Yashwantrao
Chavan
Maharashtra
Open University

MKG 405

MBA : SECOND YEAR

SEMESTER IV

MARKETING GROUP

International Marketing

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(First edition developed under DEB development grant)

- First Publication : February 2018
- Publication No. : 2265
- Cover Design : Shri. Avinash Bharne
- Printed by : Shri. Ajit Modak, M/s. Print Lines, A-Road, NICE, Satpur, Nashik - 422 007
- Publisher : Dr. Dinesh Bhonde, Registrar, Y. C. M. Open University, Nashik- 422 222

ISBN : 978-81-8055-455-1

MKG 405

Introduction

It has been widely seen that international business has increased significantly over the last decade. During the last century, marketing activities around the world witnessed radical change. It was only during the latter half of the 20th century when large US, European, and Japanese companies expanded their markets as well as production facilities beyond national borders. As technology creates leaps in communication, transportation, and financial flows, the world continues to feel smaller and the entire globe is one market.

Income growth has triggered the consumers' desire for more and newer varieties of goods, thereby creating markets for foreign products. The breakthroughs in information and communication technology and means of transport have contributed to the convergence in tastes and preferences of the consumers around the world. Various brands and products that originate in one country are enthusiastically accepted in others. For example, Louis Vuitton handbags, BMWs, and Columbian coffee, all foreign products, are symbols of status and quality in the United States and many American brands, like Warner Brothers motion pictures, have similar footholds overseas.

Besides consumers, competitors too have become global in there and approach to business and are ready to experiment and adopt different competitive marketing strategies in various markets for efficiency gains. All these developments have led to interdependency in international trade between nations.

Therefore, this course material explores all the possible understanding how the concepts and theories of international market shapes the activities of international businesses.

The authors hope that all the contents on understanding of the industrial marketing will definitely enhance the learner's capability and skills for outstanding management of the industrial marketing activities they are expected to perform for the business organizations.

- Dr. Vinay Sharma
- Dr. Sheetal Sharma
- Dr. Latika Ajitkumar Ajbani
- Dr. Surendra Patole
-

Message from the Vice-Chancellor

Dear Students,

Greetings!!!

I offer cordial welcome to all of you for the Master's degree programme of Yashwantrao Chavan Maharashtra Open University.

As a post graduate student, you must have autonomy to learn, have information and knowledge regarding different dimensions in the field of Commerce & Management and at the same time intellectual development is necessary for application of knowledge wisely. The process of learning includes appropriate thinking, understanding important points, describing these points on the basis of experience and observation, explaining them to others by speaking or writing about them. The science of Education today accepts the principle that it is possible to achieve excellence and knowledge in this regard.

The syllabus of this course has been structured in this book in such a way, to give you autonomy to study easily without stirring from home. During the counseling sessions, scheduled at your respective study centre, all your doubts will be clarified about the course and you will get guidance from some experienced and expert professors. This guidance will not only be based on lectures, but it will also include various techniques such as question-answers, doubt clarification. We expect your active participation in the contact sessions at the study centre. Our emphasis is on 'self study'. If a student learns how to study, he will become independent in learning throughout life. This course book has been written with the objective of helping in self-study and giving you autonomy to learn at your convenience.

During this academic year, you have to give assignments and complete the Project work wherever required. You have to opt for specialization as per programme structure. You will get experience and joy in personally doing above activities. This will enable you to assess your own progress and thereby achieve a larger educational objective.

We wish that you will enjoy the courses of Yashwantrao Chavan Maharashtra Open University, emerge successful and very soon become a knowledgeable and honorable Master's degree holder of this university.

Best Wishes!

- Vice-Chancellor

International Marketing (MKG 405)

SYLLABUS

Unit 1: The Concept of International Marketing

Globalization of Markets — The Strategic Concept of Marketing — The Three Principles of Marketing — Defining International Marketing — Framework of International Marketing — Objectives of International Marketing — Terms in International Marketing — Key Differences Between Domestic and International Marketing — Major Reasons for Entering International Markets — Process International Marketing — Scope International Marketing — Opportunities & Challenges in International Marketing — Theories of International Trade — International Marketing Involvement — Strategic Orientations

Unit 2 : Role of Economic Institutions & WTO in International Marketing

Significance of WTO and its Implications on International Markets — Objectives of WTO — Functions of WTO — Principles of Multilateral Trading System Under the WTO — WTO Implications On International Marketing — Impact of WTO on Develoipng Countries — Role of Economic Institutions in International Marketing — The World Bank — The International Bank Of Reconstruction and Development — The International Development Association The International Finance Corporation — The Multilateral Investment Guarantee Agency — The International Centre for Settlement of Investment Disputes — International Monetary Fund — The IMF's Responsibilities — Statutory Purposes of The International Monetary Fund — Asian Development Bank (ADB) Where ADB does gets its funding — Assistance Provided by ADB — World Intellectual Property Organization (WIPO) — The United Nations Conference on Trade and Development — International Trade Centre — Conceptual Framework of International Economic Integration

Unit 3 : Scanning the International Marketing Environment

Adaptation : The Critical Success Factor in International Markets — International Marketing Orientation — EPRG Concept — Environment of International Marketing — Components of International Marketing Environment & importance: Economic Environment — Financial Environment — Cultural Environment — Hofstede's contribution to understand the implications of culture — Environmental sensitivity for cultural understanding — Influence of culture on consumption — Social Environment — Political Environment — Legal Environment — Major Legal Issues in context of international marketing — Marketing implications of Legal Factors — Competition Environment — Technological Environment

Unit 4: International Market Research

Concept of International Marketing Research — Scope of International Marketing Factors Influencing The International Marketing Research — Cultural differences — Climatic Differences — Economic Differences — Religious Differences — Historical Differences — Language Differences — Steps Involved in the Marketing Research Process — Current Issues /Special Problems in International Marketing Research

Unit 7 : Product Strategy for International Markets

What Is A Product? — Classification of Products for Global Marketing — Identification of Products for International Market — Developing Products for International Markets Standardization Vs Adaptation in International Markets — Product Standardization — Product Adaptation — Mandatory factors influencing product adaptation in international markets — Voluntary factors influencing product adaptation in international markets — Trade-off Strategy Between Product Standardization and Adaptation — Product Quality Decisions for International Markets — Packaging and Labelling for International Markets Product Launch for International Markets — New Product Diffusion in International Markets — New Product Launch — 'Waterfall' Approach — Sprinkler approach — International Product Life Cycle — International Product Strategy — International Competitive Procedure — Product-Promotion Strategies for International Markets

Unit 8 : Building Brands in International Markets

Brands – Meaning and dentition — Functions of a brand — International Branding — Global Brands — Branding Issues and Challenges — Branding Issues in Global Markets — Challenges in Global Branding — International Marketing Mix — Product — Price — Factors affecting International Pricing International Pricing Challenges — Place — Promotion — Packaging — Branding — International Brand Architecture — Branding Strategy — Branding Levels and Alternatives — The strategic matrix for brand internationalization.

Unit 9 : Pricing for International Markets

Global Perspective - The Price War — Pricing Policy — Pricing Objectives Parallel Imports — Choice of a Pricing Strategy is Dependent on — Approaches to International Pricing — Full Cost Pricing — Variable Cost Pricing — Skimming Pricing — Penetration Pricing — Price Escalations — Factors That Lead to Price Escalation — Costs of Exporting — Taxes, Tariffs, and Administrative Costs — Approaches to Lessening Price Escalation — Lowering the cost of goods — Lowering Tariff — Lowering Distribution costs — Eliminate costly features (or make them optional) — Downsize the product — Assemble or manufacture the product in foreign markets — Using Foreign Trade Zone — Leasing in International Markets — Counter Trade as a pricing tool — Aspects of Counter trade — Reasons why Companies Engage in countertrade — Transfer Pricing Strategy — Objectives of Transfer Pricing — Transfer Pricing Methods

Benefits of Transfer Pricing — Challenges of Transfer Pricing — Administered Pricing — Cartels — Basic Legal and Ethical issues associated with pricing

Unit 10 : International Logistics and Distribution

The Economic Importance of International Logistics — Components of International Logistics and Distribution — Methods of Entry into foreign markets
Indirect Exporting — Export Trading Company — Export Management Corporation — Piggy Backing — Active Exporting — Agent — Distributor — Marketing Subsidiary — Production Abroad — Contract Manufacturing — Licensing — Franchising — Joint Venture — Subsidiary — Parallel Imports — Others — International Contracts — International Sales Contract and the CISG
Agency Vs. Distributorship — Elements of an Agency or Distributorship Contract
Contract Language — Good Faith — Corporate Accounts — Terms of appointment
Choice of Law — Choice For Forum and Arbitration — Termination — Terms of Trade or Incoterms — Free Carrier (FCA) — Free Alongside Ship (FAS) — Free on Board (FOB) Port of Departure — Cost and Freight (CFR) — Delivered Ex-Ships (DES) — Delivered Duty Unpaid (DDU) — Terms of Payment — Cash in Advance/Prepayment — Letters of Credit — Documentary Collection — Open Account — International Logistics Documents — Commercial Documents — Quotation — Sales Contract — Pro Forma Invoice — Commercial Invoice — Packing List — Inspection Certificate — Insurance Policy — Insurance Certificate
Product Testing Certificate — Health Certificate — Phytosanitary Certificate
Fumigation Certificate — ATA Carnet — Consular Invoice — Transport Documents
Shipping Order — Dock Receipt — Bill of Lading — House Bill of Lading — Sea Waybill — Air Waybill (AWB) — House Air Waybill (HAWB) — Shipping Guarantee — Packing List — Financial Documents — Documentary Credit D/C — Collection Instruction — Bill of Exchange or Draft — Trust Receipt — Promissory Note — Government Documents — Certificate of Origin (CO) — Certificate of Origin Generalized — Import / Export Declaration — Import / Export License — International Import Certificate (IIC) — Delivery Verification Certificate (DVC) — Landing Certificate — Customs Invoice — International Insurance — Marine and Aviation Insurance — International Transportation — Packaging for Export — Customs Clearance — Factors and Challenges Driving Global Logistics and Distribution — Outsourcing Management — Use of Software in Logistics and Distribution

Unit 11 : Export and Import Procedure and Documentation

Organizing for Export and Import Operations — Export & Import Departments
Exporting & Importing: Preliminary Considerations — Products — Volume — Country Market and Product Competitiveness Research — Identification of Customers/Suppliers Distributors, and Sales/Purchase Agents — Compliance with Foreign Law — Export Controls and Licenses — Exporting Procedure — Having an Export Order — Examination and Confirmation of Order — Manufacturing or Procuring Goods — Clearance from Central Excise — Pre-Shipment Inspection
Appointment of Clearing and Forwarding Agents — Goods to Port of Shipment

Port Formalities and Customs Clearance — Dispatch of Documents by Forwarding Agent to the Exporter — Certificate of Origin — Dispatch of Shipment Advice to the Importer — Submission of Documents to Bank — Claiming Export Incentives

Importing Procedure — Trade Enquiry — Procurement of Import License and Quota — Obtaining Foreign Exchange — Placing the Indent or Order — Dispatching a Letter of Credit — Obtaining Necessary Documents — Customs Formalities and Clearing of Goods — Making the Payment — Closing the Transactions — Export/Import Documentation — Commercial Documents — Quotation — Sales Contract — Pro Forma Invoice — Commercial Invoice — Packing List — Inspection Certificate — Insurance Policy — Insurance Certificate — Product Testing Certificate — Health Certificate — Phytosanitary Certificate — Fumigation Certificate — ATA Carnet — Consular Invoice — Transport Documents — Shipping Order S/O — Dock Receipt D/R or Mate's Receipt

Bill of Lading (B/L) — House Bill of Lading (Groupage) — Sea Waybill — Air Waybill (AWB) — \House Air Waybill (HAWB) — Shipping Guarantee — Packing List — Financial Documents — Documentary Credit D/C — Standby Credit — Collection Instruction — Bill of Exchange (B/E) or Draft — Trust Receipt (T/R) — Government Documents — Certificate of Origin (CO) — Certificate of Origin GSP - Form A — Import / Export Declaration — Import / Export License — International Import Certificate (IIC) — Delivery Verification Certificate (DVC) — Landing Certificate — Customs Invoice

Unit 12: Foreign Trade Policies of India

Reasons of Trade Policies in Developing Economies — Strategic Options for Trade Policy — Free Trade Policy — Protective Trade Policy — \Inward Looking Trade Policy — Outward Looking Trade Policy — Principles of Indian Foreign Policies — Non-Alignment — Panchsheel and Peaceful Co-Existence Freedom of Dependent Peoples: Anti-Imperialism — Opposition to Racial Dissemination — Foreign Economic Aid and India's Independent Policy — Support to the United Nations — Peaceful Settlement of International Disputes India's Foreign Trade Policy — EXIM Policy of 1997-2002 — Objective of the EXIM Policy 1997-2002 — Higlights of the EXIM Policy 1997-2002 — Impact of EXIM Policy 1997-2002 — Export- Import Policy (2002-07) — Special Economic Zones — Employment Oriented Measures — Foreign Trade Policy (2004-09) — Main Elements of EXIM Policy 2004-09 — Free Exports — Board of Trade EXIM Policy 2004-09 — India's Foreign Trade Policy (2009-14) — Objectives of Foreign Trade Policy 2009-14 — Highlights of foreign Trade Policy 2009-14 — Higher Support for Market and Product Diversification Status Holders — Stability / continuity of the Foreign Trade Policy — Marine sector — Gems & Jewelry Sector — Agriculture Sector6 — Pharmaceutical Sector — Flexibility provided to exporters — India's Foreign Trade Policy 2015-2020 — Objectives of Foreign Trade Policy 2015-2020 — Highlights of the Foreign Trade Policy 2015-2020 — Impact on the Economy:

Unit 13: Emerging Issues in International Marketing

Speedy Evolution of Global Markets — Liberalization of Economy and Marketing Borders — Sublimation of Distance — New Developments — Rising Awareness — Changing Demographics — E-Readiness — Waves of Information and Communication Technologies — Global E-marketing — Big Data — Search Engine Optimization (SEO) and Digital Marketing — Content Marketing — Reverse Marketing — Internet of Things Marketing Applications Mobile Marketing — Customer Relationship Marketing (CRM) — Foreign Direct Investment (FDI) — International Markets and Global Recessions — Demonetization and its Effect

UNIT 1 THE CONCEPT OF INTERNATIONAL MARKETING

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1.0 Unit Objectives

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After reading this unit, you should be able to:

- Understand the concept of international marketing in view of various changes that have taken place as a result of globalization.
- Distinguish between various terms such as foreign marketing, comparative marketing, international trade, international business, international marketing, and global or world marketing.
- State the reasons for entering international markets such as growth, profitability, economies of scale, risks spread, spreading R&D cost, and access to imported inputs etc.
- Know the basic distinction in making decisions for international markets vis-à-vis domestic markets.
- Explain the process, scope, opportunities and challenges of the International Marketing.
- State the various trade theories prevalent in International market and their implications.
- Explain the concept of International Marketing Involvement, its various stages & Strategic Orientation.

1.1 Introduction

It has been widely seen that international business has increased significantly over the last decade. During the last century, marketing activities around the world witnessed radical change. It was only during the latter half of the 20th century when large US, European, and Japanese companies expanded their markets as well as production facilities beyond national borders. As technology creates leaps in communication, transportation, and financial flows, the world continues to feel smaller and the entire globe is one market.

Income growth has triggered the consumers' desire for more and newer varieties of goods, thereby creating markets for foreign products. The breakthroughs in information and communication technology and means of transport have contributed to the convergence in tastes and preferences of the consumers around the world. Various brands and products that originate in one country are enthusiastically accepted in others. **For example, Louis Vuitton handbags, BMWs, and Columbian coffee, all foreign products, are symbols of status and quality in the United States and many American brands, like Warner Brothers motion pictures, have similar footholds overseas.**

NOTES

Besides consumers, competitors too have become global in their and approach to business and are ready to experiment and adopt different competitive marketing strategies in various markets for efficiency gains. All these developments have led to interdependency in international trade between nations.

1.2 Globalization of Markets

In the recent years, globalization has accelerated, creating both challenges and opportunities to the global business. According to the World Trade Organization, the volume of international merchandise trade increased 33 times between 1951 and 2010.

In the last two decades various marketing gurus have argued over the advantages of globalization of markets over customized marketing strategies. It has been found that the fundamental principles of marketing, especially related to its technical aspects in domestic and international markets, remain more or less the same. However, the differences in marketing environment make international marketing a distinct discipline. Whether an organization markets its goods and services domestically or internationally, the definition of marketing still applies. However, the scope of marketing is broadened when the organization decides to sell across international boundaries, this being primarily due to the numerous other dimensions which the organization has to account for. For example, the organization's language of business may be "English", but it may have to do business in the "French language". This not only requires a translation facility, but the French cultural conditions have to be accounted for as well. Doing business "the French way" may be different from doing it "the English way".

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For an in depth understanding of International Marketing, it is essential to first understand the concept of marketing. In the mid-fifties, the orientation of markets shifted from selling to marketing. Earlier, under the selling concept, the focus was on selling products through aggressive selling and sales promotion programmes leading to sales maximization, which in turn was expected to maximize a firm's profit earnings. On the other hand, under the marketing concept, the target market is the starting point and the focus is on customers' needs.

The marketing guru **Philip Kotler defines** marketing as 'the human activity directed at satisfying needs and wants through exchange processes.'

Emphasizing exchange processes, the **American Marketing Association** defines marketing as the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.

S. Carter defines marketing as: "The process of building lasting relationships through planning, executing and controlling the conception, pricing, promotion and distribution of ideas, goods and services to create mutual exchange that satisfy individual and organizational needs and objectives".

1.2.1 The Strategic Concept of Marketing

By the 1990s, it was clear that the "new" concept of marketing was outdated and that the times demanded a strategic concept of marketing. A major evolution in the history of marketing thought shifted the focus of marketing from the customer or the product to the customer in the context of the broader external environment. It was now realized that knowing everything there about the customer is not enough. Marketers must know the customer including the competition, government policy and regulation, and the broader economic, social, and political macro forces that shape the evolution of markets.

This expanded concept of marketing was termed boundary less marketing by Jack Welch, chairperson and chief executive officer (CEO) of General Electric. Marketing, in addition to being a concept and philosophy is a set of activities and a business process. The marketing activities are called the four Ps; product, price, place (distribution), and promotion (or communications). These four Ps can be expanded to five Ps by adding probe (research). The marketing management process is the task of focusing the resources and objectives of the organization on opportunities in the environment.

Also, in the perspective of global marketing it means working closely with home – country government trade negotiators and other officials and industry competitors to gain access to a target country market. A revolutionary development in the shift to the strategic concept of marketing is in the marketing objective— from profit to stakeholder benefits. Stakeholders are basically the individuals or groups who have an interest in the activity of a company. They include the employees and management, customers, society, and government, to mention only the most prominent. There is also a growing recognition that profits are a reward for performance (defined as satisfying customers in a socially responsible or acceptable way). To compete in today's market, it is necessary to have an employee team committed to continuing innovation and to producing quality products. In other words, marketing must focus on the customer in context and deliver value by creating stakeholder benefits for both customers in context and deliver value by creating stakeholder benefits for both customers and employees. Profitability is also not forgotten in the strategic concept. Profits can be a source of funds for investing in the business and for rewarding shareholders and management. Thus, profit is still a critical objective and measure of marketing success, but it is not an end in itself.

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Check Your Progress

Define International Marketing. How is it different from Global Marketing?

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The aim of strategic marketing is to create value for stakeholders and enjoy the competitive advantage. For example, the spectacular inroads of the "clones" into IBM's PC market illustrate that even the largest and most powerful companies can be challenged by competitors who are more efficient or who are willing to accept lower profit returns.

In today's business scenario, the strategic concept of marketing has shifted the focus of marketing form a microeconomics maximization paradigm to a focus of managing strategic partnerships and positioning the firm between vendors and customers in the value chain with the aim and purpose of creating value for customers. Organizations have to study the market, develop products or services that satisfy customer needs and wants, develop the "correct" marketing mix and satisfy its own objectives as well as giving customer satisfaction on a continuing basis.

We now discuss the three basic principles that underlie marketing:

1.2.2 The Three Principles of Marketing

The essence of marketing can be summarized in three great principles. The first identifies the purpose and task of marketing, the second the completive reality of marketing, and the third the principal for achieving the first two.

A) **Customer Value and the Value Equation :** The task of marketing is to create customer value that is greater than the value created by competitors. Expanding or improving product and / or service benefits, by reducing the price, or by a combination of these elements, can increase value for the customer. Companies with a cost advantage can use price as a competitive weapon. Knowledge of the customer combined with innovation and creativity can lead to a total offering that offers superior customer value. If the benefits are strong enough and valued enough by customers, a company does not need to be the low-price competitor to win customer.

B) Competitive or Differential Advantage : The second important principle of marketing is competitive advantage. A competitive advantage is a total offer, vis-à-vis relevant competition that is more attractive to customers. The advantage can exist in any element of the company's offer; the product, where V= value B= perceived benefits – perceived costs (for example, switching costs) P= price, the advertising and point of sale promotion, or the distribution of the product. One of the most powerful strategies for penetrating a new national market is to offer a superior product at a lower price. The price advantage will get immediate customer attention, and, of those customers who purchase the product, the superior quality will make an impression.

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C) Focus : The third marketing principle is focus, or the concentration of attention. Focus is primarily required to succeed in the task of creating customer value at a competitive advantage. All big enterprises, large and small, are successful because they have understood and applied this great principle. A clear focus on customer needs and wants and on the competitive offer is required to mobilize the effort needed to maintain a differential advantage. This can be accomplished only by focusing or concentrating resources and efforts on customer needs and wants and on how to deliver a product that will meet those needs and wants.

For example: IBM succeeded and became a great company because it was more clearly focused on customer needs and wants than any other company in the emerging data processing industry. One of the reasons IBM found itself in crisis in the early 1990s was that its competitors had become much more clearly focused on customer needs and wants. Dell and Compaq, for example, focused on giving customers computing power at low prices; IBM was offering the same computing power at

***higher prices*.**

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So, whether one takes the definition of "marketing" or "strategic marketing", "marketing" must still be regarded as both a philosophy and a set of functional activities. As a philosophy embracing customer value (or satisfaction), planning and organizing activities to meet individual and organizational objectives, marketing must be internalized by all members of an organization, because without satisfied customers the organization will eventually die. As a set of operational activities, marketing embraces selling, advertising, transporting, market research and product development activities to name but a few. It is important to note that marketing is not just a philosophy or one or some of the operational activities. It is both. In planning for marketing, the organization has to basically decide what it is going to sell, to which target market and with what marketing mix (product, place, promotion, price and people). Although these tenants of marketing planning must apply anywhere, when marketing across national boundaries, the difference between domestic and international marketing lies almost entirely in the differences in national environments within which the global programme is conducted and the differences in the organization and programmes of a firm operating simultaneously in different national markets.

