A person word	His/her bond	Is not to be relied upon
Responsibility for organizational error	Taken by highest level	Pushed to lowest level
Space	People close to each other	People maintain private space
Time	Everything in life must be dealt with in term of its own time	Time is money
Negotiations	Lengthy: time for the parties to know each other	Proceed quickly
Competitive bidding	infrequent	Common
Regional examples	Japan, middle east	USA, northern Europe

2.3.2. Hofstede's cultural typology

Hofstede is well known for research studies of social values suggesting that the cultures of different nations can be compared in terms of five dimensions (see Table 2-2).

The dimensions are:

1. **Individualist/collectivist**: this dimension is a reflection of the degree to which individuals in a society are integrated into groups. In **Individualist cultures:** each member of society is primarily concerned with his or her own interests and those of the immediate family like US and Europe. In **Collectivist cultures**, all of society's members are integrated into cohesive in-groups like Japan and other Asian countries.

2. **Power distance**: . It refers to the degree of inequality among people that is viewed as being acceptable. Societies that are high in power distance accept and expect relatively high social inequalities within institutions (e.g., the family and school) or organizations (e.g., the company) Examples of high-power distance countries are Malaysia, Russia, Mexico, India, china.. Germany and UK are low power distance countries.

Table (2-2) Hofstede Cultural Dimensions-1994

Country	Power Distance (PDI)	Individualism (IDV)	Masculinity (MAS)	Uncertainty Avoidance (UAI)	Long Term Orientation (LTO)
Germany	35	67	66	65	31
UK	35	89	66	35	25
France	68	71	43	86	39
Hungary	46	80	88	82	50
Poland	68	60	64	93	32
Russia	93	39	36	95	–
Turkey	66	37	45	85	–
China	80	20	66	30	118
Malaysia	104	26	50	36	–
India	77	48	56	40	61
Australia	36	90	61	51	31
USA	40	91	62	46	29
Brazil	69	38	49	76	65
Argentina	49	46	56	86	–

3. **Uncertainty avoidance:** In some cultures, people try to control the future, in others members of society feel less threatened by ambiguous or unknown situations and just let the future happen. Examples of countries that score high on uncertainty avoidance are Poland, Russia and Argentina. In low uncertainty avoidance cultures, people tend to be more easygoing, innovative, and entrepreneurial. Example of low uncertainty avoidance countries are China, Malaysia.

4. **Masculinity**: considers the importance of "male" values such as assertiveness, status, success, competitive drive within society, and achievement versus "female" values like being people-oriented, solidarity, and quality of life. "Masculine" societies are those in which values associated with the role of men prevail. Examples are Hungary and Australia. Cultures where people favor values such as solidarity, preserving the environment, and quality of life are classified as "feminine. Examples are Spain, Taiwan, the Netherlands, and the Scandinavian countries.

5. **Long-term orientation vs. short-term orientation**: People in long-term-oriented societies tend to be oriented primarily on the present and the future; they focus on means to prepare for the future. On the other hand, members of short-term-oriented cultures are concerned about values that reflect the past. They prefer time-honored traditions, are wary of change, exhibit a low propensity to save for the future, and tend to be more short-term oriented. Japanese companies famously take a long-term

horizon, investing in R&D even during economically tough times. In contrast to many Western firms, Japanese companies do not focus on quarterly profits but rather on long-term metrics such as market share.

2.3.3. The self-reference criterion (SRC)

The SRC refers "to people's unconscious tendency to resort to their own cultural experience and value systems to interpret a given business situation". To eliminate or reduce cultural myopia, Lee proposed a four-step framework.

- ✓ Define the problem or goal in terms of home country cultural traits, habits, and norms.
- ✓ Define the problem or goal in terms of host-country cultural traits, habits, and norms. Make no value judgments.
- ✓ Isolate the SRC influence and examine it carefully to see if it complicates the problem.
- ✓ Redefine the problem without the SRC influence and solve for the host-country market situation.

SRC can be a negative force in global business leading to misunderstanding and failure. A person must suspend assumptions based on prior experience and success and add new knowledge about human behavior and motivation.

2.3.4. Diffusion theory

Sociologist Everett Rogers distilled his research into three concepts that are extremely useful to global marketers: the adoption process, characteristics of innovations, and adopter categories.

The Adoption Process

The **adoption process** - the mental stages from the first knowledge of an innovation to product adoption or purchase:

- *Awareness*. The customer becomes aware for the first time of the product or innovation. Global marketers create awareness through general exposure to advertising messages.
- *Interest*. The customer is interested enough to learn more. The customer will engage in research and seek information.
- *Evaluation*. The individual mentally assesses the product's benefits and decides

whether or not to try it.

- *Trial*. Most customers will not purchase expensive products without a "trial." For inexpensive products, an initial single purchase is defined as trial.
- *Adoption*. The individual either makes an initial purchase or continues to purchase a product. Sales reps and word of mouth are forces in the decision to buy

Characteristics of Innovations

Five factors affect the rate of adoption:

- *Relative advantage*: How a new product compares with existing products or methods.
- *Compatibility*: How consistent a product is with existing values and past experiences.
- *Complexity*: How difficult the new product is to understand and use.
- *Divisibility*: How easy it is to try a product on a limited basis without great expense.
- *Communicability*. How well the benefits or value of a product are communicated.

Adopter Categories

Adopter categories are classifications of individuals in a market on the basis of innovativeness.

Five categories have been assigned to the segments of a normal distribution:

- The first 2.5 percent are innovators
- The next 13.5 percent are early adopters
- The next 34 percent are the early majority
- The next 34 percent are the late majority
- The final 16 percent are laggards.

Conclusion:

In conclusion it is important for international marketers to search the foreign markets in terms of social and cultural difference as main factors affecting consumer behavior and consumption.

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Multiple choice questions

1-is a learned tendency to respond in a consistent way to a given object or entity

A-attitude B-values C-beliefs D-culture

2- The first 2.5 percent to purchase a product are …………………...

A-early adopters B-laggards C-late majority D- innovators

3- It refers to the degree of inequality among people that is viewed as being acceptable.

A-risk averse B-power distance C- uncertainty avoidance D-behavior

4- less information is contained in the verbal part of a message.

A- high-context culture B-social distance B- low-context culture D-collectivist

Essay questions

1-write down characteristics of innovation
(answer time 10 minutes paragraph 2-3-4)
2-identify adoption process
(answer time 10 minutes paragraph 2-3-4)
3-how education level affect of marketers
(answer time 10 minutes paragraph 2-3-4)
4-identify levels of culture
(answer time 10 minutes paragraph 2-2)
(answer time 10 minutes paragraph 1-5)

Chapter three: political and Legal Environment

3.1. The political environment

Any company doing business outside its home country should carefully study the political culture in the target country and analyze salient issues arising from the political environment. These include the following:

3.1.1. The Sovereignty of Nations

Sovereignty refers "*to both the powers exercised by a state in relation to other countries and the supreme powers exercised over its own members".*

Government actions taken in the name of sovereignty occur in the context of two important criteria:

1. a country's stage of development
2. and the political and economic system in place in the country

- ✓ Nations with advanced stages of economic development declare that any practice that restrains free trade is illegal. Antitrust laws and regulations promote fair competition .
- ✓ Advanced-country laws often define and preserve a nation's social order. For example, a French law passed in 1996 requires that at least 40 percent of the songs played by popular radio stations must be French.
- ✓ Nations may be willing to give up sovereignty in return for something of value (e.g., EU countries gave up their currencies in exchange for improved market access).

3.1.2. Political Risk

Political risk is defined as the "*risk of loss when investing in a given country caused by changes in a country's political structure or policies, such as tax laws, tariffs, expropriation of assets, or restriction in repatriation of profits*"

There are a number of political risks with which marketers must contend

1-Confiscation

Is the process of a government's taking ownership of a property without compensation. An example of confiscation is the Chinese government's seizure of American property after the Chinese communists took power in 1949.

2- Expropriation

Differs somewhat from confiscation in that there is some compensation, though not necessarily just compensation. More often than not, a company whose property is being expropriated agrees to sell its operations – not by choice but rather due to some explicit or implied pressure.

3- Nationalization

Involves government ownership, and it is the government that operates the business being taken over. Burma's foreign trade, for example, is completely nationalized. Generally, this action affects a whole industry rather than only a single company. When Mexico attempted to control its debt problem, then-President Jose Lopez Portillo nationalized the country's banking system.

4- Domestication

Foreign companies hand over control and ownership, either completely or partially, to the nationals. The result is that private entities are allowed to operate the confiscated or expropriated property. The French government, after finding out that the state was not sufficiently proficient to run the banking business, developed a plan to sell thirty-six French banks.

Domestication may sometimes be a voluntary act that takes place in the absence of confiscation or nationalization. Usually, the causes of this action are either poor economic performance or social pressures. When situations worsened in South Africa and political pressures mounted at home, Pepsi sold its South African bottling operation to local investors, and Coca-Cola signaled that it would give control to a local company.

Table (3-1) provide most recent Political Risk Index (PRI) ranked from low to high risk within each region listed.

Table (3-1) political risk index -2015-2019

	2019	**2018**	**2017**	**2016**	**2015**
GLOBAL AVERAGES	**71**	**72**	**72**	**71**	**73**
N. & Cent. America Avg.	**73**	**73**	**73**	**74**	**75**
Canada	91	91	92	92	92
United States	87	87	88	86	84
Jamaica	79	80	78	76	76
Panama	78	78	77	77	77
Trinidad & Tobago	78	78	79	79	83
El Salvador	76	74	69	69	71

Costa Rica	75	75	73	72	75
Guatemala	71	72	71	73	71
Mexico	71	70	75	79	81
Dominican Republic	70	71	71	69	70
Honduras	68	70	67	68	68
Nicaragua	67	66	72	74	73
Haiti	59	61	64	64	66
Cuba	48	50	48	56	57
South America Avg.	***67***	***68***	***68***	***68***	***70***
Chile	80	83	83	82	84
Uruguay	79	79	77	77	81
Peru	78	78	78	78	78
Paraguay	72	74	72	73	74
Colombia	71	73	74	73	78
Suriname	71	71	68	68	73
Guyana	68	66	67	65	66
Brazil	66	68	67	68	70
Argentina	62	66	70	67	62
Bolivia	61	63	67	67	69
Ecuador	59	59	57	57	55
Venezuela	39	39	39	41	45
West Europe Avg.	***81***	***81***	***80***	***80***	***81***
Norway	88	88	88	88	90
Austria	87	87	87	86	88
Sweden	86	86	86	88	88

Switzerland	86	86	84	84	86
Netherlands	86	87	86	84	85
Finland	85	87	83	84	85
Ireland	84	83	82	81	78
Germany	84	84	84	83	83
Denmark	83	83	82	82	83
Belgium	80	80	80	79	81
Spain	80	80	78	77	75
United Kingdom	76	77	78	80	87
Portugal	75	77	74	74	75
France	74	78	76	75	76
Greece	74	72	68	65	66
Turkey	72	72	73	72	72
Italy	70	69	71	70	73
Cent. & South Asia Avg.	***67***	***67***	***67***	***66***	***67***
India	74	72	72	70	70
Azerbaijan	74	73	71	71	75
Sri Lanka	69	68	70	71	71
Kazakhstan	66	66	68	67	69
Bangladesh	65	66	63	64	62
Pakistan	55	56	57	54	54
East Europe Avg.	***75***	***75***	***74***	***74***	***74***
Czech Republic	89	89	88	89	88
Bulgaria	83	83	83	81	83
Slovakia	83	84	81	82	80

Poland	82	82	78	79	81
Romania	77	77	77	77	76
Hungary	74	74	73	73	75
Ukraine	58	53	53	55	56
Russia	57	57	56	52	52
MidEast/N. Africa Avg.	***65***	***65***	***65***	***65***	***66***
United Arab Emirates	89	90	88	87	87
Israel	85	85	84	81	82
Kuwait	77	77	77	78	80
Oman	74	74	76	77	82
Saudi Arabia	74	76	76	76	78
Morocco	72	72	71	69	70
Tunisia	64	62	65	67	66
Egypt	64	63	58	56	58
Algeria	62	62	62	63	64
Iran	49	50	57	57	52
Iraq	48	48	47	47	51
Libya	46	46	44	40	40
Syria	45	45	46	43	44
Sub-Saharan Africa Avg.	***62***	***62***	***63***	***63***	***65***
Botswana	81	81	82	82	83
South Africa	69	67	65	67	69
Ghana	68	68	71	68	69
Zambia	65	66	65	67	70
Kenya	65	67	67	65	68

Cameroon	65	68	67	68	71
Gabon	64	63	66	69	72
Angola	63	65	63	64	67
Congo	62	62	63	67	72
Côte d'Ivoire	60	64	68	68	67
Guinea	58	58	59	54	56
Nigeria	57	57	55	58	59
Sudan	53	56	55	53	54
Congo DR	50	50	50	49	52
Zimbabwe	42	43	42	44	45
East Asia/Pacific Avg.	***78***	***78***	***78***	***78***	***79***
Singapore	92	92	91	90	91
Hong Kong	90	91	93	92	92
Taiwan	89	90	89	89	90
Australia	88	86	86	85	87
Japan	87	85	85	85	85
New Zealand	86	86	86	87	86
South Korea	81	81	81	83	83
Malaysia	78	78	79	78	78
Thailand	76	76	76	76	76
Indonesia	71	68	69	69	68
Philippines	69	70	68	68	73
Vietnam	69	71	69	70	69
China	67	69	69	67	70
Papua New Guinea	67	67	64	67	72

Myanmar	63	64	64	64	62

3.1.3. Political Conflict

Several countries of the world experience political conflict of diverse sorts. Political conflicts may be categorized as turmoil, internal war and conspiracy.

Turmoil refers to instant upheaval on a massive scale against a regime such as the overthrow of shah of Iran.

Internal war means large-scale, organized violence against a government such as Sudan and Afghanistan.

Conspiracy represents an immediate, deliberate act of violence against those in power (for example, the assassination of Egyptian President Anwar Sadat).

Political change may also lead to a more favorable business climate. After the assassination of Prime Minister Indira Gandhi in 1984, India‘s policy became highly good for international business. Gillette Company, for example, obtained the Indian government‘s permission to set up a razor blade plant after some eight years of asking.

3.1.4. Economic Risks

Economic risks are an important and recurring part of the political environment that few international companies can avoid. Theses economic risks are:

1- Exchange Controls

Those countries having difficulties with the balance of trade impose restrictions on the free use of foreign exchange. For example, import of luxuries from outside the country is restricted. The exchange control may also be an effort to encourage domestic industry. Exchange control measures affect foreign business in two ways. First, profits and capital cannot be returned to the parent company at will. Second, raw material, machinery, spare parts and the like cannot be liberally imported for operating purposes. Most developing countries utilize exchange control to regulate their hard currency balances.

2- Export control

Many nations have export control systems, which are designed to deny or at least delay the acquisition of strategically important goods by adversaries. Most of these systems make controls the exception rather than the rule, with exports taking place independently from politics. The U.S. export control system is based on the Export Administration Act, administered by the Department of Commerce, and the Arms Export Control Act, administered by the Department of State. The Commerce Department focuses on exports in general, while the State Department covers products designed or modified for military use, even if such products have commercial applicability. The determinants for controls are national security, foreign policy, short supply, and nuclear nonproliferation.

In order for any export from the United States to take place, the exporter needs to obtain an export license. The administering government agencies have, in consultation with other government departments, drawn up a list of commodities whose export is considered particularly sensitive. In addition, a list of countries differentiates nations according to their political relationship with the United States. Finally, a list of individual firms that are considered to be unreliable trading partners because of past trade-diversion activities exists for each country.

3- Import Restrictions

Selective restrictions on the import of raw materials, machines, and spare parts are fairly common strategies to force foreign industry to purchase more supplies within the host country and thereby create markets for local industry. The problem becomes critical when there are no adequately developed sources of supply within the country.

In these countries, either all imports or the imports of particular products are controlled through tariff and nontariff mechanisms. **Tariffs** place a tax on imports and raise prices. **Nontariff** barriers like **voluntary restraint agreements** are self-imposed restrictions and cutbacks aimed at avoiding punching trade actions from the host. **Quota systems** reduce the volume of imports accepted by a country. The final effect of all these actions is a quantitative reduction of imports.

4- Market Control

The government of a country sometimes imposes controls to prevent foreign companies from competing in certain markets. For example, until recently Japan had prohibited foreign companies from selling sophisticated communication equipment to the Japanese government. As a result many popular companies could not do business with Japan. The Arab boycott of companies doing business with Israel is an interesting example of market control.

5-tax control

Taxes must be classified as a political risk when used as a means of controlling foreign investments. In such cases, they are raised without warning and in violation of formal agreements. India, for example, taxes PepsiCo and the Coca-Cola Company 40 percent on all soda bottled in India.. To underdeveloped countries with economies constantly threatened with a shortage of funds, unreasonable taxation of successful foreign investments appeals to some government officials as the handiest and quickest means of finding operating funds.

On the other hand, there is a negative impact of taxation on the home country organizations and individuals to profit by *not* paying taxes.

International companies can still profit from the smuggling practice; it has been estimated, for example, that 90 percent of the foreign cigarettes sold in China are smuggled in. For Philip Morris, this means annual sales of $100 million to distributors in Hong Kong, who then smuggle the smokes across the border.

6-price control

Essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and sugar, are often subjected to price controls. Such controls applied during inflationary periods can be used to control the cost of living. Also, in times of severe currency fluctuations and interest rate manipulations, the value of firms' assets and activities can be adversely affected.

7-Labor control.

In many nations, labor unions are very strong and have great political influence. Using its strength, they may be able to talk the government into passing very restrictive laws that support them at heavy cost to business. In fact, in many countries, foreign firms are considered fair game for the demands of the domestic labor supply. In France, the belief in full employment is almost religious in fervor; layoffs of any size, especially by foreign-owned companies, are regarded as national crises. We should also note that some multinational companies are more powerful than local labor unions. Walmart closed a store in Quebec rather than let it be unionized.

3.1.5. Political sanctions

The terms trade sanctions as used here refer to governmental actions that distort the free flow of trade in goods, services, or ideas for decidedly adversarial and political, rather than strictly economic, purposes.

The United States has long-term boycotts of trade with Cuba and Iran and has come under some criticism for its demand for continued sanctions against Cuba and its threats of future sanctions against countries that violate human rights issues.

History indicates that sanctions are almost always unsuccessful in reaching desired goals, particularly when other major nations' traders ignore them. For example, the Chinese recently signed an agreement with Iran that will bring $70 billion of natural gas to China.

3.1.6. Structure of government

There are a few crucial political factors international executives should know that determine the nature of the host country's political climate. These are

1-ideology

A country's ideological leaning may be capitalism, socialism, a mixture or other form.

In the last years remarkable changes have been taking place in the ideologies of many countries. The most dramatic example has been the collapse of the communist USSR and Eastern Europe and its replacement with market led policies and ideologies. Similarly, many African countries are abandoning their centrist leanings in favor of market led economies, for example, Zimbabwe and Tanzania.

2-political parties

In a **single-party**-dominant country, government policies tend to be stable and predictable over time. Although such governments provide consistent policies, they do not always guarantee a favorable political environment for foreign companies operating in the country.

In a dual-party system, such as the United States and Britain. In Great Britain, for example, the Labour Party traditionally has been more restrictive regarding foreign trade than the Conservative Party. The Labour Party, when in control, has limited imports, whereas the Conservative Party has tended to liberalize foreign trade when it is in power. A foreign firm in Britain can expect to fluctuate between the liberal trade policies of the Conservatives and the restrictive ones of Labor.

In a multiple-party system without any clear majority, found in Italy and more recently in Japan and Taiwan. The consistency of government policies may be compromised as a result. Since there is no dominant party, different parties with differing policy goals form a coalition government. The major problem with a coalition government is a lack of political stability and continuity, and this portends a high level of uncertainty in the business climate.

3.2. International legal environment

In order to understand and appreciate various legal systems and their legal philosophies among countries, it is essential to distinguish between the two major legal systems: common law and statute law.

3.2.1. Common Law versus Civil Law

International law may be defined as the rules and principles that nation-states consider binding upon themselves.

Private international law is the body of the law that applies to disputes arising from commercial transactions between companies of different nations.

A **civil-law** country is one in which the legal system reflects the structural concepts and principles of the Roman Empire in the sixth century. This legal system include most European countries and Japan. Every circumstance is clearly spelt out to indicate what is legal and what is not. There is also a strict and literal interpretation of law under this system.

In **common-law** countries, many disputes are decided by reliance on the authority of past judicial decisions (cases). A common-law legal system is based on the concept of precedent, sometimes called *stare decisis*. Precedent is the notion that past judicial decisions on a particular issue are binding on a court when that same issue is presented later. Countries with such a system include United States, Great Britain, Canada, India and other British colonies.

Islamic law

The legal system in many Middle Eastern countries is identified with the laws of Islam, which are associated with "the one and only God, the Almighty." In **Islamic law**, the *sharia* is a comprehensive code governing Muslim conduct in all areas of life, including business.

The code is derived from two sources:

1. The Koran, the Holy Book written in Arabic that is a record of the revelations made to the Prophet Mohammed by Allah.
2. The Hadith, which is based on the life, sayings and practices of Muhammad.

3.2.2. Legal system and business important issues

3-2-2-1- Jurisdiction

- ✓ Refers to a court's authority to rule on particular types of issues arising outside of a nation's borders or to exercise power over individuals or entities from different countries.
- ✓ Employees of foreign companies should understand the extent to which they are subject to the jurisdiction of host-country courts.
- ✓ Courts have jurisdiction if it can be demonstrated that the company is doing business in the state in which the court sits.

3-2-2-2- Intellectual Property

- ✓ Patents and trademarks that are protected in one country are not necessarily protected in another, so international marketers must ensure that patents and trademarks are registered in each country where business is conducted.
- ✓ A **patent** is a formal legal document that gives an inventor the exclusive right to make, use, and sell an invention for a specified period of time.
- ✓ A **trademark** is defined as a distinctive mark, slogan, device or symbol; that a manufacturer attach to a particular product or package to distinguish it from goods produced by other manufacturers.
- ✓ Patent and trademark protection in the United States is very good, and U.S. law relies on precedent for guidance.
- ✓ To register a patent in Europe, a company has the option of filing on a country-by

country basis or applying to the European Patent Office in Munich for patent registration in a specific number of countries. A third option will soon be available: The Community Patent Convention will make it possible for an inventor to file a patent that is effective in the 27 signatory nations .

- ✓ Currently, patent procedures in Europe are quite expensive, in part because of the cost of translating technical documents into all the languages of the EU countries
- ✓ A **copyright** establishes ownership of a written, recorded, performed, or filmed creative work.
- ✓ **Counterfeiting** is the unauthorized copying and production of a product. An *associative counterfeit, or imitation,* uses a product name that differs slightly from a well-known brand but is close enough that consumers will mistake it with the genuine product. Counterfeiting is a serious business problem. In addition to the direct monetary loss, companies face indirect losses as well. Counterfeit goods injure the reputation of companies whose brand names are placed on low-quality product.
- ✓ **Infringement** occurs when there is commercial use (i.e., copying or imitating) without the owner's consent, with the intent of confusing or deceiving the public. For example, Texas Instruments charged that eight Japanese firms made memory chips based on its patents after the expiration of license agreements, and the US company was able to force the Japanese firms to pay nearly $300 million in royalties
- ✓ **Piracy** is the unauthorized publication or reproduction of copyrighted work.
- ✓ Kimberly-Clark Corporation markets Kleenex® brand tissues and is the registered trademark owner. Trademarks and other forms of intellectual property are valuable assets; this ad, which appeared in Advertising Age magazine, serves notice that Kimberly-Clark is protecting its investment in the Kleenex® brand name. Companies take this type of action to prevent brand names from becoming generic terms.

3-2-2-3- Antitrust

Antitrust laws in the United States and other countries are designed to combat restrictive business practices and to encourage competition.

A recent rash of antitrust actions brought in the United States against foreign companies has raised concerns that the United States is violating international law as well as the sovereignty of other nations.

The U.S. laws are a legacy of the 19th century trust-busting era and are intended to maintain free competition by limiting the concentration of economic power.

The Sherman Act of 1890 prohibits certain restrictive business practices, including fixing prices, limiting production, allocating markets, or any scheme designed to limit or avoid competition.

The law applies to the activities of U.S. companies outside the U.S. boundaries as well as to foreign companies conducting business in the U.S. (e.g., Nippon Paper Industries was found guilty in a federal appeals court of conspiring with other Japanese companies to raise U.S. fax paper prices).

To do business in Europe, foreign companies must comply with EU antitrust law, just as European companies must abide by U.S. antitrust law to do business in the United States. In 2001, the EU formally blocked General Electric's $43 billion purchase of Honeywell International, the first time a proposed merger between two U.S. companies has been prevented solely by European regulators.

Table (3-2) antitrust ruling

Companies Involved	Global Antitrust Review	Antitrust Review in USA
Acquisition of Anheuser-Busch (United States) by InBev (Belgium/Brazil), 2008, $52 billion	Deal approved in China but company is prohibited from pursuing Huaran Snow or Beijing Yanjing.	Approved; InBev was required to sell Labatt USA.
Merger of Sony Music (Japan) and BMG (Germany), 2004	Approved by EU.	Approved.
Acquisition of Honeywell (United States) by GE (United States), 2001, $40 billion	Deal was vetoed on grounds that merged firm would be stronger than competitors in aviation equipment.	Deal was on track for approval, subject to conditions.
Joint venture between music businesses of EMI Group PLC (Great Britain) and Time Warner (United States), 2000, $20 billion	EU regulators expressed concern that the new EMI–Time Warner would dominate the growing market for digital music distribution.	Deal was scrapped in October 2000 before regulatory review began.

3-2-2-4- legal and ethical issues

1-Antidumping Laws

Dumping is a type of pricing strategy for selling products in foreign markets below cost, or below the price charged to domestic consumers. Dumping is practiced to capture a foreign market and to damage rival foreign national enterprises. Host government's often pass laws against dumping with a view to protect local industries.

2-gray market

Gray market exists when a manufacturer ends up with an unintended channel of distribution that performs activities similar to the planned channel-hence the term parallel distribution. Through this extra channel, gray market goods move, internationally as well as domestically. In an international, context, a gray market product is one imported by an unauthorized party. Products notably affected by this method of operation include watches, cameras, automobiles, perfumes, and electronic goods.

3- Bribery and Corruption

Bribery is the corrupt business practice of demanding or offering some type of consideration—typically cash payment—when negotiating a cross-border deal.

In the United States, the **Foreign Corrupt Practices Act** (FCPA) made it a crime for U.S. corporations to bribe an official of a foreign government or political party to obtain or retain business.

Payments to third parties are also prohibited when the company has reason to believe that part or all of the money would be channeled to foreign officials. For example, in 2005, Monsanto Chemical was fined $1.5 million for violating the FCPA by making illegal cash payment to a senior Indonesian Ministry of Environment official a few years earlier.

Table 3-3- shows the 2014 top 10 and bottom ten countries.

Rank/Country	2014 CPI Score	Rank/Country	2014 CPI Score
1. Denmark	92	166. Eritrea	18
2. New Zealand	91	166. Libya	18
3. Finland	89	166. Uzbekistan	18
4. Sweden	87	169. Turkmenistan	17
5. Norway	86	170. Iraq	16
6. Switzerland	86	171. South Sudan	15
7. Singapore	84	172. Afghanistan	12
8. Netherlands	83	173. Sudan	11
9. Luxembourg	82	174. North Korea	8
10. Canada	81	174. Somalia	8

Conclusion:

This chapter has considered the basic elements of the political, legal, and regulatory environments of international marketing, including the most pressing current issues and some suggested approaches for dealing with those issues.

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Multiple choice questions

1- is a type of pricing strategy for selling products in foreign markets below cost.
A-penetration B-skimming C-dumping D-transfer

2- designed to combat restrictive business practices and to encourage competition.

A-antitrust law B-anti dumping law C-anti immigration law

3-is the unauthorized publication or reproduction of copyrighted work.

A-infringement B-piracy C-counterfeiting D- copyright

4-reduce the volume of imports accepted by a country

A-quota system B-tariffs system C-non-tariffs system

Essay questions

1-identify the main political risks

(answer time 10 minutes paragraph 3-1-2)

2-what are the main economic risks
(answer time 10 minutes paragraph 3-1-4)
3-mention factors affecting structure of government
(answer time 10 minutes paragraph 3-1-6)
4-what are the main elements of intellectual property
(answer time 10 minutes paragraph 3-2-2-2)

Chapter four: International Information System and Market Research

4.1. Information components of international marketing system

The rapid development of the Internet has accelerated the speed with which information can be disseminated throughout the organization, and facilitated the integration of different types of information systems, for example financial, production, sourcing and inbound logistics, distribution and outbound logistics, as well as marketing.

The international marketing information system *is an interacting organization of people, systems and processes devised to create a regular, continuous and orderly flow of information essential to the marketer's problem*-solving and decision-making *activities.*

4.1.1. The importance of international marketing information system

A key role of the information system is to integrate these different types of information and to provide information spanning different geographical markets. More specifically, the international information system can be used to:

1- Scan the international environment in order to monitor emerging and changing environmental trends.
2- Assess how to reallocate resources and effort across different countries.
3- Monitor performance in different countries and product markets, to benchmark performance relative to regional or other comparable markets, and to pinpoint emerging problems and opportunities for future growth.
4- Transfer experience, ideas, knowledge and know-how from one area of the world and product market to another so as to identify and disseminate best practices worldwide.

4.1.2. Elements of the marketing information system

Whilst searching for opportunities internationally, uncertainties will arise due to four main factors:

1-lack of knowledge of the existence of possible new market alternatives.

2- The conditions internal and external to the firm which will determine the consequences of a new alternative.

3- What consequences these conditions when known may have for the firm.

4-and how these consequences may be expressed in relevant terms of goal fulfillment.

The following constitute the elements of the international information system. Data may be specific or general or both and used for decisions on whether to enter markets or not, in what degree and what emphasis in terms of the marketing mix. General information includes data on the following:

1-Market information

-Market statistics and potential

-Physical features - infrastructure, communications, money markets, banks etc.

-Media - availability, effectiveness and cost.

-Resources - money, human, materials (availability, cost, quality, development).

-Consumer attitudes and behavior, spending power, per capita income.

-Channels of distribution - type, availability, effectiveness.

-Information sources - quality, availability and cost.

-Consumer attitudes and behavior, spending power, per capita income

-Channels of distribution - type, availability, effectiveness.

2-Environmental factors

-Economic - rate of growth, structure, conduct, capital, economic sanction

-Political/Legal - laws, regulations, investment, "climate", government ideology, stability.

-Competition - type, structure, operations, strategy plans, programs, acquisitions, mergers.

-Social - customs, culture, attitudes, preferences.

-Technology - state, trends development.

3-financial factors

-Terms of access - quotas, tariffs, duties etc

-Monetary and fiscal policy

-Commodity exchanges

-International competitors

-Inflation rates

-Expectations - economists, bankers, business people

-Currency alterations and movements, controls and regulations

-Taxes - inflation, incentives, dividends tax rules, earnings, repatriation of profits

-Intervention by outside bodies e.g. IMF or World Bank and their effect on policy

4.2. International marketing research

4.2.1. Defining of international marketing research

Marketing Research, as defined by the American Marketing Association, as *"the activity that links the consumer, customer, and public to the marketer through* *information."*

International marketing research can be defined as *market research conducted either simultaneously or sequentially to facilitate marketing decisions in more than one country*.

The challenge of international marketing research is to recognize and respond to the important national differences that influence the way information can be obtained. These challenges include:

1-Cultural Differences: A soft drink was introduced into Arab countries with an attractive label that had six-pointed stars on it. The Arabs interpreted this as pro-Israeli and refused to buy it.

2- Racial Differences: This would refer to the differences in physical features of people in different countries.

3-Climatic Differences: This would include the conditions like degree of rain and temperature range in the targeted foreign market

4- Economic Differences: The level of economic development in a market can affect the desired properties of a product and in this way can inspire a company to adapt its products in order to meet the needs of the local market.

5-Religious Differences: Religion has many impacts on products, more particularly on the ingredients, that constitute them.

6-Historical Differences: Historical differences help explain facts such as the playing of cricket in England, as opposed to game of ice hockey in Czech or Slovak Republic.

7-Language Differences: Inappropriate use of language could result in loss of market apart from turning out to be a cross cultural mistake

8- Differences in Actual and Potential Target Groups: In countries like England and Germany it is possible to do national samples. Small towns and villages can be included because distances are not great. In Spain, interviews can be conducted only in cities with populations of over 100 000 people, as the cost of interviewing people in small towns and villages is prohibitively high.

4.2.2. International market research process

The process of collecting data and converting it into useful information includes the following steps:

Step1-problem formulation and research objectives

The primary research process should begin with a definition of the research problem and the establishment of specific objectives. The major difficulty here is translating the business problem into a research problem with a set of specific researchable objectives. In this initial stage, researchers often embark on the research process with only a vague grasp of the total problem. A good example of such a loosely defined problem is that of Russian airline Aeroflot. The company undertook a branding study to inform its marketing decisions regarding improving its long-standing reputation for poor safety standards and unreliable service.

Research objectives may include obtaining detailed information for better penetrating the market, for designing and fine-tuning the marketing mix, or for monitoring the political climate of a country so that the firm can expand its operations successfully. The better defined the research objective is, the better the researcher will be able to determine the information requirement.

Step 2-Choose Unit of Analysis

The next step involves the need to identify what part(s) of the world the company should be doing business and finding out as much as possible about the business environment in the area(s) identified.

The unit of analysis may be a single country; it may be a region such as Europe or South America, or it may be global.

Countrywide data are not required for all market entry decisions. Rather, a specific city, state, or province may be the relevant unit of analysis.

Step 3- Examine Data Availability

-The first task at this stage is to answer several questions regarding the availability of data. What type of data should be gathered? Can **secondary data** – for example data available in company files, a library, industry or trade journals, or online databases be used? Using data that are readily available saves both money and time.

-Available data may not have the level of **reliability** necessary for confident decision making for many reasons. Official statistics are sometimes too optimistic, reflecting national pride rather than practical reality, while tax structures and fear of the tax collector often adversely affect data.

-Although not unique to them, less developed countries are particularly prone to being both overly optimistic and unreliable in reporting relevant economic data about their countries.

- **Comparability** of available data is the third shortcoming faced by foreign marketers. In the United States, current sources of reliable and valid estimates of socioeconomic factors and business indicators are readily available. In other countries, especially those less developed, data can be many years out of date as well as having been collected on an infrequent and unpredictable schedule.

-**validity of secondary data**: Checking the consistency of one set of secondary data with other data of known validity is an effective and often-used way of judging validity. For example, a researcher might check the sale of baby products with the number of women of childbearing age and birthrates, or the number of patient beds in hospitals with the sale of related hospital equipment.

Step 4- Assess Value of Research

Research requires investment of both money and managerial time, and it is necessary to perform a cost-benefit analysis before proceeding further.

The small markets around the world pose a special problem for the researcher. The relatively low profit potential in smaller markets justifies only modest expenditures for marketing research. Therefore, the international researcher must devise techniques and methods that keep expenditures in line with the market's profit potential.

It may also be necessary to use inexpensive survey research that sacrifices some elegance or statistical rigor to achieve results within the constraints of the smaller market research budget.

Step5- research design

Primary data is, as the name suggests, collected solely for the purpose of a survey. Primary data can be defined as information that is collected first-hand, generated by original research tailor-made to answer specific current research questions.

International marketing researcher guru David Arnold offers the following guidelines regarding data gathering:

• Use multiple indicators rather than a single measure.

• Individual companies should develop customized indicators specific to the industry, product market, or business model.

• Always conduct comparative assessments in multiple markets.

• Observation of purchasing patterns and other behavior should be weighted more heavily than reports or opinion regarding purchase intention or price sensitivity.

Next, the decision must be made to use quantitative techniques (numerical data that can be subjected to statistical analysis) or qualitative techniques (non-numerical data).

1-Qualitative research

Qualitative research is exploratory and involves using unstructured techniques based on small samples. Qualitative research is used for:

✓ Exploring and understanding people's needs.

✓ Testing reactions to concepts such as new products and services, advertising messages, approaches to buying etc.

✓ Working out what the real issues or problems are.

2-quantitative research

In quantitative research, usually a large number of respondents are asked to reply either verbally or in writing to structured questions using a specific response format (such as yes/no) or to select a response from a set of choices. Quantitative research provides the marketer with responses that can be presented with precise estimations.

Issues in Data Collection

The research problem may be more narrowly focused on marketing issues, such as the need to adapt products and other mix elements to local tastes and to assess demand and profit potential.

Existing markets are those in which one or more companies are already serving customer needs.

In many countries, data about the size of existing markets—in terms of dollar volume and unit sales—are readily available. In some countries, however, formal market research is relatively new phenomenon and data are scarce.

In such situations, market researchers have two initial objectives:

1. To estimate the market size, the level of demand, or the rate of product purchase or consumption
2. To assess the company's overall competitiveness in terms of product appeal, price, distribution, and promotional coverage and effectiveness

Potential markets are those where no market currently exists and can be subdivided into latent and incipient markets.

A **latent market** is in essence, an undiscovered segment. It is a market in which demand would materialize *if* an appropriate product were made available.

In latent markets, initial success is not based on a company's competitiveness. Success depends on the ***prime mover advantage*** – a company's ability to uncover the opportunity and launch a marketing program that taps the latent demand.

An **incipient market** is a market that will emerge if a particular economic, demographic, political, or socio-cultural trend continues.

A company is not likely to succeed if it offers a product in an incipient market before the trends have taken root. After the trends have had a chance to gain traction, the incipient market will become latent and, later, existing.

Research Methodologies

1-survey

The survey research method is based on the questioning of respondents and represents, in both volume and value terms, perhaps the most important method of collecting data. Typically the questioning is structured: a formal questionnaire is prepared and the questions are asked in a prearranged order. The questions may be asked verbally, in writing or via a computer. Survey research is used for a variety of marketing issues, including:

- ✓ customer attitudes
- ✓ customer buying habits
- ✓ potential market size

✓ market trend

It is important to remember that what is customary in one country may be impossible in others because of infrastructure differences, cultural barriers or other reasons.

At a deeper level, culture shapes attitudes and values in a way that directly affects people's willingness to respond to interviewer questions.

A technique known as ***back translation*** can help increase comprehension and validity. Back translation requires that, after a questionnaire is translated into a particular target language, it is translated once again into the original language by a different translator. For even greater accuracy, ***parallel translations***—two versions by different translators—can be used as input to the back translation.

Online surveys

These can collect a large amount of data that can be quantified and coded into a computer. One of the advantages of online surveys in international market research is the saving on travelling costs. **E-mail** surveys are both very economical and very fast. It is possible to attach pictures and sound files. However, many people dislike unsolicited e-mails even more than unsolicited regular mail.

Personal interviews allow researchers to ask "why?" and then explore answers with the respondent on a face-to-face basis.

A **consumer panel** is a sample of respondents whose behavior is tracked over time.

Focus group research, a trained moderator facilitates discussion of a product concept, a brand's image and personality, an advertisement, a social trend, or another topic with a group of 6 to 10 people.

The moderator can utilize a number approaches to elicit reactions and responses, including projective techniques, visualization, and role-plays.

Focus group research yields qualitative data that do not lend themselves to statistical projection. Such data are extremely valuable in the_exploratory phase of a project and are typically used in conjunction with data gathered via observation and other methods.

In Singapore, focus groups of young teens were used to help guide development of Coca-Cola's advertising program.

Observation

This approach to the generation of primary data is based on watching and sometimes recording market-related behavior. Observational techniques are more suited to investigating what people do rather than why they do it. Here are some examples of this approach:

✓ Store checks: a food products manufacturer sends researchers into supermarkets to find out the prices of competing brands or how much shelf space and display support retailers give its brands.

- ✓ Mechanical observations are oft en used to measure TV viewership.
- ✓ Cash register scanners can be used to keep track of customer purchases and inventories.

To gain insights for product and package design improvements, Procter & Gamble sent video crews into 80 households in the United Kingdom, Italy, Germany, and China. P&G's ultimate goal was to accumulate an in-house video library database.

Scale Development

Market research requires assigning some type of measure, ranking, or interval to a response. To take a simple example of measurement, a ***nominal scale*** is used to establish the identity of a survey element. For example, male respondents could be labeled "1" and female respondents could be labeled "2."

A Likert scale entails placing each response in some kind of continuum, such as "strongly agree" to "strongly disagree."

In a multi-country research project, it is important to have a ***scalar equivalence***, which means two respondents in different countries with the same value for a given variable receive equivalent scores on the same survey item.

Sampling

When collecting data, researchers generally cannot administer a survey to every possible person in the designated group. A sample is a selected subset of a population that is representative of the entire population.

Two types of samples are probability samples and nonprobability samples.

A ***probability*** sample is generated by following statistical rules that ensure that each member of the population under study has an equal chance of being included in the sample. The results of a probability sample can be projected (with qualifications) to the entire population.

The results of a ***nonprobability*** sample cannot be projected with statistical reliability.

One form of nonprobability sample is a ***convenience sample*** – researchers select people who are easy to reach. Although data gathered in this way are not subject to statistical inference, they may be adequate to address the problem.

To obtain a ***quota sample,*** the researcher divides the population under study into categories; a sample is taken from each category. The term ***quota*** refers to the need to make sure that enough people are chosen in each category to reflect the overall makeup of the population.

Given the disadvantages of non-probability samples one may wonder why they are used so frequently by marketing researchers. The reasons relate to the inherent advantages of non-probability sampling:

- ✓ Non-probability samples cost less than probability samples.
- ✓ If accuracy is not critical, non-probability sampling may have considerable appeal.
- ✓ Non-probability sampling can be conducted more quickly than probability sampling.
- ✓ Non-probability sampling, if executed properly, can produce samples of the population that are reasonably representative.

Step 6- data analysis

The data collected up to this point must be subjected to some form of analysis if it to be useful to decision makers. First, the data must be prepared – the term ***cleaned*** is sometimes used – before further analysis is possible. Questionnaires must be coded, and some data adjustment may be required.

Data analysis continues with ***tabulation***, that is, the arrangement of data in tabular form. For nominally scaled variables such as “male” and “female,” a simple cross tabulation may be performed.

If the researcher is interested in the interaction between variables, ***interdependence techniques*** such as factor analysis, cluster analysis, and multidimensional scaling (MDS) can be used.

Factor analysis is used to transform large amounts of data into manageable units. Factor analysis is useful in psychographic segmentation studies.

Cluster analysis allows the researcher to group variables into clusters that maximize within-group similarities and between-group differences.

Cluster analysis shares some characteristics of factor analysis: it does not classify variables as dependent or independent, and it can be used in psychographic segmentation.

Cluster analysis is well suited to international marketing research because similarities and difference can be established between local, national, and regional markets of the world.

Step 8- Interpretation and Presentation

The report based on the market research must be useful to managers as input to the decision-making process. It is advisable for major findings to be summarized concisely in a memo that indicates the answer or answers to the problem first proposed in Step 1.

4.3. Problems in international marketing research

There are a number of problems connected with obtaining data in the international context. These are as follows:

- ✓ Multiple markets need to be considered each with unique characteristics, availability of data and research services
- ✓ Many markets are small and do not reflect the cost of obtaining data for such a small potential
- ✓ Methodological difficulties may be encountered like nuances of language, interpretation, difficulty of fieldwork supervision, cheating, data analysis difficulties (lack of computer technology)
- ✓ Infrastructure difficulties - lack of telephones, roads, transport, respondent locations and,
- ✓ Cultural difficulties - reluctance to talk to strangers, inability to talk to women or children, legal constraints on data collection/transmission

Conclusion:

It has to be noted at the end of this chapter that international marketer need to understand the importance of information technology and marketing information systems as strategic assets, and they should have a general understanding of the formal market research process.

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Multiple choice questions

1- The term ……………. refers to the need to make sure that enough people are chosen in each category to reflect the overall makeup of the population.

A-population B-quota C-sample D-units

2- that each member of the population under study has an equal chance of being included in the sample.

A-probability sample B-non-probability sample C-convenience sample

3- A ………….. is a sample of respondents whose behavior is tracked over time

A-observation B-survey C-consumer panel D-interview

4-…………..requires that, after a questionnaire is translated into a particular target language, it is translated once again into the original language by a different translator

A-back translation B-forward translation C-data analysis D-reliability

Essay questions

1-identify problems in international marketing research

(answer time 10 minutes paragraph 4-3-)

2- write down the international marketing research process

(answer time 10 minutes paragraph 4-2-2)

3-what are the main international marketing research challenge

(answer time 10 minutes paragraph 4-2-1)

4-identify elements of marketing information system

(answer time 10 minutes paragraph 4-1-2)

Chapter five: International Segmentation, Targeting and Positioning

5.1. International market segmentation definition

International market segmentation has been defined as *the process of identifying specific segments—whether they be country or individual consumer groups—of potential customers with homogeneous attributes who are likely to exhibit similar responses to a marketing mix.*

Professor Theodore Levitt advanced the thesis that consumers in different countries increasingly seek variety, and that the new segments will emerge in multiple national markets (e.g., Ethnic food such as pizza and sushi are in demand worldwide). 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 an international scale.

International market segmentation is based on the premise that companies should attempt to identify consumers in different countries who share similar needs and desires. However, the fact that significant numbers of pizza-loving consumers are found in many countries, they are not eating the exact same thing (e.g., Dominos in France, serves pizza with goat cheese and strips of port fat know as *lardoons*. In Taiwan, toppings include squid, crab, shrimp, and pineapple).

5.2. Reasons for international market segmentation

the main reasons why international marketers implement international market segmentation would be as the following:

1-Country screening

Companies will use different sets of criteria to screen countries, depending on the nature of the product. Cultural similarity to the domestic market is one criterion on which companies often rely. Other popular screening criteria include market attractiveness in terms of economic prosperity (e.g., per capita GNP), geographic proximity, and the country's economic infrastructure.

2-international marketing research

Country segmentation also plays a role in international marketing research.

Companies increasingly make an effort to design products or services that meet the needs of customers in different countries. Certain features might need to be added or altered, but the core product is largely common across countries.

3-entry decisions

Entering new markets involves major resource commitments. When launching a new product or service, the company must decide on the sequence of countries to enter. Segmentation of countries could support the selection process. The underlying logic is that the penetration patterns (e.g., rapid vs. slow penetration) for the new product are likely to show parallels across countries when the demand (e.g., culture) and supply (e.g., regulations) are similar in these countries.

4-positioning strategy

Segmentation decisions will also influence the company's product positioning strategy.

Basically, the company must decide on how it wants to position its products or services in the mind of the prospective target customers. Environmental changes or shifting consumer preferences often force a firm to rethink its positioning strategy. Cathay Pacific's repositioning strategy in the mid-1990s is a good example. The Hong Kong–based airline carrier realized that its product offerings failed to adequately meet the needs of its Asian clients, who represent 80 percent of its customer base. To better satisfy this target segment, the airline repositioned itself in the fall of 1994 to become the preferred airline among Asian travelers.

5-resource allocation

Market segmentation will also be useful in deciding how to allocate the company's scarce marketing resources across different countries. A more generalized approach of segmentation-for-resource allocation purposes is the BCG growth-share matrix in an international context. In this framework, countries are grouped based on two dimensions: (1) the growth potential of the business in the country (e.g., 5-year predicted future growth) and (2) the company's competitive position in the country (e.g., market share).

Figure 5-1-BCG Matrix

6-marketing mix policy

A persistent problem faced by international marketers is how to strike the balance between standardization and customization. International market segmentation could shed some light on this issue. Countries belonging to the same segment might lend themselves to a standardized marketing mix strategy. The same product design, an identical pricing policy, similar advertising messages and media, and the same distribution channels could be used in these markets. Of course, marketers need to be very careful when contemplating such moves. There should be a clear linkage between the segmentation bases and the target customers' responsiveness to any of these marketing mix instruments.