1.3 Defining International Marketing

According to **Hess and Cateora**, International marketing is "the performance of business activities that direct the flow of goods and services to consumers or users in more than one nation." It is different from domestic marketing in as much as the exchange takes place beyond the frontiers, thereby involving different markets and consumers who might have different needs, wants and behavioral attributes.

According to the **American Marketing Association (AMA)** "international marketing is 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."

According to **Kotler**, "Global marketing is concerned with integrating and standardizing marketing actions across a number of geographic markets."

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According to **Terpstra and Sorathy,** "International marketing consists of finding and satisfying global customer needs better than the competition, both domestic and international and of coordinating marketing activities with in the constraints of the global environment."

1.4 Framework of International Marketing

International marketing is all about identifying and satisfying global customers' needs better than the competitors, both domestic and international, and co-coordinating marketing activities within the constraints of the global environment.

Thus, international marketing would involve :

- Identifying needs and wants of customers in international markets,
- Taking marketing mix decisions related to product, pricing, distribution, and communication keeping in view the diverse consumer and market behavior across different countries.
- Penetrating into international markets using various modes of entry, and
- Taking decisions in view of dynamic international marketing environment which is highly dynamic. The environmental challenges are beyond the control of a marketer, the key to success in international markets lies in responding competitively by adopting an effective marketing strategy.

1.5 Objectives of International Marketing

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- Bringing countries closer for trading purpose and to encourage large scale free trade among the countries of the world and integration of economies of different countries and there by to facilitate the process of globalization of trade. . For Ex – A free trade agreement (NAFTA) between US, Canada and Mexico has removed most of the barriers to trade and investments .Most agreements are supplemental commitments on labor and the environment to encourage countries to upgrade their working.
- Establishing and strengthening trade relations among the nations and thereby to maintain cordial relations among nations for maintaining world peace.
- To facilitates and encourage social and cultural exchange among different countries of the world. ***For example in country like India we love to consume Mexican, Chinese, Italian food which is a fine example of socio- cultural exchange.***
- To provide better life and welfare to people from different countries of the world. In addition, to provide assistance to countries facing natural calamities and other emergencies situations.
- To provide assistance to developing countries in their economic and industrial growth and thereby to remove gap between the developed and developing countries.
- To ensure optimum utilization of resources (including surplus production) at global level.
- To encourage world export trade and to provide benefits of the same to all participating countries.
- To offer the benefits of comparative cost advantage to all countries participating in international marketing.
- To keep international trade free and fair to all countries by avoiding trade barriers.

1.6 Terms in International Marketing

Domestic Marketing: Marketing practices within the domestic markets.

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Foreign Marketing: Methods and practices used in the home market and also applied in overseas markets with little adaptation. For instance, an Indian firm using domestic marketing methods for the European market is known as foreign marketing.

Comparative Marketing: Comparative study of two or more marketing systems to find out the differences and similarities.

International Trade: A macroeconomic term used at national level with a focus on flow of goods, services, and capital across national borders. It also involves analysis of commercial and monetary conditions and their effect on transfer of resources and balance of payment.

International Business: A much wider term encompassing all commercial transactions that take place between two countries. These transactions, including sales, investment, and transportation, may be initiated by government or private companies with an objective to make profit or not.

International Marketing: It focuses on the firm-level marketing practices across the border including market identification and targeting, entry mode selection, marketing mix, and strategic decisions to compete in the international markets.

Global/World Marketing: Global marketing treats the whole world as a single market and standardizes the marketing mix of the companies as far as feasible. A global company does not differentiate between the home country and a foreign country and considers itself as a corporate citizen of the world. The differences in transnational, multinational, world and glob marketing are subtle in nature and have little effect on their strategic implementation.

1.7 Key Differences between Domestic and International Marketing

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The significant differences between domestic and international marketing are as follows:

SNo.	Domestic Marketing	International Marketing
1	The activities of production, promotion, advertising, distribution, selling and customer satisfaction within one's own country.	Marketing activities are undertaken across the globe.
2	There is less government influence	Companies have to deal with rules and regulations of various countries.
3	More reliance on indigenous technology.	There is an advantage that the business organizations can have access to the latest technology of numerous countries
4.	Cultural adjustment issues are less challenging	Cross cultural adjustment issues are very challenging
5.	The risk factor and challenges are comparatively less in the case of domestic marketing.	The risk involved and challenges in case of international marketing are very high due to some factors like socio-cultural differences, exchange rates, setting an international price for the product and so on.
6.	Requires less investment for acquiring resources and involves less research due to the familiarity of the market.	Requires huge capital investment and in depth research of the foreign markets

CHECK YOUR PROGRESS

State True or False:

1. The International trade involves analysis of commercial and monetary conditions and their effect on transfer of resources and balance of payment.

2. International marketing involves less risk as compared to domestic marketing.
3. International marketing render the benefits of comparative cost advantage to all the participating countries.

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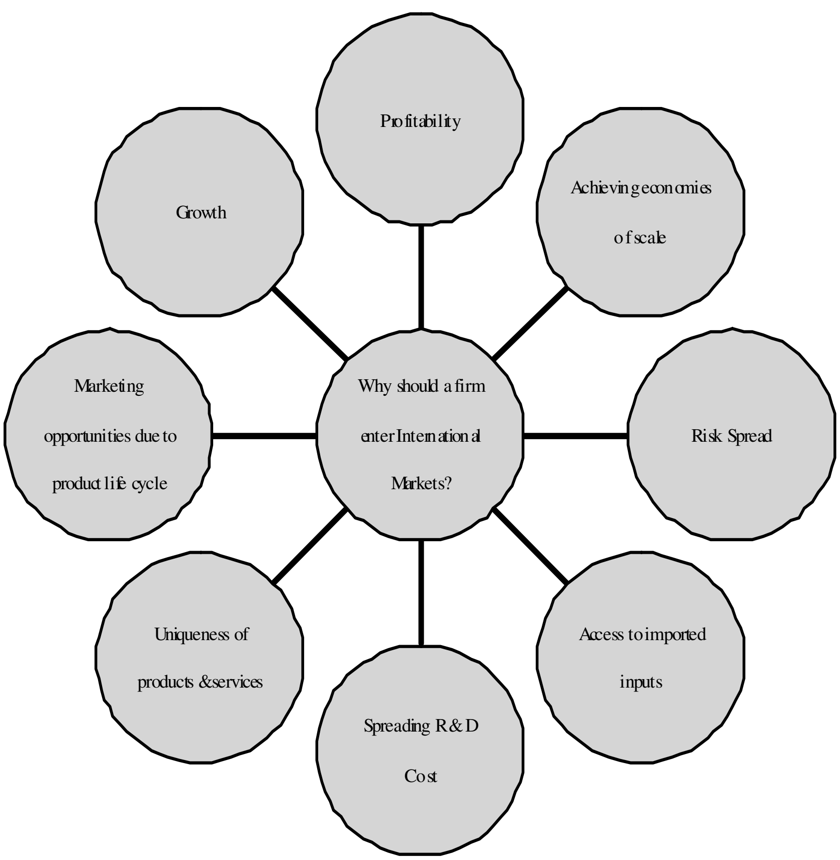
1.8 Major Reasons for Entering International Markets

The reasons for entering international markets (Refer Figure 1.1) vary from firm to firm and country to country depending upon the market characteristics and prevailing business environment. However, firms often decide to enter into international markets due to the following reasons:

Fig. 1.1 Reasons for Entering International Markets



Growth

Firms enter international markets when the domestic market potential saturates and they are compelled to explore alternative marketing opportunities overseas. Firms aim at exploring and tapping enormous opportunities available in the international market to grow and expand beyond boundaries.

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Profitability

The price differential among markets also serves as an important incentive and motivation to internationalize. Exporters benefit from the higher profit margins in the foreign markets than in the domestic market. Sometimes, strong competition in domestic market limits a firms' profitability in that market. Price differentials and enhanced profits in the international markets are some of the fundamental motives for exporting. ***For example- American brands like JC Penny, EBay, Macy's are now shipping their imported products to India during the recent Black Friday deals with minimum charges, thereby increasing its customer base beyond national boundaries.***

Access to Imported Inputs

The national trade policies provide for import of inputs used for export production, which are otherwise restricted. Besides, there are a number of incentive schemes and support to the domestic companies to export and to invest in foreign countries. Duty exemption or remission on import of inputs for export production, such as advance licensing, duty drawback, duty exemption, export promotion, capital goods schemes are provided to the firms. ***For example -In India, units established in the Export Processing Zones (EPZs) and 100% Export Oriented Units (EOUs) get excise and tax related benefits.***

Uniqueness of Product or Service

The products with unique attributes are unlikely to meet any competition in the overseas markets and enjoy enormous opportunities in international markets. For instance, herbal and medicinal plants, handicrafts, value-added BPO services, and software development at competitive prices provide Indian and edge over other countries and ease their entry into international markets. ***For Example – Patanjali products are accepted and used world wide by the consumers.***

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Marketing Opportunities due to Life Cycles

Easy market shows a different stage of life cycle for different products, which varies widely across country markets. When a product or service gets saturated in the domestic or an international market, a firm way make use of such challenges and convert them into marketing opportunities by entering and operating into international markets. ***For example- Apple - the technology giant designs its iPhone in California; outsources its manufacturing jobs to different countries like - Mongolia, China, Korea, and Taiwan; and markets them across the world. Apple have not restricted its business to a nation rather expanded it to throughout the world. The opportunities for networking internationally are limitless.*** The more "places" a business is, the more connections it can make with the world.

Spreading R&D costs

By spreading the potential market size, a firm attempts to quickly cover its cost on R&D. Use of price skimming strategies facilitate faster recovery of costs incurred, such as software, microprocessor etc. International markets help in speedy recovery of such costs because of the large market size in international markets.

Check Your Progress

Describe various reasons for a firm to enter international markets with the help of suitable examples?

Spreading risk

A diversified export business may help in reducing sharp fluctuations in the overall activity of a firm. When a firm is selling in number of markets, the downward fluctuations in sales in one market may be fully or partially counterbalanced by rise in the sales in the other markets. For example, the US economy showed slowed down in 2001, while Indian and Chinese economies were doing well.

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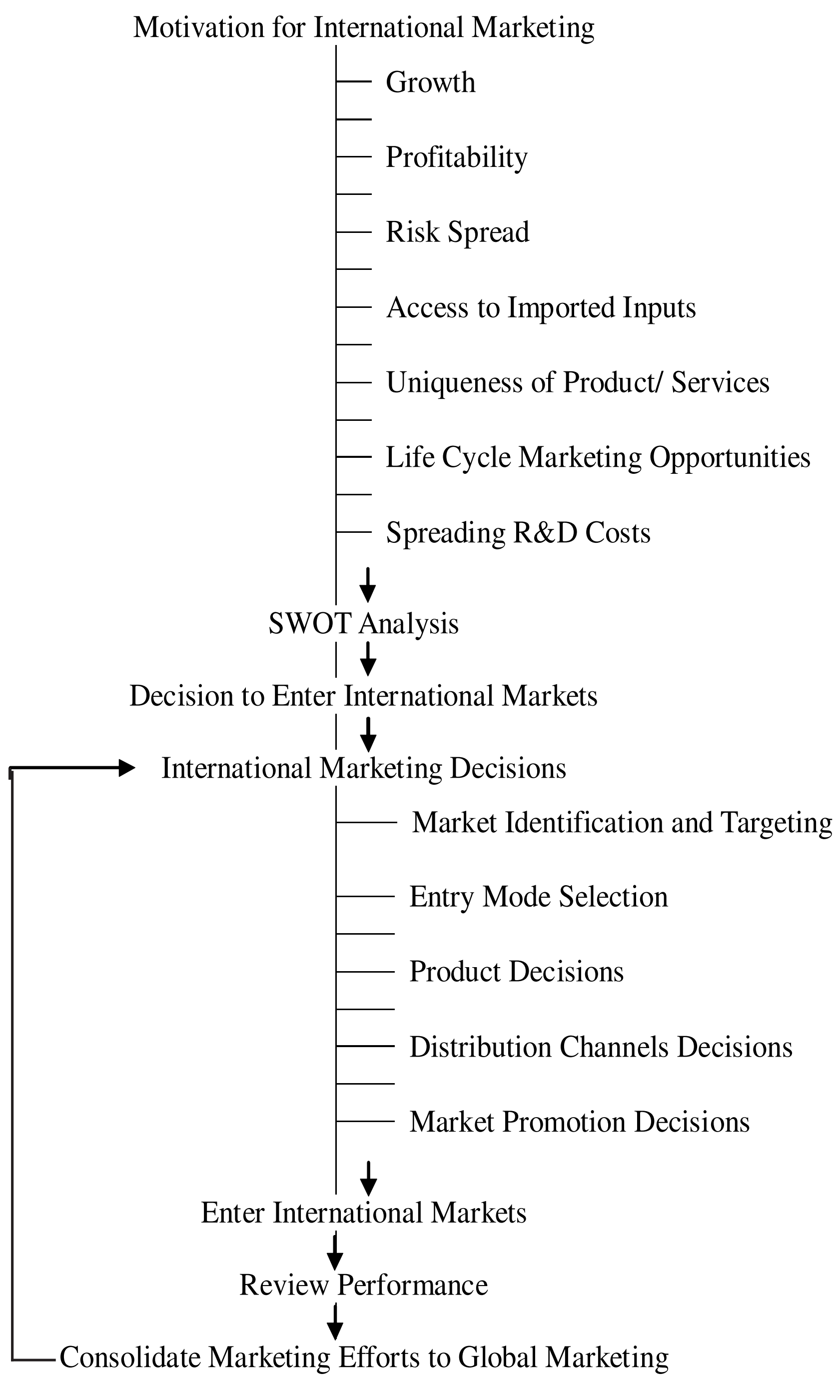
1.9 Process International Marketing

The process of internationalization calls for a variety of interrelated sets of international marketing decisions which have long-term repercussions. Such a framework of international marketing, depicted in Figure 1.2, provides an overview:

Fig1.2 International Marketing Process



1.10 Scope International Marketing

International marketing has a broader connotation in marketing literature. It also means entry into international markets by:

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(a) Opening a branch/subsidiary abroad for processing, packaging, assembly or even complete manufacturing through direct investment:

(b) Negotiating licensing/franchising arrangements whereby foreign enterprises are granted the right to use the exporting company's know-how. viz. patents, processes or trademarks, with or without financial investment;

(c) Establishing joint ventures in foreign countries for manufacturing and/or marketing:

(d) Offering consultancy services and undertaking turnkey projects abroad:

(e) Sub-contracting and countertrade: and

(f) Importing for export production.

Depending upon the degree of a firm's involvement, there may be several variations of these arrangements.

1.11 Opportunities & Challenges in International Marketing

Opportunities in international marketing

- Market needs are high and diverse.
- Reaching more customers
- Consumers have more variety
- Avoiding market saturation
- Outperforming domestic counterparts
- Lowering insolvency risk

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Challenges in international marketing

- Awareness of global developments and understanding diversified and changing consumer attitudes
- Adaptation to market conditions
- Anticipating the actions of global competitors
- Developing new strategies involving - Technological innovation, process improvements and creativity.

1.12 Theories of International Trade

Some important theories of International trade are discussed below:

Mercantilism theory

- This theory was proposed by Thomas Mu in 1630 which state: "to increase our wealth, sell more to strangers yearly than we consume of theirs in value".

Absolute Cost Advantage Theory

The basic principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce a greater quantity of a good, product, or service than competitors, using the same amount of resources.

Assumptions of the Theory

- Trade is between two countries
- Only two commodities are traded
- Free Trade exists between the countries
- The only element of cost of production is labor

Adam Smith in 1776, first described the principle of absolute advantage in the context of international trade, using labor as the only input. He proposed that a country has an absolute advantage in the production of a product when it is more efficient than any other country in producing it.

Theory propose that if two countries specialize in production of different products (in which each has an absolute advantage) and trade with each other, both countries will have more of both products available to them for consumption.

Smith also argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import and instead explained that all nations would gain simultaneously if they practiced free trade and specialized in accordance with their absolute advantage.

Criticism

- No absolute advantages for many countries.
- Country size varies.
- Country by country differences in specialization
- Deals with labor only and neglects other factors (Variety of resources)
- Neglected Transport cost (It plays significant role)

Comparative Advantage

David Ricardo developed the classical theory of comparative advantage in 1817 to explain why countries engage in international trade even when one country's workers are more efficient at producing every single good than workers in other countries.

Comparative advantage refers to the ability of a party to produce a particular good or service at a lower marginal and opportunity cost over another. Even if one country is more efficient in the production of all goods (absolute advantage in all goods) than the other, both countries will still gain by trading with each other, as long as they have different relative efficiencies.

Assumptions of Comparative Advantage

1. There are only two nations and two commodities.
2. Free Trade: there are no barriers to trade. There are no regulations on trade between the two countries.

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3. Labor theory of value: Labor is the only factor of production. In other words, the cost of production of the commodities is measured by the labor time involved in producing them.
4. Absence of transportation costs.
5. Labor is perfectly mobile within a country but it is perfectly immobile between countries. The implication of this assumption is that the wage rate within a country is same throughout because of perfect mobility of labor but as between nations wages may differ because of one country cannot migrate to another country.
6. Constant costs of production: There are constant returns to scale in production i.e. the cost conditions remain same irrespective of the level of production.
7. There is full employment of labor i.e. to produce more of one commodity labor will have to be diverted from the other commodity. Also, the total labor is constant.
8. Technology remains unchanged.

Try to understand this theory with the help of an example:

Take the simple two countries - two product model of comparative advantage. Europe grows apples and South Africa oranges, these are two products, both undifferentiated and produced with production units which are a mixture of land, labor and capital. To use the same production units South Africa can produce 100 apples and no oranges, and Europe can produce 80 apples and no oranges. At the other extreme South Africa can produce no apples and 50 oranges and Europe no apples and 30 oranges. Now if the two countries specialize and trade the position is as follows:

Product	South Africa			Europe		
	Production	**Imports**	**Consumers**	**Production**	**Imports**	**Consumers**
Apples (000's)	0	30	30	80	30	50
Oranges (000's)	50	14	36	30	14	44

The trading price is 30:14 =2.14 apples = 1 orange

14:30 = 4.67 oranges = 1 apple

So in apples, South Africa has an advantage of 1.25 (100/80) but in oranges 1.67 (50/30). So South Africa should concentrate on the production of oranges as its comparative advantage is greatest here. Unfortunately the theory assumes that production costs remain relatively static. However, it is a well known fact that increased volumes result, usually, in lower costs. Indeed, the Boston Consulting Group observed this phenomenon, in the so called "experience curve" effect concept. And it is not only "production" related but "all experience" related; including marketing. The Boston Consulting group observed that as an organization gains experience in production and marketing the greater the reduction in costs. The theory of comparative advantage also ignores product and programme differentiation. Consumers do not buy products based only on the lowest costs of production.

Image, quality, reliability of delivery and other tangible and non tangible factors come into picture.(Source: www.fao.org)

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Criticism of Ricardo's Law of Comparative Advantage

Labor Theory of value The most severe criticism of Ricardo's theory was his assumption of labor theory of value. Under this assumption the price of a commodity depends exclusively on the amount of labor used in its production. The implication of this assumption is that:

- Labor is the only factor of production or
- Labor is used in the same fixed proportion in the production of all commodities.
- Labor is homogeneous.

Heckscher-Ohlin Theory

In 1919, Eli Heckscher and 1933, Bertil Ohlin proposed that comparative advantage arises from differences in national ***factor***

endowments, such as land, labor, or capital, which criticized Ricardo's theory which stresses productivity.

Later, in year1953, Wassily Leontief coined – **The Leontief Paradox** which theorized that since the U.S. has abundant capital compared to other nations, they would export capital-intensive goods and import labor-intensive goods. However, data did not support the theory. Therefore, Ricardo's theory seemed to be more predictive.

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The Product Life-Cycle Theory :

This theory was proposed in 19602 s by Raymond Vernon .This theory attempts to explain global trade patterns. First, new products are introduced in the United States. Then, as demand grows in the U.S., it also appears in other developed nations, to which the U.S. exports. Then, other developed nations begin to produce the product as well, thus causing U.S. companies to set up production in those countries as well, and limiting exports from the U.S. Then, it all happens again, but this time production comes online in developed nations. Ultimately, the U.S. becomes an importer of the product that was initially introduced within its borders.

The international product trade cycle model suggests that many products go through a cycle during which high-income, mass consumption countries which are initial exporters, lose their export markets and finally become importers of the product. At the same time other countries, particularly less developed but not exclusively so, shift from being importers to exporters.

From a high income country point of view:

Phase 1- involves exporting, based on domestic product strength and surplus

Phase 2, when foreign production begins

Phase 3 when production in the foreign country becomes competitive,

Phase 4 when import competition begins.

The assumption behind this cycle is that new products are firstly launched in high income markets because a) there is most potential and b) the product can be tested best domestically near its source of production, thus new products generally emanate from high income countries and, over time, orders begin to be solicited from lower income countries and so a thriving export market develops. High income country entrepreneurs quickly realize that the markets to which they are selling often have lower production costs and so production is initiated abroad for the new products, so starts the second stage.

In the second stage of the cycle, foreign and high income country production begins to supply the same export market. As foreign producers begin to expand and gain more experience, their competition displaces the high income export production source. At this point high income countries often decide to invest in foreign countries to protect their share. As foreign producers expand, their growing economies of scale make them a competitive source for third country markets where they compete with high income exporters.

And the final phase of the cycle occurs when the foreign producer achieves such a scale and experience that it starts exporting to the original high income producer at a production cost lower than its original high income producer at a production cost lower than its original high income supplier. High income producers, once enjoying a monopoly in their own market, now face competition at home.

The cycle continues as the production capability in the product extends from other advanced countries to less developed countries at home, then in international trade, and finally, in other advanced countries home markets.

Example: Case of UK Textiles

There are many examples of the International product trade cycle in action. Not more than the textiles industry, specially cotton. In the early and mid twentieth century the UK was a major producer of cotton

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textile materials, primarily based on its access to cheap raw materials from its Commonwealth countries and its relatively cheap labour. However, its former colonies like India, Pakistan and certain African countries, which were sources of cotton in themselves realised that they had the labour and materials on their doorstep conducive to domestic production. They began to do so. Such was their success in supplying their own huge markets that their production costs dropped dramatically with growing economies of scale.

Soon they were able to support cloth and finished good back to the UK, which by now had experienced growing production costs due to rising labour costs and failing market share. Now the UK has little cotton materials production and it served by many countries over the world, including its former colonies and Commonwealth countries.

Criticism of the theory

Not all new products are created in the United States. Many come from other countries first, such as video game consoles from Japan, new wireless phones from Europe, etc. Several new products are introduced in several developed countries simultaneously. Thus, the theory does not explain the modern trade patterns of today.

New Trade Theory

This theory was proposed in 19702 s.It stated that the achievement of economies of scale, trade can increase the variety of goods available to consumers and decrease the average cost of those goods. Further, the ability to capture economies of scale before anyone else is an important first-mover advantage. Nations may benefit from trade even when they do not differ in resource endowments or technology.

For Example– If two nations both want sports cars and minivans, but neither can produce them at a low enough price within their own national markets, trade can allow each to focus on one product,

allowing for the achievement of economies of scale that will increase the variety of products in both countries at low enough prices

New trade theory is not at odds with Comparative Advantage, since it identifies first mover advantage as an important source of comparative advantage.

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National Competitive Advantage – Porter's Diamond

In 1990, Michael Porter – seeks to answer the question of why a nation achieves international success in a particular industry. He proposed that it is based on four attributes:

Factor endowments

Basic factors – natural resources, climate, location, demographics Advanced factors – communication infrastructure, sophisticated and skilled labor, research facilities, and technological know-how Advanced factors are a product of investment by individuals, companies, and governments Porter argues that advanced factors are the most significant for competitive advantage

Demand conditions – If customers at home are sophisticated and demanding, companies will have to produce innovative, high quality products early, which leads to competitive advantage

Relating and supporting industries – If suppliers or related industries exist in the home country that are themselves internationally competitive, this can result in competitive advantage in the new industry.

Firm strategy, structure, and rivalry

- Different nations are characterized by different management ideologies, which can either help or hurt them in building competitive advantage

- If there is a strong domestic rivalry, it helps to create improved efficiency, making those firms better international competitors.

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Implications of Porter's theory for Managers

- Location – productive activities should be done in the location in which it is most efficient
- First-mover implications – "the idea is to preempt the available demand, gain cost advantages related to volume, build an enduring brand ahead of later competitors, and, consequently, establish a long-term sustainable competitive advantage"
- Policy implications – lobbying for or against free trade or government restrictions.
- It's in a firm's best interest to invest in upgrading advanced factors of production; for example, to invest in better training for its employees and to increase its commitment to R&D
- Businesses should lobby for investment in education, infrastructure, and basic research and any policy promoting strong domestic competition.

CHECK YOUR PROGRESS

State True/False:

1. Comparative advantage refers to the ability of a party to produce a particular good or service at a lower marginal and opportunity cost over another.
2. National competitive advantage theory that the achievement of economies of scale, trade can increase the variety of goods available to consumers and decrease the average cost of those goods**.**
3. In 1919, Eli Heckscher and 1933, Bertil Ohlin proposed that comparative advantage arises from differences in national *factor endowments*, such as land, labor, or capital.

1.13 International Marketing Involvement

Surprisingly little attention has been focused on the systematic analysis of the meaning and measurement of the international marketing involvement concept, despite the growth and the widely recognized importance of international marketing involvement. Since 1990, most of the businesses worldwide started competing internationally. Consequently, there has been considerable interest among marketing scholars, practitioners, and policymakers in understanding the different aspects of a business's international involvement in marketing programs.

According to Terry L. et.al, 1995 **(Source: Journal of International Marketing, Vol. 3, No. 4, 1995),** International marketing involvement refers to the degree to which a product market unit engages in cross-national transfer of resources to support marketing activities in a host-country.IMI is the cross-national transfer of resources so as to serve one or more foreign markets (e.g., Bartels 1968; Cavusgil and Nevin 1981). The emphasis on cross-national performance of marketing activities also suggests that IMI refers to the behavior of a business and needs to be conceptualized as a continuous behavioral construct along a high-low involvement continuum. IMI needs to be assessed in the context of a Product Market Unit's (PMU's) product, pricing, distribution, and promotion activities in a particular host-country. IMI is also a complex, abstract construct that is inherently ambiguous until it is separated into its component parts. Hence, the precise operationalization of the construct requires identification of the components.

STAGES OF INTERNATIONAL MARKETING INVOLVEMENT

There are several stages of IMI as explained below:

- **Stage 1: No Direct Foreign Marketing**
    - ✓ Not active foreign customer seekers.

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- ✓ Products may reach the foreign markets via domestic wholesalers/distributors who sell abroad without much encouragement and knowledge of the producers
- ✓ Unsolicited orders are also received sometimes from the foreign buyers.
- ✓ Online orders may also be received from the Internet

- **Stage 2: Infrequent Foreign Marketing**
  - ✓ Variation in production levels or demands may result in infrequent marketing overseas.
  - ✓ No commitment to foreign market representation
  - ✓ If domestic demand increases, the foreign marketing activity is decreased.
  - ✓ Foreign agents may approach
  - ✓ Managers' own foreign contacts

Very few companies now fit into this model as businesses are seeking for long term relationships.

- **Stage 3: Regular Foreign Marketing**
  - ✓ Here firms have permanent, dedicated production capacity to foreign markets.
  - ✓ Own sales force/subsidiaries in foreign markets
  - ✓ Here the domestic market is still the prime focus, but as the foreign demand increases, the production/products are adapted to meet those customer needs
  - ✓ Profit expectations from the foreign market move from being seen as a bonus to regular domestic profits to a positioning which the company becomes independent on foreign sales and profits to meet its goals.

- **Stage 4: International Marketing**
  - ✓ Fully committed and involved in international marketing

- ✓ Planned productions for various foreign markets
- ✓ Production of goods in foreign markets as well
- ✓ At this stage, a firm is international or multi-national

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- **Stage 5: Global Marketing**
  - ✓ Treats the world including home market as one
  - ✓ Market segments are defined by demographic and psychographic variables
  - ✓ Half of its revenue should come from foreign market
  - ✓ Global perspective is the focus

1.14 Strategic Orientations

The various stages of International marketing involvement described above do not necessarily coincide with the managers thinking and orientations. Researchers in the area of International marketing revels three distinctive approaches that seem to dominate strategic thinking in firms involved in international markets. These strategic orientations reflect the philosophical orientation that must be associated with the successive stages in the evolution of the international operations.

Domestic Market Extension Orientation

- The domestic firm seeks extension of domestic products into foreign markets.
- International markets are considered secondary
- Prime focus is to market excess domestic products abroad
- Firm's orientation is domestic and minimal efforts are made to adapt the marketing mix to the for

Multi-Domestic Market Orientation

- Here the company recognize the difference between the domestic & foreign markets
- Understand that different countries need different products

- Design and implement separate marketing strategies for each country
- Subsidiaries operate independent of one another
- Products are adapted, advertising is localized.

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- Might not standardize products rather emphasize adaptation to the local markets.

Regional/Global Orientation

- Truly global- Entire market activity is global and consider entire globe as a single market.
- Companies emphasize on standardization of product/process
- Firms strive for efficiencies of scale by standardizing market mix across national borders, whenever it is cost or culture effective
- Companies with this strategic orientation pursue a global strategy for major brands or multi-domestic strategy for other brands.

CHECK YOUR PROGRESS

Identify any two companies having Global Orientation .Prepare a brief note on what strategies are these companies using to enjoy competitive advantage globally.

1.15 Summary

It can be concluded that globalization has been a key driver of economic integration of the entire world markets. Unprecedented integration in telecommunication, transport, travel, technology and reduced trade barriers have resulted in the opening of several marketing opportunities across the borders. With opportunities, lie several challenges which need to be strategically handled by the firms before entering to the international markets. Understanding of the theories of international trade provides a basis for practicing marketing managers for taking right decisions by adopting strategies to take benefits of emerging marketing opportunities and suitable measures to respond to the threats of international markets.

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1.16 Key Terms

Sub Contracting: Subcontracting is the practice of assigning part of the obligations and tasks under a contract to another party known as a subcontractor. Subcontracting is especially prevalent in areas where complex projects are the norm, such as construction and information technology.

Subsidiaries: The **subsidiary** is a company, corporation, or limited liability company. In some cases it is a government or state-owned enterprise.

Strategy: A strategy is a plan of action designed to achieve a specific goal or series of goals within an organizational framework.

1.17 Questions & Exercises

1. Define International Marketing. How is it different from Global Marketing?
2. 'Operating in international markets is much more complex than marketing domestically.' Critically evaluate the statement with suitable examples.
3. Describe various reasons for a firm to enter international markets with the help of suitable examples.
4. Discuss the relevance of various theories of International trade.

1.18 Exercise

Answer the following Question : (*Source: www.rpf.org*)

Much of the controversy about marketing dates to Professor Theodore Levitt's 1983 seminal article in the Harvard Business Review, "The Globalization of Markets." Professor Levitt argued that marketers

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were confronted with a "homogenous global village." Levitt advised organizations to develop standardized, high-quality world products and market them around the globe using standardized advertising, pricing, and distribution. Some well-publicized failures by parker pen and other companies seeking to follow Levitt's advice brought his proposals into question. The business press frequently quoted industry observers who disputed Levitt's views. For example, Carl Spielvogel, chairman and CEO of the Backer spiel Vogel Bates Worldwide advertising agency, tale The wall street Journal, "Theodore Levitt's comment about the world becoming homogenized is bunk. There are about two products that lend themselves to global marketing—and one of them is Coca-Cola." Indeed, it was global marketing that made Coke a worldwide success. However, that success was not based on a total standardization of marketing mix elements. In his book, The Borderless world, kenichi Ohmae explains that Coke's success in Japan could be achieved only by spending a great deal of time and money becoming an insider. That is, the company built a complete local infrastructure with its sales force and vending machine operations. Coke's success in Japan, according to Ohmae, was a function of its ability to achieve "global localization," the ability to be as much of an insider as local company nut still reaping the benefits that result form world-scale operations. What does the phrase global localization really mean? In a nutshell, it means a successful global marketer must have the ability to "think globally and act locally." As we will see many times in this book, "global" marketing may include a combination of standard (e.g., the actual product itself) and nonstandard (e.g., distribution or packaging) approaches. A "global product" may be "the same" product everywhere and yet "different." Global marketing requires marketers to behave in a way that is global and local at the same time by responding to similarities and differences in world markets. As the Coca-Cola Company has demonstrated, the ability to think globally and act locally can be a source of competitive advantage. By adapting sales promotion, distribution, and customer service efforts to local needs. Coke established such strong brand preference that the company claims a 78 percent share of the soft drink market in Japan. At first, Coca Cola managers did not understand the Japanese distribution system. However, with considerable investment of time and money, they succeeded in establishing a sales force that was as effective in Japan is it was in the United States. To complement Coke sales, the Japanese unit has created products such as Georgia – brand canned coffee and Lactia, a lactic, no carbonated soft drink that promotes healthy digestion and quick refreshment expressly for the Japanese market. Coke is a product embodying marketing mix elements that are both global and local in nature. In this book, we do not propose that global marketing is a "knee-jerk" attempt to impose a totally standardized approach to marketing around the world. A central issue in global marketing is how tailors the global marketing concept to fit a particular product or business. Finally it is necessary to understand that global marketing does not mean entering every country in the world. Global marketing does mean widening business horizons to encompass the worlds when scanning for opportunity and threat. The decision to enter markets outside the home country depends on a company's resources, managerial mind –set, and the nature of opportunity and threat. The Coca-Cola Company's soft-drink products are distributed in almost 200 countries in fact, the theme vice." Coke is the best known, strongest brand in the world its enviable global position has resulted in part form the Coca-cola symbol is available globally, the company also produces over 200 other nonalcoholic beverages to suit local beverage preferences. A number of other companies have successfully pursued global marketing by creating strong global brands. Philip Morris, for example, has example, has made Marlboro the number one cigarette brand in the world. In automobiles, Daimler Chrysler has gained global recognition for its Mercedes nameplate BMM automobiles and motorcycles. Global marketing strategies can also be based on product or system design, product positioning, packaging, distribution, customer service, and sourcing considerations. For example, Mc Donald's has designed a restaurant system that can be set up virtually anywhere in the world. Like Coca-cola,

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McDonald's also customizes its menu offerings in accordance with local eating customs. In Jakarta, Indonesia, for example, McDonald's is upscale dinning. It is the place to be and to be seen in Jakarta. Cisco systems, which make local area network routers that, allow computers to communicate with each other, designs new products that can be programmed to operate under virtually any conditions in the world. Unilever uses a teddy bear in various world markets to communicate the benefits of the company's fabric softener. Harley-Davidson's motorcycles are positioned around the world as the all –American bike. Gillette uses the same packaging for its flagship sensor razor everywhere in the world. Italy's Benetton utilizes a sophisticated distribution system to quickly deliver the latest fashions to its worldwide network of stores. The backbone of Caterpillar's global success is a network of dealers that supports a promise of "24 hour parts and service" anywhere in the world. The success of Honda and Toyota in world markets was initially based on exporting cars form factories in Japan. Now, both companies have invested in manufacturing facilities in the United States and other countries from, which they export. In 1994, Honda earned the distinction of being the number one exporter of cars form the United States by shipping more than 100,000 accords and civics to Japan and 35 other countries. The particular approach to global marketing that a company adopts will depend on industry conditions and its source or source or sources of competitive advantage.

a) Though marketing discipline is universal, markets and customers are quite differentiated- Comment and discuss in the light of examples given in the article.

1.19 Further Reading and References

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URL

- www.fao.org
- **www.rpf.org**

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UNIT 2 : ROLE OF ECONOMIC INSTITUTIONS & WTO IN INTERNATIONAL MARKETING

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2.0 Unit Objectives

After reading this unit, you should be able to :

- Understand the significance of WTO in International Marketing.
- Get the insights of the implications of WTO on International Marketing.
- Discuss the significance of economic institutions under the UN system affecting the International marketing environment.

2.1 Introduction

The World trade Organization (WTO) is the only international organization dealing with global rules of trade between nations. An international marketer needs to develop a thorough understanding of the new opportunities opened up by multilateral trading system under the WTO regime. In addition to this, role of various economic institutions under the aegis of the UN system such the World Bank, International monetary Fund (IMF), WIPO, UNCTAD etc. have also been phenomenal in influencing the international business scenario. The understanding of the significance and roles of this institution help the firms to develop their marketing plans for the International markets.

2.2 Significance of WTO and its Implications on International Markets

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World Trade Organization (WTO)

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. The goal is to help producers of goods and services, exporters, and importers conduct their business .It came into existence on Januray 01, 1995 as a successor of General Agreements on Tariffs and Trade GATT).Its major function is to ensure smooth flow of international trade as predictably and freely as possible. Currently WTO has membership of 162 nations.(Source :WTO Annual report 2016)

2.2.1 Objectives of WTO

a. To improve standard of living of people in the member countries by ensuring full employment.

b. To ensure broad increase in effective demand.

c. To enlarge production and trade of goods and services.

d. To ensure optimum utilization of world resources.

e. To protect environment and accept the concept of sustainable development.

Check Your Progress

Discuss the significance and role of various economic institutions which influence the International marketing?

2.2.2 Functions of WTO

The basic functions of WTO are as follows:

a. It facilitates the implementation, administration and operation of the trade agreements.

b. It provides a forum for further negotiations among member countries on matters covered by the agreements and any new issue falling within its mandate.

c. It is responsible for the settlement of disputes and differences among its member countries and carry periodic reviews of the trade policies.

d. It encourages co-operation within international organizations.

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2.2.3 Principles of Multilateral trading system under the WTO

a. Trade without discrimination-this means that a country cannot discriminate between its trading partners and its own and foreign products and services.

b. Lower trade barriers and gradual push towards freer markets through negotiations.

c. Promotion of fair competition in International markets.

d. Increased predictability of international Marketing environment.

2.2.4 WTO implications on international marketing

Any international marketer needs to understand the marketing implications of WTO agreements. A summary of implications are given below**:**

Table - 1 Next page

NOTES

A. Binding of Concessions and Commitments	
Marketing implications	**Security of access to foreign markets**
Rights of exporters	• **Trade in goods-** Right to expect that the exported product will not be subject to customs duties that are higher than the bound rates or that the value of the binding will be reduced by the imposition of quantitative and other restrictions. • **Trade in services-**Right to expect that access of service products and of Foreign Service suppliers to a foreign market will not be made more restrictive than indicated by the terms and conditions given in the country's schedule of commitments.
Rights of importers	• **Trade in goods-**Right to expect that imported raw materials and other inputs will not be subject to customs duties at rates higher than the bound rates. • **Trade in services -**Right to expect that the domestic service industries will be permitted to enter into joint ventures or other collaboration arrangements, if the conditions provided in the schedule of commitments are complied with.
B. Valuation of goods for customs purposes (Agreement on Customs Valuation)	
Marketing implication	Assurance that the value declared by the importer will, as a rule, be accepted as a basis for determining the value of imported goods for customs purposes

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Rights of importers	Importers have a right: • To expect that they will be consulted at all stages of the determination of values • To justify the declared value, where customs expresses doubts about the truth or accuracy of the declared value or about the documents submitted • To require the Customs authorities to give in writing the reasons for rejecting the declared value, so that they can appeal to the higher authorities against the decision.
C. Use of pro-shipment inspections services (Agreement on Pre-shipment Inspection)	
Marketing implication	By assisting governments in controlling such malpractices as the over-valuation and under-valuation of imported goods, PSI services help to improve the trading environment. Experience has shown that these services speed up clearance of goods through customs and reduce customs-related corruption
Rights of exporters	Exporters to developing countries using mandatory PSI services have a right: • To be informed of the procedures that PSI companies follow for physical inspection and price verification • To expect that any complaint they may have regarding the prices determined by the inspectors is considered sympathetically by designated higher officials in the PSI company

	• To appeal to the Independent Review Entity when they are not satisfied with the decisions of the above-mentioned senior officials .
Benefits to importers	The utilization of PSI services speeds up customs clearance and in some cases reduces customs-related corruption. • The physical inspection carried out by PSI companies prior to price verification provides an assurance that imported roducts will conform to the quality and other terms of the contract.
D. Import licensing procedures (Agreement on Import Licensing Procedures)	
Marketing Implication	Assures importers and foreign suppliers that for products for which import licences are required and these licences will be issued expeditiously.
E. Rules applicable to exports	
Rights of exporters	Exporters have a right to expect that they will be: • Exempted from payment of, or reimbursed for, customs duties on inputs used in the manufacture of exported products • Reimbursed tor all indirect taxes borne by the exported products

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Export duties	In addition, exporters have a right to expect that where governments levy export duties for revenue or other considerations, these will be applied at the same rates to exports to all destinations.
F. Antidumping and countervailing actions	
Rights of exporters	• Right to expect that exporters alleged to be dumping or exporting subsidized products will be notified immediately after the investigation begins. • Right to give evidence to defend their interests in such investigations • Right to expect that procedures will be terminated when preliminary. investigations establish that the dumping margin/subsidy element is the minimis and imports are negligible
Rights of domestic producers	• Right to petition for the levy or anti-dumping or countervailing duties where dumped or subsidized imports are causing material injury to the domestic industry provided the petition is supported by producers accounting for at least 25% of the Industry's production.

The other areas of interest to international marketers include customs valuation, pre-shipment inspection services, and import licensing procedures wherein the emphasis is laid on transparency of the procedures so as to restrain their use as non-tariff marketing barriers. Besides, the agreements also stipulate the rights of exporters and domestic producers to initiate actions against dumping 'of foreign goods. Therefore, a thorough understanding of these agreements is critical to firms operating in international markets.

2.2.5 Impact of WTO on Develoipng Countries

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The positive impact of WTO on developing countries can be viewed from the following aspects:

a) **Growth in Merchandise Exports:** In developing countries like India, China, Brazil, etc., the exports have increased since the setting up of WTO.The increase in exports is due to reduction in trade barriers — tariff and non-tariff.

b) **Growth in Services Exports**: The WTO has also introduced an agreement on services called GATS. Under this agreement, the member nations have to liberalize the services sector. It provides greater market access in the service sector such as telecommunication, air transport, financial services etc. Certain developing countries like India would benefit from such an agreement. For instance, India's services exports have increased from about 5 billion US $ in 1995 to 102 billion US $ in 2008-09. The software services accounted for about 45% of the services exports of India.

c) **Textiles and Clothing:** It is estimated that the textiles sector has been of the major beneficiaries of the impact of Uruguay Round. At the Uruguay Round, it was agreed upon by member countries to phase out MFA (Most favoured nation) by 2005. Under MFA, the developed countries like France, USA, UK, Canada, etc. used to import quotas on textile exporting countries. The MFA has been withdrawn w.e.f. 1.1.2005, and therefore, it has benefited the developing countries including India by way of increase in export of textiles and clothing.

d) **Benefits of TRIPs Agreement:** The TRIPs agreement has benefited the developing countries like Brazil, India, China, and others. The firms

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in developing countries have also developed new products and got them patented. Developing countries have also benefited. For instance, India has obtained GIS for products like Darjeeling Tea, Neem, Goa Feni, Basmati rice and so on.

2.3 Role of Economic Institutions in International Marketing

Several factors have contributed to the growth of the international economy post World War II. The principal forces have been the development of economic blocs like the European Union (EU) and then the "economic pillars"- the World Bank (or International Bank for Reconstruction and Development to give its full name), the International Monetary Fund (IMF) and the evolution of the World Trade Organisation from the original General Agreement on Tariffs and Trade (GATT).

Until 1969 the world economy traded on a gold and foreign exchange base. This affected liquidity drastically. After 1969 liquidity was eased by the agreement that member nations to the IMF accept the Special Drawing Rights (SDR) in settling reserve transactions. Now an international reserve facility is available. Recently, the World Bank has taken a very active role in the reconstruction and development of developing country economies, a point which will be expanded on later.

Until the General Agreement on Tariffs and Trade (GATT) after World War II, the world trading system had been restricted by discriminating trade practices. GATT had the intention of producing a set of rules and principles to liberalise trade. The most favoured nation concept (MFN), whereby each country agrees to extend to all countries the most favourable terms that it negotiates with any country, helped reduce barriers.