5.3. Effective international market segmentation

It is important to note that any decision to segment on a particular basis should be evaluated in terms of the following characteristics.

1. **Identifiable**.

The segments should be easy to define and to measure. This criterion can be easily met for "objective" country traits such as socioeconomic variables (e.g., gender and age). However, identifying segment membership based on values or lifestyle indicators is usually much harder.

2. Sizable.

The segments should be large enough to be worth going after. Note that modern technologies such as flexible manufacturing enable companies to relax this criterion. In fact, many segments that might be considered too small in a single-country context become attractive once they are taken together across borders.

3. Accessible.

The segments should also be easy to reach through promotional and distributional efforts. Differences in the quality of the distribution (e.g., road conditions and storage facilities) and media infrastructure (e.g., internet penetration) imply that a given segment might be hard to reach in some countries and easy to target in other marketplaces.

4. Stability.

If target markets change their composition or behavior over time, marketing efforts devised for these targets are less likely to succeed.

5. Responsive.

For market segmentation to be meaningful, it is important that the segments respond differently from each other to differentiated marketing mixes.

6. Actionable.

Segments are actionable if the marketing mix necessary to address their needs is consistent with the goals and the core competencies of the company.

5.4. International market segmentation approaches

The first step in doing international market segmentation is deciding which criteria to use in the task.

Common variables include geographic, demographics (including income and population), psychographics (values, attitudes, and lifestyles), behavioral characteristics, and benefits sought.

5.4.1. 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. Japan and Vietnam are both in East Asia, but one is a high income, postindustrial society and the other is an emerging, less developed, pre industrial society. The differences in the markets in these two countries overwhelm their similarities.

5.4.2. Demographic Segmentation

Demographic segmentation is based on measurable characteristics of populations, such as income, population size, age distribution, gender, education, and occupation.

Several key demographic facts and trends from around the world:

- Asia has 500 million consumers 16 and under.
- India has the youngest demographic profile among the world's large nations. More than half its population is younger than 25; the number of young people below the age of 14 is greater than the entire U.S. population.
- In the EU, the number of consumers aged 16-and-under is rapidly approaching

the number of consumers 60 and older.

- Half of Japan's population will be age 50 or older by 2025
- By 2030, 20 percent of the U.S. population—70 million Americans—will be 65 years old versus 13 percent (36 million) today.
- America's three main ethnic groups- African/Black Americans, Hispanic Americans, and Asian Americans – represent a combined annual buying power of $ 3.5 Trillion.
- The United States is home to 28.4 million foreign-born residents with a combined income of $ 233 billion.

1-Income and Population

About two-thirds of the world's GNI is generated by the Triad; only 12 percent of the world's population is located in the Triad countries.

The concentration of wealth in a handful of industrialized countries has significant implications for global marketers. After segmenting in terms of a single demographic variable – income- a company can reach the most affluent markets by targeting fewer than 20 nations; half the EU, North America, and Japan. But by doing so, however, the marketers are not reaching almost 90 percent of the world's population.

GNI and other income measures converted to dollars should be calculated according to purchasing power parities or through direct comparisons of actual prices for a given product (Table 5-1).

Table 5-1 shows Gross national income per capita 2019, Atlas method and PPP

ranking	economy	US dollar	ranking	economy	ppp international dollar
1	Switzerland	85,500	1	MacaoSAR, China	123,290
2	Norway	82,500	2	Qatar	94,170
3	MacaoSAR, China	78,640	3	Singapore	92,020
4	Isle of Man	75,340	4	Luxembourg	77,570
5	Luxembourg	73,910	5	Switzerland	72,390
6	Iceland	72,850	6	United Arab Emirates	70,240
7	United States	65,760	7	Norway	69,610
8	Qatar	63,410	8	Ireland	68,050
9	Denmark	63,240	9	Brunei	66,410

				Darussalam	
10	Ireland	62,210	10	United States	65,880

For example, while the U.S. ranks seventh in per capita income, it ranks tenth in terms of standard of living.

In 2013, the 10 most populous countries in the world accounted for just over 50 percent of the world income: the 5 most populous accounted for 40 percent.

Although, population is less concentrated than income, but pattern of concentration still exists; the ten most populous countries account for roughly 60 percent of the world's population.

The concentration of income in the high-income and large-population countries means that a company can be global by targeting buyers in ten or fewer countries.

McDonald’s shows the significance of both income and population (e.g., 80% of McDonald’s restaurants are located in nine countries, which generate 75% of the company’s total revenues).

2-Age Segmentation

- One global segment based on demographics is **global teens** – young people between the ages of 12 and 19. Teens, by virtue of their shared interest in fashion, music, and a youthful lifestyle, exhibit consumption behavior that is remarkably consistent across borders.
- Another global segment is the **global elite**: affluent consumers who are well traveled and have the money to spend on prestigious products with an image of exclusivity.
- In industrialized countries, the over-60 age segment is expected to rise to a third of the population (over two-fifths in Japan) from 20 percent now. Many of these people are more prosperous and healthier than ever before. Countries with an aging population clearly offer market opportunities for consumer goods and services that cater to the elderly.

3-Gender segmentation

Gender segmentation has long been used in clothing, cosmetics, toiletries, and magazines. For example, Procter & Gamble was among the first with Secret, a brand specially formulated for a woman's chemistry, packaged and advertised to reinforce the female image. others offer different product lines for both genders (e.g., Nike believes its global women’s business will see growth).

5.4.3. Psychographic Segmentation

- Marketers can group consumers according to their lifestyle (i.e., their attitudes, opinions, and core values). Lifestyle segmentation relates to how people live, how they spend their money, and how they allocate their time across various activities (e.g., leisure and shopping).

- Nashville, Tennessee, Kroger supermarket decided to experiment and offer groupings of different meats by lifestyle. For instance, the store had a section called "Meals in Minutes," one called "Cookin' Lite," another, filled with prepared products like hot dogs and ready-made hamburger patties, called "Kids Love This Stuff," and one called "I Like to Cook." By focusing on lifestyle needs and not on protein categories, Kroger's test store encouraged habitual beef and pork buyers to consider lamb and veal as well.

Each year Hakuhodo, one of Japan's largest advertising agencies, conducts its so-called Global HABIT survey in cities around the world as part of its effort to gain new consumer insights. One part of the study identified seven lifestyle segments, in Trim Size: Global Segmentation and Positioning varying proportions, worldwide.

1. **The Invisibles**. (29%). They are not ambitious and have few complaints. They get on with life and accept the world as it is. They are not driven to seek wealth; like to be able to save; prefer established styles and good, basic apparel, this is a large cluster in every city: 30 percent or more in Hong Kong, Singapore, Taipei, New York, and Frankfurt.

2. **The My Family, My World** (18.7%). Having a happy family is top priority for these people. They are careful in all aspects of life; they tend to be smart price-conscious shoppers; they prefer products from companies that take environmental issues seriously. This cluster is large in Manila, Hong Kong, Singapore, and Tokyo.

3. **Hungry Climbers (15.3%).** They are keen for signs of visible affluence; they fear falling behind and want to enjoy life; they enjoy the stimulation of new trendy things; they want to be rich; they see money as a symbol of success; their income and education is relatively low. This segment is relatively big in Ho Chi Minh City, Moscow, Shanghai, and Frankfurt.

4. The My Life, My Way (14.9%). They want to live as they like; they want to enjoy a fun and interesting life; they are less interested in success at work. This cluster is large in Seoul, Mumbai, and São Paulo.

5**. Doing Well, Doing Good (10.6%).** They want to help those who are weak or in trouble. They like to contribute to society as well as achieve personal success; they seek a good balance in their lives; they enjoy meeting new people; they prefer work that allows self-expression; quality of life is important to them; they are ethical shoppers who are concerned about the countries in which the products they buy are made. This segment is fairly big in New York, Singapore, and Taipei.

6. Stable Roots (7.5%). This segment's members stress traditional values; they want to lead stable, healthy lives; their ideal is a traditional big family where men go out to work and women stay at home; they want to achieve both social and economic success. This cluster is large in Jakarta (40%), Mumbai, and São Paulo.

7. First to Crave (4%). People belonging to this segment are sensitive to what others think about them. They want to succeed and to enjoy life; they are very career oriented; they are risk takers for whom success matters more than stability. Overall this is the smallest segment; it is sizeable in Kuala Lumpur, Frankfurt, and Moscow.

5.4.4. Behavioral Segmentation

Behavior segmentation focuses on whether 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**: heavy, medium, light, or non-user.

Consumers can also be segmented in terms of **user status**: potential users, non-users, ex-users, regulars, first-timers, and users of competitors' products.

Marketers sometimes refer to the **80/20 rule** (also known as the *law of disproportionality* or Pareto's Law) suggests that 80 percent of a company's revenues or profits are accounted for by 20 percent of their products or customers.

5.4.5. Benefit Segmentation

This approach is based on marketers' superior understanding of the problem a product solves, the benefit it offers, or the issue it addresses, regardless of geography.

One of the best examples of benefit segmentation was conducted in the toothpaste market (see Table 5-2).

Table (5-2)Benefit Segmentation of the Toothpaste Market

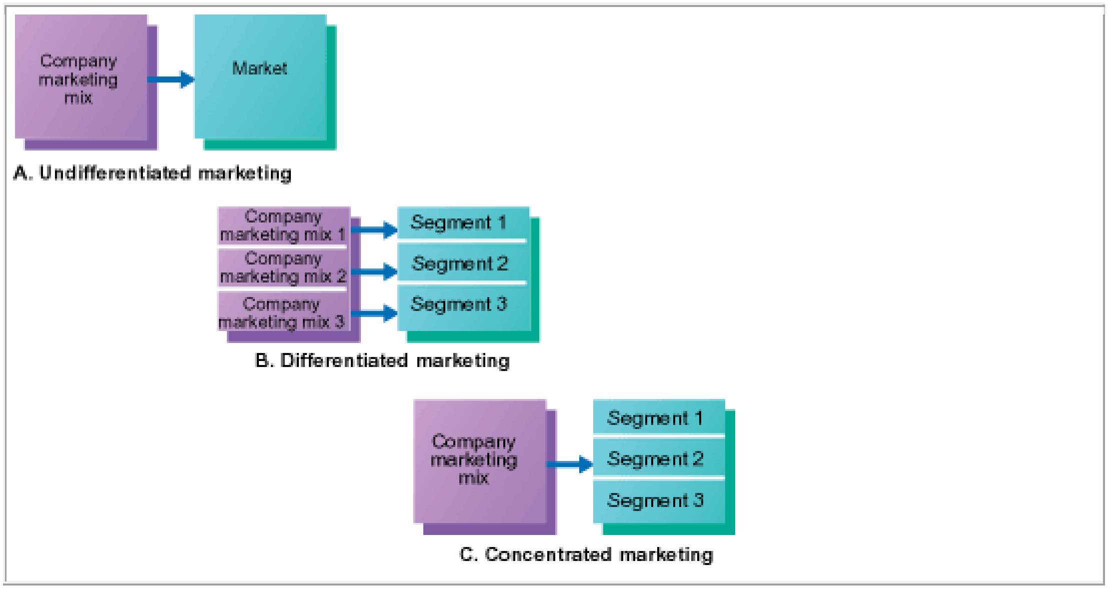
Benefit Segments	**Demographics**	**Behavior**	**Brands Favored**
Economic (low price)	Men	Heavy users	Brands on sale
Medicinal (decay prevention)	Large families	Heavy users	Crest
Cosmetic (bright teeth)	Teens, young adults	Smokers	Aqua-Fresh, Ultra Brite
Taste (good tasting)	Children	Spearmint lovers	Colgate, Aim

5.5. International Target Market Strategy Options

After evaluating different segments, the company must now decide which and how many segments to serve. This is the problem of ***target market selection***. A target market consists of a set of buyers who share common needs or characteristics that the company decides to serve.

There are three basic categories of target marketing strategies as figure 5-2-shows:

Figure (5-2)Three alternative market-coverage strategies



5.5.1. Standardized (undifferentiated) international Marketing

Standardized international marketing, also known as *undifferentiated target marketing*, is based on the premise that a mass market exists around the world. In addition, that mass market is served with a marketing mix of standardized elements.

Product adaptation is minimized. Intensive distribution ensures that the product is available in the maximum number of retail outlets.

The appeal of standardized global marketing is clear: lower production costs; the same is true of standardized global communications.

5.5.2. Differentiated International Marketing

Differentiated international marketing, represents a more ambitious approach than concentrated target marketing. This approach entails targeting two or more distinct market segments with multiple marketing mix offerings. General Motors tries to produce a car for every "purse, purpose, and personality." Nike offers athletic shoes for a dozen or more different sports, from running, fencing, and aerobics to bicycling and baseball.

5.5.3. Concentrated International Marketing

A third market-coverage strategy, concentrated marketing, is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few segments or niche.

A **niche** is simply a single segment of the global market.

These companies define their markets narrowly and strive for global depth rather than national breadth. For example is Germany's Winterhalter, a hidden champion in the dishwasher market, who focuses exclusively on dishwashers and water conditioners for hotels and restaurants.

5.6. International positioning strategy

Once a company has decided which segments of the market it will enter, it must decide what positions it wants to occupy in those segments. **A brand position** is the way the brand is *defined by consumers* on important attributes—the place the product occupies in consumers' minds relative to competing products.

Positioning involves implanting the brand's unique benefits and differentiation in customers' minds. Thus, Tide is positioned as a powerful, all-purpose family detergent; Ivory Snow is positioned as the gentle detergent for fine washables and baby clothes. In the automobile market, Toyota Tercel and Subaru are positioned on economy, Mercedes and Cadillac on luxury, and Porsche and BMW on performance. Volvo positions powerfully on safety.

Marketers have utilized a number of general positioning strategies. These include positioning by attribute or benefit, quality and price, use or user, or competitor.

Recent research has identified three additional positioning strategies that are particularly useful in international marketing: global consumer culture positioning, local consumer culture positioning, and foreign consumer culture positioning.

1-Attribute or Benefit

A frequently used positioning strategy exploits a particular product attribute, benefit, or feature.

Economy, reliability, and durability are frequently used attribute/benefit positions (e.g., Volvo is known for solid construction that offers safety in the event of a crash).

In international marketing, it may be important to communicate that a brand is imported. This approach is known as *foreign consumer culture positioning* (FCCP).

2- Quality and Price

This strategy runs from high fashion/quality and high price to good value (rather than "low quality") at a reasonable price.

Marketers sometimes use the phrase "transformation advertising" to describe advertising that seeks to change the experience of buying and using a product—the benefit—to justify a higher price.

3-Use or User

Another positioning strategy represents how a product is used or associates the brand with a user or class of users. For example, Max Factor makeup is positioned as "the makeup that makeup artists use."

4-Competition

Implicit or explicit reference to competitors can provide the basis for an effective positioning strategy.

Dove's "Campaign for Real Beauty" broke new ground by positioning the brand around a new definition of beauty.

5-Global, Foreign, and Local Consumer Culture Positioning

Global consumer culture positioning (GCCP) is defined as a strategy that identifies a brand as a symbol of a particular global culture or segment. It can be used to target various segments associated with the emerging global consumer culture**.**

Certain categories of products lend themselves especially well to GCCP. High-tech and high-touch products are both associated with high levels of customer involvement and by a shared "language" among users. ***High-tech products*** are sophisticated, technologically complex, and / or difficult to explain or understand.

High-touch products are generally energized by emotional motives rather than rational ones. Consumption of high-touch products may represent an act of personal indulgence, reflect the user's actual or ideal self-image, or reinforce interpersonal relationships.

In some instances, products may be positioned globally in a "**bipolar"** fashion as both high tech and high touch. This approach can be used when products satisfy buyer's rational criteria while evoking an emotional response. (Apple positions its products on the basis of both performance and design.

6- **foreign consumer culture positioning** (FCCP) associates the brand's users, use occasions, or production origins with a foreign country or culture. The "American-ness" of Levi jeans, Marlboro cigarettes, and Harley-Davidson motorcycles enhances their appeal to cosmopolitans around the world and offers opportunities for FCCP.

7- **Local consumer culture positioning** (LCCP) is a strategy that associates the brand with local cultural meanings, reflects the local culture's norms, portrays the brand as consumed by local people in the national culture, or depicts the product as locally produced for local consumers.

Conclusion:

At the end, it is crucial to stress that market segmentation represents an effort to identify and categorize groups of customers and countries according to common characteristics. Targeting is the process of evaluating the segments and focusing marketing efforts on a country, region, or group of people that has significant potential to respond.

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Multiple choice questions

1- **…..** products are generally energized by emotional motives rather than rational ones
A-high tech B-high touch C-high involvement D-low involvement

2- the place the brand occupies in consumers' minds relative to competing brands.

A- brand positioning B-brand name C-brand sign D-brand equity
3-affluent consumers who are well traveled and have the money to spend on prestigious products with an image of exclusivity.
A-global teens B-global culture C-global life style D-global elite
4- potential users, non-users, ex-users, regulars, first-timers, and users of competitors' products.
A-user name B-user status C-usage rate D-usage consumption

Essay questions

1-what are the main reasons for international market segmentation

(answer time 10 minutes paragraph 5-2)

2-identify effective market segmentation conditions

(answer time 10 minutes paragraph 5-3)

3-identify effective market segmentation approaches

(answer time 10 minutes paragraph 5-4)

4-identify the main international positioning strategy

(answer time 10 minutes paragraph 5-6)

Chapter six: Importing, Exporting and Sourcing

6.1. Organizational export activities

Most companies start their international expansion by exporting. For many small businesses, exporting is very often the sole alternative for selling their goods in foreign markets.

6.1.1. Export selling and export marketing

To better understand importing and exporting, it is important to distinguish between export selling and export marketing.

Export selling does not involve tailoring the product, the price, or the promotional material to suit the requirements of global markets. The only marketing mix element that differs is the “place”; that is, the country where the product is sold.

Export marketing targets the customer in the context of the total market environment. The export marketer does not simply take the domestic product “as is” and sell it to international customers.

Export marketing is the integrated marketing of goods and services that are destined for customers in international markets. Export marketing requires:

1. An understanding of the target market environment

2. The use of marketing research and identification of market potential

3. Decisions concerning product design, pricing, distribution and channels, advertising, and communications - the marketing mix.

6.1.2. Organizational export stages

Research has shown that exporting is essentially a developmental process that can be divided into the following distinct stages:

1. The firm is unwilling to export; it will not even fill an unsolicited export order. This may be due to perceived lack of time (“too busy to fill the order”) or to apathy or ignorance.

2. The firm fills unsolicited export orders but does not pursue unsolicited orders. Such a firm is an export seller.

3. The firm explores the feasibility of exporting (this stage may bypass Stage 2).

4. The firm exports to one or more markets on a trial basis.

5. The firm is an experienced exporter to one or more markets.

6. After this success, the firm pursues country- or region-focused marketing based on certain criteria (e.g., all countries where English is spoken or all countries where it is not necessary to transport by water).

7. The firm evaluates global market potential before screening for the "best" target markets to include in its marketing strategy and plan.

6.2. National policies governing exports and imports

6.2.1. Government Programs that Support Exports

Governments commonly use four activities to support and encourage firms that engage in exporting. These are tax incentives, subsidies, export assistance, and free trade zones.

1- Tax incentive: the major tax incentive under U.S. law was the **foreign sales corporation** (FSC), through which American exporters could obtain a 15 percent exclusion on earnings from international sales.

2- **subsidies**, which are direct or indirect financial contributions or incentives that benefit producers. Subsidies can severely distort trade patterns when less competitive but subsidized producers displace competitive producers in world markets.

3- **governmental assistance** to exporters. Companies can avail themselves of a great deal of government information concerning the location of markets and credit risks. Assistance may also be oriented toward export promotion. Government agencies at various levels often take the lead in setting up trade fairs and trade missions designed to promote sales to foreign customers.

4- **free trade zones** (FTZ) or **special economic zones** (SEZ). These are geographic entities that offer manufacturers simplified customs procedures, operational flexibility, and a general environment of relaxed regulations.

6.2.2. Governmental actions to discourage imports

Measures such as tariffs, and nontariff barriers are designed to limit the inward flow of goods.

Tariffs can be thought of as the "three Rs" of global business: rules, rate schedules (duties), and regulations of individual countries.

Duties on individual products or services are listed in the schedule of rates.

One global trade expert defines duties are "taxes that punish individuals for making choices of which their governments disapprove."

A **nontariff barrier** (NTB) is any measure other than a tariff that is a deterrent or obstacle to the sale of products in a foreign market. Also known as **hidden trade barriers**, NTBs include quotas, discriminatory procurement policies, restrictive customs procedures, arbitrary monetary policies, and restrictive regulations.

A **quota** is a government-imposed limit or restriction on the number of units or the total value of a particular product or product category that can be imported. Generally, the quotas are designed to protect domestic producers.

Discriminatory procurement policies can take the form of government rules, laws or administrative regulations requiring that goods or services be purchased from domestic companies.

Customs procedures are considered restrictive if they are administered in a way that makes compliance difficult and expensive.

Discriminatory exchange rate policies distort trade in much the same way as selective import duties and export subsidies.

Restrictive administrative and technical regulations may take the form of antidumping regulations, product size regulations, and safety and health regulations.

6.3. Export entry modes

Export participants can be classified into indirect and direct exporting.

6.3.1. Indirect exporting

In indirect export modes the manufacturer uses independent export intermediaries located in its own country, so the manufacturer doesn't have a direct contact with international customers or partners and the transaction is treated as a domestic one. There are the following types of indirect export intermediaries**:**

1-Export merchants, buy and sell on their own accounts and assume all responsibilities of exporting a product. In this situation, the manufacturers do not control the sales activities of their products in export markets and depend entirely on the export merchant for all export activities. This loss of control over the export marketing effort is a major drawback to using export merchants**.**

2- the export commission house (ECH) that is a representative of foreign buyers who is located in the exporter's home country, offering services to the foreign buyers such as identifying potential sellers and negotiating prices**.** Assumes no financial risk.

3- the export/import broker as a specialist in performing the contractual function, and does not actually handle the products sold or bought, bringing a **buyer and a seller together.** receives a fee for bringing together the seller and the overseas buyer. Their fee is usually paid by the seller, but sometimes, the buyer pays it. The broker takes no title to the goods and assumes no financial responsibility

4-**the export management company** (EMC) is an independent marketing intermediary that acts as the export department for two or more manufacturers (principals) whose product lines do not compete with each other. The EMC usually operates in the name of its principals for export markets, but it may operate in its own name. It may act as an independent distributor, purchasing and reselling goods at an established price or profit margin.

5- **Manufacturer's export agents** (MEA). In contrast to an EMC, the manufacturer's export agent retains its own identity by operating in its own name. Also, the manufacturer's export agent is paid a straight commission and does not engage in buy-and-sell arrangements with the manufacturers represented. Because of these basic differences, the manufacturer's export agent does not offer a manufacturer all the services that an EMC does. Most notable is the lack of advertising and financial assistance.

6-**The cooperative exporter**, sometimes called ***a mother hen, a piggyback*** exporter, or an export vendor, is an export organization of a manufacturing company retained by other independent manufacturers to sell their products in foreign markets. Cooperative exporters usually operate as export distributors for other manufacturers, but in special cases they operate as export commission representatives. They are regarded as a form of export management company.

6.3.2. Direct exporting

Direct exporting occurs when a manufacturer or exporter sells directly to an importer or buyer located in a foreign market area. Direct exporting can manifest itself in various organizational forms, depending on the scale of operations and the number of years that a firm has been engaged in exporting.

Direct market representation enables decisions concerning program development, resource allocation, or price changes to be implemented individually.

Direct representation means that the possibilities for feedback and information from the market are much greater.

1-export department that is largely self-contained and operates independently of domestic operations. An export department can be structured internally on the basis of function, geography, product, customer, or some other combination.

2- **Export sales subsidiary.** Export sales subsidiary differs very little from an export department. The major difference is that the subsidiary, being a separate legal entity, must purchase the products it sells in the overseas markets from its parent manufacturer. This means that the parent has to develop and administer a system of transfer pricing. A subsidiary has the advantage of being an independent profit center and is therefore easier to evaluate; it can also offer tax advantages, ease of financing, and increased proximity to the customer.

3- **Foreign sales branch.** Unlike a subsidiary, a branch is not a separate legal entity. A foreign sales branch handles all of sales, distribution, and promotional work throughout a designated market area and sells primarily to wholesalers and dealers. Where it is used, a sales branch is the initial link in the marketing channel in the foreign market. Often the branch has a storage and warehousing facility available so it can maintain an inventory of products, replacement parts, and maintenance supplies.

6.4. Gray market exporting

Gray market channels are those that are not 'authorized' by the exporter for a particular foreign market.

Imports of gray market goods can potentially adversely affect manufacturers in at least the following four ways:

1. The trademark image can be damaged.

2. Relationships between manufacturers and dealers can be strained.

3. The manufacturer can incur unanticipated legal liabilities, especially when a product does not meet safety requirements in the country where it is being sold in the gray market. 4. The manufacturer's global marketing strategy can be disrupted.

6.5. Trade Financing and Methods of Payment

The appropriate method of payment for an international sale is a basic credit decision.

A number of factors must be considered, including currency availability in the buyer's country, creditworthiness of the buyer, and the buyer and seller's relationship.

6.5.1. Documentary Credit

Documentary credits (also known as letters of credit) are widely used as a payment method in international trade. A **letter of credit** (L/C) is essentially a document stating that a bank as substituted its creditworthiness for that of the import-buyer.

The importer-buyer's bank is the "issuing" bank; the importer-buyer is, in essence, asking the issuing bank to extend credit.

The actual payment process is set in motion when the exporter-seller physically ships the product.

Once the documents are negotiated, the confirming bank, requests payment from the issuing bank. Comparing shipping documents, comparing it to the L/C, and if there are no discrepancies, the money is transferred to the exporter-seller's account.

6.5.2. Documentary Collections

A **bill of exchange** is a negotiable instrument that is easily transferable from one party to another.

a **draft** is a payment instrument that transfers all the risk of nonpayment onto the exporter/seller. Banks are involved as intermediaries but they do not bear financial risk. Because a draft is negotiable, a bank may be willing to buy the draft from the seller at a discount and thus assume the risk. Also, because bank fees for drafts are lower than those for L/Cs, drafts are frequently used when the monetary value of an export transaction is relatively low.

The draft is presented to the importer; payment takes place in accordance with the terms specified in the draft. In the case of a ***sight draft*** (also known as a **D/P or *documents against payment*),** the importer-buyer is required to make payment when presented with both the draft and the shipping documents.

Time drafts can take two forms. An ***arrival draft*** specifies that payment is due when the importer/buyer receives the goods; a ***date draft*** requires payment on a particular date.

6.5.3. Cash in Advance

A number of conditions may prompt the exporter to request cash in advance. Examples include times when credit risks abroad are high, when exchange restrictions delay the return of funds, or when the exporter is unwilling to sell on credit terms.

6.5.4. Sales on Open Account

Goods sold on open account are paid for after delivery (e.g., intra-corporate sales to branches of an exporter use open-account terms).

Open-accounts prevail when exchange controls are minimal and exporters have long-standing relations with buyers.

The main objection to open-account sales is the absence of tangible obligation. If an open-account transaction is dishonored, the legal procedure may be more complicated.

6.6. Sourcing

In international marketing, the issue of customer value is inseparably tied to the **sourcing decision:** whether a company makes or buys its products as well as where it makes or buys its products.

Outsourcing is shifting production jobs or work assignments to another company to cut costs.

Several factors may figure into the sourcing decision. These are as the following

1-Management Vision

Some chief executives are determined to retain some or all manufacturing in their home country. (E.g., Swatch manufactures mass-market products in high-wage countries).

Top managers at Canon chose to maintain a strategic focus on high value-added products rather than the manufacturing location, keeping 60 percent in Japan.

2- Factor Costs and Conditions

German hourly compensation costs for production workers in manufacturing are 160 percent of those in the United States. Those in Mexico are only a fraction of those in the United States.

Labor costs in non-manufacturing jobs are also dramatically lower in some parts of the world. For example, a software engineer in India may receive an annual salary of $12,000 as compared to $80,000 in the U.S.

3- Customer Needs

Although, outsourcing can help reduce costs, sometimes customers are seeking something besides the lowest possible price.

Dell Computer recently rerouted some of its call center jobs back to the United States from India after complaints from key business customers.

4- Logistics

In general, the greater the distance between the product source and the target market, the greater the time delay for delivery and the higher the transportation cost.

Manufacturers can take advantage of intermodal services that allow containers to be transferred between rail, boat, air, and truck carriers.

5-Country Infrastructure

In order to present an attractive setting for a manufacturing operation, it is important that a country's infrastructure be sufficiently developed to support a manufacturing and distribution.

Infrastructure requirements will vary by company and by industry, but minimally, they will include power, transportation and roads, communications, service and component suppliers, a labor pool, civil order, and effective governance.

6- Political Factors

Political risk is a deterrent to investment in local sourcing. The difficulty of assessing political risk is inversely proportional to a country's stage of economic development.

All other things being equal, the less developed a country the more difficult it is to predict political risk.

The political risk of the Triad countries, for example, is quite limited as compared to that of a less-developed country in Africa, Latin America, or Asia.

7- Foreign Exchange Rates

The dramatic shifts in price levels of commodities and currencies are a major characteristic of the world economy today. Such volatility argues for a sourcing strategy that provides alternative country options for supplying markets.

Conclusion:

This chapter provide information about the link between export selling and export marketing and main export approaches to include direct and in direct exporting.

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Multiple choice questions

1- Is shifting production jobs or work assignments to another company to cut costs.

A-sourcing B-outsourcing C-external environment D-contract manufacturing

2- Is a payment instrument that transfers all the risk of nonpayment onto the exporter/seller?

A-draft B-cash in advance C-sales payment D-credit assurance

3- Channels are those that are not ‘authorized’ by the exporter for a particular foreign market.

A-white market B-black market C-legal market D-grey market

4-does not involve tailoring the product, the price, or the promotional material to suit the requirements of global markets.

A-export marketing B-export selling C-import marketing

Essay questions

1-there are several factors driving sourcing; identify it.

(answer time 10 minutes paragraph 6-6)

2-grey market exporting may affect manufacturers in many aspects ; identify it

(answer time 10 minutes paragraph 6-4)

3-identify organizational export stages

(answer time 10 minutes paragraph 6-1-2)

4-identify government program that support export

(answer time 10 minutes paragraph 6-2-1)

Chapter Seven: Foreign Market Entry Strategies

7.1. Factors influencing the choice of entry mode

Several decision criteria will influence the choice-of-entry mode. Roughly speaking, two classes of decision criteria can be distinguished: internal (firm-specific) criteria and external (environment-specific) criteria.

7.1.1. Internal factors

1-Firm size

Size is an indicator of the firm's resource availability; increasing resource availability provides the basis for increased international involvement over time. Although SMEs may desire a high level of control over international operations and wish to make heavy resource commitments to foreign markets, they are more likely to enter foreign markets using export modes because they do not have the resources necessary to achieve a high degree of control.

2-International experience

Another firm-specific factor influencing mode choice is the international experience of managers and thus of the firm. Experience, which refers to the extent to which a firm has been involved in operating internationally, can be gained from operating either in a particular country or in the general international environment. International experience reduces the cost and uncertainty of serving a market, and in turn increases the probability of firms committing resources to foreign markets.

3-Product/service

The physical characteristics of the product or service, such as its value/weight ratio, perishability and composition, are important in determining where production is located. Products with high value/weight ratios, such as expensive watches, are typically used for direct exporting, especially where there are significant production economies of scale, or if management wishes to retain control over production. Conversely, in the soft drinks and beer industry, companies typically establish licensing agreements, or invest in local bottling or production facilities, because shipment costs, particularly to distant markets, are prohibitive.

7.1.2. External factors

1-Sociocultural distance between home country and host country

The greater the perceived distance between the home and host country in terms of culture, economic systems and business practices, the more likely it is that the firm will shy away from direct investment in favour of joint venture agreements or even low-risk entry modes like agents or an importer.

2-Country risk/demand uncertainty

When country risk is high, a firm would do well to limit its exposure to such risk by restricting its resource commitments in that particular national domain. That is, other things being equal, when country risk is high, firms will favour entry modes that involve relatively low resource commitments (export modes).

3-Market size and growth

In many instances, the key determinant of entry choice decisions is the size of the market. Large markets justify major resource commitments in the form of joint ventures or wholly owned subsidiaries. Market potential can relate to the current size of the market. However, future market potential as measured via the growth rate is often even more critical, especially when the target markets include emerging markets.

4-Intensity of competition

When the intensity of competition is high in a host market, firms will do well to avoid internalization, as such markets tend to be less profitable and therefore do not justify heavy resource commitments. Hence, other things being equal, the greater the intensity of competition in the host market, the more the firm will favour entry modes (export modes) that involve low resource commitments.

7.1.3. Desired mode characteristics

1-Risk-averse

If decision-makers are risk-averse they will prefer export modes (e.g. indirect and direct exporting) or licensing (an intermediate mode), because these typically entail low levels of financial and management resource commitment. A joint venture provides a way of sharing risk, financial exposure and the cost of establishing local distribution networks and hiring local personnel.

2-Control

Mode of entry decisions also need to consider the degree of control that management requires over operations in international markets. Control is often closely linked to the level of resource commitment. Modes of entry with minimal resource commitment, such as indirect exporting, provide little or no control over the conditions under which the product or service is marketed abroad. In the case of licensing and contract manufacturing, management needs to ensure that production meets its quality standards. Joint ventures also limit the degree of management control over international operations and can be a source of considerable conflict where the goals and objectives of partners diverge. Wholly owned subsidiaries (hierarchical mode) provide the most control, but also require a substantial commitment of resources.

3-Flexibility

Management must also weigh up the flexibility associated with a given mode of entry. The hierarchical modes (involving substantial equity investment) are typically the most costly, but they are the least flexible and most difficult to change in the short run. On the other hand, export modes provide the company with higher flexibility, because the company can terminate an agent contract on a relatively short time horizon, though the company may have to compensate the foreign agent for the lost commission for 1-2 years (depending on the agent contract).

7.2. Manufacturing contracts

Manufacturing contracts enables the firm to have foreign sourcing (production) without making a final commitment.

- Management may lack resources or be unwilling to invest equity to establish and complete manufacturing and selling operations, but contract manufacturing keeps the way open for implementing a long-term foreign development policy when the time is right.
- These considerations are perhaps most important to the company with limited resources.
- Contract manufacturing enables the firm to develop and control R&D, marketing, distribution, sales and servicing of its products in international markets, while handing over responsibility for production to a local firm.
- Payment by the contractor to the contracted party is generally on a per-unit basis, and quality and specification requirements are extremely important.

- The product can be sold by the contractor in the country of manufacture, its home country or some other foreign market.
- This form of business organization is quite common in particular industries. For example, Benetton and IKEA rely heavily on a contractual network of small overseas manufacturers.

7.3. Management contracting

Management contracting is a type of a knowledge-based service of management(know-how). A foreign firm acquires operational management services from a domestic firm, that after the execution of the contract usually does not plan to be present in the market, although it may turn out that gained experience will result in permanent presence in foreign markets.

7.4. Licensing

Licensing is a contractual arrangement whereby one company (the licensor) makes a legally protected asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation.

The **main advantages** of licensing as a foreign market entry mode include

- ✓ The ability to enter a market with little capital outlay,
- ✓ to avoid trade barriers andgovernment restrictions
- ✓ and tap into local knowledge and expertise.

The **main disadvantages** of licensing is

- ✓ the limited contact with customers,
- ✓ little control over the product and
- ✓ the image developed in the market,
- ✓ as well as the danger of having one's intellectual property infringed upon by the licensee.

Table 7-1-shows top ten licensor companies around the world 2020.

1	The Walt Disney Company – $54.7B
2	Meredith Corporation – $26.5B
3	Authentic Brands Group – $12.3B
4	WarnerMedia – $11B

5	PVH Corp. – $10.6B (estimated)
6	Universal Brand Development – $7.1B
7	Hasbro – $6.9B
8	ViacomCBS – $5.8B
9	General Motors – $4.62B (estimated)
10	Sanrio – $4.4B (estimated)

7.5. Franchising

Afranchise is a contract between a parent company/franchiser and a franchisee that allows the franchisee to operate a business developed by the franchiser in return for a fee and adherence to policies and practices.

Franchising is a marketing-oriented method of selling a business service, often to small

independent investors who have working capital but little or no prior business experience.

there are two major types of franchising:

1-**Product and trade name franchising**. This is very similar to trademark licensing.

it is a distribution system in which suppliers make contracts with dealers to buy or

sell products or product lines. Dealers use the trade name, trademark and product line.

Examples of this type of franchising are soft drink bottlers such as Coca-Cola and Pepsi.

2. Business format 'package' franchising.

The package transferred by the franchisor contains most elements necessary for the

local entity to establish a business and run it profitably in the host country in a prescribed

manner, regulated and controlled by the franchisor. The package can contain:

- ✓ trademarks/trade names
- ✓ copyright
- ✓ designs
- ✓ patents
- ✓ trade secrets
- ✓ business know-how
- ✓ geographic exclusivity
- ✓ design of the store
- ✓ market research for the area
- ✓ location selection.

Franchising is a cornerstone of growth in the fast-food industry; McDonald's reliance on franchising to expand globally is a case in point as table 7-2-shows:

<u>The advantages of franchisor are:</u>

1-companies can capitalize on expanding overseas with a minimum of investment.

2-political risks for the rights owner are very limited.

3- the franchisor can also capitalize on the local franchisees' knowledge

of the local marketplace.

<u>The main disadvantages of franchisor are:</u>

1-the franchisor'sincome stream is only a fraction of what it would be if the company invested foreign ventures.

2-Firms with little or no name recognition typically face a major challenge finding interested partners in the foreign market.

3-A major concern is the lack of full control over the franchisees' operations and marketing Strategies.

Table 7-2- top ten frnachisor in 2020

1	McDonald's	United States of Amer ica	Fast Food Franchises
2	KFC	United States of America	Chicken franchises
3	Marriott International	United States of	Hotel franchises

		America	
4	Pizza Hut	United States of America	Pizza Franchises
5	Burger King	United States of America	Fast Food Franchises
6	Domino's	United States of America	Pizza Franchises
7	Dunkin'	United States of America	Bakery Franchises
8	SUBWAY	United States of America	Sandwich Franchises
9	Circle K	United States of America	Convenience stores
10	InterContinental Hotels	UK-England	Hotel Franchises

7.6. Investment

7.6.1. Foreign direct investment (FDI)

figures reflect investment flows out of the home country as companies invest in or acquire plants, equipment, or other assets.

A wholly owned subsidiary, i.e., one with 100 % ownership, represents the most extensive form of market entry in global markets. It may be achieved by establishing an entirely new start up, a so-called **green-field investment**. FDI also occurs when MNCs buy existing companies in another country, called an **acquisition**, or merge with existing

companies in another country.

Advantages of foreign direct investment are:

- ✓ Usually more profitable—especially in emerging markets such as China and India
- ✓ Easier to adapt products to the local markets

- ✓ More control of marketing and local strategy
- ✓ Reduces costs of selling locally in host countries
- ✓ Avoids tariffs or import quotas on finished products

disadvantages of foreign direct investment are:

- ✓ Increased costs of capital investment
- ✓ Increased exposure to local political risks
- ✓ Increased exposure to financial risks

7.6.2. Joint ventures

A **joint venture is** an entry strategy for a single target country in which the partners share ownership of a newly created business entity.

Reasons for joint ventures

Joint ventures are formed when:

(a) there are insuffi cient resources in one fi rm alone;

(b) the pace of innovation and market diffusion is rapid;

(c) research and development costs are excessive;

(d) high concentration of firms is present in a mature industry;

(e) government cooperation is needed; and

(f) it is necessary for self-protection. Examples include Nissan-Renault who cooperate on R and D to share costs and compete in the motor industry, and Rolls-Royce/Airbus cooperate on R and D and product/market development to launch new aircraft.

Advantages of joint ventures are:

- ✓ A company can limit its financial risk as well as its exposure to political uncertainty.
- ✓ A company can use the joint venture experience to learn about a new market environment.
- ✓ Allow partners to achieve synergy by combining different value chain strengths.
- ✓ A joint venture may be the only way to enter a country or region if government bid award practices routinely favor local companies, if import tariffs are high, or if laws prohibit foreign control but permit joint ventures.

Disadvantages of joint ventures are:

- ✓ Joint venture partners must share rewards as well as risks.
- ✓ There is the potential for conflict between partners.
- ✓ A dynamic joint venture partner can evolve into a stronger competitor.

7.7. Strategic Alliances

Strategic alliances refer to a broader form of partnerships: a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial.

Strategic alliances are based on the sharing of vital information, assets, and technology between the partners, even though they might in the process lose their proprietary know-how.

7.7.1. Reasons for forming international business alliances

There are a number of rationales why a company may decide to engage in multiple simultaneous alliances.these are as the following:

1-economies of scale

Companies with complementary skills can rely on each other's proven expertise instead of spending time and resources to independently develop what has already been achieved.

2-enhancing competitiveness

As technological and administrative complexity increases, companies are learning that they cannot do everything by themselves. As a result, the most competitive corporations are adopting a strategy of maintaining their core competencies only.

3-dividing international business risks

Partnering can be used to share risk in other areas as well. For example, companies can share transportation and distribution systems, which saves money and enables fasterdelivery of the product.

4-entering new foreign markets

Partners can provide established marketing and distribution systems, as well as knowledge of the markets they serve, ensuring that products get to market faster and are more likely to be purchased.

5-overcoming competition

Forming an alliance with an established, major company can reduce the influence of other companies. However, companies should be careful that alliances do not form a cartel or otherwise breach anti-competition laws in the target market.

7.7.2. Strategic alliances context

1-distribution Alliances

An early and still common form of strategic alliancess is the shared distribution network. The tieup between Chrysler and Mitsubishi Motors to distribute cars in the United States is

one example. So are Nissan's agreement to sell Volkswagens in Japan.

2- Manufacturing Alliances

In Japan, Matsushita agreed to manufacture IBM PCs, using up excess capacity. Volvo and Renault shared certain body parts and components, even after their full-fledged merger was scrapped. Saab engines are now made by GM Europe in its Opel factories.

3-Research and Development Alliances

Boeing and three Japanese partners in the 777 aircraft project created a trans-Pacific telecommunications system to link their design operations. Microsoft, the PC software giant, has always made a special effort to protect the integrity of its unique software. Recently, however, it has decided to share some technological developments with actual and potential competitors in order to induce other software writers to use the Microsoft standard.

Conclusion:

To conclude, there are many different approaches to choose from for entering foreign markets such as contract licensing and fanchising, direct investment, and joint ventures. Each of these have advantages and disadvantages.

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Multiple choice questions

1-refer to a broader form of partnerships: a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial.

A-strategic alliances B-straegic licensing C-strategic franchising

2-enables the firm to have foreign sourcing (production) without making a final commitment.

A-contract manufacturing B-licesing C-franchising D-exporting

3-is a contractual arrangement whereby one company makes a legally protected asset available to another company in exchange for royalties.

A-dircet investment B-indirect investment C-license D-export

4- is an entry strategy for a single target country in which the partners share ownership of a newly created business entity.

A-import B-export C-joint venture D-alliances

Essay questions

1-what are the main reasons for forming international business alliances

(answer time 10 minutes paragraph 7-7-1)

2-identify main advantages of loint ventures

(answer time 10 minutes paragraph 7-7-1)

3-what are the main disadvantages of foreign direct investment

(answer time 10 minutes paragraph 7-6-1)

4-identify the main reasons for joint ventures

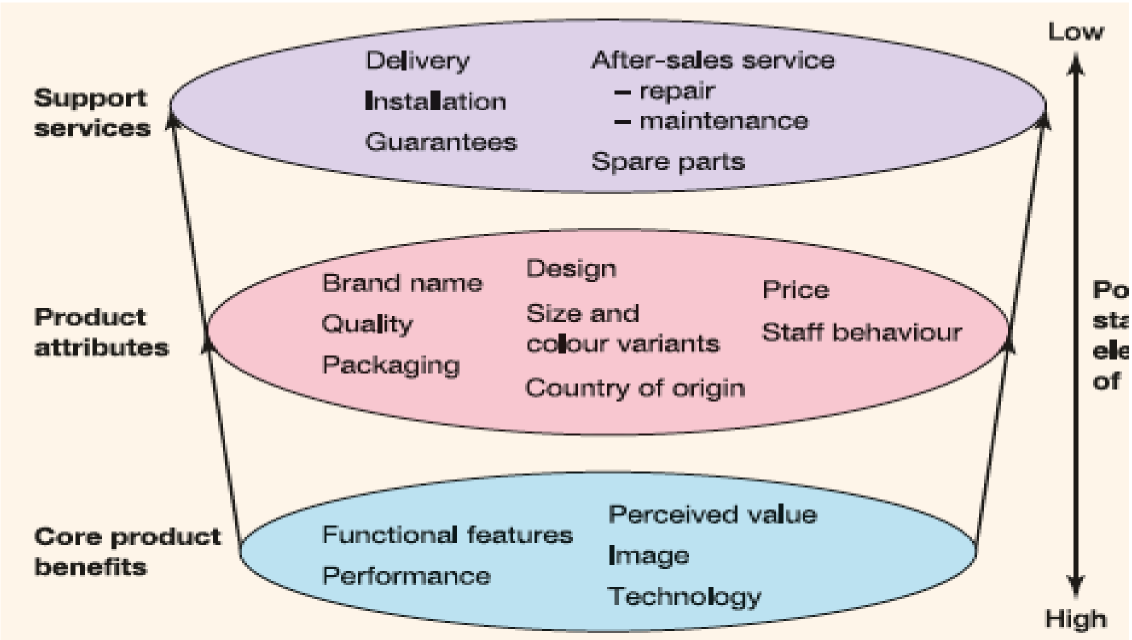
(answer time 10 minutes paragraph 7-6-2)

Chapter eight: Product Decisions in International Markets

8.1. The components of the international product

The core of a firm's international operations is a product or service. This product or service can be defined as the complex combination of tangible and intangible elements that distinguishes it from the other entities in the marketplace, as shown in Exhibit 8.1

Figure 8-1- elements of a product



1- **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 product. It is easy to forget that in low-literacy countries, pictures and symbols are taken literally as instructions and information.

2- **The product attributes** includes style features, packaging, labeling, trademarks, brand name, quality, price, and all other aspects of a product's package. Apple Computer found out the hard way how important this component can be when it first entered the Japanese market. Some of its Macintosh computers were returned unused after customers found the wrapping on the instruction manual damaged! 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.

A well-known baby-food producer that introduced small jars of baby food in Africa, complete with labels featuring a picture of a baby, experienced the classic example of misinterpreted symbols: The company was absolutely horrified to find that consumers thought the jars contained ground-up babies

The term ***consumer packaged goods*** applies to a wide variety of products whose packaging is designed to protect or contain the product during shipping, at retail locations, and at the point of use or consumption.

*"**Eco-packaging**"* is a key issue today, and package designers must address environmental issues such as recycling, and sustainable forestry.

Packaging also **serves** important communication functions: Packages (and labels attached to them) offer communication cues that provide consumers with a basis for making a purchase decision. Packaging components frequently require both discretionary and mandatory changes. For example, some countries require labels to be printed in more than one language, while others forbid the use of any foreign language.

Labeling

One hallmark of the modern international marketplace is the abundance of multi-language labeling that appears on many products.

Labeling laws vary from country to country and do not seem to follow any predictable

Pattern. Coca-Cola ran into a legal problem in Brazil with its Diet Coke. Brazilian law interprets *diet* to have medicinal qualities.

Labeling laws create a special problem for companies selling products in various markets with different labeling laws and small initial demand in each. In China, for example, there is demand for American- and European-style snack foods even though that demand is not well developed at this time. The expense of labeling specially to meet Chinese law often makes market entry costs expensive.