Under the UN system, a number of international economic organizations have been set to facilitate and promote trade through multilateral framework. These institutions play a vital role in influencing the international marketing environment. See fig 2.1 which depicts the various economic institutions under the UN system which are discussed below:

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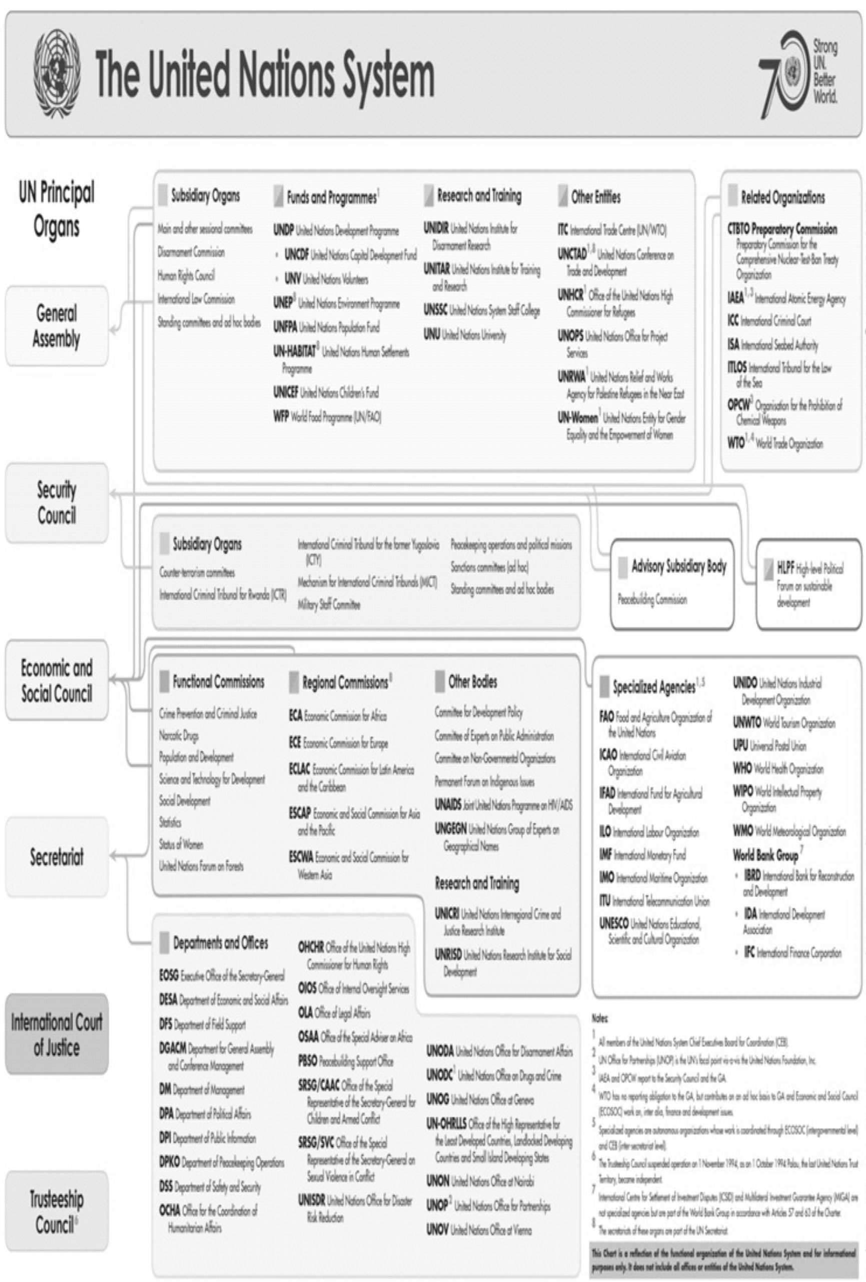
Refer Fig 2.1 Source: www.un.org

Fig 2.1 UN SYSTEM



At the Bretton Woods Conference in 1944 it was decided to establish a new monetary order that would expand international trade,

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promote international capital flows and contribute to monetary stability. The IMF and the World Bank were borne out of this Conference of the end of World War II. The World Bank was established to help the restoration of economies disrupted by War by facilitating the investment of capital for productive purposes and to promote the long-range balanced growth of international trade. On the other hand, the IMF is primarily a supervisory institution for coordinating the efforts of member countries to achieve greater cooperation in the formulation of economic policies.

2.3.1 The World Bank

The World Bank group is a multinational financial institution established at the end of World War II (1944) to help provide long-term capital for the reconstruction and development of member countries.

The World Bank Group consists of five organizations, however together IBRD and IDA together make up the World Bank.

2.3.1.1 The International Bank of Reconstruction and Development (IBRD)

The International Bank for Reconstruction and Development (IBRD) is an international Financial Institution that lends to governments of middle-income and creditworthy low-income countries. The IBRD is the first of five member institutions that compose the World Bank Group and is headquartered in Washington. D.C, United States. It was established in 1944 with the mission of financing the reconstruction of European nations devastated by World War II. Generally, the IBRD lends money to a government for the purpose of developing that country's economic infrastructure such as roads and power generating facilities. Also, funds are lent only to members of the IMF, usually when private capital is unavailable at reasonable terms. Loans generally have a grace period of five years and are repayable over a period of fifteen or fewer years.

2.3.1.2 The International Development Association (IDA)

The IDA is an international financial institution which offers concessional or interest-free grants and loans to the world's poorest developing countries. The IDA is a member of the World Bank Group and is headquartered in Washington, D.C, and United States. It was established in 1960 to complement the existing International Bank for Reconstruction and Development by lending to developing countries which suffer from the lowest gross national income, ranging from low creditworthiness to the lowest per capita income. To be eligible for support from the IDA, countries are assessed by their poverty and their lack of creditworthiness for commercial and IBRD borrowing.

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2.3.1.3 The International Finance Corporation (IFC)

The International Finance Corporation (IFC) is the largest global development institution focused exclusively on the private sector. The IFC was established in 1956. It is legally and financially separate from the IBRD, although IBRD provides some administrative and other services to the IFC. IFC help developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

The IFC performs the following functions:

i) Provides risk capital in the form of equity and long-term loans for productive private enterprises in association with private investors.

(ii) To encourage the development of local capital markets by carrying out standby and underwriting arrangements.

(iii) To stimulate the international flow of capital by providing financial and technical assistance to privately controlled finance companies.

2.3.1.4 The Multilateral Investment Guarantee Agency

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The Multilateral Investment Guarantee Agency (MIGA) is an international financial Institution which offers political risk insurance and credit enhancement guarantees. It was created in 1988 to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives. MIGA fulfills this mandate by offering political risk insurance (guarantees) to investors and lenders. Such guarantees help investors protect foreign direct investments against political and non-commercial risks in developing countries.

2.3.1.5 The International Centre for Settlement of Investment Disputes (ICSID)

The International Centre for Settlement of Investment Disputes (ICSID) is an international arbitration institution established in 1965 for legal dispute resolution and conciliation between international investors. The ICSID is part of and funded by the World Bank Group. It is headquartered in Washington, D.C, in the United States. It is an autonomous, multilateral specialized institution to encourage international flow of investment and mitigate non-commercial risks by a treaty drafted by the IBRD's executive directors and signed by member countries .As of May 2016, there were 153 contracting member states agree to enforce and uphold arbitral awards in accordance with the ICSID Convention. The center performs advisory activities and maintains several publications. The International Centre for Settlement of Investment Disputes (ICSID) provides international facilities for conciliation and arbitration of investment disputes.

The ICSID does not conduct arbitration or conciliation proceedings itself, but offers institutional and procedural support to conciliation commissions, tribunals, and other committees which conduct such matters. The center has two sets of rules that determine how cases will be initiated and conducted, either under the ICSID's Convention, Regulations and Rules or the ICSID's Additional Facility Rules.

A few cases under ICSID's

(Source : www.icsid.worldbank.org)

- ***Irish oil firm Tullow Oil took the Ugandan government to court in November 2012 after value-added tax(VAT) was placed on goods and services the firm purchased for its operations in the country.The Ugandan government responded that the company had no right to claim tax on such goods prior to commencement of drilling.***
- ***Tobacco major Philip Morris sued Uruguay for alleged breaches to the Uruguay-Swiss BIT for requiring cigarette packs to display graphic health warnings and sued Australia under the Australia-Hong Kong BITS for requiring plain packaging for its cigarettes. The company claimed that the packaging requirements in both countries violate its investment***

2.4 International Monetary Fund

The International Monetary Fund (IMF) came into official existence on December 27, 1945, when 29 countries signed its Articles of Agreement (its Charter) agreed at a conference held in Bretton Woods, New Hampshire, USA, from July 1-22, 1944. The IMF commenced financial operations on March 1, 1947.Currently IMF is an organization of 189 countries that makeup its near-global membership.

2.4.1 The IMF's Responsibilities

(Source: www. imf.org)

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Check Your Progress

Discuss the WTO implications on International Marketing?

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To ensure the stability of the international monetary system-the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.

2.4.2 Statutory purposes of the International Monetary Fund

The purposes of the International Monetary Fund are:

* To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.
* To facilitate the expansion and balanced growth of international trade and to contribute, thereby, to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
* To promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.
* To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
* To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustment in their balance of payments without resorting to measures destructive to national or international prosperity.
* In accordance with the above, to shorten the duration and lessen the

degree of disequilibrium in the international balances of payments of members.

2.5 Asian Development Bank (ADB)

(Source:www.adb.org)

The Asian Development Bank was conceived in the early 1960s as a financial institution that would be Asian in character and foster economic growth and cooperation in one of the poorest regions in the world. The Asian Development Bank is a multilateral developmental finance institution founded in 1966 by 31 member governments to promote social and economic progress of Asian and the Pacific region.

The Bank gives special attention to the needs of smaller or less developed countries and gives priority to regional/non-regional national programmes.

ADB assists its members, and partners, by providing loans, technical assistance, grants, and equity investments to promote social and economic development.

The Asian Development Bank aims for an Asia and Pacific free from poverty. ADB in partnership with member governments, independent specialists and other financial institutions is focused on delivering projects in developing member countries that create economic and development impact.

As a multilateral development finance institution, ADB provides:

a. Loans

b. Technical assistance

c. Grants

The clients of ADB are their member governments, who are also the shareholders. In addition, ADB provides direct assistance to private enterprises of developing member countries through equity investments and loans.

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ADB maximizes the development impact of its assistance by facilitating policy dialogues, providing advisory services, and mobilizing financial resources through co financing operations that tap official, commercial, and export credit sources.

2.5.1 Where ADB does gets its funding?

ADB raises funds through bond issues on the world's capital markets. They also rely on members contributions, retained earnings from our lending operations, and the repayment of loans.

2.5.2 Assistance provided by ADB

In 2015, loan and grant approvals to ADB's developing member countries amounted to \$16.29 billion, compared to \$13.49 billion in 2014. Private sector operations posted a jump to \$2.63 billion from \$1.92 billion in 2014. ADB mobilized, with donor support, more than \$10.74 billion in co-financing, bringing total operations for 2015 to \$27.17 billion, the highest in ADB's history.

2.6 World intellectual property Organization (WIPO)

The World Intellectual Property organization (WIPO) was established in 1970 as an international organization dedicated to ensure that the rights of creators and owners of intellectual property are protected worldwide and that for their inventors and authors are recognized and rewarded for their ingenuity. The major functions of WIPO including providing:

- Advise and expertise in the drafting and revision of national legislations which is particularly important for those WIPO member states with obligations under TRIPS agreement

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- Comprehensive training programmes at national and regional level for officials dealing with intellectual property
- Extensive computerization assistance to help developing countries acquires the information technology resources to streamline administrative procedures for administering their own intellectual property resources.
- Financial assistance to facilitate participation in WIPO activities and meetings.

2.7 The United Nations Conference on Trade and Development (UNCTAD)

The creation of UNCTAD in 1964 was based on concerns of developing countries over the international market, multi-national corporations, and great disparity between developed nations and developing nations. The United Nations Conference on Trade and Development was established to provide a forum where the developing countries could discuss the problems relating to their economic development. The organization grew from the view that existing institutions like GATT (now replaced by the WTO), the International Monetary Fund (IMF), and World Bank were not properly organized to handle the particular problems of developing countries. The first UNCTAD conference took place in Geneva in 1964. Currently, UNCTAD has 194 member states and is headquartered in Geneva, Switzerland.

Objectives

The objective of UNCTAD is:

(a) to reduce and eventually eliminate the trade gap between the developed and developing countries

(b) to accelerate the rate of economic growth of the developing world.

Functions:

The main Functions of the UNCTAD are:

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1. To promote international trade between developed and developing countries with a view to accelerate economic development.
2. To formulate principles and policies on international trade and related problems of economic development.
3. To make proposals for putting its principles and policies into effect,
4. To negotiate trade agreements.
5. To review and facilitate the coordination of activities of the other U.N. institutions in the field of international trade.
6. To function as a centre for a harmonious trade and related documents in development policies of governments.

Activities of UNCTAD:

The important activities of UNCTAD include (a) research and support of negotiations for commodity agreements; *(b)* technical elaboration of new trade schemes; and (c) various promotional activities designed to help developing countries in the areas of trade and capital flows.

2.8 International Trade Centre (ITC)

The International Trade Centre (ITC) is the only development agency that is fully dedicated to supporting the internationalization of small and medium-sized enterprises (SMEs). This means that the agency enables SMEs in developing and transition economies to become more competitive and connect to international markets for trade and investment, thus raising incomes and creating job opportunities, especially for women, young people, and poor communities. Established in 1964, the International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

2.9 Conceptual Framework of International Economic Integration

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After the World War II, economic integration has become a widespread phenomenon that has greatly affected the operations of international markets. Such international economic integrations are also known as regional trading agreement (RTAs).Major reasons for such economic integration is as follows:

- Neighbouring countries generally have a common history and interest and they are more willing to cooperate in each other's policies.
- Consumer tastes are likely to be similar and distribution channels can easily be established in adjacent countries.
- Generation of new markets for newer products and increased trade flows in the existing product lines.
- Shifting of trade from the member partner countries to more efficient non- member countries.

There can be a variety of economic integration among the member countries which includes Preferential trade agreement, free trade area, customs union, customs market and economic union culminating in political union.

The basic attributes of such economic groupings are as follows:

1. **Preferential Trading Agreement (PTA):** Member countries lower tarrif barriers to imports of identified products from one another.
2. **Free Trade area (FTA)**: This is the basic form of economic integration in which member countries seek to remove all tariffs and non tariffs barriers with member countries. Examples of FTA are The North American **Free Trade Area** (NAFTA) January 1, 1994. This

agreement between Canada, the United States and Mexico encourages trade between these North American countries and the European **Free Trade** Association (EFTA)

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3. **Custom union**: In the next step of economic integration, countries not only eliminate barriers to trade among them but also form a common external trade policy for non-members. The most famous **example** of a **customs union** is the European **Union** (EU). Trade among the member states of the EU flows tariff free, and regardless of which country in the EU imports a product, the same tariff is paid.
4. **Common Market**: In addition to free trade among members and uniform tarrif policy for non-members in a common market, all restrictions on cross-border investment, movement of labour, technology transfer, management and sharing of capital resources are eliminated.
5. **Economic Union**: It is a greater level of economic integration where free exchange of goods and services takes place. The member countries maintain a fiscal discipline, stability in exchange rates, interest rates by way of unified monetary and fiscal policy. At a later stage a common currency was also evolved .In 2002, a new European currency EURO replaced all the European currencies.

The European Economic Community was the first example of a both common and single market, but it was an economic union since it had additionally a customs union. The European Economic Community (EEC) was an international organization created by the 1957 Treaty of Rome. Its aim was to bring about economic integration, including a common market, among its six founding members: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. Upon the entry into force of the Maastricht Treaty in 1993, the EEC was renamed the European Community (EC) to reflect that it covered a wider range of policy. This was also when the three European

Communities, including the EC, were collectively made to constitute the first of the three pillars of the European Union (EU). For the customs union, the treaty provided for a 10% reduction in custom duties and up to 20% of global import quotas. Progress on the customs union proceeded much faster than the twelve years planned.

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6. **Political Union**: As a culmination of economic integration, the member countries strive to harmonize their security and foreign policies. A common parliament is created with representatives of member countries which work in coordination with individual country's legislature.

CHECK YOUR PROGRESS

Name the organizations:

a) It promotes international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems

b) It lends to governments of middle-income and creditworthy low-income countries.

c) It is a multinational financial institution comprising of five organizations.

d) It raises funds through bond issues on the world's capital markets. We also rely on our members' contributions, retained earnings from our lending operations, and the repayment of loans.

2.10 Summary

This unit provides a basic understanding of WTO, its function and its implications on the International marketing. It also provides a basic understanding of the structure and functions of international economic institutions influencing the international marketing. A thorough understanding of the implications of these, help the firms to plan their marketing operations in the international markets.

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2.11 Key Terms

World Bank Group : The International Bank for reconstruction and development (IBRD), the International Development Association (IDA), The International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the International Centre for settlement of Investment Disputes (ICSID).

Dumping : It occurs when goods are exported at a priceless than their normal value, generally meaning they are exported for less than the price that they are sold in the domestic markets or third country markets, or at less than the production cost.

GATT : The General Agreement on Tariff and Trade, which has been superseded as an international organization by the WTO. An updated general agreement is now one of the WTO's agreements.

MFN : Most favored nation treatment. The principle of not discriminating between one's trading partners.

2.12 Questions and Exercises

1. Discuss the significance and role of various economic institutions which influence the International marketing.
2. Discuss the WTO implications on International Marketing.
3. Discuss the constitution of World Bank and its role in details.

2.13 Further Reading and References

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- Philip R. Cateora, International Marketing, 13/e, Tata Mc Graw Hill Co.Ltd. New Delhi.

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URL's

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- www.un.org
- www.worldbank.org
- www.miga.org
- www.icsid.worldbank.org
- www.imf.org
- www.adb.org

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UNIT 3 : SCANNING THE INTERNATIONAL MARKETING ENVIRONMENT

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3.0 Unit Objectives

After reading this unit, you should be able to :

- Understand the influences of self reference criteria (SRC) for an objective evaluation of environmental factors.
- Explain different types of orientation that affects the ability of a company to adapt to any foreign marketing environment.
- Know about the components of the International Marketing environment and its importance.

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3.1 Introduction

The environment that international managers face is very dynamic. A firm operating in international markets is subjected to environmental factors such as social, cultural, economic, legal, technological etc. which are substantially different from the domestic market and also among overseas markets. Therefore, the key to success in international markets lies in a marketer's ability to adapt the company's strategies to the requirements of the overseas markets. An in depth understanding of the environment will enable an international marketing manager to make a conscious effort to anticipate the effect of both domestic and foreign uncontrollable environmental factors on a marketing mix and then adjust the marketing mix accordingly to enable the firm to compete in the overseas market successfully.

3.2 Adaptation : The Critical Success Factor in International Markets

Self -reference Criterion

A firm operating in international markets is subjected to environmental factors which are substantially different from the domestic market and also among overseas markets. Therefore, the key to success in international markets lies in a marketer's ability to adapt the company's strategies to the requirements of the overseas markets. The ability of an international marketer to have an objective evaluation of environmental factors on the marketing mix is severely affected by his cultural conditioning and understanding of the nuances of another culture.

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For example: Levis, if plans to develop its market for the low waist jeans in Afghanistan, it would be probably a failure.

To understand and in order to arrive at an objective marketing decision, one has to isolate the influences of self-reference criteria (SRC) while carrying out a cross-cultural analysis.

A self-reference criterion (SRC) is an unconscious reference to one's own cultural values, experiences, and knowledge as a basis for decisions making. A person from one culture is often not aware that reaction to any situation is influenced by one's own cultural background and is interpreted in different cultural situations in different perspectives. Market relativism is in fact a subtle and unintended result of cultural conditioning. When one is faced with a specific set of marketing situations overseas, one is prone to misjudge and erroneously react to the marketing situation.

In. James Lee (1966) has suggested a four-step approach to explain SRC.

Step 1: Define the business problem or goal in terms of the home-country traits, habits, or norms.

Step 2: Define the business problem or goal in terms of the foreign country cultural traits, habits, or norms. Make no value judgments.

Step 3: Isolate the SRC influence in the problem and examine it carefully to me how it complicates the problem.

Step 4: Redefine the problem without the SRC influence and solve for the optimum business goal.

3.3. International Marketing Orientation

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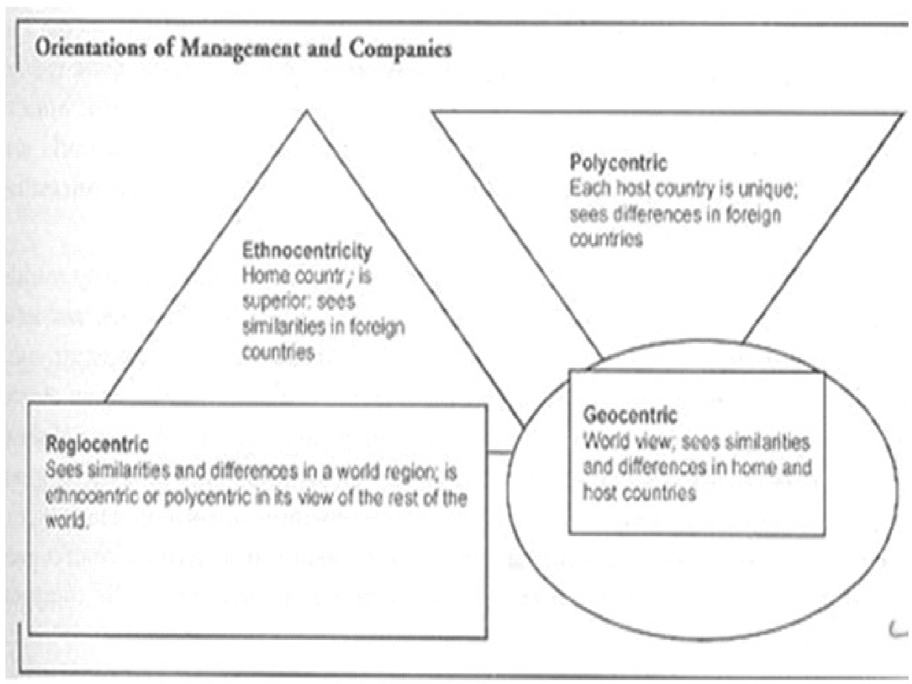
The various trends towards more and more internationalization of business have thrown several challenges to the international marketing manager. One of the major challenges related to the type of orientation that a firm should give to the overseas marketing operations. This is explained with the help of the EPRG orientation.

Fig 3.1 ORIENTATIONS OF MANAGEMENT AND COMPANIES



3.3.1 EPRG Concept

Different attitudes towards company's involvement with international marketing process are called international marketing orientations. The orientation of a company's personnel affects the ability of a company to adapt to any foreign marketing environment.

EPRG framework introduced by Wind, Douglas and Perlmutter, who stress that "the key assumption underlying the EPRG framework is that the degree of internalization to which management is committed affects the specific international strategies and decision rules of the firm". The

Perlmutter's EPRG framework consists of 4 stages in the international operations' evolution. The EPRG framework includes:

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

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The behavioral attributes of a firm's management in casual exports to global markets can be described under the EPRG (ethnocentric, polycentric, regiocentric, and geocentric) approach.