In today's self-service retail environments, product labels may be designed to attract attention, to support a product's positioning, and to help persuade consumers to buy.

Labels can also provide consumers with various types of information. Obviously, care must be taken that all ingredient information and use and care instructions are properly translated.

The content of product labels may also be dictated by country - or region - specific regulations. Regulations regarding mandatory label content vary in different parts of the world.

3- **The *support services*** component includes repair and maintenance, instructions, installation, warranties, deliveries, and the availability of spare parts. In the United States, a consumer has the option of obtaining service from the company or from scores of competitive service retailers ready to repair and maintain anything from automobiles to lawn mowers.

The literacy rates and educational levels of a country may require a firm to change a product's instructions. The Brazilians have successfully overcome the low literacy and technical skills of users of the sophisticated military tanks it sells to Third World countries. The manufacturers include videocassette players and videotapes with detailed repair instructions as part of the standard instruction package.

8.2. Standardization versus Adaptation

Standardization means offering by the company the same or similar product on all foreign markets, whereas ***adaptation*** (individualization) relies on its adjustment to the requirements resulting from cultural, social, political and economic differences occurring between foreign markets.

8.2.1. Factors encouraging standardization

1- Achieve economies of scale – extension of production lines leads to diminishing unit costs,

2- Decrease in funds for research and development – which may be allocated to seeking new solution or product and not on adjusting a product to the predilections and preferences of final consumers,

3- Savings in promotion budget resulting from harmonization of strategies,

4- Strengthening consumer loyalty – if a product can be bought during a foreign trip (e.g. Hilton hotel services, Coca-Cola).

5-Easier organization and control of product management.

Not all products are equally suited for standardization. Among consumer goods, durable products are easier to standardize than non-durable ones. e.g. electronic equipment, household goods, luxury goods (jewelry or perfumes), sports equipment, computers or mobile phones. Foodstuffs are more difficult to standardize – they are adapted to tastes, styles and habits of local consumers. An example of the company which uses standardization strategy on the international market is IKEA which offers the identical assortment of furniture and other interior design products all over the world.

8.2.2. Factors encouraging adaptation are:

1- ***Differing usage conditions***. These may be due to climate, skills, level of literacy, culture or physical conditions.. In Zimbabwe, kapenta fish can be used as a delight, but wilt always be eaten as a "starter" to a meal in the developed countries.

2- ***General market factors*** - incomes, tastes etc. Canned asparagus may be very affordable in the developed world, but may not sell well in the developing world.

3-***Government*** - taxation, import quotas, non-tariff barriers, labeling, health requirements. Non-tariff barriers .the Florida tomato growers, who successfully got the US Department of Agriculture to issue regulations establishing a minimum size of tomatoes marketed in the United States. The effect of this was to eliminate the Mexican tomato industry which grew a tomato that fell under the minimum size specified. Some non-tariff barriers may be legitimate attempts to protect the consumer, for example the ever stricter restrictions on horticultural produce insecticides and pesticides use may cause African growers a headache, but they are deemed to be for the public good.

3-**History**. Sometimes, as a result of colonialism, production facilities have been established overseas. Eastern and Southern Africa is littered with examples. In Kenya, the tea industry is a colonial legacy, as is the sugar industry of Zimbabwe and the coffee industry of Malawi. These facilities have long been adapted to local conditions.

4-**Financial considerations**. In order to maximize sales or profits the organization may have no choice but to adapt its products to local conditions.

5-**Pressure.** Sometimes, as in the case of the EU, suppliers are forced to adapt to the rules and regulations imposed on them if they wish to enter into the market.

8.2.3. Adaption strategy

Adaptation strategy may be forced or voluntary.

Strategy of market-driven individualization – is an adjustment of product features to foreign market requirements, irrespectively of the fact if the firm wants to make these changes or not; the reason for the changes in the product are usually legal regulations or technical conditions (e.g. the European union regulations determine the kind and quantity of preservatives in foodstuffs).

Strategy of voluntary individualization – to a considerable extent may be controlled by the firm; its application is predominantly influenced by cultural and economic factors, e.g. income level, education level or consumer tastes in respective countries.

8.2.4. Adaption elements

Adaptation may refer to various elements of product

1-Packaging – for instance in Africa it is still possible to buy cigarettes per item, therefore the packaging must be properly adjusted; Coca-Cola withdrew its two-liter bottles from Spain because they did not fit the fridges of majority of consumers; for purchasers with low incomes the packaging itself should be a stimulus or one of the factors favoring the product acquisition.

2-Size – for instance Philips adjusted the size of fridges and coffee grinders to the size of Japanese flats and kitchens. In Mexico, Campbell company is selling canned soups serving 4–5 persons because the families in Mexico are usually numerous, while in Europe the same product is sold in cans serving 2 persons.

3-Product symbol – for instance, in some Asian countries using animals as symbols is undesirable because animals are regarded there are as lower level of the hierarchy of beings.

4-Colour – for instance in most countries black is the colour of mourning (in China it is white); in South-Eastern Asia yellow teeth are the sign of social prestige, therefore selling teeth whitening toothpaste in that region would be nonsensical.

8.3. International product strategies

There are five major product strategies in international marketing as figure 8-1-shows

Figure 8-1- product communication mode

		Product		
		Standard	*Adapt*	*New*
Promotion	*Standard*	Straight extension	Product adaptation	Product invention
	Adapt	Promotion adaptation	Dual adaptation	

Strategy 1: Product-Communication Extension (dual extension)

Companies pursuing this strategy sell the same product with virtually no adaptation, using the same advertising and promotional appeals used domestically, in two or more country markets or segments.

Examples of the dual-extension strategy: Apple launched its iPhone in the United States in mid-2007. In the following months, it was gradually rolled out in several more markets, including France and the United Kingdom. When Apple brought its second-generation iPhone to market 1 year later, it was launched in 21 countries simultaneously.

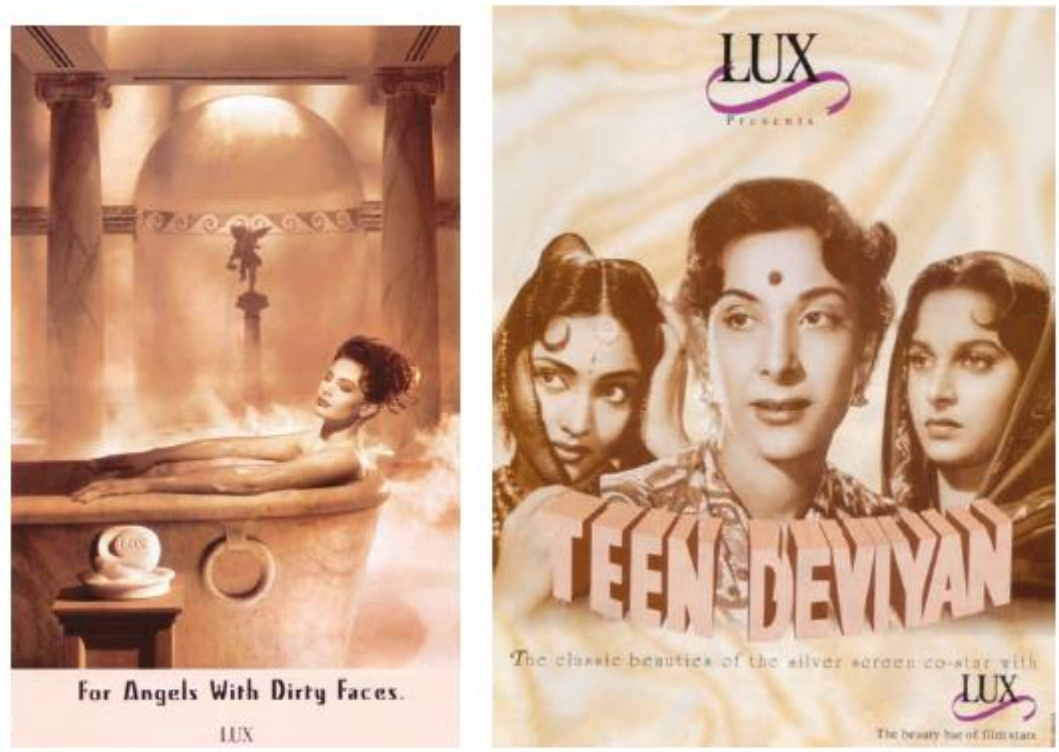
This strategy is very low cost but it can be risky if misjudgments are made. For example CPC International believed the US consumer would take to dry soups, which dominate the European market. It did not work.

Strategy 2: Product Extension/Communication Adaptation

If the product basically fits the different needs or segments of a market it may need an adjustment in marketing communications only. Again this is a low cost strategy, but different product functions have to be identified and a suitable communications mix developed.

For example the UK version of the LUX advertisement is based on the classic trans-border advertising campaign, 'the beauty soap of film stars', which has been standardized to a high degree. In India, the LUX campaign has been given a special local touch.

The Indian version is one of three advertisements that trace LUX's association with film stars from the past era to the current stars of today and the potential film stars of tomorrow.



Advertisements for Lux in the UK and India

Strategy 3: Product Adaptation-Communication Extension

A third approach to global product planning is to adapt the product to local use or preference conditions while extending, without minimal change, the basic home-market communication strategy or brand name. For example, electrical appliances have to be modified to cope with different electrical voltages in different countries.

Strategy 4: Product-Communication Adaptation (dual adaptation)

A company may also utilize the product-communication adaptation (dual adaptation) strategy. As the name implies, both the product and one or more promotional elements are adapted for a particular country or region. Nike's "bad boy" image is at odds with ingrained Chinese values, and the price of their shoes was out of line with average Chinese household incomes, so Nike adapted both their advertising and pricing programs.

Strategy 5: Innovation

Innovation is a demanding but potentially rewarding product strategy for reaching mass markets in less-developed countries as well as important market segments in industrialized countries.

8.4. Brands in the international markets

8.4.1. Brand basic concepts

One of the most important and clearly visible tools of marketing influence on the market and consumers is brand.

The American Marketing Association defines a **brand** as "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors."

Brands perform very important functions:

- to distinguish a company's offering and differentiate one particular product from its competitors
- to create identification and brand awareness;
- to guarantee a certain level of quality and satisfaction;
- to help with promotion of the product.

The sum of a consumer's impressions is a **brand image**, defined as perceptions about a brand as reflected by brand associations that consumers hold in their memories.

Brand equity represents the total value that accrues to a product as a result of a company's cumulative investments in the marketing of the brand.

Brand equity can also be thought of as an asset representing the value created by the relationship between the brand and customers over time—the stronger the relationship, the greater the equity.

Companies develop logos, distinctive packaging, and other communication devices to provide visual representations of their brands.

A logo can take a variety of forms, starting with the brand name itself, a *word mark* consisting of words like "Coke" or a *non-word mark* such as the Nike swoosh.

The benefits of strong brand equity include:

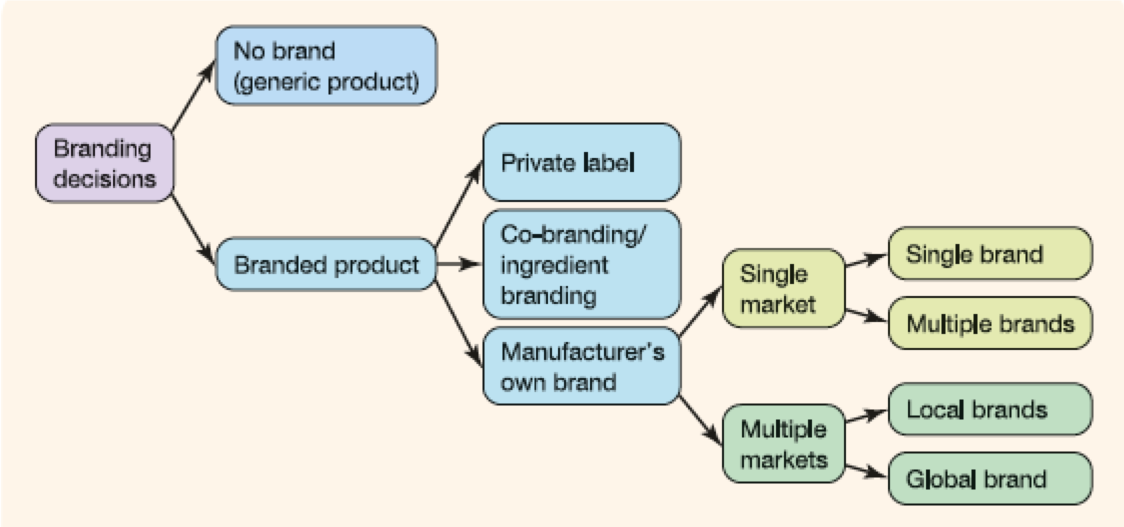
- Less vulnerability to marketing actions
- Less vulnerability to marketing crises
- Larger margins
- More inelastic consumer response to price increases
- More elastic consumer response to price decreases
- Greater loyalty
- Increased marketing communication effectiveness

Table 8-1- shows the ten top valuable brands in the world 2020.

rank	***Logo***	***Name***	***Brand Value* ($m)**
1		Apple	*234,241*
2		Google	*167,713*
3		Amazon	*125,263*
4		Microsoft	*108,847*
5		Coca-Cola	*63,365*
6		Samsung	*61,098*
7		Toyota	*56,246*
8		*Mercedes-Benz*	*50,832*
9		*McDonald's*	*45,362*
10		*Disney*	*44,352*

8.4.2. Branding decisions

There are four levels of branding decisions as figure 8-2-shows



1-Brand versus no brand

Branding is associated with added costs in the form of marketing, labeling, packaging and promotion. Commodities are 'unbranded' or undifferentiated products. Examples of products with no brand are cement, metals, salt, beef and other agricultural products.

2-Private label versus co-branding versus manufacturer's own brand

Private label

The emergence of strong intermediaries has led to the significant increase in private-brand goods, that is, the intermediaries' own branded products or "store brands.

Private labeling is most developed in the UK, where Marks & Spencer, for instance, mostly sells own-label (private **label)** products. At Sainsbury's, own labels account for 60per cent of the sales.

The retailer's perspective

For the retailer there are two main advantages connected with own-label business:

1. *Own labels provide better profit margins.* The cost of goods typically makes up 70–85 per cent of a retailer's total cost. So if the retailer can buy a quality product from the manufacturer at a lower price, this will provide a better profit margin for the retailer.

In fact, private labels have helped UK food retailers to achieve profit margins averaging

8 per cent of sales.

2. *Own labels strengthen the retailer's image with its customers.* Many retail chains try to establish loyalty to their particular chain of shops by offering their own quality products.

In fact, premium private-label products (e.g. Sainsbury's 'Taste the Difference') that compete in quality with manufacturers' top brands have seen a growth in market share, whereas the share of cheap generics is declining.

The manufacturer's perspective

Although private brands are normally regarded as threats for manufacturers, there may be situations where private branding is a preferable option:

- ✓ this strategy is especially suitable for small and medium-sized enterprises (SMEs) with limited financial resources and limited competences in the downstream functions.
- ✓ With increasing internationalization of the big retail chains, this may also result in export business for the SME that has never been in international markets.

There are also a number of reasons why private branding is bad for the manufacturer:

- ✓ By not having its own identity, the manufacturer must compete mainly on price, because the retail chain can always switch supplier.
- ✓ The manufacturer loses control over how its products should be promoted. This may become critical if the retailer does not do a good job in pushing the product to the consumer.
- ✓ If the manufacturer is producing both its own brands and private brands, there is a danger that the private brands will cannibalize the manufacturer's brand-name products.

Co-branding

Co-branding is a variation on combination branding in which two or more *different* company or product brands are featured prominently on product packaging or in advertising. Properly implemented, co-branding can engender customer loyalty and allow companies to achieve synergy.

However, co-branding can also confuse consumers and dilute brand equity. The approach works most effectively when the products involved complement each other. Credit card companies were the pioneers, and today it is possible to use cards to earn frequent-flyer miles and discounts on automobiles. Another well-known example of co-branding is the Intel Inside campaign promoting both the Intel Corporation and its Pentium-brand processors in conjunction with advertising for various brands of personal computers.

3- Single brand versus multiple brands (single market)

A single brand or family brand (for a number of products) may be helpful in convincing consumers that each product is of the same quality or meets certain standards. In other words, when a single brand in a single market is marketed by the manufacturer, the brand is assured of receiving full attention for maximum impact.

The company may also choose to market several (multiple) brands in a single market.

This is based on the assumption that the market is heterogeneous and consists of several segments. The watch industry provides a good illustration for the practice of-using-multiple brands in a single market for different market segments. Bulova, a well-known brand, also has the Accutron and Caravelle brands.

4- Local brands versus a global brand (multiple markets)

A company has the option of using the same brand in most or all of its foreign markets or of using individual, local brands.

A global brand is an appropriate approach when a product has a good reputation or is known for quality. In such a case, a company would be wise to extend the brand name to other products in the product line.

Some companies are well established as global brands. For example, Gillette ("The best a man can get"), BMW ("The ultimate driving machine"), GE ("Imagination at work"), and Harley-Davidson ("An American legend").

Global companies can also leverage strong brands by creating **brand extensions.**

This strategy which entails using an established brand name as an umbrella when entering new businesses or developing new product lines that represent new categories to the company.

Example: The Virgin Group

- Virgin Entertainment: Virgin Mega-stores and MGM Cinemas
- Virgin Trading: Virgin Cola and Virgin Vodka
- Virgin Radio
- Virgin Rail (UK only)
- Virgin Media Group: Virgin Publishing, Virgin Television, Virgin Net (UK only)
- Virgin Hotels
- Virgin Travel Group: Virgin America Airways, Virgin Holidays, Virgin Galactic

8.4.3. Country of origin" as brand element

One of the facts of life in global marketing is that perceptions about and attitudes towards particular countries often extend to products and brands known to originate in those countries. Such perceptions contribute to the **country-of-origin effect**; they become part of a brand's image and contribute to brand equity.

Perceptions and attitudes can be positive or negative—"German" is synonymous with quality engineering, "Italian" with style, and "French" with chic.

The manufacturing reputation of a particular country can change over time (e.g. Made in the USA or Made in Japan and Finland's Nokia rose in stature to a global brand).

Some foreign products have a substantial advantage over their domestic counterparts simply because of their "foreign-ness". Global marketers have an opportunity to capitalize on the situation by charging premium prices. (e.g., foreign beers).

Conclusion:

This chapter has examined the major dimensions of international product and brand decisions by reviewing of basic product and brand concepts, followed by a discussion of local, international, and global products and brands.

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Multiple choice questions

1-represents the total value that accrues to a product as a result of a company's cumulative investments in the marketing of the brand.

A-brand image B-brand name C-trade mark D-brand equity

2- means offering by the company the same or similar product on all foreign markets

A-standardization B-adaption C-adoption D-differentiated

3- Perceptions and attitudes can be positive or negative—"German" is synonymous with quality ….., "Italian" with ….., and "French" with …..

A-style –chic-engineering B-engineering -chic- style C-engineering-style-chic

4- Companies pursuing this strategy sell the same product with virtually no adaptation, using the same advertising and promotional appeals used domestically, in two or more country markets or segments.

A-line extension B-dual extension C-brand extension

Essay questions:

1-identify international product strategies

(answer time 10 minutes paragraph 8-3)

2-adaption may refer tp various elements of product. These are

(answer time 10 minutes paragraph 8-2-4)

3-what are the main factors encouraging adaption

(answer time 10 minutes paragraph 8-2-2)

4-3-what are the main factors encouraging standardization

(answer time 10 minutes paragraph 8-2-1)

Chapter Nine: Pricing for International Markets

9.1. Basic pricing concepts

- ✓ Price plays a major role in international marketing management, because pricing changes result in an immediate response in the market.
- ✓ Pricing can be one of the most challenging aspects of selling to international markets and pricing decisions are difficult to make. This happens also due to the fact that only few companies recognize the importance of the strategic role of pricing in international marketing.
- ✓ When planning the international pricing policy, it is essential to do it with great care, especially when collecting all the relevant data which may affect the development of such policy.
- ✓ International market and trade brings additional cost issues unique to that particular market. These issues (including after-sales service and guarantees, modifications, promotion/ advertising, packaging and direct marketing expenses) should be addressed prior to pricing a product.

9.2. Factors influencing international pricing decisions

Factors affecting international pricing decisions are:

9.2.1. Firm-level factors

1- **Company goals**. When developing a pricing strategy for its international market, the firm needs to decide what it wants to accomplish with its strategy. These goals might include maximizing current profits, penetrating the market, projecting a premium image, and so forth. According to one study, the most important pricing objectives of companies doing business in the United States (including foreign-based firms) are (1) to achieve a satisfactory return on investment, (2) to maintain market share, and (3) to meet a specified profit goal.

Japanese firms have approached new markets with the intention of building market share over a period of years by reducing price levels, establishing the brand name and setting up effective distribution and servicing networks. The market share objectives of these Japanese firms have usually been accomplished at the expense of short-term profits, as international Japanese firms have consistently taken a long-term perspective on profit. They are usually prepared to wait much longer for returns on investments than some of their western counterparts.

2-Country of origin **(COO)** is also a major factor that consumers take into account when they make a decision about the maximum price they are willing to pay for a branded products. For example, for many years Volkswagen's (VW) slogan has been 'Das Auto' ('The Car'), indicating that the car is developed and manufactured in Germany although today's car production also takes place in China and other parts of the world. However, this provides the opportunity for VW to charge a higher price to its consumers, compared with, for example, French-produced cars.

3-The **choice of foreign market entry mode** also affects the pricing policy. A manufacturer with a subsidiary in a foreign country has a high level of control over the pricing policy in that country.

9.2.2. Product factors

- ✓ Key product factors include the unique and innovative features of the product and the availability of substitutes. These factors will have a major impact on the stage of the product life cycle, which will also depend on the market environment in target markets.
- ✓ The extent to which the organization has had to adapt or modify the product or service, and the level to which the market requires service around the core product, will also affect cost and thereby have some influence on pricing.
- ✓ The South-Korean electronics giant LG, for example, is facing increased pressure through shortening product life cycles. Consequently, the company is planning to reduce its product portfolio in order to increase its profitability.

9.2.3. Environmental factors

International marketers must deal with a number of environmental considerations when making pricing decisions. Among them are currency fluctuations, inflation, government controls and subsidies.

1-Currency Fluctuations

Currency fluctuations can create significant challenges and opportunities for any company that exports. A weakening of the home-country currency swings exchange rates in a favorable direction: a producer in a weak-currency country can choose to cut export prices to increase market share or maintain its prices and reap healthier profit margins.

It is a different situation when a company's home currency strengthens; this is an unfavorable turn of events for the typical exporter because overseas revenues are reduced when translated into the home country currency.

The use of the flexible cost-plus method to reduce prices in response to unfavorable currency swings is an example of a **market holding strategy** and is adopted by companies that do not want to lose market share.

Price transparency means that buyers will be able to comparison shop easily because goods will be priced in a single currency (Euros) as opposed to multiple currencies (marks, francs, or lira).

2-Inflation

Inflation, or a persistent upward change in price levels, is a problem in many countries markets and can be caused by an increase in the money supply.

An essential requirement for pricing during inflation is the maintenance of profit margins

When present, inflation requires price adjustments for a simple reason: Increased selling prices must cover rising costs. Regardless of cost accounting practices, if a company maintains its margins, it has effectively protected itself for the effects of inflation.

Companies can resort to several ways to safeguard themselves against inflation:

- ✓ Modify components, ingredients, parts, and/or packaging materials.
- ✓ Source materials from low-cost suppliers
- ✓ Shorten credit terms
- ✓ Quote prices in a stable currency
- ✓ Pursue rapid inventory turnovers

3- Government Controls and Subsidies

Government interventions may come in various shapes and forms, such as a restriction on price increases to combat inflation, high import taxes to protect local industry from foreign competition, or high taxes on certain goods (for example cars with high fuel consumption) to encourage more ecologically sound alternatives.

Government control can also take other forms. Companies are sometimes required to deposit funds in noninterest-bearing accounts for a specified period of time if they wish to import products.

Cash deposit requirements clearly create an incentive for a company to minimize the stated value of the imported goods; lower prices mean smaller deposits. Other government requirements that affect the pricing decision are profit transfer rules that restrict the conditions under which profits can be transferred out of a country. Under such rules, a high transfer price paid for imported goods by an affiliated company can be interpreted as a device for transferring profits out of a country.

4-competition

The pressure of competitors may also affect international pricing.

Under conditions approximating pure competition, price is set in the marketplace. Price tends to be just enough above costs to keep marginal producers in business.

Under conditions of monopolistic or imperfect competition, the seller has some discretion to vary the product quality, promotional efforts and channel policies in order to adapt the price of the total product to serve preselected market segments.

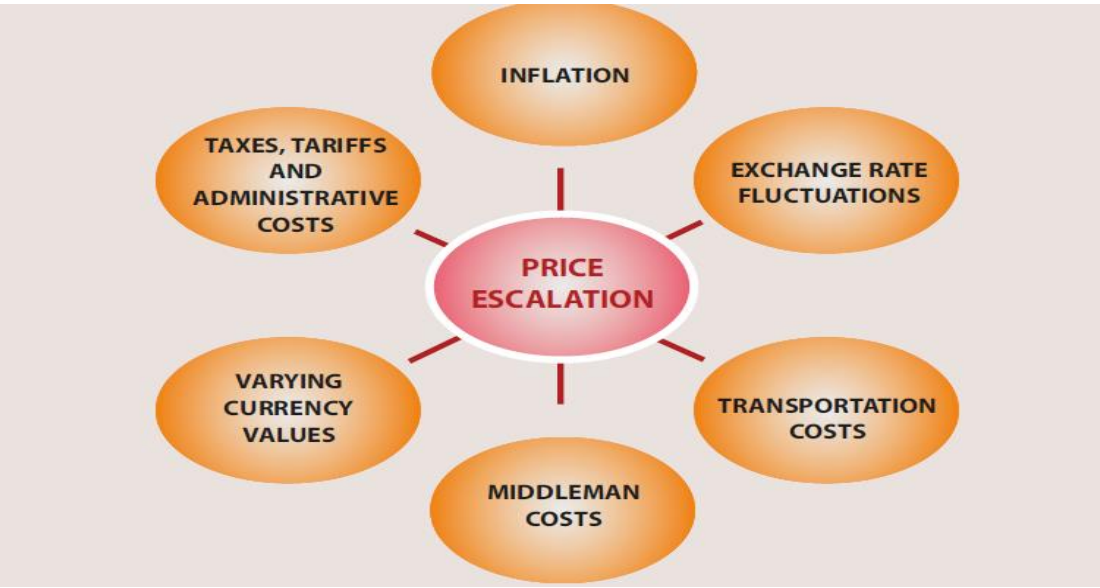
9.3. Price escalations

Price escalation: disproportionate difference in price between the exporting country and the importing country due to added costs incurred as a result of moving goods from one country to another. These costs are related to shipping, transportation, insurance, packing, tariffs, longer distribution channels (i.e. many middlemen), special taxes, administrative costs and exchange rate fluctuations (see Figure 9.1) .

The following management options are available to counter price escalation:

- ✓ *Rationalizing the distribution process.* One option is to reduce the number of links in the distribution process, either by doing more in-house or by avoiding some channel members.
- ✓ *Lowering the export price from the factory*, thus reducing the multiplier effect of all the mark-ups.
- ✓ *Establishing local production of the product* within the export market to eliminate some of the cost.
- ✓ *Pressurizing channel members to accept lower profit margins.* This may be appropriate if these intermediaries are dependent on the manufacturer for much of their turnover.

Figure 9-1- factors influence price escalation



9.4. International pricing strategies and practices

9.4.1. Approaches to international pricing strategies

There are three alternative positions a company can take on worldwide pricing.

1. *An ethnocentric pricing policy, or standardization*:

The price of an item is the same all over the world (each customer pays the same price for the product as it leaves the factory), but they are expected to pay transport and import duties themselves, either directly or indirectly, and this leads to considerable differences in the price to the final consumer. This type of pricing strategy is often used when selling a product with a low degree of differentiation.

For the firm, the **advantage** is a low-risk strategy as a fixed return is guaranteed and the international buyer takes all the exchange rate risk.

However, the **disadvantage** is no adapting to local conditions in each national market and so no effort is made to maximize either profits or sales volume.

2. A polycentric pricing policy, or adaptation:

It allows the local subsidiary or affiliates to establish whatever price they consider to be most appropriate for local conditions, and no attempt is made to coordinate prices from country to country.

The weakness of this policy is the lack of control the headquarters have over the prices set by the subsidiary operations. Significantly different prices must be set in adjacent markets, and this can reflect badly on the image of multi-national firms. IKEA takes a polycentric approach to pricing.

3. A geocentric pricing policy, or invention:

it takes an intermediate position by neither fixing a single price worldwide, nor allowing a complete freedom of local decision. Whilst the need to take account of local factors is recognized, particularly in the short term, the firm still expects local pricing strategies to be integrated into a company-wide long-term strategy.

The choice of pricing policy is influenced also by the **centralized or decentralized decision making** in the particular company. However, there are five characteristics of the product that are important in pricing.

Degree of necessity: if a product is essential for its users, price changes are unlikely to affect the market, except in countries with extreme poverty where people cannot afford even the most basic necessities.

Frequency of purchase: frequently purchased products (e.g. petrol, tea and bread) tend to be very price-sensitive in all markets, whereas occasional purchases are not.

Unit price: high-priced products (such as holidays and cars) are evaluated in greater detail in terms of the consumer‘s perceptions of value for money, so many aspects are extremely important to consumers besides price (e.g. reliability, style and features).

Degree of comparability: consumers are less price-conscious about insurance policies than grocery products, because the alternatives are more difficult to compare. The same is the situation with certain services, such as advertising, consultancy and accountancy, which have a different perceived value from country to country.

Degree of fashion or status: the high prices of luxury goods are perceived as a mark of their quality, and it is usually the goods with prestige image (even often created in other countries) that are not price-sensitive.

9.4.2. Market Penetration Pricing Versus Market Skimming.

Skimming pricing:

A company uses skimming when the objective is to reach a segment of the market that is relatively price insensitive and thus willing to pay a premium price for the value received.

If limited supply exists, a company may follow a skimming approach to maximize revenue and to match demand to supply. When a company is the only seller of a new or innovative product, a skimming price may be used to maximize profits until competition forces a lower price.

Penetration pricing:

A penetration pricing policy is used to stimulate market growth and capture market shares by deliberately offering products at low prices. This approach requires mass markets, price-sensitive customers and reduction in unit costs through economies of scale and experience curve effects. The basic assumption that lower prices will increase sales will fail if the main competitors reduce their prices to a correspondingly low level. Another danger is that prices might be set so low that they are not credible to consumers. There are confidence levels for prices below which consumers lose faith in the product's quality. Motives for pricing at low levels in certain foreign markets might include:

- ✓ intensive local competition from rival companies;
- ✓ lower income levels of local consumers;

Japanese companies have used penetration pricing intensively to gain market share leadership in a number of markets, such as cars, home entertainment products and electronic components.

9.4.3. Cost-Plus Pricing

Cost-plus pricing is the most commonly used international pricing strategy, particularly when firms are just beginning to globalize. This also reflects the fact that many pricing managers adopt a rather risk-averse attitude when it comes to global price setting. Cost-plus pricing also has the advantage of being relatively transparent.

Companies using ***rigid cost-plus pricing*** set prices without regard to the additional exporting cost. They make no adjustments to reflect market conditions outside the home country. The obvious advantage of rigid cost-based pricing is its simplicity: Assuming that both internal and external cost figures are readily available, it is relatively easy to arrive at a quote.

The disadvantage is that this approach ignores demand and competitive conditions in target markets; the risk is that prices will either be set too high or too low.

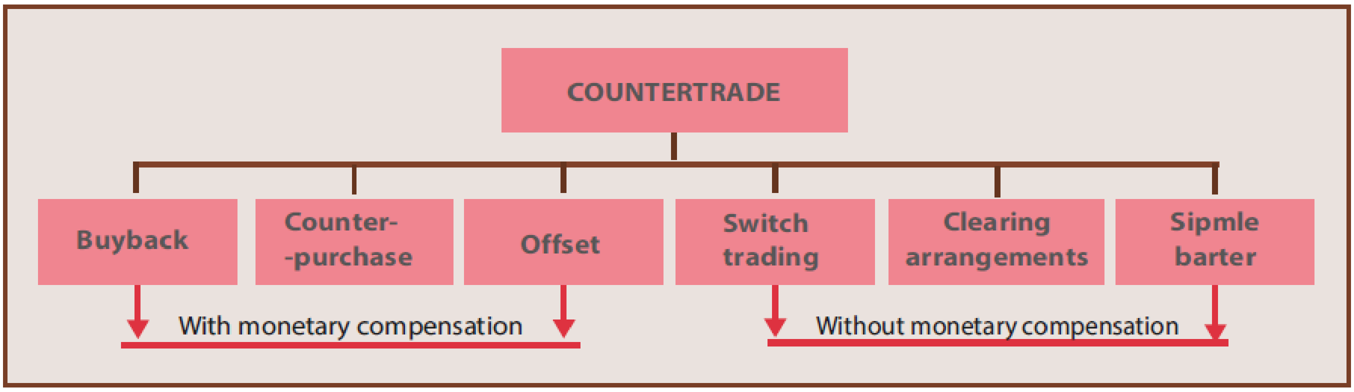
Flexible cost-plus pricing is used to ensure that prices are competitive in the context of the particular market environment. This approach is frequently used by experienced exporters and global marketers.

9.4.4. Countertrade

Countertrade deals represent a less conventional form of trading arrangement where payments, either partially or in full, are made in the form of goods and services.

Historically, the single most important driving force behind the proliferation of countertrade was the decreasing ability of developing countries to finance imports through bank loans. There are several types of Counter-trades including barter, counter-purchase, compensation trade, switch trading, and offsets and clearing agreements as figure 9-2-shows.

Figure 9-2-shows classification of countertrade operations.



1-Simple barter:

Barter is the simplest of many types of Counter-trades. It is a one-time direct and simultaneous exchange of products of equal value (one product or another). By removing money as a medium of exchange, barter makes it possible for cash tied countries to buy and sell. Although price must be considered in any counter-trade, price is only implicit and best in the case of barter. PepsiCo dominates the cola market in Russia and all the former Soviet republics in part because of its exclusive countertrade agreement with Russia, which locked Coca-Cola out of the Russian cola market for more than 12 years.

2-Counter purchase

The **counter purchase** form of countertrade, also termed *parallel trading* or *parallel barter*, is distinguished from other forms in that each delivery in an exchange is paid for in cash. GE won a contract worth $300 million to build aircraft engines for

Sweden's JAS fighters for cash only after agreeing to buy Swedish industrial products over a period of time in the same amount through a counter purchase deal.

3-Offset

Offset is a reciprocal arrangement whereby the government in the importing country seeks to recover large sums of hard currency spent on expensive purchases such as military aircraft or telecommunications systems.

In an offset, a foreign supplier is required to manufacture or assemble the product locally (may not be economically optimal) and / or purchase local components as an exchange for the right to sell its products locally.

4-A compensation trade (buyback)

In one contract, the supplier agrees to build a plant or provide plant equipment, patents or licenses, or technical, managerial, or distribution expertise for a hard currency down payment at the time of delivery.

In the other contract, the supplier company agrees to take payment in the form of the plant's output equal to its investment (minus interest) for a period of as many as 20 years.

5- Switch Trading

Also called *triangular trade* and *swap*, **switch trading** is a mechanism that can be applied to barter or countertrade. In this arrangement, a third party steps into a simple barter or other countertrade arrangement when one of the parties is not willing to accept all the goods received in a transaction.

The third party may be a professional switch trader, switch trading house, or a bank.

The switching mechanism provides a "secondary market" for countertraded or bartered goods and reduces the inflexibility inherent in barter and countertrade.

6- A clearing agreement

is a clearing account barter between two governments with no currency transaction required. Each party sets up an account in its own central bank, the trade in this case is continuous, until the exchange reaches an agreed value or volume of trade tabulated or calculated in nonconvertible "clearing account units".

Imbalances at the end of the contract period are cleared through payment in hard currency or goods.

7-Incoterms (International Commercial Terms)

Incoterms are a set of pre-defined commercial rules used in foreign trade transactions which define the tasks, costs and risks of transportation and delivery of goods under sales contracts, therefore it reduces uncertainties by eliminating misinterpretations of foreign trade terms.

Incoterms are classified into four categories:

1. ***Ex-works (EXW), the sole "E-Term***" or "origin" term among Incoterms, refers to a transaction in which the buyer takes delivery at the premises of the seller; the buyer bears all risks and expenses from that point on.

2. ***Delivered duty paid (DDP).*** The seller has agreed to deliver the goods to the buyer at the place the names in the country of import, with all costs, including duties, paid.

3. ***Free carrier (FCA).*** Also known as "F-Terms" or "pre-main-carriage terms." FCA is widely used in international sales. Under FCA, transfer from seller to buyer is effected when the goods are delivered to a specified carrier at a specified destination.

a. ***FAS (free alongside ship)*** named port is the Incoterm for a transaction in which the seller places the shipment alongside, or available to, the boat upon which the goods will be transported out of the country.

b. ***FOB (free on board) named port***. The responsibility and obligation of the seller do not end until the goods have cleared the ship's rail.

4. Several Incoterms are known as "C-Terms" or "main-carriage" terms.

a. ***CIF (cost, insurance, freight)*** named port is the risk of loss or damage to goods is transferred to the buyer once the goods have passed the ship's rail. The seller pays transportation and insurance.

b. If the terms of the sale are ***CFR (cost and freight),*** the seller is not responsible for risk or loss at any point outside the factory.

9.5. Transfer pricing

Prices of goods transferred from operations or sales units in one country to a company's units elsewhere are known as **transfer pricing** or **intercompany pricing**.

The benefits of transfer pricing are as follows:

- ✓ lowering duty costs by shipping goods into high-tariff countries at minimal transfer prices so duty base and duty are low,
- ✓ reduction of income taxes in high-tax countries by overpricing goods transferred to units in such countries; profits are eliminated and shifted to low-tax countries,
- ✓ to show more or less profit in crucial times (e.g. new production, government rules, to please shareholders or to show the good performance of new/old management.

Three major alternative approaches can be applied to transfer pricing decisions:

*1-**Transfer at cost.***

The transfer price is set at the level of the production cost and the international division is credited with the entire profit that the firm makes. This means that the production center is evaluated on efficiency parameters rather than profitability.

2-Transfer at arm's length

an arm's-length price would be the result of supply and demand in a particular market. That's why it is also called 'market-based pricing'. Here the international division is charged the same as any buyer outside the firm.

3-Transfer at cost plus

This is the usual compromise, where profits are split between the production and international divisions.

9.6. Market Disturbances

9.6.1. Dumping

Dumping is an important global pricing strategy issue. GATT's 1979 antidumping code defined dumping as" ***the sale of an imported product at a price lower than that normally charged in a domestic market or country of origin***."

The major types of Dumping prevalent today are:

1-***Over-capacity dumping*** occurs when a company produces and sells products at a price that is lower than the average cost of production, trying to cover at least its fixed costs.

2-***Government-supported dumping*** takes place when the government supports a particular industry by providing subsidies, because of which such firms can sell their products at a price below the production costs.

3-***Tactical dumping*** occurs when a firm sells the same product at different prices in different markets.

4-Predatory dumping aims at eliminating the competition to gain exclusive control of the market. It is an extreme form of discriminatory pricing where the firm aims at monopolizing a market. This method of dumping is most likely to cause destructive injury to the country where the product is being dumped.

anti-dumping law opponents point out that price discrimination between different national markets is a natural strategy and should not be considered illegal. Dumping also offers the consumer a wider range and lower priced products.

9.6.2. Grey Markets and Parallel Imports

Gray market goods are trademarked products that are exported from one country to another where they are sold by unauthorized persons or organizations.

Parallel importing occurs when companies employ a polycentric, multinational pricing policy that calls for setting different prices in different country markets.

Gray markets impose several costs or consequences on global marketers. These include:

- ✓ Unauthorized resellers endanger the channel quality of manufacturers and may cause severe customer dissatisfaction, for which the manufacturer is held responsible.
- ✓ Other negative consequences of grey markets include price instability, confused customers who might mistake the products for counterfeits, loss of channel control, a decrease in customer service quality, tensions in distributor relationships and, most importantly, customers losing trust in the brand.

Conclusion:

In this chapter, we have had a review of basic pricing concepts, and then pricing topics that pertain to international marketing has been discussed. In addition to, gray market goods, dumping, price fixing, transfer pricing, and countertrade have been explained.

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Multiple choice questions

1- are trademarked products that are exported from one country to another where they are sold by unauthorized persons or organizations.

A-grey market goods B-black market goods C-white market goods

2- occurs when a firm sells the same product at different prices in different markets.

A- Predatory dumping B-tactical dumping C- Over-capacity dumping

3- Here the international division is charged the same as any buyer outside the firm.

A- Transfer at arm's length B- Transfer at cost plus C- Transfer at cost

4- The responsibility and obligation of the seller do not end until the goods have cleared the ship's rail.

A- FOB (free on board) named port B- CIF (cost, insurance, freight)

Essay questions

1-identify classification of countertrade operations.

(answer time 10 minutes paragraph 9-4-4)

2-International marketers must deal with a number of environmental considerations when making pricing decisions. Identify it.

(answer time 10 minutes paragraph 9-2-3)

3- name the main alternative positions a company can take on worldwide pricing.

(answer time 10 minutes paragraph 9-4-1)

4- Companies can resort to several ways to safeguard themselves against inflation: identify them?

(answer time 10 minutes paragraph 9-2-3)

Chapter Ten: International Marketing Channels and Physical Distribution

10.1. Channel distribution importance

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.

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.

Marketing channels exist to create utility for customers. The major categories of channel utility are:

- ✓ **place utility** (the availability of a product or service in a location that is convenient to a potential customer),
- ✓ **time utility** (the availability of a product or service when desired by a customer),
- ✓ **form utility** (the availability of the product processed, prepared, in proper condition and/or ready to use), and
- ✓ **information utility** (the availability of answers to questions and general communication about useful product features and benefits).

10.2. Determinants of channel types

The main factors affecting marketing channel decision are as the following

1-Customer characteristics

The customer, or final consumer, is the keystone in any channel design. Thus the size, geographic distribution, shopping habits, outlet preferences and usage patterns of customer groups must be taken into account when making distribution decisions.

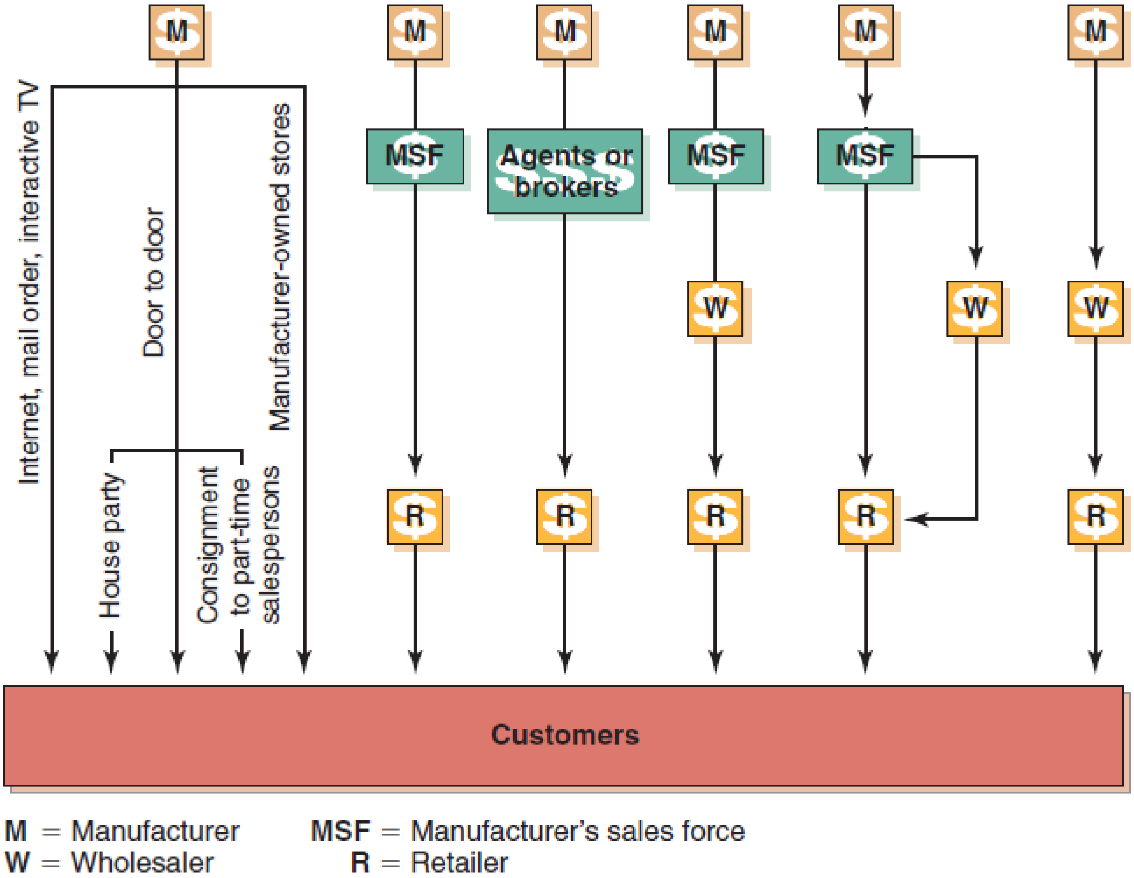
- ✓ Consumer product channels tend to be longer than industrial product channels because the number of customers is greater, the customers are more geographically dispersed and they buy in smaller quantities.

Figure 10-1 summarizes six channel structure alternatives for consumer products. The characteristics of both buyers and products have an important influence on channel design. The first alternative is to market directly to buyers via the Internet, mail order, various types of door-to-door selling, or manufacturer-owned retail outlets. The other options use retailers and various combinations of sales forces, agents/brokers, and wholesalers.

- ✓ Product characteristics such as degree of standardization, perishability, bulk, service requirements, and unit prices have an impact as well. Generally speaking, channels tend to be longer (require more intermediaries) as the number of customers to be served increased and the price per unit decreases.
- ✓ The Internet and related forms of new media are dramatically altering the distribution landscape. E-Bay pioneered a form of online commerce known as **peer-to-peer** (p-to-p) marketing whereby individual consumers marketed products to other individuals.
- ✓ Low-cost, mass-market nondurable products and certain services can be sold door-to-door via a direct sales force. **Door-to-door** and house party selling is a form of distribution that is mature in the United States and it is growing in popularity elsewhere.

In Japan, the biggest barrier facing U.S. auto manufacturers is that half the cars which are sold each year are **sold door-to-door!** Toyota and its Japanese competitors maintain showrooms, but they also employ more than 100,000 car salespeople.