- **Ethnocentric Orientation**

  The belief which considers one's own culture as superior to others is termed as ethnocentric orientation. It means that a firm or its managers are so obsessed with the belief that the marketing strategy which has worked in the domestic market would also work in the international markets. Thus, ethnocentric companies ignore the environmental differences between markets. These companies generally indulge in domestic marketing. A few companies which do carry out export marketing consider it as an extension of domestic marketing. These companies believe that just like domestic marketing, export marketing too requires the minimum level of efforts to adapt the marketing mix to the needs of the overseas market. Generally, such companies attempt to market their products in countries where the demand is similar to the domestic market or the indigenous products are acceptable to the consumers in those markets.

  In this orientation, the environmental differences are recognized by the management but marketing strategy focuses on achieving home-country objectives rather than international or worldwide objectives. It declines the long-term competitiveness of the firm as the firm fails to

Check Your Progress

Distinguish between ethnocentric and polycentric orientation from the international marketing perspective with the help of some suitable examples?
Define EPRG Concept?

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compete effectively against its competitors and show any resistance to their overseas marketing practices.

The large size of the Indian market provides little motivation to firms to venture into the overseas market, or, even if overseas marketing is undertaken by them, the company tries to find the market for similar products and consumers with similar tastes and preferences.

Usually, in ethnocentric approach, goods are manufactured at the home base and decisions are taken at the headquarters. Generally, in the initial stages of internationalization, most companies adopt ethnocentric orientation, but this approach becomes difficult to sustain once a sizeable market share is achieved.

A fine example is of Nissan's .It's ethnocentric orientation was quite apparent during its first few years of exporting cars and trucks to the United States. Designed for mild Japanese winters, the vehicles were difficult to start in many parts of the United States during the cold winter months. In northern Japan, many car owners would put blankets over the hoods of their cars. Tokyo's assumption was that Americans would do the same thing but it did not happen.

Fifty 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 biggest internal threats a company faces.

- **Polycentric Approach**

A company following this orientation gives an equal importance to every country's domestic market, as there is a belief in uniqueness of every market and its need to be addressed in an individual way. "The plans are devised to operate through individually established businesses, i.e. either by wholly owned subsidiaries or through marketing subsidiaries, separately in each country, allowing complete autonomy to units to operate as separate profit centers independent of head office.

Company following this approach has to be a leader in technological leadership, produce high quality products or its production costs should be very low. It can also concentrate its attention on foreign markets which have similar consumer needs and conditions similar to domestic market. Among disadvantages of this orientation is low possibility of the economies of scale, high prices of products due to high investments in the research of foreign markets and adaptation of products to the needs and wants of particular countries.

Examples of companies marketing their brands according to this approach are: Ford Motors, Suzuki, Toyota, General Motors, Nissan, etc. – all these companies adapt their brands to specific needs of each country's consumer.

- **Regiocentric Approach**

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

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Another example is of Mc Donald's strategy of not serving pork and slaughter animals through the Halal process is followed only in the Middle east or Muslim dominated countries ,this is termed as Regiocentric.

- **Geocentric Approach**

This orientation favours neither home country nor foreign countries where the company operates. It is also called a global approach the main idea of which is to target "global consumers" who have similar tastes. The main idea of this orientation is to borrow from every country what is best. The limitation is that it fully depends on constant global market research, which requires a lot of investment and time. This approach is for companies with an impressive capital that want "to become world leaders". The manufacturers offer homogeneous, identifiable and often interchangeable services and products in order to integrate them for worldwide operational efficiency".

For example: The European Silicon Structures is a pure example of geocentric international marketing orientation: the company is incorporated in Luxembourg, its headquarter was established in Munich, research facilities are in England, and France has its factory; the company went even further by assigning its eight directors from seven different countries.

Another fine example is of LG products where about 90% of the refrigerators,washing machines and air-conditioners are designed here in India .LG has100% owned R& D lab facility. Even the products manufactured in India are exported to Africa, MiddleEast and other Asian countrie's.

(Source:Business world,April 2014 issue)

CHECK YOUR PROGRESS

State True/False

a) Environment for domestic and international market is almost the same.

b) Ethnocentric orientation favours neither home country nor foreign countries where the company operates

c) Companies following polycentric approach have to be a leader in technological leadership, produce high quality products or its production costs should be very low.

d) A self-reference criterion (SRC) is an unconscious reference to one's own cultural values, experiences, and knowledge as a basis for decisions making.

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3.4 Environment of International Marketing

Let us try to understand the dynamic environment influencing the arena of International marketing with the help of an example.

Example : *The largest global fast food chain McDonald's faced quite a few challenges while entering the Indian market. Besides legal provisions to prohibit cow slaughter in most Indian states, consumption of beef is unacceptable and is an extremely sensitive social issue in India. India is also home to the second largest Muslim population which considers pork impious and its consumption is not permitted by religion. As a result, McDonald's does not serve either beef or pork in the Indian market. Moreover, the concept of vegetarianism in India is the most complex in the world wherein the slightest interchange even of the cooking and serving utensils is shunned. Therefore, India is the only country where McDonald's has got separate kitchen area as well as utensils for cooking vegetarian and non-vegetarian preparations. Even among the non-vegetarian Indian consumers, red meat is not preferred which has compelled McDonald's to serve chicken burger. In response to the liking*

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of Indian consumers for spicy food, McDonald's not only serves more spices in its preparations but it also serves sauces such as McMasala customized for the Indian palate. Moreover, in order to compete with popular Indian preparations, McDonald's also introduced Mc Maharaja and Chicken Tikka Burger in the Indian market.

3.4.1 Components of International Marketing Environment & importance

The various components of the international marketing environment are the major determinants of marketing opportunities. As such, it is the responsibility of an international firm to have clear grasp of international marketing environment to formulate effective marketing decisions regarding Marketing mix variables. Ref Fig 2.3

Fig 3.2 COMPONENTS OF INTERNATIONAL MARKETING

The International Marketing Environment consists of following elements:

- Economic Environment
- Financial Environment
- Cultural Environment
- Social Environment
- Political Environment
- Legal Environment
- Competition Environment
- Technological Environment

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3.4.1.1 Economic Environment

Economic factors at a macroeconomic level affect the nature and location of global marketing opportunities. The major economic environment indicators influencing international marketing decisions are as follows:

a) National Income.

b) Gross Domestic Product (GDP).

c) Industrial Structure.

d) Currency floating (Open/fixed) issue.

e) Demand patterns.

f) Balance of Payment (BOP) status

g) Economy base (Import/Export).

h) Rate of Economic Growth.

i) Occupational Pattern.

j) State of Inflation.

k) Consumer Mobility.

The international marketer tries to understand economic environmental variables of the global markets for identifying the right marketing opportunities for the enterprise. Patterns of economic development and growth of nations also influence production and sourcing logistics.

For Example: The explosive growth of Rs 80,000 crore milk business has seen new players like ,Danone to take on big daddy Amul in India.

Even the recession in industries or county economy also force companies to prune layers of management, retrain employees and operate under tight costs or even to sustain profitability. Marketers must pay close attention to major trends in income and consumer spending patterns. In short, the economic conditions of a country – the nature of the economy, the stage of development of the economy, economic resources, the level and distribution of income, etc. are all very important factors in marketing. Further economic factors like inflation, productivity, shortages, unemployment etc have a tremendous impact on prices and incomes.

3.4.1.2 Financial Environment

Financial environment refers to the financial system study of a country in which the international marketer intends to operate. A financial system of a country refers to the following two variables such as: a) Money Market. b) Capital Market.

3.4.1.3 Cultural Environment

Culture is everything that people have, think and do as members of the society. It is the sum total of knowledge, beliefs, arts, morals, laws, and customs and any other capabilities and habits acquired by humans as members of the society. The environment which is comprised of norms, taboos, religious sentiments, habits that determines the lifestyle, attitude towards different goods and buying decisions is regarded as cultural environment. Since consumer behavior is highly influenced by cultural environment, a firm pursuing international marketing must know the cultural differences in which international efforts are made.

For Example : Mountain Dew, one of the fastest growing brands across the Pepsi portfolio are huge in India, Pakistan and across the world. It is almost a Rs1000 crore brand. Though the formulation, packaging, look and positioning of Mountain Dew is global, but advertising and distribution is completely local. The brand addresses the message – "Darr ke agey jeet hai" is specially designed for India and Pakistan as it is presumed that here in these countries the youth have certain fear to overcome ,for which they need courage.

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3.4.1.3.1 Hofstede's contribution to understand the implications of culture

One of the most prolific writers on culture is Hofstede, a Dutchman. Working with two colleagues Franke and Bond in (1991) sought to explain why "culture" could be a better discriminator than "material" or "structural conditions" in explaining why some countries gain a competitive advantage and others do not. The various "cultural variables" are as follows:

- "**Power distance**" - Society's endorsement of inequality, and its inverse as the expectation of relative equality in organizations and institutions
- "**Individualism"** - The tendency of individuals primarily to look after themselves and their immediate families and its inverse is the integration of people into cohesive groups
- "**Masculinity"** - An assertive or competitive orientation, as well as sex role distribution and its inverse is a more modest and caring attitude towards others
- "**Uncertainty Avoidance**" - Taps a feeling of discomfort in unstructured or unusual circumstances whilst the inverse show tolerance of new or ambiguous circumstances

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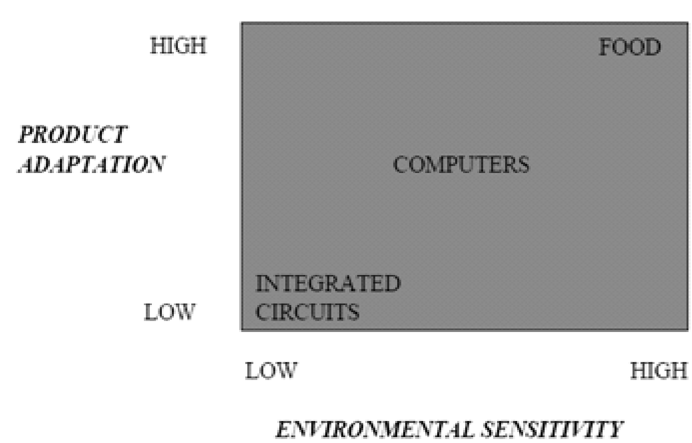
- "**Confucian Dynamism**" - Is an acceptance of the legitimacy of hierarchy and the valuing of perseverance and thrift, all without undue emphasis on tradition and social obligations which could impede business initiative.

3.4.1.3.2 Environmental sensitivity for cultural understanding

Environmental Sensitivity is the extent to which products must be adapted to the culture-specific needs of different national markets. A useful approach is to view products on a continuum of environment sensitivity. At one end of the continuum are environmentally insensitive products that do not require significant adaptation to the environments of various world markets. At the other end of the continuum are products that are highly sensitive to different environmental factors. A company with environmentally insensitive products will spend relatively less time determining the specific and unique conditions of local markets because the product is basically universal. The greater a product's environmental sensitivity, the greater the need for managers to address country-specific economic, regulatory, technological, social and cultural environmental conditions.

The sensitivity of products can be represented on a two-dimensional scale as shown in the **(Refer figure.3.3)**



The horizontal axis shows environmental sensitivity, the vertical axis the degree for product adaptation needed. Any product exhibiting low levels of environmental sensitivity-highly technical products, for example-belongs in the lower left of the figure.

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For example Intel was sold over 100 million microprocessors, because a chip is a chip anywhere around the world. Moving to the right on the horizontal axis, the level of sensitivity increases, as does the amount of adaptation. Computers are characterized by low levels of environmental sensitivity but variations in country voltage requirements require some adaptation. In addition, the computer's software documentation should be in the local language. At the upper right of the figure are products with high environmental sensitivity. Food, especially food consumed in the home, falls into the category because it is sensitive to climate and culture. McDonald's has achieved great success outside the United States by adapting its menu items to local tastes. Particular food items such as chocolate however must be modified for various differences in taste and climate. The consumers in some countries prefer a milk chocolate; others prefer a darker chocolate while other countries in the Tropics have to adjust the formula for their chocolate products to with stand high temperatures.

Check Your Progress

Explain the concept of EPRG model in the evolution of global marketing with the help of suitable examples?

3.4.1.3.3 Influence of culture on consumption

Consumption patterns, living styles, and the priority of needs are all dictated by culture. Culture prescribes the manner in which people satisfy their desires. Not surprisingly, consumption habits vary greatly.

The consumption of beef provides a good illustration. Some Thai and Chinese do not consume beef at all, believing that it is improper to eat cattle that work on farms, thus helping to provide foods such as rice and vegetables. In Japan, the per capita annual consumption of beef has increased to eleven pounds, still a very small amount when *compared to the more than 100 pounds consumed per capita in the United States and Argentina.*

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The eating habits of many people seem exotic to Americans. The Chinese eat such things as fish stomachs and bird's nest soup (made from bird's saliva). The Japanese eat uncooked seafood, and the Iraqis eat dried, salted locusts as snacks while drinking. Although such eating habits may seem repulsive to Americans and Europeans, consumption habits in the West are just as strange to foreigners. The French eat snails. Americans and Europeans use honey (bee expectorate, or bee spit) and blue cheese or Roquefort salad dressing, which is made with a strong cheese with bluish mold. No society has a monopoly on unusual eating habits when comparisons are made among various societies.

Food preparation methods are also dictated by culture preferences. Asian consumers prefer their chicken broiled or boiled rather than fried. Consequently, the Chinese in Hong Kong found American-style fried chicken foreign and distasteful.

Not only does culture influence what is to be consumed, but it also affects what should not be purchased. Muslims do not purchase chickens unless they have been halalled, and like Jews, no consumption of pork is allowed. They also do not smoke or use alcoholic beverages, a habit shared by some strict Protestants. Although these restrictions exist in Islamic countries, the situation is not entirely without market possibilities. The marketing challenge is to create a product that fits the needs of a particular culture. Moussy, a nonalcoholic beer from Switzerland is a product that was seen as being able to overcome the religious restriction of consuming alcoholic beverages. By conforming to the religious beliefs of Islam, Moussy has become so successful in Saudi Arabia that half of its worldwide sales are accounted for in that country

3.4.1.4. Social Environment

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Human beings live in a society. A contemporary society is comprised of various social classes depicting a wide range of values, attitudes and behaviour. The social and cultural influences on international marketing are immense. The international marketer intends to provide an insight into the social environment to know the constituents of a foreign society and to understand how social classes differ in their buying habits, brand choice and living patterns. Differences in social conditions, religion and material culture all affect consumers' perceptions and patterns of buying behaviour. It is this area that determines the extent to which consumers across the globe are either similar or different and so determines the potential for global branding and standardisation. A failure to understand the social/cultural dimensions of a market are complex to manage, as McDonald's found in India. It had to deal with a market that is 40 per cent vegetarian, had an aversion to either beef or pork among meat-eaters and a hostility to frozen meat and fish, but with the general Indian fondness for spice with everything. To satisfy such tastes, McDonald's discovered it needed to do more than provide the right burgers.

For example –Mac Aloo Tikki burger is only sold in India.

Also, researches on social environment has come out with the following social classification and their buying/consumption pattern which are helping international marketer to decide about their strategy:

a) **Upper Class:** Consumers belonging to Upper Class serve as a reference group for others to the extent that their consumption decisions trickle down and are imitated by other social classes. They constitute a good market for jewellery, antiques, homes and vacations.

b) **Lower Upper Class**: This class tends to show patterns of conspicuous consumption to impress those belonging to less than their social position. They seek to buy the symbols of

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status for themselves and their children, such as, expensive homes, schools, automobiles etc.

c) **Upper Middle Class**: This class is a quality market for good homes, clothes, furnitures and appliance. They seek to run gracious home, entertaining friends and clients.

d) **Middle Class**: This class constitutes a major market for do it yourself products. This group is involved in religious activities and tries to avoid highly styled clothings.

e) **Working Class**: This class basically aims at meeting salient human needs. They also strive for security and interested in items that enhanced their leisure.

f) **Upper lower Class**: The upper lowers are found to be sports fan, heavy smokers. In view of their financial conditions, they tend to show interest in the low priced consumer goods.

g) **Lower-lower Class**: Individuals belonging to this class usually have broken down homes, dirty clothes and raggedy possessions.

For example : The chhota recharge, the sachet type, is unique to India says Vodafone CEO. The customers are given recharges up to Rs 10 of credit and is assumed that he would pay back in the next top-up.

3.4.1.5 Political Environment

The political environment of international marketing includes any national or international political factor that can affect the organization's operations or its decision making. Politics has come to be recognized as the major factor in many international business decisions, especially in terms of whether to invest and how to develop markets. Politics is intrinsically linked to a government's attitude to business and the freedom within which it allows firms to operate. Unstable political regimes expose foreign businesses to a variety of risks that they would generally not face in the home market. This often means that the political arena is the most volatile area of international marketing. The tendencies of governments to change regulations can have a profound effect on international strategy, providing both opportunities and threats.

Political environment refers to the variables like below :

a) Stability of Government Policies.

b) Philosophies of the political parties.

c) State of Nationalism.

d) Kinds of Political risks

e) State of bureaucracy.

f) Economic Risks.

g) Attitude toward foreign investment.

There are laws in some countries that will greatly affect your ability to do business in them or prohibit it altogether. *One such example is Thailand which has specific laws stating no foreign person or company can own more than 49% of business in Thailand, so you must be willing to take on a Thai partner in order to do business there. You must be aware of laws like this if part of your product marketing strategy includes manufacturing or distributing your wares in a foreign target market country.*

Another fine example is of LG which find that, Chinese market has better opportunities than India for companies investing in large semiconductors or panel units .In India, there lacks a plan for it at a central government level. Government does not have policy of tax subsidies in India which is required at the initial stage by the companies.

3.4.1.5.1 Marketing implications of political factors

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Political factors give rise to a number of marketing implications. These include the following:

* Is the product ever subject to political debate regarding, say, adequacy of supply, for example, oil?
* Is the product a critical input for other industries, for example, cement?
* Is the product socially or politically sensitive, for example, food?
* Is the product of national defence significance?
* Is the product taking a disproportional amount of capital repayment?
* Is the product leading to the locus of control being held outside of the host country?

Answers to these questions will enable the marketer to assess the degree to which the product being marketed has to be priced and resourced, so as to either avoid or reduce the risk of expropriation or other political reactions.

3.4.1.6 Legal Environment

An International Marketer intends to provide an insight into international legal environment to conduct marketing operations in compliance with international laws, originate from the various sources. Legal systems vary both in content and interpretation. A company is not just bound by the laws of its home country but also by those of its host country and by the growing body of international law. This can affect many aspects of a marketing strategy – for instance advertising – in the form of media restrictions and the acceptability of particular creative appeals.). Product acceptability in a country can be affected by minor regulations on such things as packaging and by more major changes in legislation. It is important, therefore, for the firm to know the legal environment in each of its markets. These laws constitute the 'rules of the game' for business activity. Proper understanding of legal environment may assist an international firm to handle legal disputes effectively.

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Following are some variables which constitute the legal environment:

a) Rules for exporting and importing goods.
b) Rules for People
c) Rules for Services
d) Rules for money across national boundaries.
e) Health regulations
f) Safety Standards
g) Product Packaging and labelling
h) Product Advertising and promotion etc.

3.4.1.6.1 Major Legal Issues in context of international marketing

Most issues in the legal/political environment centre around the following:-

a) "Institutional environment" - made up of political, social and legal ground rules within which the global marketer must operate.
b) Property rights - patents, trademarks.
c) Taxation - what taxation schemes will be faced abroad?
d) Recourse - possibility and length of action with the possibility of image damaging necessitating arbitration.

e) Movement of equity and expropriation threats - often necessitating protocols or the signing of trade frame working agreements.

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International Marketer also needs to understand the legal dispute settlement process to protect his justifiable interest. We know that legal disputes can arise in three situations such as:

a) Between Governments
b) Between Company and a Government
c) Between Two Companies.

Dispute between Governments can be settled by the International Courts but disputes of other two categories must be settled through Arbitration or in the courts of the country of one of the parties involved in the dispute.

For example: In June 2016, India has signed new treaty with Mauritius ,where India has right to tax any capital gain from the sale of shares in Indian companies by a Mauritius –based entity after March 31,2017 till Mar 31,2019 at 50% of the domestic tax rates.This move will impact the investments coming from Mauritius and Singapore as earlier both Mauritius and Singapore were the favourite routes to invest in India without paying taxes.

Most International Marketing disputes can be settled by any of the following three methods:

a) Conciliation
b) Arbitration
c) Litigation

3.4.1.6.2 Marketing implications of Legal Factors

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The implications of international law on marketing operations are legion. The principle ones are as follows:

- Product decisions - physical, chemical, safety, performance, packaging, labelling, warranty
- Pricing decisions - price controls, resale price maintenance, price freezes, value added systems and taxation
- Distribution - contracts for agents and distribution, physical distribution, insurance
- Promotion - advertising codes of practice, product restriction, sales promotion and,
- Market research - collection, storage and transmission of data.

3.4.1.7 Competition Environment

To plan effectively international marketing strategies, the international marketer should be well-informed about the competitive situation in the international markets. Competitive environment includes the following variables:

a) Nature of competition
b) Players in the competition
c) Strategically weapons used by the participants
d) Competition regulations

Following are the ways an international marketer can handle competition:

a) Proper knowledge about the competitors
b) Knowledge of Competitor's objectives
c) Competitor's strategies

d) Competitor's reaction patterns

e) Knowledge of Competitors strengths and weakness.

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3.4.1.8 Technological Environment

The most dramatic force that shaping the destiny of an international firm is technological environment. Technological know-how impacts all spheres of an international marketer's operations including production, information system, marketing etc. The international marketers must understand technological development and its impact on its total operations. The marketing intelligence system may help the international firm to know technological orientations of other enterprises and to update its own technologies to remain competitive. Research and Development (R&D) has a vital role to play in increasing technological ability of a firm. Technology is a major driving force both in international marketing and in the move towards a more global marketplace. The impact of technological advances can be seen in all aspects of the marketing process. The ability to gather data on markets, management control capabilities and the practicalities of carrying out the business function internationally have been revolutionized in recent years with the advances in electronic communications. Satellite communications, the Internet and the World Wide Web, client–server technologies, ISDN and cable as well as email, faxes and advanced telephone networks have all led to dramatic shrinkages in worldwide communications. Shrinking communications means, increasingly, that in the international marketplace information is power.

The technological changes result in changes in consumption pattern and marketing systems. A new technology may improve our lives in one area while creating environmental and social problem in another area. The marketers should monitor the following trends in technology: the pace of change, the opportunities for innovation, varying research and development budgets, and increased regulation. He should watch the trends in technology and adopt the latest technology so as to stay alive in the field.

For example: LG designed and introduced a few India specific products such as Air-conditioner that propels mosquitoes through ultrasonic waves. Last year, a refrigerator named 'Power cut ever cool was introduced in the market. As more than 50 percent of Indian households have frequent power cuts. This product keeps food cool for a maximum of 10 hrs.