Figure 10-1-Marketing channel alternatives: consumer products



2-nature of product

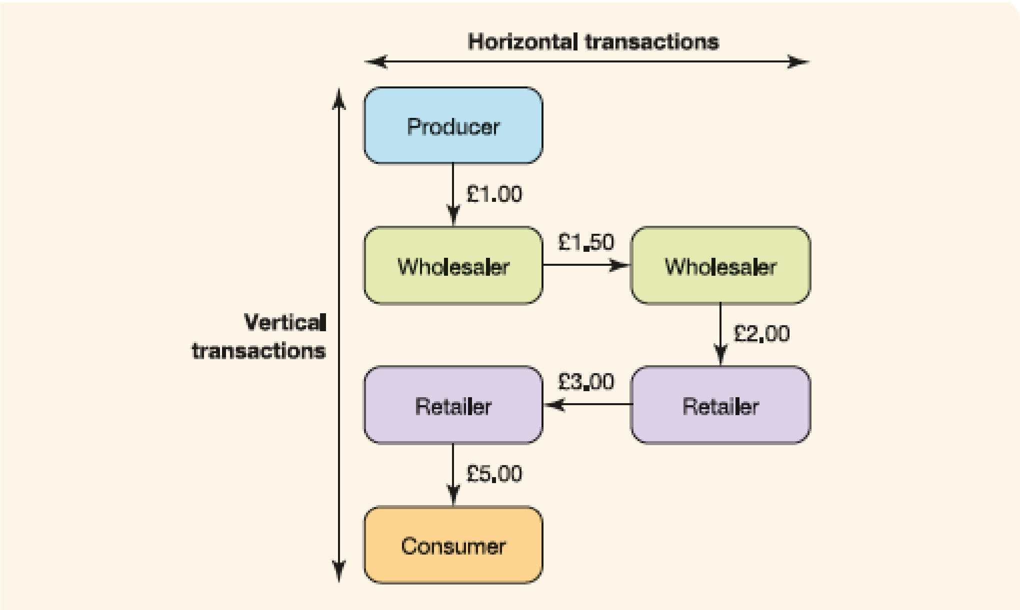
Product characteristics play a key role in determining distribution strategy. For low priced, high-turnover convenience products, the requirement is an intensive distribution network. On the other hand, it is not necessary or even desirable for a prestigious product to have wide distribution. In this situation a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will actively seek information about all brands under consideration. In such cases, limited product exposure is not an impediment to market success.

3- Legal regulations

A country may have specific laws that rule out the use of particular channels or intermediaries. For example, until recently, all alcoholic beverages in Sweden and Finland had to be distributed through state-owned outlets. Other countries prohibit door-to-door selling. Channel coverage can also be affected by law. In general, exclusive representation may be viewed as a restraint of trade, especially if the product has a dominant market position. For example, Saudi Arabia requires every foreign company with work there to have a local sponsor who receives about 5 percent of any contract.

Also, local business practices can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired. Because of Japan's multi-tiered distribution system, which relies on numerous layers of intermediaries, foreign companies have long considered the complex Japanese distribution system as the most effective non-tariff barrier to the Japanese market as figure 10-2-shows

Figure 10-2 shows channel sequence in the Japanese consumer market



4-Control/cost

The company must decide how much control it wants to have over how each of its products is marketed. Normally a high degree of control is provided by the use of the firm's own sales force in international markets. The use of intermediaries will automatically lead to loss of some control over the marketing of the firm's products.

In summary, the decision to use an intermediary or to distribute via a company-owned sales force requires a major trade-off between the desire to control global marketing efforts and the desire to minimize resource commitment costs.

5- Market coverage goals

Regardless of the market coverage measure(s) used, the company has to create a distribution network (dealers, distributors and retailers) to meet its coverage goals.

There are three different approaches available:

1. *Intensive coverage*. This calls for distributing the product through the largest number of different types of intermediary and the largest number of individual intermediaries of each type.

2. *Selective coverage*. This entails choosing a number of intermediaries for each area to be penetrated.

3. *Exclusive coverage*. This involves choosing only one intermediary in a market.

10.3. Direct and Indirect Channels

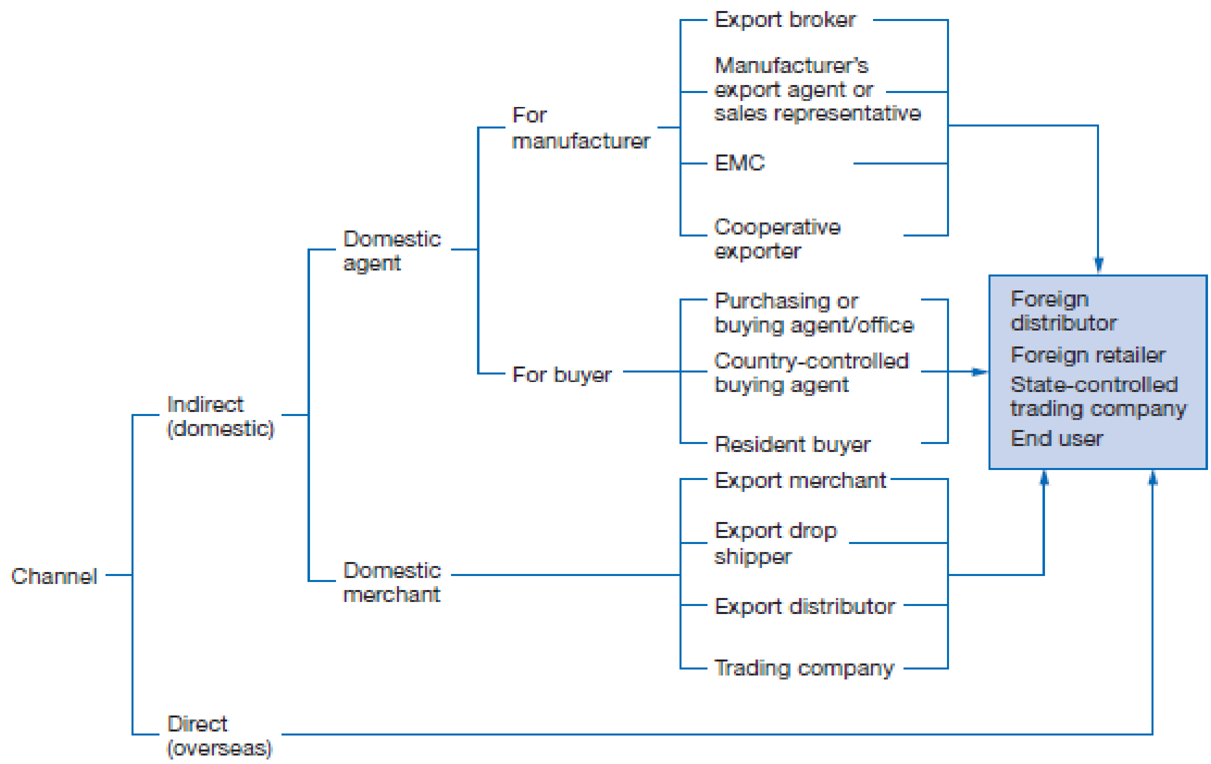
When the Companies have to market abroad they use two principal distribution channels:

Direct selling and indirect selling.

10.3.1. Types of intermediaries: direct channel

There are several types of intermediaries associated with both the direct and indirect channels. Figure 10-3 compares the two channels and lists the various types of domestic and foreign intermediaries.

Figure 10-3-international channels of distribution



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. The distributor purchases merchandise from the manufacturer at a discount and then resells or distributes the merchandise to the retailers and sometimes final consumers. In most cases the distributor is usually considered as an importer or foreign wholesaler.

2 -Foreign Retailer: If foreign retailers are used, the product in question must be a consumer product rather than an industrial product. There are many channels by which a manufacturer may contact foreign retailers and trust them in carrying product ranging from a personal visit by manufacturer's visit to mailings of catalogues, brochures and other literature to prospective retailers.

*3- **State-controlled trading company***

For some products particularly utility and telecommunication equipment a manufacturer must contact and sell to the 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:*** Sometime a manufacturer is able to sell directly to foreign end users with no intermediaries involved in the process. This direct channel is a logical and natural choice for costly industrial products.

10.3.2. Types of Intermediaries: Indirect Channel

1- Export broker:

The Broker may be assigned some or all foreign market seeking potential buyers. It negotiates the best terms for the seller (manufacturer) but cannot conclude the transaction without the approval of the principal. As a representative of the manufacturer the export broker may operate under its own name or that of the manufacturer. For any action performed the broker receives a fee/ commission. An export broker does not take the title of the goods.

2- Manufacturer's export agent or sales representative:

This is an independent businessperson who usually retains his or her own identity by not using the manufacturer's name. Having more freedom than the manufacturer's own salesperson, a sales representative can select when, where, and how to work within the assigned territory. An export agent pays his or her own expenses and may represent manufacturers of related and noncompeting products. The person may operate on either an exclusive or nonexclusive basis. Like a broker, the manufacturer's export agent works for commission. Unlike the broker, the relationship with the manufacturer is continuous and more permanent.

3-Export Management Company:

An Export Management Company (EMC) manages under contract the entire export programme of a manufacturer. The EMC is responsible for all of the manufacturer's international activities.

EMCs are compensated in several ways. Frequently, compensation is in the form of a commission, salary, or retainer plus commission.

4-Cooperative exporter:

A cooperative exporter is a manufacturer with its own export organization that is retained by other manufacturers to sell in some or all-foreign markets.

The cooperative exporter's motive in representing other manufacturers primarily involves its own financial interest. Having fixed costs for the marketing of its own products, the cooperative exporter desires to share its expenses and expertise with others who want to sell in the same markets abroad.

5-Purchasing/buying agent:

An export agent represents a seller or manufacturer. The purchasing/buying agent represents the foreign buyer. By residing and conducting business in the exporter's country the purchasing agent is in a favorable position to seek a product that matches the foreign principal's preferences and requirements.

The overseas customers' behalf the purchasing agent acts in the interest of the buyer by seeking the best possible price. Therefore, the purchasing agent's client pays a fee or commission for the services rendered.

6-Country-controlled buying agent

A variation on the purchasing agent is a country controlled buying agent. This kind of agent performs exactly the same function as the purchasing/ buying agent, the only distinction being that a country-controlled buying agent is actually a foreign government's agency or quasi-governmental firm.

7-Export merchant:

An export merchant seeks out need in foreign markets and makes purchases from manufacturers in its own country to fill those needs. After having the merchandised packed and marked to specifications, the export merchant resells the goods in his name through his contacts in the foreign markets. The merchant completes all the formalities and arrangements, assumes all risks associated with the ownership.

8-Trading companies:

The buyers and sellers in the foreign markets have no knowledge of each other or no knowledge of how to contact each other. In international marketing activities, for many countries this type of intermediaries may be the most dominant form in volume of business and in influence. Many trading companies are large and have branches wherever they do business. Half of Taiwan's exports are controlled by trading companies. In Japan, general trading houses are known as *sogo shosha*, and the largest traders include such well-known MNCs as Mitsubishi, Mitsui, and C. Itoh.

9-Export distributor: This distributor is authorized and granted an exclusive marketing right to represent the manufacturer and to sell in some or all-foreign markets. It pays for goods in his domestic transaction with the manufacturer and handles all financial risks in the foreign trade.

10.4. Online retail sales

Online retailing is one of the fastest-growing market sectors in Europe, the US and Asia

(China). Worldwide, online retail sales will grow around 10–15 per cent per year over the next five years as shoppers continue to shift their spending from physical stores ('bricks') to online ones ('clicks').

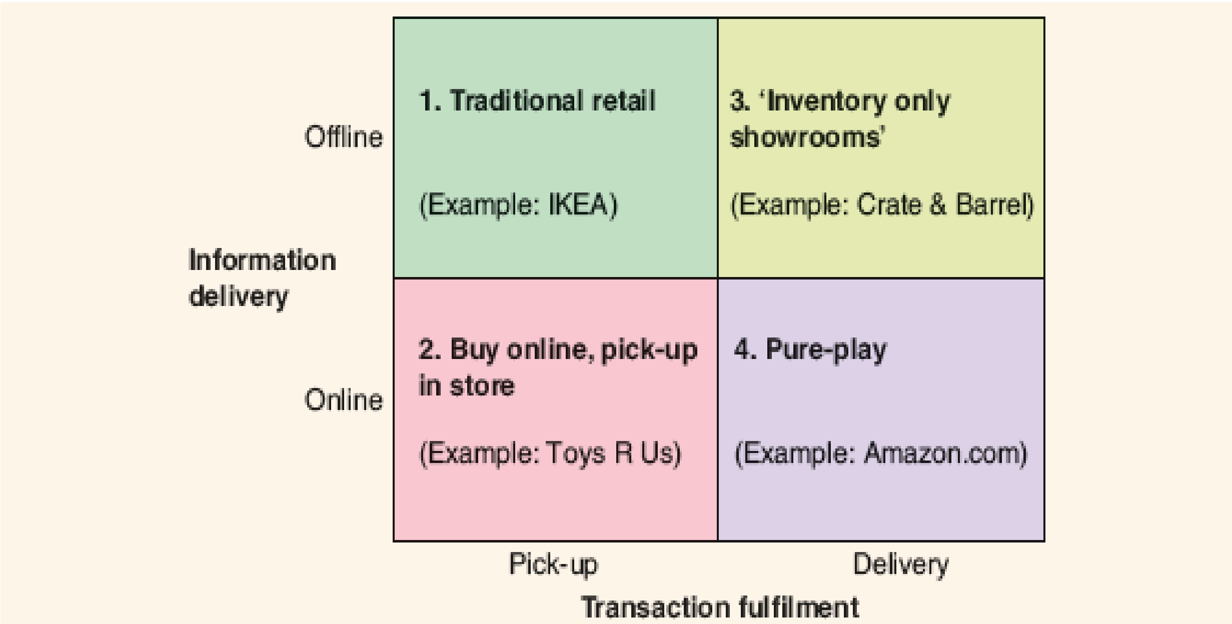
Multi-channel retailing. The use of a variety of channels in a customer's shopping experience, including research before a purchase. Such channels include: retail stores, online stores, mobile stores, mobile app stores, telephone sales and any other method of transacting with a customer. Transacting includes browsing, buying, returning as well as presale and after-sale service.

The two-dimensional framework (resulting in the 2 × 2 matrix) in Figure 10-3 is based on basic questions:

1. ***Information delivery***. How will the customers get the information they need to facilitate their purchase decisions? Two options: will they visit the stores to obtain (offline) information or will they seek information online, through websites or online catalogues?

2. ***Transaction fulfillment***. How will the transactions be fulfilled? Two options: will the customers either visit the store to pick up the items or will the store come to them, when the products are being delivered?

Figure 10-4- the information and fulfillment matrix



10.5. Managing and controlling distribution channels

10.5.1. Dealing with distributors

Here are some specific guidelines for dealing with channel intermediaries:

- ✓ Select distributors. Don't let them select you.
- ✓ Look for distributors capable of building markets, not those with a few good customer contacts
- ✓ Treat local distributors as long-term partners, not temporary market-entry vehicles.
- ✓ Support market entry by committing money, managers, and proven marketing ideas.
- ✓ From the start, maintain control over marketing strategy.

- ✓ Make sure distributors provide you with detailed market and financial performance data.
- ✓ Build links among national distributors at the earliest opportunity.

10.5.2. Contracting (distributor agreements)

The agreement itself can be relatively simple but, given the numerous differences in the market environments, certain elements are essential, as follows:

1-Contract duration is important, especially when an agreement is signed with a new distributor. In general, distribution agreements should be for a specified, relatively short period (one or two years).

2-Geographic boundaries for the distributor should be determined with care, especially by smaller firms. Future expansion of the product market might be complicated if a distributor claims rights to certain territories.

3-The *payment section* of the contract should stipulate the methods of payment as well as how the distributor or agent is to draw compensation. Distributors derive compensation from various discounts, such as the functional discount, whereas agents earn a specific commission, a percentage of net sales (typically 10–20 per cent).

4-Product and conditions of sale need to be agreed on. The products or product lines

included should be stipulated, as well as the functions and responsibilities of the intermediary in terms of carrying the goods in inventory, providing service in conjunction with them, and promoting them.

5-Means of communication between the parties must be stipulated in the agreement if a marketer–distributor relationship is to succeed. The marketer should have access to all information concerning the marketing of its products in the distributor's territory, including past records, present situation assessments and marketing research.

10.6. Physical distribution

Physical distribution consists of activities involved in moving finished goods from manufacturers to customers.

Logistics is the management process that integrates the activities of all companies—both upstream and downstream—to ensure an efficient flow of goods through the supply chain.

The most important distribution activities are order processing, warehousing, inventory management, and transportation.

Order Processing

Activities relating to order processing provide information inputs that are critical in fulfilling a customer’s order. **Order processing** includes:

- *Order entry,* in which the order is actually entered into a company's information system;
- *Order handling,* which involves locating, assembling, and moving products into distribution; and
- *Order delivery,* the process by which products are made available to the customer.

Warehousing

Warehouses are used to store goods until they are sold; another type of facility, the *distribution center,* is designed to efficiently receive goods from suppliers and then fill orders for individual stores or customers. Modern distribution and warehousing is such an automated, high-tech business today that many companies outsource this function.

Inventory Management

Proper inventory management ensures that a company neither runs out of manufacturing components or finished goods nor incurs the expense and risk of carrying excessive stocks of these items.

Transportation

Transportation decisions concern the method or *mode* a company should utilize when moving products through domestic and global channels. The word *mode* implies a choice, and the major transportation choices are rail, truck, air, water, pipeline, and the Internet (Table 10-1).

Table 10-1-comparison of major international transportation modes

Mode	Reliability	Cost	Speed	Accessibility	Capability	Ease of Tracing
Rail	Average	Average	Average	High	High	Low
Water	Low	Low	Slow	Low	High	Low
Truck	High	Varies	Fast	High	High	High
Air	High	High	Fast	Low	Moderate	High
Pipeline	High	Low	Slow	Low	Low	Moderate
Internet	High	Low	Moderate to fast	Moderate; increasing	Low	High

Rail provides an extremely cost-effective means for moving large quantities of merchandise long distances.

Trucks are an excellent mode for both long-haul, transcontinental transport and local delivery of goods. In nations with well-developed highway systems, truck freight provides the highest level of accessibility of any mode.

There are two main types of water transportation.

Inland water transportation is an extremely low-cost mode generally used to move agricultural commodities, petroleum, fertilizers, and other goods that, by their nature, lend themselves to bulk shipping via barge.

Inland water transportation can be slow and subject to weather-related delays.

Although sailing times are not competitive with air transportation, it is generally more cost effective to ship large quantities of merchandise via ocean than by air.

Why is water rated "low" in reliability? In any given year, approximately 200 freighters sink due to bad weather or other factors.

Air is the fastest transport mode and the carrier of choice for perishable exports such as flowers or fresh fish, but it is also the most expensive.

Thanks to the digital revolution, the ***Internet*** is becoming an important transportation mode that is associated with several advantages and one major disadvantage.

Disadvantage: the Internet's capability is low.

Advantages: Anything that can be digitized—text, voice, music, pictures, and video—can be sent via the Internet. Advantages include low cost and high reliability.

Conclusion:

At the end of this chapter, we can assert that, distribution channels are one of the most highly differentiated aspects of national marketing systems. The diversity of channels and the wide range of possible distribution strategies and market-entry options can present challenges to managers responsible for designing international marketing programs. Channels and physical distribution are crucial aspects of the total marketing program; without them, a great product at the right price and effective communication means very little.

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Multiple choice questions

1- Each country market has a……… through which goods pass from producer to user

A-distributor process B-distributors policy C-distributor structure D-A+B

2-pioneered a form of online commerce known as peer-to-peer (p-to-p) marketing whereby individual consumers marketed products to other individuals.

A-e-bay B-amazon C-ask-Jeeves D-travel.com

3-provides an extremely cost-effective means for moving large quantities of merchandise long distances.

A-air B-rail C-trucks D-internet

4-which involves locating, assembling, and moving products into distribution

A-order taking B-order handling C-order delivery D-A+B+C

Essay questions

1-identify determinants of channel types

(answer time 10 minutes paragraph 10-2)

2-whar are the main elements of physical distribution

(answer time 10 minutes paragraph 10-6)

3- What does distributor agreement includes
(answer time 10 minutes paragraph 10-5-2)

4- What types of indirect intermediaries
(answer time 10 minutes paragraph 10-3-2)

Chapter Eleven: International Marketing Communication: Advertising and Public Relation

11.1. The communication process

Communication is a process that effectively mediates the flow of information between the company, its target market and the general public through words, written text, symbols or characters.

The elements of the marketing communication are advertising, public relations, personal selling, and sales promotion. Global marketers can use all of these elements, either alone or in varying combinations.

11.1.1. Key attributes of effective communication

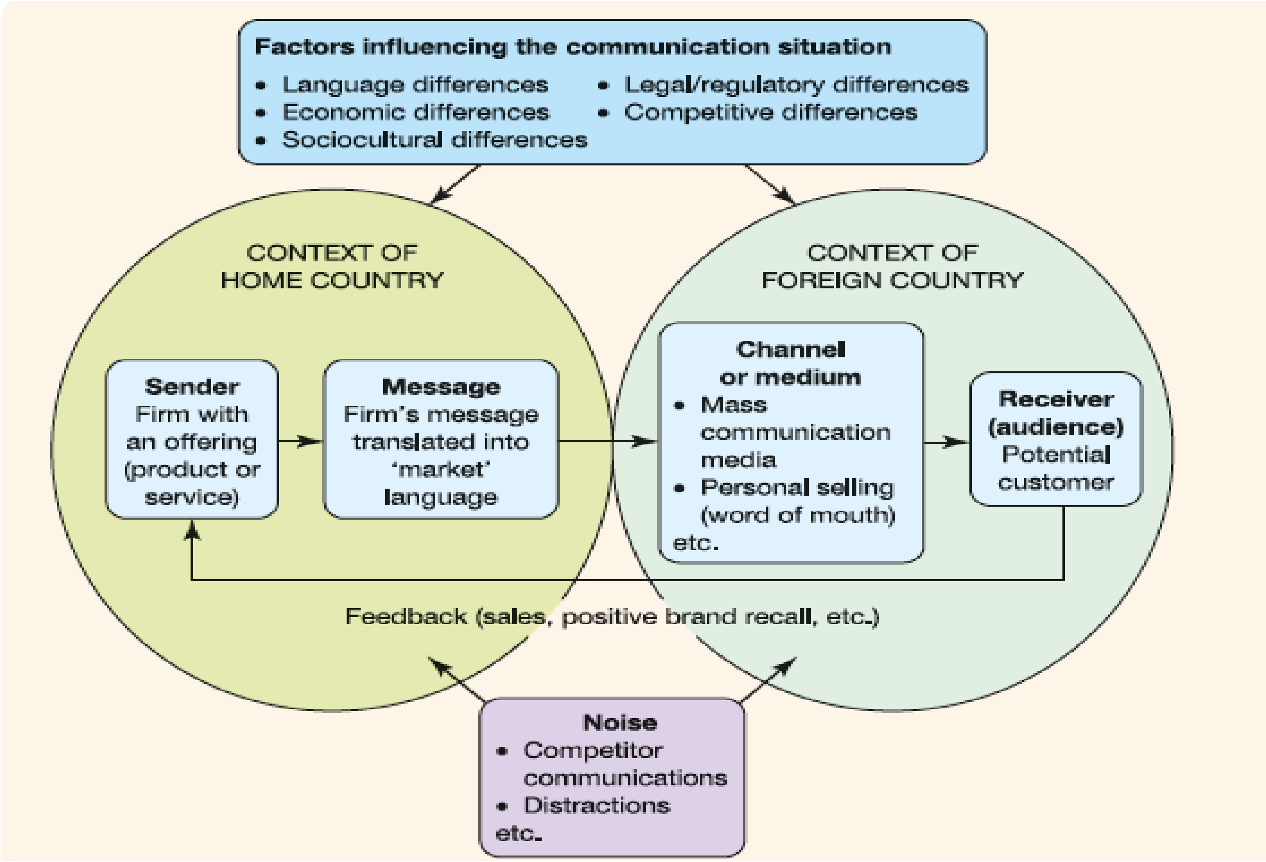
The communication process in Figure 11-1 highlights the key attributes of effective communication. To communicate in an effective way, the sender needs to have a clear understanding of the purpose of the message, the audience to be reached and how this audience will interpret and respond to the message. However, sometimes the audience cannot hear clearly what the sender is trying to say about its product because of the 'noise' of rival manufacturers making similar and often contradictory claims about their products.

Other factors affecting the communication situation are

1-Language differences

A slogan or advertising copy that is effective in one language may mean something different in another language. There are many examples of unfortunate translations of brand names and slogans. General Motors has a brand name for one of its models called the Vauxhall Nova – this does not work well in Spanish-speaking markets because there it means '**no go'**. In Latin America, 'Avoid embarrassment – Use Parker Pens' was translated as '**Avoid pregnancy** –

Figure 11-1-Elements of the international communication process



2-Economic differences

In contrast to industrialized countries, people in developing countries may be more likely

to have radios than television sets. In countries with low levels of literacy, written communication may not be as effective as visual or oral communication.