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3.5 Summary

Marketing has always been recognized as an economic activity involving the exchange of goods and services. However, environmental influences have been identified as critical determinants of marketing behavior, revealing marketing as a socicultural, legal, technological as well as economic phenomenon. The SRC and the EPRG model explain the degree of internalization to which management is committed and how it affects the specific international strategies and decision rules of the firm. The various components of environment influencing the international marketing decisions and strategies have been discussed in details in the chapter. Thus it can be concluded that a firm's operating in international markets is subjected to environmental factors which are substantially different from the domestic market. Success in the international markets lies in the marketer's ability to combine heterogeneity and complexity of environmental conditions, together with the complexity of international operations for developing right marketing strategies.

3.6 Key Terms

Arbitration: Settlement of a dispute (whether of fact, law, or procedure) between parties to a contract by a neutral third party (the ***arbitrator***) without resorting to court action.

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Conciliation: Conciliation means bringing two opposing sides together to reach a compromise in an attempt to avoid taking a case to trial. Arbitration, in contrast, is a contractual remedy used to settle disputes out of court.

Demographic environment: It relates to the study of the size, composition and distribution of the human population in relation to the geographic boundaries.

3.7 Questions and Exercises

1. Distinguish between ethnocentric and polycentric orientation from the international marketing perspective with the help of some suitable examples.
2. 'Globalization has been a powerful driving force which has brought convergence in the tastes and preferences of the consumers around the world-Discuss
3. Explain the concept of EPRG model in the evolution of global marketing with the help of suitable examples.
4. How does Hofstede's approach to cultural differences aid the international marketer? Do you think his approach is reasonable and valid?

3.8 Further Reading and References

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UNIT 4 : INTERNATIONAL MARKET RESEARCH

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4.0 Unit Objectives

4.1 Introduction

4.2 Concept of International Marketing Research

4.3 Scope of International Marketing

4.4 Factors Influencing The International Marketing Research

4.4.1 Cultural differences

4.4.2 Climatic Differences

4.4.3 Economic Differences

4.4.4 Religious Differences

4.4.5 Historical Differences

4.4.6 Language Differences

4.5 Steps Involved in the Marketing Research Process

4.6 Current Issues /Special Problems in International Marketing Research

4.7 Summary

4.8 Key Terms

4.9 Questions and Exercises

4.10 Further Reading and References

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"Nothing changes more constantly than the past; for the past that influences our lives does not consist of what happened, but of what men believe happened".

GERALD W. JOHNSONSTON

4.0 Unit Objectives

After reading this unit, you should be able to :

- Understand the concept and scope of International Marketing research
- Explain the factors influencing of International Marketing Research
- Understand the steps involved in the process of International marketing Research.
- Discuss the current issues in the International Marketing research

4.1 Introduction

Businesses preparing to compete in the 21st century are increasingly challenged and confronted with the task of designing strategies that anticipate the rapid pace of change in global markets. As a result, their information needs are changing and becoming even more complex and diverse. Availability of relevant information, well in time is essential to provide an adequate basis for day-to-day decision-making by the firms in an increasingly fast paced, turbulent and competitive environment.

The information needs are changing in both developed and developing countries. Established markets in industrialized countries are becoming more geographically integrated as direct vertical links and information flows are established between customers, retailers and suppliers. As a result, there is a growing need to conduct research spanning country boundaries, in order to identify regional or global market segments, or to examine opportunities for integrating and better co-coordinating strategies across national boundaries.

Thus, researchers will need to broaden their capabilities in order to design, implement and interpret research in the 21st century. International Market Research is a particular discipline of Market Research, focusing on certain geographical areas. For the firms entering international markets, firms need to collect information to assess potential opportunities, to determine how to position, price, promote and distribute their products and brands, whether to develop local variants, etc.

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4.2 Concept of International Marketing Research

International environment is changing readily and all these changes present organization with opportunities as well as challenges. These changes include rapid progression in the advance technology, international investment trade, growth in international capital and also in customer's preferences. All these changes influence on business to change or expand these international strategies, polices, and tactics to remain competitive.

International Marketing Research can be defined as research that crosses national boundaries and involves the respondents and researchers from various countries and cultures. It may be conducted simultaneously in multiple countries or sequentially over a period to time. The major objectives of International Marketing Research are:

- To carry out country screening and selection.
- To evaluate a country's market potential.
- To identify problems that would not require a country's listing for further consideration.
- To identify aspects of country's environment that needs further

study.

- To evaluate the components of marketing mix for possible adoptions.
- To facilitate in developing strategic marketing plan.

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4.3 Scope of International Marketing

The following activities are included in international market research:

1. Analysis of the market size according to the age, gender, income, profession and standard of living of customers.
2. Estimating the regional or territorial demand of different markets
3. Understanding the diverse consumer demands and consumer, behavior and then translates their behaviors into the markets strategies and collecting information about the existing and prospective customers.
4. Information needs for international market entry, which includes micro issues (for instance product and services sales potential, market growth rate and completive intensity) and macro issues e.g. (Political, legal and regulatory environment of each international country).
5. Analyzing the working of various channels of distribution and their role in creating market demand of the product
6. Forecasting the profitability of different markets and marketing segments.

4.4 Factors Influencing The International Marketing Research

4.4.1 Cultural differences

Culture refers to widely shared norms or patterns of behavior of a large group of people. Culture comprises of the values, attitudes, beliefs, artifacts and the other symbols represented in the pattern of life adopted by people that help them interpret, evaluate and communicate as members of a society.

A country which is operating in the International market is in need of cross cultural awareness. Cross cultural differences such as different forms of values, norms, rituals, non-verbal communication and language are to be carefully viewed and incorporated in the strategic decisions. A few examples of the cultural blunders in the marketing mix are:

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Example:

- *When a soft drink was launched in Arabian countries, it had label with six pointed stars. The sale of the product was very low as the stars were associated with Israel.*
- *A company wanted to enter the Spanish market with two-litre drinks bottles and failed. Soon they found out that Spaniards prefer small door fridges and they could not put large bottles into them*
- *Another fine example is of a blunder in promotion of the product by PepsiCo, which came to Taiwan with the ad 'Come Alive with Pepsi'. They could not imagine that is it translated 'Pepsi will bring your relatives back from the dead' into Chinese.*

Check Your Progress

Describe the various factors influencing the International marketing research with the help of suitable examples?

4.4.2. Climatic Differences

These are the meteorological or climatic conditions such as temperature range or degree of rain etc.

Example:

- *Bosch-Siemens adapted their washing machines to the markets they sell. In Scandinavia, where there are very few sunny days, they sell washing machines with a minimum* *spin cycle of 1,000 rpm and a maximum of 1,600 rpm, whereas in Italy and Spain a spin cycle of 500 rpm is enough.*

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4.4.3 Economic Differences

Economic development and economic conditions of various countries is different and when a company introduces a new product it adapts it to that new market. There are factors which show the difference in the level of economic development

- *As in the case of the developed nations, the buying power and revenue of the market with higher income of revenue people prefer complicated product with advanced functions, while in poor countries simple product are more preferred.*
- *The infrastructure of the market i.e.; the country's transport, communication system etc. influence the product.* ***For instance, when Suzuki entering the Indian market, the suspension was reinforced, as the state of roads in India is very poor.***

4.4.4 Religious Differences

Religion too affects the product greatly and makes companies adapt their product to religious norms.

Example:

- ***If a company exports grocery products to Islamic countries it must have a special certificate indicating that the animal was slaughtered according to 'Halal' methods.***

4.4.5 Historical Differences

Historical differences affect the consumer behavior. For instance, Scotch whiskey is considered fashionable in Italy and not very trendy in Scotland.

4.4.6 Language Differences

The correct translation and language adaptation is very important.

Example:

- ***when Proctor & Gamble entered the Polish markets it translated properly its labels but failed. Later they found out that imperfect language must have been used in order to show that the company fits in.***

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Besides the differences mentioned above, there may be differences in the way that products or services are used, differences in the criteria for assessing products or services across various markets and differences in market research facilities and capabilities which influence the strategic decisions.

4.5 Steps Involved in the Marketing Research Process

Marketing research practices and techniques have become truly global. For example, the world's largest research firm, Nielsen, is headquartered in the U.S. but derives almost two-thirds of its revenue from outside the U.S. It is standardizing much of the data it routinely collects in 27 different countries.

International marketing managers make the same basic types of decisions as do those who operate in only one country but these decisions in a more complicated environment. As with marketing decisions, the basic function of marketing research and the research process does not differ between domestic and multinational research. However, the process is complicated almost exponentially as more and more countries are involved in the same decision. International marketing research and domestic \national marketing research has lots of common factors for instance defining the problems, research methodology and design, field work, evaluation and presenting the research report etc.

These are steps involved in the marketing research :

STEP 1 : IDENTIFYING THE RESEARCH PROBLEM

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The following story illustrates the first step in the formal marketing research process. *For example the vice presidents of finance and marketing of a shoe company were traveling around the world to estimate the market potential for their products. They arrived in a very poor country and both immediately noticed that none of the local citizens were wearing shoes. The finance vice president said, "We might as well get back on the plane. There is no market for shoes in this country." The vice president of marketing replied, "What an opportunity! Everyone in this country is a potential customer!"*

The potential market for shoes was enormous in the eyes of the marketing executive. But some formal research was required to confirm his instincts. As this story shows, research is often undertaken after a problem or opportunity has presented itself. Perhaps, a company may wish to determine whether a particular country- or regional market provides good growth potential. It is a said that research-that "a-problem well-defined is a problem half solved."

Potential markets can be further 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 a latent market, demand is zero before the product is offered. In the case of existing markets, the main research challenge is to understand the extent to which competition fully meets customer needs. With latent markets, initial success is not based on a company's competitiveness; rather, it depends on the prime mover advantage-a company's ability to uncover the opportunity and launch a marketing program that taps the latent demand.

Thus, regardless of what situation sets the research effort in motion, the first two questions a marketer should ask are, "What information do I need?"

and "Why do I need this information?"

The research problem often involves:

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- **Assessing the nature of the market opportunity**- A phase that is also known as research. This, in turn, depends in part on whether the market that is the focus of the research effort can be classified as existing or potential. Existing markets are those in which client needs for secondary information are already being served. In many countries, data about the size of existing markets-in terms of dollar volume and unit sales-are readily available. In countries in which such data are not available, such as Cuba, a company must first estimate the market size, the level of demand, or the rate of product purchase or consumption etc.

- **Assessment of the company's overall competitiveness** in terms of product appeal, price, distribution, and promotional coverage and effectiveness. Researchers may be able to pinpoint a weakness in the competitor's product or identify an unserved market segment.

However in context of foreign markets, problem identification become more critical because researches are not able to anticipate the influence of the local culture due to an unfamiliar environment.

Other difficulties in foreign research stem from failures to establish problem limits broad enough to include all relevant variables.

A fine example to this is about a problem faced by Mattel Inc. when the company conducted a global research program using the focus groups of children in several countries. Based on these findings ,the company cutback on the customization and ignored the feeback of the local managers advise by selling the unmodified Barbie doll globally. Ignorance towards the feedback of local marketing managers and the lack of feedback

from the parents of the kids led to the sharp decline of blonde Barbie in several foreign markets .Only in 2004 it could recover the losses when they came up with the customized Barbie dolls for various countries.

STEP 2 : DECIDE RESEARCH METHODOLOGY

The international marketing research is more complex than in domestic research, entailing a number of successive stages and integrating secondary data with the collection of primary data. Firstly, the specific variables or factors to be examined and how these are categorized or defined in each country or research context to be specified. Appropriate research techniques have then to be determined, for example whether qualitative or survey research should be conducted to examine the hypothesized relationships. Research instruments suitable for use in all the countries or cultures covered have to be developed, sampling procedures, determined and appropriate administration procedures selected. Let us discuss them in details:

1) **Prepare Research Design**

Research design is the specification of the methods and procedures for acquiring the information needed to structure or solve problems. By understanding different types of research designs, a researcher can solve a client's problems more quickly and efficiently without jumping through more hoops than necessary. Research designs fall into one of the following three categories:

a) Exploratory research design

b) Descriptive research design

c) Causal research design (experiments)

An exploratory research is useful when are initially investigating a problem but haven't defined it well enough to do an in-depth study of it. Perhaps via regular market intelligence, it is spotted what appears to be a new opportunity in the marketplace. Exploratory research is less structured than other types of research, and secondary data is often utilized.

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One form of exploratory research is qualitative research. Qualitative research is any form of research that includes gathering data that is not quantitative, and often involves exploring questions such as *why* as much as *what* or *how much*.

Different forms, such as depth interviews and focus group interviews, are used for carrying out exploratory study in marketing research.

i) **The depth interview** engaging in detailed, one-on-one, question-and-answer sessions with potential buyers—is an exploratory research technique. However, unlike surveys, the people being interviewed aren't asked a series of standard questions. Instead the interviewer is armed with some general topics and asks questions that are open ended, meaning that they allow the interviewee to elaborate. For example: "How did you feel about the product after you purchased it.

ii) **Focus groups and case studies** are often used for exploratory research as well. A focus group is a group of potential buyers who are brought together to discuss a marketing research topic with one another. A moderator is used to focus the discussion, the sessions are recorded, and the main points of consensus are later summarized by the market researcher. Textbook publishers often gather groups of professors at educational conferences to participate in focus groups. However, focus groups can also be conducted on the telephone, in online chat rooms, or both, using meeting software like WebEx. The basic steps of conducting a focus group are outlined below.

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The Basic Steps of Conducting a Focus Group

1. Establish the objectives of the focus group. What is its purpose?
2. Identify the people who will participate in the focus group. What makes them qualified to participate? How many of them will you need and what they will be paid?
3. Obtain contact information for the participants and send out invitations (usually e-mails are most efficient).
4. Develop a list of questions.
5. Choose a facilitator or moderator.
6. Choose a location in which to hold the focus group and the method by which it will be recorded.
7. Conduct the focus group. If the focus group is not conducted electronically, include name tags for the participants, pens and notepads, any materials the participants need to see, and refreshments. Record participants' responses.
8. Summarize the notes from the focus group and write a report for management.

On the other hand a **case study** looks at how another company solved the problem that's being researched. Sometimes multiple cases, or companies, are used in a study. Case studies nonetheless have a mixed reputation. Some researchers believe it's hard to generalize, or apply, the results of a case study to other companies. Nonetheless, collecting information about companies that encountered the same problems a firm is facing can give some insight about what direction in which decisions are to be taken. In fact, one way to begin a research project is to carefully study a successful product or service.

Two other types of qualitative data used for exploratory research are **ethnographies and projective techniques.**

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iii) **In ethnography** researchers interview, observe, and often videotape people while they work, live, shop, and play. For example -The Walt Disney Company use ethnographers to uncover the likes and dislikes of boys aged six to fourteen, a financially attractive market segment for Disney, but one in which the company has been losing market share. The ethnographers visit the homes of boys, observe the things they have in their rooms to get a sense of their hobbies, and accompany them and their mothers when they shop to see where they go, what the boys are interested in, and what they ultimately buy. (The children get seventy-five dollars out of the deal, incidentally.) (Barnes, 2009)

iv) **Projective techniques** are used to reveal information which the research respondents might not reveal by being asked directly. Asking a person to complete sentences such as the following is one technique:

People who buy Coach handbags __________.

(Will he or she reply with "are cool," "are affluent," or "are pretentious," for example?)

KFC's grilled chicken is ______.

the person might be asked to finish a story that presents a certain scenario. Word associations are also used to discern people's underlying attitudes toward goods and services. Using a word-association technique, a market researcher asks a person

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to say or write the first word that comes to his or her mind in response to another word. If the initial word is "fast food," what word does the person associate it with or respond with? Is it "McDonald's"?

2) Descriptive Research

Anything that can be observed and counted falls into the category of descriptive research design. A study using a descriptive research design involves gathering hard numbers, often via surveys, to describe or measure a phenomenon so as to answer the questions of *who*, *what*, *where*, *when*, and *how*. "On a scale of 1–5, how satisfied were you with your service?" is a question that illustrates the information a descriptive research design is supposed to capture.

Physiological measurements also fall into the category of descriptive design. Physiological measurements measure people's involuntary physical responses to marketing stimuli, such as an advertisement.

Even these days researchers have gone so far as to scan the brains of consumers to see what they *really* think about products versus what they say about them. Eye tracking is another cutting-edge type of physiological measurement. It involves recording the movements of a person's eyes when they look at some sort of stimulus, such as a banner ad or a Web page. The Walt Disney Company has a research facility in Austin, Texas, that it uses to take physical measurements of viewers when they see Disney programs and advertisements. The facility measures three types of responses: people's heart rates, skin changes, and eye movements (eye tracking.

A strictly descriptive research design instrument - a survey, for example - can tell about how satisfied the customers are?

3) Causal Research

Causal research design examines cause-and-effect relationships. Using a causal research design allows researchers to answer "what if" types of questions. In other words, if a firm changes *X* (say, a product's price, design, placement, or advertising), what will happen to *Y* (say, sales or customer loyalty)? To conduct causal research, the researcher designs an experiment that "controls," or holds constant, all of a product's marketing elements except one (or using advanced techniques of research, a few elements can be studied at the same time). The one variable is changed, and the effect is then measured. Sometimes the experiments are conducted in a laboratory using a simulated setting designed to replicate the conditions buyers would experience. Or the experiments may be conducted in a virtual computer setting.

Many companies use experiments to test all of their marketing communications. For example, the online discount retailer O.co (formerly called Overstock.com) carefully tests all of its marketing offers and tracks the results of each one. One study the company conducted combined twenty-six different variables related to offers e-mailed to several thousand customers. The study resulted in a decision to send a group of e-mails to different segments. The company then tracked the results of the sales generated to see if they were in line with the earlier experiment it had conducted that led it to make the offer.

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Check Your Progress

How does a probability sample differ from a non probability sample?

I) SAMPLING

Sampling is the selection of a subset or group "from a population that is representative of the entire population. The two basic sampling procedures are probability sampling and non-probability sampling. In a probability sample, each unit chosen has a known chance of being included in the sample. There are five types of probability sampling: random, stratified, systematic, cluster, and multistage. -In a-non-probability sample, the chance

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that any unit will be included in the sample is unknown. The four types of no probability sampling are: convenience, judgmental, quota, and snowball.

Four considerations for using a -probability sample are: the target population must be specified; the method of selection must be determined; the sample size must be determined; and non-responses must be addressed.

For example, suppose a grocery store needed to quickly conduct some research on shoppers to get ready for an upcoming promotion. Now suppose that the researcher assigned to the project showed up between the hours of 10 a.m. and 12 p.m. on a weekday and surveyed as many shoppers as possible. The problem is that the shoppers wouldn't be representative of the store's entire target market. What about commuters who stop at the store before and after work? Their views wouldn't be represented. Neither would people who work the night shift or shop at odd hours. As a result, there would be a lot of room for sampling error in this study. For this reason, studies that use non probability samples aren't considered as accurate as studies that use probability samples. Non probability samples are more often used in exploratory research.

II) Measurement Technique Selection.

Four basic measurement techniques are used in marketing research:

1. questionnaires
2. attitude scales
3. observation
4. depth interviews and projec-ts techniques

As with selecting the data collection method, selection of a measurement technique is influenced primarily by the nature of the information required and secondarily by the value of the information.

III) Questionnaire Design

Whilst in domestic research, questionnaires can be “closed” or “open ended”. Unless trained staff can be found, and the nuances of translation can be mastered, “closed” questionnaires are mainly the norm in international research. The form of data gathered by “closed” questionnaire is mainly of a behavioural or quantitative nature. The form of data gathered by “open ended” research is qualitative.

Attention has to be paid to length, translation, ease of response and method of questionnaire return. The rate of return in international research is often as low as 6% as it is very difficult to give incentives to the respondent. Covering letters should be succinct and written in the language and idiom of the country of destination. Marketers can often use clever devices to increase the response rates, for example in France, a red dot on the envelope denotes an “official” letter.

Questionnaires may contain ranking and rating questions (scaled questionnaires) and these can only be used if the respondent is fully aware of what is being asked. Often, in translation, the nuances and differences of interpretation may make scaling techniques difficult to utilize.

STEP 3 : WORKING OUT INFORMATION REQUIREMENT

After defining the problem, the marketer must address a new set of questions. What is this information worth to me? What will we gain by collecting these data? What would be the cost of not getting the data that could be converted into useful information? Research requires the investment of both money and managerial time, and it is necessary to perform a cost benefit analysis before proceeding further. Information has value only to the extent that it improves decisions. The value of information increases as :

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(1) the cost of a wrong de-cision increases,

(2) level of knowledge as to the correct decision de-creases, and

(3) the accuracy of the information the research will provide increases.

The principle involved in deciding whether to do more research is that research should be conducted only when the value of the information to be obtained is expected to be greater than the cost of obtaining it.

STEP 4 : IDENTIFYING SOURCES OF INFORMATION

There are three basic data collection approaches in international marketing research:

(1) Secondary data

(2) Survey data

(3) Experimental data.

Secondary data were collected for other purpose han helping to solve the current problem. Primary data are collected expressly to help solve the problem at hand. Survey and experimental data are therefore secondary data if they were collected earlier for another study; they are primary data if they were collected for the present one. Secondary data are virtually always collected first because of their time and cost advantages.

Examples of Primary Data Sources versus Secondary Data Sources:

Primary Data Sources	**Secondary Data Sources**
Interviews	Census data
Surveys	Web sites
	Publications
	Trade associations
	Syndicated research and market aggregators
	Census data

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

A. SECONDARY DATA

A low-cost approach to marketing research and data collection begins with desk research. Personal files, company or public libraries, on-line databases, government records, and trade associations are just a few of the data sources that can be tapped with minimal effort and often at no cost. Data from these sources already exist. Such data are known as secondary data because they were not gathered for the specific project at hand.

Syndicated studies published by research companies are another source of secondary data and information. The Cambridge Information Group publishes 'Findex, a directory of more than 13,000 reports and studies covering 90 industries. The Economist Intelligence Unit's EIU Country Data is another valuable source of information both in print and on-line. Another on-line example is the Global Market Information Database (GMID). It contains information on more than 330 consumer products in 49 countries such as the market for alcohol beverages in China. The cost of this report is contingent upon the various modules that are purchased and costs several thousands of dollars. It is available in many university libraries.

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Gauging the Quality of Secondary Data

While gathering secondary information, it's always good to be a little skeptical of it. Sometimes studies are commissioned to produce the result a client wants to hear - or wants the public to hear. For example, throughout the twentieth century, numerous studies found that smoking was good for people's health. The problem was the studies were commissioned by the tobacco industry. Web research can also be not completely true. There are many biased sites that try to fool people that they are providing good data.

Gauging the Credibility of Secondary Data: Questions to Ask

- Who gathered this information?
- What was the purpose?
- What does the person or organization that gathered the information have to gain by doing so?
- Was the information gathered and reported in a systematic manner?
- Is the source of the information accepted as an authority by other experts in the field?
- Does the article provide objective evidence to support the position presented?

International Secondary Data Sources

1. The Nature of International Secondary Data

Secondary data for international marketing decisions are subjected to a few disadvantages as it involves data from several countries. In addition to this most of the secondary data are available only in the host country's language. Thus, multi-country searches require utilizing specializing firms or maintaining a multilingual staff.

Other issues are related to the data availability, recency, accessibility, and accuracy which tends to vary widely from country to country. Until recently, there were few commercial databases in Japan because of the difficulty of using Japanese characters on computers. Now the problem is resolved. The Japanese government prepares many potentially useful reports, but even Japanese firms seldom use them because they are poorly organized and indexed.

Secondary data in many non-democracies in a country varies directly with its level of economic development and often reflect political interests more closely than reality.

Even when the secondary data is accessible, it may not be possible to make multinational comparisons as data available from several countries may be collected at different times, use different units of measurement, cover slightly different topics, or define the classes (such as age groups) differently. This has become a major problem in the European Community as firms begin to analyze the market as a whole rather than as a collection of individual countries. To resolve part of the problem, ESOMAR has proposed a standardized set of questions to gather demographic data in both government and private surveys. Similar work is underway in Brazil, India, and the Middle East.

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2. Internal Sources of International Secondary Data

The internal sources of data for international decisions can be classified into four broad categories - accounting records, sales force reports, miscellaneous records and internal experts. However, utilizing international internal data can be difficult. Different accounting systems, decentralized (often on a country basis) management and information systems, sales forces organized by country or region, and so forth, all this increases the difficulty of acquiring and using internal data in a timely manner. To deal with these problems global firms implement international information systems and require some standardization across countries in terms of internal recordkeeping and reporting.

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3. External Sources of International Secondary Data

For a example, when a company starts an external search for international secondary data it consults general guides to this type of data, such as International Marketing Handbook of the US Department of Commerce's International Trade Administration, The World of Information (Africa Guide), or it contacts Euromonitor, the leading provider of world business information and market analysis. An alternative to conducting such a search "in house" is to use a specialist firm such as PricewaterhouseCoopers and McKinsey. Various external sources are:

a. Databases

Several databases are available such as both **ABI** (Abstract Business Information), which contains the abstracts of articles published in about thousands of business publications worldwide, and **Predicasts**, which provides various on-line databases, having significant international content in their bibliographic databases.

Predicates coverage is good and it is growing rapidly. Its major bibliographic database, **PROMPT,** contains material from all over the world. Both Infomat International Business and Worldcasts are focused on compa-nies, products, industries, economies, and so forth outside the U.S. Predi-casts also has separate Indexes for Europe and for the rest of the world excluding Europe and the U.S. A major advantage of these abstracts is that they are all in English. Copies of the entire articles are gen-erally available in the original language too.

b. Foreign Government Sources

All developed countries provide census-type data on their populations. However, the frequency of data collection and the type and amount of data collected vary widely from country to country. Germany went 17 years be-tween its last two censuses, and Holland has not conducted a census in 20 years. The U.S. collects income data in its census and marketers make extensive use of it. Most other nations, including Japan, Britain, France, Spain, and Italy, do not. (Australia, Mexico, Sweden, and Finland do.) While the Scan-dinavian countries, Japan, South Korea, Taiwan, and Thailand publish English-language versions of their main census reports, most countries report them only in their home language.

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c. International Political Organizations

Three major international political organizations provide significant amounts of data relevant to international marketing activities. The United Nations and its related organization, the United Nation's Educational, Scientific and Cultural Organization, provide hundreds of publications dealing with the population, economic, and social conditions of over 200 countries.

The World Bank lends funds, provides advice, and serves as a catalyst to stimulate investments in developing nations. To carry out its missions, it collects substantial amounts of useful data which can be purchased inexpen-sively.

The Organization of Economic Cooperation and Development (OECD) consist of member nations of economically developed countries with the mission of promoting the members' economic and social welfare by coordinating national policies. As part of this mission, it publishes reports on a broad range of socioeconomic topics involving its members and the developing nations.

SOURCE OF GLOBAL INFORMATION (www.fao.org)

Sources of information include documented sources, human resources or perceived sources.

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Documented sources

In recent years there has been an information explosion, especially in the documented, or "secondary" source area. (Primary data collection will be dealt with later). Various sources of documented data are available including :

i) Governments

- ✓ Central office of information (UK)
- ✓ Central Statistical Office (Zimbabwe)
- ✓ EU documentation centres
- ✓ Boards of trade, or Ministry of Commerce

ii) International bodies

- ✓ the UN Statistical Yearbook
- ✓ World Bank - general statistics
- ✓ OECD - general statistics
- ✓ ITC - Geneva (information service)

iii) Business, trade, professional

- ✓ Chambers of Commerce
- ✓ Institute of Marketing
- ✓ American Management Association
- ✓ The Market Research Society

iv) Foreign embassies, trade missions

- ✓ Commercial newspapers
- ✓ Financial agencies - Price Waterhouse
- ✓ Kompass Register of companies
- ✓ Economist Intelligence Unit (UK)

v) Other

- ✓ Libraries, universities, colleges.

- ✓ There are excellent sources of overseas data, in the horticultural industry, giving information on markets, prices and produce required for those wishing to sell into Europe. An example of these are given below:
- ✓ International Trade Centre (ITC) Geneva
- ✓ COLEACP, Paris
- ✓ Natural Resource Institute (NRI) UK
- ✓ GTZ, Germany
- ✓ CBI, Netherlands
- ✓ IMPOD, Sweden
- ✓ Chambers of commerce
- ✓ Food and Agriculture Organization of the United Nations

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Human sources

These include executives based abroad, specific "look see" missions which are very important, and sales people, customers, suppliers, distributors, and government officials. This information is "internal" to the firm as opposed to documentary sources which are generally external. Most of the information is gathered on a face to face basis.

Perception sources

These are "sensory" sources of information, for example, if one heard of the construction of a new cold store at an airport, it could mean that the industry which produces products for airport store is planning to export in quantity. This could give rise to a market opportunity for another potential exporter of the same produce. Direct perception could be achieved by in country visits, where it would be possible to exercise all the sensory receptors sight, taste, touch, intuition, hearing and smell. Often there is no substitute to "feeling out" a situation. Participation in exhibitions, discussions with importing organizations and participation in Government working parties can all be useful sources of data.

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B. PRIMARY DATA AND SURVEY RESEARCH

When data are not available through published statistics or studies, direct collection is essential. Primary data refers to the particular problem identified in survey research, interviews, and focus groups are some of the tools used to collect primary market data. Personal interviews with individuals or groups allow researchers to ask "why" and then explore answers. A focus group is a group interview led by a trained moderator who facilitates discussion of a product concept, advertisement, social trend, or other topic.

For example, the Coca-Cola Company convened focus groups in Japan, England, and the United States to explore potential consumer reaction to a prototype 12 ounce contoured aluminum soft-drink can. Coke was particularly anxious to counteract competition from private-label colas in key -markets. In some instances, product characteristics dictate a particular country location for primary data collection. For-example, Case Corporation recently needed input from farmers about cab design on a new generation of tractors. Case markets tractors in North America, Europe, and Australia, but the prototypes it had developed were too expensive and fragile to ship.

Survey research method utilized for primary data collection, often involves obtaining data from customers or some other designated group by means of a questionnaire. Surveys can be designed to generate quantitative data ("How often would you buy?"), qualitative data ("Why would you buy?"), or both. Survey research generally involves administering a questionnaire by mail, by telephone, or in person. Many good marketing research textbooks provide details on questionnaire design and administration. A good questionnaire has three main characteristics:

1. It is simple.
2. It is easy for respondents to answer and for the interviewer to record.
3. It keeps the interview to the point and obtains desired information.

An important survey issue in global marketing is potential bias due to the cultural background of the persons designing the questionnaire. For example, a survey designed and administered in the United States may be inappropriate in non-Western cultures, even if it is carefully translated. Sometimes bias is introduced when a survey is sponsored by a company that has a financial stake in the outcome and plans to publicize the results. For example, American Express joined with the French tourist bureau in producing a study that, among other things, covered the personality of the French people. The report clearly showed that, contrary to a long-standing stereotype, the French are not "unfriendly" to foreigners. However, the survey respondents were people who already had traveled to France on pleasure trips in the previous two years-a fact that likely biased the result.

Survey data can be collected in many different ways and combinations of ways. The following are the basic methods used :

- Face-to-face (can be computer aided)
- Telephone (can be computer aided or completely automated)
- Mail and hand delivery
- E-mail and the Web

A face-to-face survey is, of course, administered by a person. The surveys are conducted in public places such as in shopping malls, on the street, or in people's homes if they have agreed to it. In years past, it was common for researchers in the United States to knock on people's doors to gather survey data. However, randomly collected door-to-door interviews are less common today, partly because people are afraid of crime and are reluctant to give information to strangers (McDaniel & Gates, 1998).

The advantage of face-to-face surveys is that they allow researchers to ask lengthier, more complex questions because the people being surveyed can see and read the questionnaires. The same is true when a computer is

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utilized. For example, the researcher might ask the respondent to look at a list of fifteen retail stores and rank the stores from best to worst. The same question wouldn't work so well over the telephone because the person couldn't see the list. The question would have to be rewritten. Another drawback with telephone surveys is that even though federal and state "do not call" laws generally don't prohibit companies from gathering survey information over the phone, people often screen such calls using answering machines and caller ID.

Probably the biggest drawback of both surveys conducted face-to-face and administered over the phone by a person is that they are labor intensive and therefore costly. Mailing out questionnaires is costly, too, and the response rates can be rather low. Think about why that might be so: if you receive a questionnaire in the mail, it is easy to throw it in the trash; it's harder to tell a market researcher who approaches you on the street that you don't want to be interviewed.

On the other hand, gathering survey data collected by a computer, either over the telephone or on the Internet, can be very cost-effective and in some cases free. SurveyMonkey and Zoomerang are two such Web sites that will allow you to create online questionnaires, e-mail them to up to one hundred people for free, and view the responses in real time as they come in. For conducting large survey, a huge cost may also be involved. But that still can be extremely cost-effective.

Like a face-to-face survey, an Internet survey can enable to show buyers different visuals such as ads, pictures, and videos of products and their packaging. Web surveys are also fast, which is a major plus. Whereas face-to-face and mailed surveys often take weeks to collect, you can conduct a Web survey in a matter of days or even hours. And, of course, because the information is electronically gathered it can be automatically tabulated. You can also potentially reach a broader geographic group than you could if you had to personally interview people. The Zoomerang Web site allows you to create surveys in forty different languages.

Another plus for Web and computer surveys (and electronic phone surveys) is that there is less room for human error because the surveys are administered electronically. For instance, there's no risk that the interviewer will ask a question wrong or use a tone of voice that could mislead the respondents. Respondents are also likely to feel more comfortable inputting the information into a computer if a question is sensitive than they would divulging the information to another person face-to-face or over the phone. Given all of these advantages, it's not surprising that the Internet is quickly becoming the method of choice to collect primary data.

Lastly, before the data collection process begins, the surveyors and observers need to be trained to look for the same things, ask questions the same way, and so forth. If they are using rankings or rating scales, they need to be "on the same page," so to speak, as to what constitutes a high ranking or a low ranking.

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Issues in International Primary Data Collection

Primary data are the data collected to help solve a problem or take advantage of an opportunity on which a decision is pending.

The main advantage of primary data lies in the fact that it is collected for solving the exact problem and that is why it is characterized by high usefulness and novelty. The disadvantage is that the costs of collecting primary data are much higher in foreign developing markets as there is the lack of an appropriate marketing research infrastructure

The international primary data is collected with the help of qualitative and quantitative research approaches. Qualitative research is particularly used as a first step in studying international marketing phenomena (focus groups, observation). However, the main constraint is that responses can be affected by culture as individuals may act differently if they know they are being observed.

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.STEP 5 : ANALYZING RESEARCH DATA

Data are useful only after analysis. Data analysis involves converting a series of recorded observations into descriptive statements and/or inferences about relationships. The types of analyses, which can be conducted, depend on the nature of the sampling process, measurement instrument, and the data collection method. Because there are numerous analysis techniques and different assumptions may be used, the net conclusions that may be drawn from market research may vary significantly. Two companies studying the same country or market segment can and often do reach different decisions accordingly.

For example, the estimates of on-line shopping revenue for 1999 varied from $3.9 billion by the Direct Marketing Association to $36 billion by the Boston Consulting Group. Part of analyzing the data is to see if it seems sound. Does the way in which the research was conducted seem sound? Was the sample size large enough? Are the conclusions that become apparent from it reasonable?

The two most commonly used criteria used to test the soundness of a study are (1) validity and (2) reliability. A study is valid if it actually tested what it was designed to test and if we repeat the study, and get the same results (or nearly the same results), the research is said to be reliable.

Various methods are used for data analysis. Besides the usual descriptive data analysis methods, there are a number of other techniques which can be used in analysing market potential. "Usual" methods include univariate methods (mean, median, mode, standard deviation), bivariate methods (regression, correlation, cross tabulations), and multi variate methods (including multiple regression, cluster analysis, multiple factor indices and multidimensional scaling) etc.

A few are discussed below:

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a. Demand Pattern Analysis

Industrial growth patterns provide an insight into market demand. Researchers generally focus on consumption patterns and production patterns which are helpful in assessing market opportunities. Additionally, trends in manufacturing production indicate potential markets for companies that supply manufacturing inputs.

b. Income Elasticity Measurements

Income elasticity describes the relationship between demand for a good and changes in income. Income elasticity studies of consumer products show that necessities such as food and clothing are characterized by inelastic demand. Stated differently, expenditures on products in these categories increase but at a slower percentage rate than do increases in income. This is the corollary of Engel's law, which states that as incomes rise, smaller proportions of total income are spent on food. Demand for durable consumer goods such as furniture and appliances tend to be income elastic, increasing relatively faster than increases in income.

c. Market Estimation by Analogy

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

d. Regional lead-lag analysis

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This predicts what could happen to the pattern of demand in a considered country based on the pattern of demand in a leading country. If Zimbabwe, for example, introduces a new form of tobacco drying, it is likely the other tobacco producing countries around it will do the same.

e. Cluster Analysis

The objective of cluster analysis is to group variables into clusters that maximize within group similarities and between-group differences. Cluster analysis is well suited to global marketing research because similarities and differences can be established between local, national, and regional markets of the world. Computer packages exist to cluster similarities and differences between countries which may show factors which could be common and therefore potential markets. Such packages include multidimensional or clustering techniques.

f. Multiple Factor Indices

MFIs indirectly measure potential demand, using variables that either intuition or statistical analysis suggest can be closely correlated with the potential demand for the product under review. Variables should be restricted to those which relate to product demand and these may be GNP, net national income or total population. In assessing the demand for coffee appliances, for example, an index which includes coffee drinkers and type of coffee consumed would be useful.

g. Regression analysis

It is a very useful and powerful tool. The procedure selects the independent variable that accounts for the most variance in the dependent variable, then the variable that accounts for the remaining variance etc. Often multiple regression is needed as a single variable will not do. Predictions are often made on market demand for products based on what would happen if GNP were increased.

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STEP 6. WRITING THE RESEARCH REPORT AND PRESENTING ITS FINDINGS

The report based on the marketing research must be useful to managers as input to the decision-making process. Whether the report is presented in written form, orally, or electronically via videotape, it must relate clearly to the problem or opportunity identified in step 1.

Many managers are uncomfortable with research jargon and complex quantitative analysis. Results should be clearly stated and -provide a basis for managerial action. Otherwise, the report may end up on the shelf where it will gather dust and serve as a reminder of wasted time and money. As the data provided by a corporate information system and marketing research become increasingly available on a worldwide basis, it becomes possible to analyze marketing expenditure effectiveness across national boundaries. Managers can then decide where they are- achieving the greatest marginal effectiveness for their marketing expenditures and can adjust expenditures accordingly.

The six basic elements of a research report are as follows.

1. **Title Page**. The title page explains what the report is about, when it was conducted and by whom, and who requested it.
2. **Table of Contents**. The table of contents outlines the major parts of the report, as well as any graphs and charts, and the page numbers on which they can be found.
3. **Executive Summary**. The executive summary summarizes all the details in the report in a very quick way. Many people who receive

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the report—both executives and nonexecutives—won't have time to read the entire report. Instead, they will rely on the executive summary to quickly get an idea of the study's results and what to do about those results.

4. **Methodology and Limitations**. The methodology section of the report explains the technical details of how the research was designed and conducted. The section explains, for example, how the data was collected and by whom, the size of the sample, how it was chosen, and whom or what it consisted of (e.g., the number of women versus men or children versus adults). It also includes information about the statistical techniques used to analyze the data.

   Every study has certain errors—sampling errors, interviewer errors, and so forth. The methodology section should explain these details, so that decision makers can consider their overall impact. The margin of error is the overall tendency of the study to be off kilter—that is, how far it could have gone wrong in either direction. Remember how newscasters present the presidential polls before an election? They always say, "This candidate is ahead 48 to 44 percent, plus or minus 2 percent." That "plus or minus" is the margin of error. The larger the margin of error is, the less likely the results of the study are accurate. The margin of error needs to be included in the methodology section.

5. **Findings**. The findings section is a longer version of the executive summary that goes into more detail about the statistics uncovered by the research that highlight the study's findings. If we have related research or secondary data on hand that support the findings, it can be included to help show the study did what it was designed to do.

6. **Recommendations**. The recommendations section should outline the course of action you think should be taken based on the findings of the research and the purpose of the project. For example, if you

conducted a global market research study to identify new locations for stores, make a recommendation for the locations.

In addition to this, additional sections can be added as needed. For example, you might need to add a section on the competition and each firm's market share. If you're trying to decide on different supply chain options, you will need to include a section on that topic.

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As we write the research report, the audience has to be kept in mind. While report writing, use of technical jargon should be avoided as, decision makers and other people reading the report won't understand. If technical terms must be used, the key terms should be well explained. Proofreading the document to eliminate any grammatical errors and typos should be carefully done and if required should be done a couple of times.

Many research reports are presented via PowerPoint. If it is asked to create a slideshow presentation from the report, we must not try to include every detail in the report on the slides. The information will be too long and tedious for people attending the presentation to read through. And if they do go to the trouble of reading all the information, they probably won't be listening to the speaker who is making the presentation.

Instead of including all the information from the study in the slides, only key points should be mentioned and we can add some "talking points" which only the presenter will see. After or during the presentation, the presenter can give the attendees the longer, paper version of the report so they can read the details at a convenient time, if they choose to.

4.6 Current Issues /Special Problems in International Marketing Research

Marketers engaged in global research face special problems and conditions that differentiate their task from that of the domestic market researcher:

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- First, instead of analyzing a single national market, the global market researcher must analyze many national markets, each of which has unique characteristics that must be recognized in analysis. As noted earlier, for many countries, the availability of data is limited.
- Second, the small markets around the world pose a special problem for the researcher. The relatively low profit potential in smaller markets permits only modest marketing research expenditure. Therefore, the global researcher must devise techniques and methods that keep expenditures in line with the market's profit potentially smaller markets, there is pressure-on the researcher to discover economic and demographic relationships that permit estimates of demand based on a minimum of information. 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 marketing research budget.
- 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.

Many of these facets apply more to developing than developed countries. However, using a variety of methods, outlined in the section, a lot of them can be ingeniously overcome.

Whilst the gathering of information in the international context is fraught with difficulties, without it the marketer would be planning in the dark. The two most important modes of scanning are surveillance and search, each giving data of a general or specific kind, invaluable to the strategy formulation process. In all decisions whether to obtain data or not, costs versus benefits have to be considered carefully.

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CHECK YOUR PROGRESS

Read the article carefully and analyze:

Collecting International Marketing Research Data (www.rpf.org)

Gathering marketing research data in foreign countries poses special challenges. However, that doesn't stop firms from doing so. Marketing research companies are located all across the globe, in fact. Eight of the ten largest marketing research companies in the world are headquartered in the United States. However, five of these eight firms earn more of their revenues abroad than they do in the United States. There's a reason for this: many U.S. markets were saturated, or tapped out, long ago in terms of the amount that they can grow. Coke is an example. Most of the Coca-Cola Company's revenues are earned in markets abroad. To be sure, the United States is still a huge market when it comes to the revenues marketing research firms generate by conducting research in the country: in terms of their spending, American consumers fuel the world's economic engine. Still, emerging countries with growing middle classes, such as China, India, and Brazil, are hot new markets companies want to tap.

What kind of challenges do firms face when trying to conduct marketing research abroad? Face-to-face surveys are commonly used in third world countries to collect information from people who cannot read or lack phones and computers. However, face-to-face surveys are also common in Europe, despite the fact that phones and computers are readily available.

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In-home surveys are also common in parts of Europe. By contrast, in some countries, including many Asian countries, it's considered taboo or rude to try to gather information from strangers either face-to-face or over the phone. In many Muslim countries, women are forbidden to talk to strangers.

And how do we figure out whom to research in foreign countries? That in itself is a problem. In the United States, researchers often ask if they can talk to the heads of households to conduct marketing research. But in countries in which domestic servants or employees are common, the heads of households aren't necessarily the principal shoppers; their domestic employees are.

Translating surveys is also an issue. Have you ever watched the TV comedians Jay Leno and David Letterman make fun of the English translations found on ethnic menus and products? Research tools such as surveys can suffer from the same problem. Hiring someone who is bilingual to translate a survey into another language can be a disaster if the person isn't a native speaker of the language to which the survey is being translated.

One way companies try to deal with translation problems is by using back translation. When back translation is used, a native speaker translates the survey into the foreign language and then translates it back again to the original language to determine if there were gaps in meaning-that is, if anything was lost in translation. And it's not just the language that's an issue. If the research involves any visual images, they, too, could be a point of confusion. Certain colors, shapes, and symbols can have negative connotations in other countries. For example, the color white represents purity in many Western cultures, but in China, it is the color of death and mourning (Zouhali-Worrall, 2008). What would women in Muslim countries who aren't allowed to converse with male sellers think of it?

One way marketing research companies are dealing with the complexities of global research is by merging with or acquiring marketing research companies abroad. The Nielsen Company is the largest marketing research company in the world. The firm operates in more than a hundred countries and employs more than forty thousand people. Many of its expansions have been the result of acquisitions and mergers.

a) Discuss the various challenges faced by the companies in collecting data in the International Markets.

b) Visit the websites and prepare a note on the **two market research agencies ORG-MARG, IMRB**

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4.7 Summary

Change is occurring in virtually all aspects of business and personal life. These changes are being played out at different rates in different parts of the world. Against this backdrop, marketing researchers are being challenged to conduct research that is of the highest possible quality, as quickly as possible, in multiple diverse settings. The issues marketing researchers face are multifaceted and relate to where and how research will be conducted, who the respondents will be, and the tools and techniques that will be used.