3-Sociocultural differences

Dimensions of culture (religion, attitudes, social conditions and education) affect how individuals perceive their environment and interpret signals and symbols. In many Asian countries, white is associated with grief; hence an advertisement for a detergent where whiteness is emphasized would have to be altered for promotional activities in, say, India.

4- Legal and regulatory conditions

Tobacco products and alcoholic beverages are the most heavily regulated in terms of promotion.

11.2. Communication tools

The communication tools can be classified from (one-way) communication tools such as advertising, public relations and sales promotion to very personal and close (two-way) communication tools such as direct marketing and personal selling.

11.2.1. advertising

Advertising is non-personal mass communication using mass media (such as TV, radio, newspapers, magazines, billboards, etc.), the content of which is determined and paid for by a clearly identified sender/the company.

The major decisions in advertising are:

11-2-1-1-advertising objectives

Major advertising objectives (and means) might include:

- ✓ increasing sales from existing customers by encouraging them to increase the frequency of their purchases; maintaining brand loyalty; stimulating impulse purchases;
- ✓ obtaining new customers by increasing consumer awareness of the firm's products and improving the firm's corporate image among a new target customer group.

11-2-1-2--Budget decision

There is no standard rule for deciding advertising budget. Following guidelines are taken into consideration while deciding advertising budget:

Affordable approach/percentage of sales

The most popular of these methods is the percentage of sales method, whereby the firm automatically allocates a fixed percentage of sales to the advertising budget.

Advantages of this method:

- ✓ For firms selling in many countries, this simple method appears to guarantee fairness among the markets.
- ✓ It is easy to justify in budget meetings.

Disadvantages of this method:

- ✓ It uses historical performance rather than future performance.
- ✓ It ignores the possibility that extra spending on advertising may be necessary when sales are declining.
- ✓ It does not take into account variations in the firm's marketing goals across

countries.

Effectiveness of advertising campaigns.

- ✓ The method cannot be used to launch new products or enter new market.

Competitive parity approach

The competitive parity approach involves estimating and duplicating the amounts spent on advertising by major rivals. The method does not recognize that the firm is in different situations in different markets. If the firm is new to a market, its relationships with customers are different from those of existing companies.

Objective and task approach

Which begins by determining the advertising objectives and then ascertaining the tasks needed to attain these objectives. To use this method, the firm must have good knowledge of the local market.

11-2-1-3- Message decisions (creative strategy)

An important decision for international marketers is whether an advertising campaign developed in the domestic market can be transferred to foreign markets with only minor modifications, such as translation into appropriate languages.

Standardizing international advertising can lead to a number of advantages for the firm such as; cost savings, increased control, and the potential creative leverage of a global appeal.

Standardized print campaigns can be used for industrial products or for technology oriented consumer products. Example: Apple iPhone.

Standardized print campaigns with a strong visual appeal often travel well. Example: Chivas Regal ("This is the Chivas Life").

TV commercials that use voice-overs instead of actors or celebrity endorsers speaking dialogue can use standardized visuals with translated copy for the voice-over. Examples: Gillette ("The best a man can get"); GE ("Imagination at work").

11-2-1-4-Media decisions

The availability of television, newspapers, and other forms of broadcast and print media varies around the world. Moreover, patterns of media consumption differ from country to country as well.

In many developed countries, for example, newspapers are experiencing circulation and readership declines as consumers devote more time to new media options such as the Internet.

Even when media availability is high, its use as an advertising vehicle may be limited. For example, in Europe, television advertising is very limited in Denmark, Norway, and Sweden. Regulations concerning content of commercials vary; Sweden bans advertising to children younger than 12 years of age.

Some companies use virtually the entire spectrum of available media; Coca-Cola is a good example. Other companies prefer to utilize one or two media categories.

The available alternatives can be broadly categorized as print media, electronic media, and other.

Print media range from local daily and weekly newspapers to magazines and business publications with national, regional, or international audiences.

Electronic media include broadcast television, cable television, radio, and the Internet.

Additionally, advertisers may utilize various forms of outdoor, transit, and direct mail advertising.

11-2-1-5-Agency selection

Companies can create ads in-house, use an outside agency, or combine both strategies.

If the international marketer decides to outsource the international advertising functions, there are a variety of options, including the following:

- ✓ Use different national (local) agencies in the international markets where the firm is present.
- ✓ Use the services of a big international agency with domestic overseas offices

The criteria relevant to the choice of a national or an international agency include the following:

- ✓ *Policy of the company.* Has the company got any realistic plans for a more standardized advertising approach?
- ✓ *Nature of the advertising to be undertaken.* Corporate image advertising might be best undertaken by a single large multinational agency that operates throughout the world via its own subsidiaries. For niche marketing in specialist country sectors, a local agency might be preferred.
- ✓ *Type of product.* The campaign for an item that is to be presented in a standardized format, using the same advertising layouts and messages in all countries, might be

handled more conveniently by a single multinational agency.

11-2-1-6- Advertising evaluation

Testing advertising effectiveness is normally more difficult in international markets than in domestic markets. An important reason for this is the distance and communication gap between domestic and foreign markets.

Consequently, many firms try to use sales results as a measure of advertising effectiveness, but awareness testing is also relevant in many cases, e.g. brand awareness is of crucial importance during the early stages of a new product launch.

Testing the impact of advertising on sales is very difficult because it is difficult to isolate

the advertising effect. One way to solve this problem is to use a kind of *experiment*, where

the markets of the firm are grouped according to similar characteristics. In each group of

countries, one or two are used as test markets. Independent variables to be tested against

the sales (dependent variable) might include the amount of advertising, the media mix, the

unique selling proposition and the frequency of placement.

11.2.2. Public relations

PR (or publicity) is the marketing communications function that carries out programs

which are designed to earn public understanding and acceptance. It should be viewed as

an integral part of the global marketing effort.

The basic tools of PR include news releases, newsletters, media kits, press conferences, tours of plants and other company facilities, articles in trade or professional journals, company publications and brochures, TV and radio talk show interviews, special events, social media, and corporate websites.

Other strategies worth pursuing are:

- ✓ sponsorship

- ✓ celebrity endorsement
- ✓ product placement.

11-2-2-1-Sponsorship

Being a sponsor of global major events such as the Olympics or the World Cup Soccer has several appeals. First, such events offer companies a platform to raise their profile and build their brand image worldwide and particularly in their key markets.

Procter & Gamble, one of the London 2012 Olympics sponsors, used its sponsorship

program as an opportunity to reinforce the association in consumer minds between

P&G and its internationally well-known brands (e.g., Olay, Pampers, and Gillette).

Cause-related marketing, a form of corporate philanthropy with benefits accruing to the sponsoring company, is based on the idea that a company will contribute to a cause every time the customer undertakes some action. In addition to helping worthy causes, corporations satisfy their own tactical and strategic objectives when undertaking cause-related efforts. By supporting a deserving cause, a company can enhance its corporate or brand image, generate incremental sales, increase brand awareness, broaden its customer base and reach new market segments.

Event sponsorship carries four major risks:

First, the organizers of the event could sell too many sponsorships, leading toward clutter. **Second**, the event or parties involved with it may be plagued by controversy or scandal.

Third, the payback of the sponsorship can prove elusive. A survey of 1,500 Chinese citizens in 2008 found that only 15 percent could name two of the global sponsors and just 40 percent could name one.

The **fourth** risk is known as *ambush marketing*. With ambush marketing, a company seeks to associate with an event (e.g., the Olympics) without any payments to the event organizer. For instance, 36 women clad in orange outfits attended the 2010 World Cup Soccer game between the Netherlands and Denmark to promote Bavaria, a Dutch beer, in spite of Budweiser's sponsorship.

11-2-2-2-Celebrity endorsement

One possible explanation for the effectiveness of celebrity endorsers is that consumers tend to believe that major stars are motivated by genuine affection for the product rather than by endorsement fees. Celebrities are particularly effective endorsers because they are viewed as highly trustworthy, believable, persuasive and likeable.

The selection process behind finding the right celebrity endorser for the company's product or service, can be either very complex (involving many possible celebrity endorser candidates) or very simple (only one candidate is involved from the beginning). In both types of selection processes, the celebrity's agent will often (on behalf of the celebrity) play an important role in the negotiation process with the company or its creative advertising company.

11-2-2-3-Product placement

Product placement *is a form of advertisement, where branded products or services are*

placed in a context usually without ads, such as films, the storyline of television shows or

news programs. Product placement is common practice on reality television, e.g. *American Idol.* As the costs of making such shows accelerate, the television networks are looking for partners who want to finance programs in return for some screen time for their products.

For the brand manufacturer the practice is considered a type of pull marketing, designed to increase consumer awareness of the brand and product and strengthen demand. Product placement can be much more cost-effective than other types of marketing. Apple, for example, claims that they never pay for product placement – they just provide devices.

How Public Relations Practices Differ around the World

Cultural traditions, social and political contexts, and economic environments in specific countries can affect public relations practices.

In developing countries, however, the best way to communicate might be through the gong man, the town crier, the market square, or the chief's courts.

A company that is ethnocentric in its approach to PR will extend home-country PR activities into host countries.

The rationale behind this approach is that people everywhere are motivated and persuaded in much the same manner.

This approach does not take cultural considerations into account. A company adopting a polycentric approach to PR gives the host-country practitioner more leeway to incorporate local customs and practices into the PR effort.

Although such an approach has the advantage of local responsiveness, the lack of global communication and coordination can lead to a PR disaster.

The ultimate test of an organization's understanding of the power and importance of public relations occurs during a time of environmental turbulence, especially a potential or actual crisis.

Conclusion:

It can be said at the end of this chapter that, advertising, public relations, and other forms of communication are critical tools in the marketing program. Communication process in the international market represent a challenge to marketers as environment play a great role in shaping and designing the messages.

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Multiple choice questions

1-is non-personal mass communication using mass media.

A-promotion B-advertising C-personal selling D-direct marketing

2- The basic tools of PR include

A-news releases B-press conferences C-newsletter D-A+B+C

3- is a form of advertisement, where branded products or services are placed in a context usually without ads, such as films.

A-product placement B- social media C-push marketing D-pull marketing

4- Testing advertising effectiveness is normally easier in international markets than in domestic markets. A-true B-false

Essay questions

1-what are the key attribute of effective communication

(answer time 10 minutes paragraph 11-1-1)

2- what are the main communication tools

(answer time 10 minutes paragraph 11-2)

3-identify advertising objectives

(answer time 10 minutes paragraph 11-2-1-1)

4-what are the major risks of event sponsorship

(answer time 10 minutes paragraph 11-2-2-1)

Chapter Twelve: Sales Promotion, Personal Selling and Special Forms of Marketing communication

12.1. Sales promotion

Sales promotions are marketing activities that stimulate consumer purchases and improve retailer or middlemen effectiveness and cooperation.

12.1.1. The nature of sales promotion

The techniques of sales promotion are varied and numerous. The common ones used are:

price promotion, tangible value may take the form of a price reduction, coupon, or mail-in refund.

Non-price promotions may take the form of free samples, premiums, "buy one, get one free" offers, sweepstakes, and contests.

Sales promotions are short-term efforts directed to the consumer or retailer to achieve such specific objectives such as:

- ✓ consumer product trial
- ✓ 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.

Worldwide, there are several explanations for the increasing popularity of sales promotion as a marketing communication tool.

- ✓ 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.
- ✓ An especially effective promotional tool when the product concept is new or has a

very small market share is product sampling.

12.1.2. Regulations and sales promotion

Major constraints are imposed by local laws, which may not permit premiums or free gifts to be given.

A particular level of incentive may be permissible in one market but illegal in another. The Northern European countries present the greatest difficulties in this respect because every promotion has to be approved by a government body. In France, a gift cannot be worth more than 4 percent of the retail value of the product being promoted, making certain promotions virtually impossible.

In Russia, tobacco firms freely distribute samples. The “Lucky Strike girls,” for example, tour Moscow bars offering patrons a smoke and a light. Due to public criticism, Philip Morris has stopped the sampling practice in the USA. In addition, the USA does not allow alcoholic beer to be offered as a free sample, and this law also holds for taste tests. Germany restricts door-to-door free samples that limit population coverage as well as the size of the sample pack.

Although 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.

12.1.3. Localized Sales promotion

Local managers in the market know the specific local situation. A number of factors must be taken into account when determining the extent to which the promotion must be localized:

- ✓ In countries with low levels of economic development, low incomes limit the range of promotional tools available.
- ✓ Market maturity can be different from country to country; consumer sampling and coupons are appropriate in growing markets, but mature markets might require trade allowances or loyalty programs.
- ✓ Local perceptions of a particular promotional tool or program can vary.
- ✓ Local regulations may rule out use of a particular promotion in certain countries
- ✓ Trade structure in the retailing industry can affect the use of sales promotions.

12.1.4. Sales promotion techniques

Sampling

Sampling is a sales promotion technique that provides potential customers with the opportunity to try a product or service at no cost.

Disadvantages associated with sampling: **cost** of sampling and difficulties in **assessing** the contribution a sampling program makes.

Many companies utilize ***event marketing*** and ***sponsorships*** to distribute samples at concerts, sports events, and other special events.

Compared with other forms of marketing communication, sampling is more likely to result in actual trial of the product.

Couponing

A **coupon** is a printed certificate that entitles the bearer to a price reduction or some other special consideration for purchasing a particular product or service.

Nearly 90 percent of all coupons are distributed in a printed ride-along vehicle known as a *free-standing insert* (FSI). Sunday papers carry the vast majority of FSIs.

On-pack coupons are attached to, or part of, the product package; they can frequently be redeemed immediately at check out.

In-pack coupons are placed inside the package.

Cross coupons are distributed with one product but redeemable for a different product. For example, a toothpaste coupon might be distributed with a toothbrush.

Coupons are a favorite promotion tool of consumer packaged goods companies.

Social couponing is one of the hottest online sales promotion trends today. Groupon had more than 40 million users in 48 countries by the end of 2012.

12.2. Personal selling

Personal selling can be *defined as a two-way flow of communication between a potential buyer and a salesperson* and is designed to accomplish at least three tasks:

(1) identify the buyer's needs;

(2) match these needs to one or more of the firm's products; and

(3) on the basis of this match, convince the buyer to purchase the product.

12.2.1. Types of international sales force

Management should consider three options when determining the most appropriate international sales force. The salespeople hired for sales positions could be expatriates, host-country nationals or third-country nationals. For example, a German working for a German company in the US is an expatriate. The same German working for a US company in Germany is a host-country national. If assigned to France, he/she is a third-country national.

1-Expatriate salespersons. These are viewed favorably because of its advantags.

Advantages: Expatriates possess a high level of product knowledge, a demonstrated commitment to service standards, training for promotion, and greater headquarters control.

Disadvantages: Expatriates are very expensive, turnover is high, language and cross-cultural training are costly.

2-Host-country nationals. These are personnel who are based in their home country.

Advantages: As native personnel they have extensive market and cultural knowledge, language skills and familiarity with local business traditions. Using local sales representatives also permits the firm to become active more quickly in a new market because the adjustment period is minimized.

Disadvantages: : needs product training, may be held in low esteem, language skills may not be important, and it is difficult to ensure loyalty

3-Third-country nationals. These are employees transferred from one country to another.

They tend to be born in one country, employed by a firm based in another country and

working in a third country.

Advantages*:* cultural sensitivity, language skills, economical, allows regional sales coverage.

Disadvantages: identity problems, blocked for promotions, income gaps, needs product and/or company training, loyalty not assured.

12.2.2. Selecting Sales and Marketing Personnel

regardless of what foreign country they are operating in, there are certain personal characteristics, skills, and orientations such as:

1-Maturity is a prime requisite for expatriate and third-country personnel. Managers and sales personnel working abroad typically must work more independently than their domestic counterparts.

2-emotional stability International personnel require a kind of emotional stability not demanded in domestic sales positions. Regardless of location, these people are living in cultures dissimilar to their own; to some extent they are always under scrutiny and always aware that they are official representatives of the company abroad.

3-breadth of knowledge Managers or salespeople operating in foreign countries need considerable breadth of knowledge of many subjects both on and off the job. The ability to speak one or more other languages is always preferable.

4-positive outlook People who do not like what they are doing and where they are doing it stand little chance of success, particularly in a foreign country.

5-flexibility Expatriates working in a foreign country must be particularly sensitive to the habits of the market; those working at home for a foreign company must adapt to the requirements and ways of the parent company.

6-Cultural empathy is clearly a part of the basic orientation, because anyone who is confused about the environment is unlikely to be effective. Similar cultural values would be an asset in this area as well.

7-energetic and enjoy travel Many international sales representatives spend about two-thirds of their nights in hotel rooms around the world.

12.2.3. The Strategic/Consultative Selling Model

Figure 12-1 shows the Strategic/Consultative Selling Model, which has gained wide acceptance in the United States. The model consists of five independent steps, each with three prescriptions that can serve as a checklist for sales personnel.

Figure 12-1- strategic /consultative selling model

Strategic/Consultative Selling Model

Strategic Step	*Prescription*
Develop a Personal Selling Philosophy	☐ Adopt Marketing Concept ☐ Value Personal Selling ☐ Become a Problem Solver/Partner
Develop a Relationship Strategy	☐ Adopt Win-Win Philosophy ☐ Project Professional Image ☐ Maintain High Ethical Standards
Develop a Product Strategy	☐ Become a Product Expert ☐ Sell Benefits ☐ Configure Value-Added Solutions
Develop a Customer Strategy	☐ Understand Buyer Behavior ☐ Discover Customer Needs ☐ Develop Prospect Base
Develop a Presentation Strategy	☐ Prepare Objectives ☐ Develop Presentation Plan ☐ Provide Outstanding Service

1- **personal selling philosophy**. This requires a commitment to the marketing concept and a willingness to adopt the role of problem solver or partner in helping customers.

2-**relationship strategy**, which is a game plan for establishing and maintaining high-quality relationships with prospects and customers.

This step connects sales personnel directly to the concept of ***relationship marketing***, an approach that stresses the importance of developing long-term partnerships with customers.

In developing personal and relationship strategies on an international level, the representative is wise to take a step back and understand how these strategies will likely fit in the foreign environment.

In many countries, people have only a rudimentary understanding of sales techniques; acceptance of those techniques may be low as well.

Sales representatives must understand that patience and a willingness to assimilate host-country norms and customers are important attributes in developing relationships built on respect.

3- product strategy This step must include comprehension of the target market's characteristics and the fact that prevailing needs and wants may mandate products that are different than those offered in the home country.

4- customer strategy This step includes building a prospect base, consisting of current customers as well as potential customers (or leads). A qualified lead is someone whose probability of wanting to buy the product is high.

5-presentation plan that is at the heart of the presentation strategy is divided into six stages: approach, presentation, demonstration, negotiation, closing, and servicing the sale.

12.3. Special forms of marketing communications

12.3.1. Direct marketing

The Direct Marketing Association defines **direct marketing** *as any communication with a consumer or business recipient that is designed to generate a response in the form of an order, a request for further information, and/or a visit to a store or other place of business*.

Companies use direct mail, telemarketing, television, print, and other media to generate responses and build databases filled with purchase histories and other information about customers.

Don Peppers and Martha Rogers advocate an approach known as **one-to-one marketing.** One-to-one marketing calls for treating different customers differently based on their previous purchase history or past interactions with the company.

Peppers and Rogers describe the four steps in one-to-one marketing as follows:

1. *Identify* customers and accumulate detailed information about them.

2. *Differentiate* customers and rank them in terms of their value to the company.

3. *Interact* with customers to develop more cost efficient and cost-effective forms of interaction

4. *Customize* the product or service offered to the customer.

Worldwide, the popularity of direct marketing has been steadily increasing in recent years. One reason is the availability of credit cards. Another reason is societal: dual-income families have money to spend but less time to shop; technological advances have made it easier for companies to reach customers directly.

Direct marketing programs can be readily made to conform to the "think global, act local" philosophy.

Rainer Hengst of Deutsche Post offers the following guidelines for U.S.-based direct marketers that wish to go global:

- ✓ The world is full of people who are not Americans. Be sure not to treat them like they are.
- ✓ Like politics, all marketing is local.
- ✓ Although there is an EU, there is no such thing as a "European."
- ✓ Pick your target, focus on one country, and do your homework.
- ✓ Customers need to be able to return products locally.

12-3-1-1-Direct Mail

Direct mail uses the postal service as a vehicle for delivering a personally addressed offer to a prospect targeted by the marketer.

Direct mail is popular with banks, insurance companies, and other financial services

The United States is home to a well-developed mailing list industry.

The availability of good lists and the sheer size of the market are important factors in explaining why Americans receive more direct mail than anyone else.

Compared with the United States, list availability in Europe and Japan is much more limited.

12-3-1-2-Catalogs

A **catalog** is a magazine-style publication that features photographs, illustrations, and extensive information about a company's products.

Catalogs have a long and illustrious history as a direct marketing tool in both Europe and the United States.

U.S.-based catalog marketers include JC Penney, Lands' End, L.L. Bean, and Victoria's Secret.

Historically, catalogers in the United States benefited from the ability to ship goods from one coast to the other, crossing multiple state boundaries with relatively few regulatory hurdles.

Prior to the advent of the single market, catalog sales in Europe were hindered by the fact that mail order products passing through customs at national borders were subject to value-added taxes (VAT).

Today, the single market means that mail order goods can move freely throughout the EU without incurring VAT charges.

In Japan, the domestic catalog industry is well developed.

Even as they continue to develop the Japanese market, Western catalogers are now turning their attention to other Asian countries. In Hong Kong and Singapore, efficient postal services, highly educated populations, wide use of credit cards, and high per capita income are attracting the attention of catalog marketers.

12-3-1-3- Infomercials, Teleshopping, and Interactive Television

An **infomercial** is a form of paid television programming in which a particular product is demonstrated, explained, and offered for sale to viewers who call a toll-free number shown on the screen.

In Asia, infomercials generate several hundred million dollars in annual sales. Infomercials are also playing a part in the development of China's market sector.

With **teleshopping**, home-shopping channels such as QVC and the Home Shopping Network (HSN) take the infomercial concept one step further; the round-the-clock programming is *exclusively* dedicated to product demonstration and selling.

Industry observers expect the popularity of home shopping will increase during the next few years as **interactive television** (ITV or t-commerce) technology is introduced into more households.

12-3-1-4- A social media

Social media are internet-based technologies that facilitate online conversations and encompass a wide range of online, word-of-mouth forums including social networking

websites, blogs, company sponsored discussion boards and chat rooms, consumer-to consumer (C2C) e-mail, consumer product or service ratings websites and forums, internet discussion boards and forums, and sites containing digital audio, images, movies or photographs, to name a few. Since 2009, the official company and brand websites have typically been losing audience. This decline is believed to be due to the emergence of social media marketing by the brands themselves, an increasingly pervasive marketing practice.

Conclusion:

Sales promotion, direct marketing, and specialized forms of marketing communication such as infomercials and the Internet are also growing in importance. Personal selling remains an important promotional tool as well. Taken together, the marketing mix elements have been discussed in this chapter.

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Multiple choice questions

1- is a magazine-style publication that features photographs, illustrations, and extensive information about a company's products.

A-catalog B-website C- telemarketing D-e-marketing

2- a two-way flow of communication between a potential buyer and a salesperson

A-public relation B-direct marketing C-personal selling

3-are marketing activities that stimulate consumer purchases and improve retailer or middlemen effectiveness and cooperation.

A-personal selling B-sales promotion C-advertising D-telemarketing

4- is a printed certificate that entitles the bearer to a price reduction or some other special consideration for purchasing a particular product or service.

A-coupon B-price discount C-sales contest D-free sample

Essay questions

1- identify steps in one-to-one marketing

(answer time 10minutes paragraph 12-3-1-)

2-identify types of international sales force

(answer time 10minutes paragraph 12-2-1)

3-identify sales promotion techniques

(answer time 10minutes paragraph 12-1-4)

4-identify sales promotion objectives

(answer time 10minutes paragraph 12-1-1)

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