Marketing researchers must find creative ways to harness the new technologies to facilitate the conduct of research and enhance its value to clients. At the same time research organizations must begin to develop the capability to conduct marketing research simultaneously in the developed and the developing world. Increasingly multi-national marketers are designing and selling global brands and need research to guide their decision making across an increasingly diverse and disparate world. Sound and timely marketing research becomes even more critical for firms as they compete in the 21st century.

4.8 Key Terms

Values: Shared assumptions of a group how the things ought to be or abstract ideas about what a group believes to be good or desirable.

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Data: Facts or numbers collected for examination and consideration and used to help decision making.

Sample: A chosen part of the universe which represent the characteristics of the universe.

Stratified Sampling: Dividing the universe with various strata and sampling each stratum.

Observation: The process of collecting primary data without putting specific questions to the respondents.

4.9 Questions and Exercises

1. Explain why it's important to carefully define the problem or opportunity a marketing research study is designed to investigate.
2. Describe the various factors influencing the International marketing research with the help of suitable examples.
3. How does a probability sample differ from a non probability sample?
4. What makes a marketing research study valid? What makes a marketing research study reliable?
5. What sections should be included in a marketing research report? What is each section designed to do?
6. Take a product/market of your choice. Describe fully the process involved in attempting to assess the market potential and developing a marketing strategy for that product/market in any country of your choice. The product maybe an import or an export.

4.10 Further Reading and References

- Francis Cherunilam, Interntional marketing, Himalaya Publishing, New Delhi
- Philip R. Cateora, International Marketing, 13/e, Tata Mc Graw Hill Co. Ltd. New Delhi.

- Warren J. Keegan, Global Marketing Management,Prentice Hall,India,New Delhi.
- Hodgetts, Richard M, Fred Luthans, Jonathan Doh, International Management: Culture, Strategy and Behaviour, 6th Edition, Tata Mc Graw Hill, New Delhi.
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URL

www.fao.org

www.rpf.org

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UNIT 5 : DECISION MAKING PROCESS FOR INTERNATIONAL MARKETS

5.0 Unit Objectives

After reading this unit, you should be able :

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- To explain the concept of decision making in international markets
- To discuss identification of international markets
- To explain various methods of segmenting international markets
- To discuss barriers to international marketing
- To explains tools and techniques for selecting international markets

5.1 Introduction

The decision-making process for international markets is crucial to the success or failure of firm efforts to internationalize its markets .When a company decides to go international, it faces a host of decisions. Which countries should it enter and in what sequence? What criteria should be used to select entry markets: proximity, stage of development, geographic region, cultural and linguistic criteria, the competitive situation, or other factors? An effective and foolproof decision-making mechanism is crucial to the success or failure of a firm's. Market selection and targeting also are strategically significant functions to develop synergy among countries for better and well-coordinated international operation and to design a comprehensive marketing plan.

This Unit examines various issues related to market identification, segmentation, and selection. A firm has to overcome geographical, cultural, psychic, economic, and political barriers to reach its overseas markets. However, a systematic proactive approach often helps a firm in its efforts to reach foreign markets. Generally, the process of internationalization gets initiated in a firm by a reactive approach to unsolicited enquiries from overseas markets.

5.2 Decision Making in International Marketing

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When firms plan to expand the business in the international markets, they are faced with a dilemma as to whether to enter or not? Which markets to enter? When and how to enter? Etc. There is lot of uncertainty whilst searching for opportunities globally, due to four main factors: lack of knowledge of the existence of possible new market alternatives, the conditions internal and external to the firm which will determine the consequences of a new alternative, what consequences these conditions when known may have for the firm, and how these consequences may be expressed in relevant terms of goal fulfillment.

Uncertainty generally arises due to the time lapse between the decision and the outcome of the action decided on. It is believed that uncertainty increases with the degree of "foreignness" of the place of outcome, the cost of information and the learning effect, that is, when entering foreign market knowledge of it builds slowly, usually by experience and its attendant uncertainty.

When marketing domestically, the system is fairly easy to learn. When crossing global boundaries the whole process is exaggerated by necessary paperwork, exchange rates, cash flows and transportation problems to name but a few. This uncertainty gives rise to the need for information.

Table 5.1 Specific information

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Marketing decision	Marketing intelligence
Go international or remain domestic	Assessment of global market and firm's potential share in it, in view of local and international competition, compared to domestic opportunities.
Which markets to enter	A ranking of world markets according to market potential, local competition and the political situation.
How to enter target markets	Size of markets, international trade barriers, transport costs, local competition, government requirements and political stability.
How to market in target markets	For each market, buyer behavior, competitive practice, distribution channels, media, company experience

Thus it can be seen that the selection process of international markets primarily includes preliminary screening and final selection and targeting of international markets.

There are several hurdles which a firm has to overcome to reach the international market as discussed below:

a) **Psychic Distance :** Psychological gaps often create communication barriers reflected in differences of languages, life styles, cultural orientation, awareness levels, political ideologies, or the level of technical skills. As a result, the uncertainty about foreign markets and perceived difficulty in obtaining information about foreign markets is lower and a firm finds it more convenient in dealing with firms in countries with fewer such barriers. The narrowing of psychological gaps has helped China increase its trade with Southeast Asian countries. Lower psychic distance is responsible for significant trade between China and other East Asian countries. The large Indian ethnic population in Middle East, Singapore, UK, the USA, and Canada constitutes sizeable markets for Indian products.

b) **Geographical Distance :** Countries with geographical proximity tend to be natural target markets due to lower physical distances and logistic complexities. Neighbouring countries tend to be natural target markets especially for products with lower unit value. It has been found that, despite a number of political and economic barriers, a wide range of Indian products find ready market in Bangladesh mainly due to geographical proximity.

c) **Economic Distance :** The final cost of a product in the target market and the ease of transacting business are determined by economic distance. For example, although there is little physical distance between India and Myanmar, the economic distance is considerably high. The banking and telecommunication infrastructure in Myanmar is far from adequate. On the other hand, the economic distance between India and UK is much lower than the distance between India and Myanmar.

d) **Political Distance :** The political relationship between the governments of an exporting country with an importing country too influences the selection of target markets. Adverse political relations may hinder markets that are apparently attractive. Although the physical and psychic distance is much lower between India and Pakistan, it is the formidable political distance that makes Pakistan hardly the preferred market for most Indian firms.

The international market selection is determined by a combination of these distances such as geographical, psychic, economic, and political. It is also evident from the above that geographical proximity does not always ensure the most preferred market.

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Check Your Progress

'Markets with geographic proximity are not always the most preferred markets.' Examine the statement critically and give suitable examples?

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5.3 Identification of International Markets

Any firm wanting to internationalize its operations may adopt either a reactive or a proactive approach to market identification as described below.

Reactive Approach to Market Identification : Most firms internationalize as an unintended response to an international marketing opportunity in the form of unsolicited export orders. However, in doing so, the positive stimulus in terms of increased profitability, turnover, market share, or image leads to catering to overseas markets as a repeat activity. A firm takes up overseas marketing on a regular basis. Consequently, international marketing becomes an integral part of the firm's marketing strategy.

Systematic Approach to Market Identification : However, a systematic proactive approach is generally adopted by larger companies in selecting international markets. Since a firm has limited resources, it has to focus on a few foreign markets. Besides, proper selection of markets avoids wastage of the firm's time and resources so that it can concentrate on a few fruitful markets. A firm has to carry out preliminary screening of various countries before a refined analysis is carried out for market selection.

The trade statistics available may be used for preliminary market scanning. One can use published data from the Directorate General of Commercial Intelligence and Statistics (DGCI&S), UNCTAD, World Bank, International Monetary Fund, and World Trade Organization. This data provides an overview of the major markets and competitors that can be used in preliminary screening of international markets. The process of segmentation is distinct from targeting (choosing which segments to address) and positioning (designing an appropriate marketing mix for ech segment). The overall intent is to identify groups of similar customers and potential customers, to prioritize the groups to address, to understand their behavior, and to respond with appropriate marketing strategies that satisfy the different preferences of each chosen segment.

5.4 Segmentation of International Markets

Market segmentation refers to dividing the market of potential customers into homogeneous sub-groups. It is the process in marketing of dividing a market into distinct subsets (segment) that behave in the same way or have similar needs. Because each segment is fairly homogenous in their needs and attoties, they are likely to respond similarly to a given marketing strategy. Segmentation is needed because substantial differences exist in response of market to a particular marketing strategy. Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private sector. Small segments are often termed niche markets or specialty markets. However, all segments fall into either consumer or industrial markets.

A small firm can compete more effectively in specific market segments as it concentrates its resources on the target segment. For a market segment to be effective, it must be:

- **Measurable:** The size, purchasing power, and characteristics of the segments can be measured.
- **Substantial:** The segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing programme.
- **Accessible:** The segments can be effectively reached and served.
- **Differentiable:** The segments are conceptually distinguishable and respond differently to different marketing-mix elements and programmes.
- **Actionable:** Effective programmes can be formulated for attracting and serving the segments.

5.4.1 International market segmentation

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International market segmentation is the process of identifying and dividing the customers around the world into distinct subsets that respond to a particular marketing strategy. As the customers of a particular segment have similar needs that can be addressed through a uniform marketing strategy, it is advisable to adopt differentiated marketing strategies for different market segments.

Interest in global market segmentation dates back several decades. In the late 1960s, one observer suggested that the European market could be divided into three broad categories-international sophisticate, semi sophisticate, and provincial-solely on the basis of consumers' presumed receptivity to a common advertising approach. Another writer suggested that some themes (e.g.; the desire to be beautiful, the desire to be healthy and free of pain, the love of mother and child) were universal and could be used in advertising around the globe.

In the 1980s, Professor Theodore Levitt advanced the thesis that consumers in different countries increasingly seek variety and that the same new segments are likely to show up in multiple national markets. Thus, ethnic or- regional foods such as sushi, Greek salad, or hamburgers might be in demand anywhere in the world. Levitt described this trend as the "pluralization of consumption" and "segment simultaneity" that provides an opportunity-for-marketers to pursue a segment on a global scale.

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

Another powerful tool for global segmentation is horizontal segmentation by user category. While making decisions for international markets, major types of segmentation used are discussed below :

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A) Geographic Segmentation : Under geographic segmentation the markets are divided into geographical subsets. Although geographical segmentation is easier to monitor and measure, it does not always ensure uniformity in customer habits among the consumers due to geographical proximity. **For instance, Myanmar is the next-door neighbour of India but the market structure and consumption patterns are entirely different.** However, for segmenting international markets, geography has been ranked as the lowest criteria.

B) Demographic Segmentation : Segmentation of international markets on the basis of demographic characteristics such as age, gender, family size, education, etc. is known as demographic segmentation. This type of market segmentation has reasonable accuracy in measurement and is easy to access. Besides, demographic information is readily available, updated, and relatively accurate in most countries.

C) Country Segmentation on the Basis of Income : The World Bank segments countries on the basis of income for operational and analytical purposes. Each economy is divided on the basis of income. The criteria as of 1 July 2015, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method of $1,045 or less in 2014; middle-income economies are those with a GNI per capita of more than $1,045 but less than $12,736; high-income economies are those with a GNI per capita of $12,736 or more. Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of $4,125.

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Below you will find the list of countries with new income groups:

Economy	Old income group	New income group
Bangladesh	Low	Lower middle
Kenya	Low	Lower middle
Myanmar	Low	Lower middle
Tajikistan	Low	Lower middle
Mongolia	Lower middle	Upper middle
Paraguay	Lower middle	Upper middle
South Sudan	Lower middle	Low
Argentina	Upper middle	High income
Hungary	Upper middle	High income
Seychelles	Upper middle	High income
Venezuela, RB	Upper middle	High income

Refer: http://blogs.worldbank.org/opendata/new-country-classifications

D) Segmentation of Indian Market on the Basis of Household Income : The household income influences the family's consumption pattern both in terms of willingness and ability to buy. The consuming class of India with a little over 1 million population can be categorized in various grades of affluence and price value orientation', ranging from the destitute to 'anywhere in the world consumers who just happened to be in India.' The generic model of the Indian market has been depicted below based on the five consuming classes, as defined by NCAER.

Refer (www.**ncaer**.org)

On the basis of income, the Indian households may be segmented as follows:

- **Rich (Benefit Maximizers)**
- **Consuming (Cost-benefit Optimizers)**

- **Climbers (Cash-constrained Benefit Seekers)**
- **Aspirants (New Entrants into Consumption)**
- **Destitutes (Hand-to-Mouth Existence)**

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The analysis of the consumer segments on the basis of income indicates a steep rise in consuming class, which is likely to result in a much higher market growth in consumer goods in India. It offers excellent potential markets for international firms looking at Indian market.

E) Segmentation of Markets on the Basis of Age : The consumption patterns within a country are significantly influenced by age. For example: The demographic classification of Chinese market on the basis of age indicates the following three distinct segments:

Generation I

Age 45 to 59

- Generation of the socialistic society
- The talented got university education and have become high-ranking government officials, but many work for state-owned enterprises. Some are already retired.

Generation II

Age 30 to 44

- Lost opportunity to get proper education
- Mainly working for state-owned enterprises where income does not reflect job performance
- Those married are willing to spend as much as possible for 'Little Emperor', their only child, at the expense of their pleasures. In many cases, what Generation II purchases are based on what the child wants or needs.

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Generation III

Age 18 to 29

- Good educational background, with opportunity to work for foreign-affiliated firms.
- They are blessed with a good aspect of the market economy system that promises a brighter future for people who earn enough money.
- For international marketers, Generation III is the most attractive market segment, also known as s-generation (single child generation)

F) Psychographic Segmentation : Dividing the consumers into different groups on the basis of lifestyle, personality, or values is termed as psychographic segmentation. Consumers within the same demographic clusters may have different psychographic profiles. As psychographic market segments go beyond national boundaries, it facilitates in developing an international marketing strategy.

Psychographic Segmentation of Indian Youth

Indian youth in the age group of 15 to 24 constitutes 60% of India's population. It is the generation that matured in the aftermath of liberalization and had exposure to the West through the media. A survey to study the psychographic profile of Indian youth on the basis of their values, icons, rituals, and symbols was carried out by MTV and presents the following distinct segments.

Homebodies

- Form 16% of the total audience, but their overall share has fallen
- Largely traditional, have low individuality

- Duty and morality at the core of their values
- Not into brands, last to pick up on trends, fashion
- Very few aspirations for self
- Uneasy with the opposite sex
- Focused on education/job but not career; what others would call 'Bookworm'

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Two-faced

- 16% of the target segment
- Inwardly traditional, outwardly modern
- Body tattoos co-exist with Kyunki Saas Bhi Kabhi Bahu Thi (Because the mother-in-law was also a daughter-in-law, once)
- Once married, they know they will have to abide by prescribed norms. Hence, the need to 'enjoy life' to the fullest
- Openness with the opposite sex
- Need to be aggressive to get ahead in life

Wannabes

- This is the largest cluster, the massive mainstream
- Materialistic, show-offs
- Desperate to be part of a crowd, trend followers who aggressively seek out lifestyle cues and adapt them to feel more confident and be perceived as 'cool' by others
- High desire to attract opposite sex, while chances of comfort with the opposite sex are low
- Extremely competitive

Rebels

- With 23% of the target segment, this is the second largest cluster
- Their parents are very traditional
- Their rebellion need not be overt
- Perhaps first generation educated professionals,

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experiencing winds of change-education as the means of a career, wealth, change in lifestyle, independence

- Responses guarded-unsure/do not wish to express/commit
- Heavy reliance on friends-not understood by parents

Cool Guys

- Influencers, who all others want to be
- Work hard—play hard types
- Confident, strong individuality
- Friends are very important
- West is a dream for studies
- Lots of aspirations
- Liberal/westernized
- Enjoy life in the fast lane
- Brand and label conscious

Such psychographic segmentation is extremely useful for transnational corporations looking at marketing of trendy, luxury, and branded products in India.

G) Segmentation of International Markets on the Basis of Core Values : Core values are associated much deeper than behavior and attitudes; it affects the consumer desires and choices over the long term. Consumer attitude and behavior is greatly influenced by belief systems, known as core values. International markets can be segmented on the basis of core values as given below:

Strivers (12%)

Place higher emphasis on material and professional goals and slightly more likely to include men than women. One third of Asians are strivers.

Devouts (22%)

Place more value on traditions and duty and include more women than men. In developing Asia, Middle East, and Africa devouts are more common, but rarely found in Western Europe and developed Asia.

Altruists (18%)

They are more interested in social issues and social welfare and consist of slightly more women than men of older age with a median age of 44. Latin America and Russia have more altruists than any other country.

Intimates (15%)

Place more value on close personal relationships and family above all, and include men and women almost equally. One fourth of American and Europeans are intimates compared to only 7% in developing Asia.

Fun Seekers (12%)

The youngest group with a male-female ratio of 54:56 found in disproportionate numbers in developing Asia.

Creatives (10%)

This market segment has strong interest in education, knowledge, and technology. Creatives are more common in Latin America and Western Europe.

The core-value-based segmentation of international markets is based on interviews conducted by Roper Reports of 1000 people in 35 countries. As the people in each segment differ in terms of their activities, product, preference and use, and media use, understanding the dominance of these segments in various countries facilitates decision-making in international markets.

H) Segmentation on the Basis of International Marketing Opportunity : The stage of demands for products and services varies significantly in countries. On the basis of opportunity,

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Check Your Progress

Explain various types of marketing barriers?

international markets can be classified as given below:

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Existing Markets :These are the markets which are already serviced by existing suppliers and where customer needs are known. Marketing opportunities can be evaluated by estimating the consumption rates and import patterns in these countries. Since competing suppliers are already in the market, the market entry is difficult unless a superior product is offered.

Latent Markets : These markets have recognized potential customers but no company has so far offered a product to fulfill the latent needs; therefore, there is no existing market. As the market demand potential is known and there is no direct competition in the market, market entry is relatively easier once a firm is able to convince the customers about the benefits of its market offerings.

Incipient Markets : There is no demand at present in the market, but the conditions and trends that indicate future emergence of needs can be identified. The incipient markets have the potential to become existing markets once the need is identified, created, and customers are persuaded to use the product resulting in market creation.

Competitive Product : Competitive product is one which has no significant advantage over those already on offer. It is a 'me too' market offering.

Improved Product : Although an improved product is not unique, it provides some improvement over the presently available market offering.

Breakthrough Product : It represents significant differentiation with innovation and therefore has considerable competitive advantage.

The demand patterns are different for these three types of products. In existing markets, a product needs to be breakthrough or superior so as to offer a high competitive strength. Since there is no direct competition in latent markets, an improved product may also succeed. In incipient markets, as demand for the product is yet to be generated, competitive products in other markets may also be launched. However, breakthrough products offer considerable competitive advantage if market need is identified or created.

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I) Segmentation on the Basis of Market Attractiveness : The overall attractiveness of the market primarily depends on market size and growth, risk, government regulations, competitive intensity, and physical and institutional infrastructure. Markets can be classified on the basis of overall market attractiveness'' under the following five categories:

- **Platform countries** can be used to gather intelligence and establish a marketing network. Examples include Singapore and Hong Kong,
- **Emerging markets** include Vietnam and the Philippines. Here the major goal is to build up an initial presence, for instance, via a liaison office.
- **Growth markets** such as China, India, Thailand, Indonesia, Malaysia, and the Philippines can offer early mover advantages. These often encourage companies to build up a significant presence in order to capitalize on future market opportunities.
- **Maturing markets** such as Taiwan and Korea offers far fewer growth prospects than the other types of markets.

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Many a time, the local competitors are well entrenched. On the other hand, these markets have a sizeable middle class and solid infrastructure. The prime task here is to look for ways to further develop the market via strategic alliances, major investments, or acquisitions of local or smaller foreign players.

- **The established markets** such as Japan. Similar to maturing markets, the growth prospects are much lower than the other types of markets. An international firm often enters into these markets by way of joint ventures or acquisitions and integrates into regional or global operations as a part of its consolidation strategy.

5.5 Selection of International Markets

A firm should identify those consumers that can be reached most effectively and efficiently. The selection of international markets is divided into two phases: preliminary screening and final analysis for selecting and targeting. The methods used for estimating market size for preliminary screening include estimation of market size, accessibility, and profitability. For final selection of the target market, micro analysis is required for estimating product specific market size. Trade analysis and market analogy are the widely used techniques for estimating market size. Final selection and strategy development for international markets, growth-share, and market portfolio matrices serve as useful analytical tools.

5.5.1 Preliminary Screening of International Markets

While carrying out preliminary screening of a country for market selection, the following criteria may be adopted:

5.5.1.1 Market Size

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A firm looking forward to entering the international market needs to assess the present market size and future potential. It should be borne in mind that developed countries are not always the largest markets. Market size depends on a number of factors as discussed below:

i) Population : The population of the market broadly gives a rough estimate of market size, though it has to be used with some other indicators For example China ,India are the most populous countries, however, it does not always mean that the most populous countries are the largest markets in the world. However, for 'necessary goods' with low unit value such as food products, health care items, educational products, bicycles, etc., population provides a gross indicator of market size.

The ease of reach to a market is often determined by the density of population. The higher the population density, the easier it is to reach the market. It becomes difficult to maintain marketing channels in sparsely populated countries.

ii) Income : Consumers need money to buy the products in a market. The gross domestic product (GDP) of a country provides a better estimate of the market size as compared to population. The growth rate of per capita GDP facilitates in the estimation of future market potential.

Per capita income is a better indicator of purchasing power of the residents of a country. The per capita income calculation assumes that the country's income is evenly distributed. India has a sizeable middle class but there are a number of countries that have a bimodal income distribution with no middle class. This indicates the existence of different market segments within a country. The purchasing power of money varies very significantly across countries, which significantly influences the cost of living. Therefore, purchasing power needs to be taken into consideration.

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5.5.1.2 Accessibility to International Markets

The market needs to be accessed in terms of various marketing barriers (both tariff and non-tariff). A high-potential profitable market may not be attractive due to a variety of marketing barriers.

A) **Tariff Barriers** : These are official constraints on import of certain goods and services in the form of customs duties or tax on products moving across the borders. The tariff barriers may be classified as follows:

- **On the Basis of Direction of Trade: Imports vs. Exports Tariffs :** Tariffs may be imposed on the basis of direction of product movement, i.e., either on exports or imports. Generally, import tariffs or customs duties are more common than tariffs on exports. However, countries sometimes resort to imposition of export tariffs to conserve scarce resources. Such tariffs are generally imposed on raw materials or primary products rather than on manufactured or value added goods.
- **On the Basis of Purpose: Protective VS Revenue Tariffs :** The tariff imposed to protect the home industry, agriculture, and labour from foreign competitors is termed as protective tariff, which discourages foreign goods. India has historically had very high tariffs to protect domestic industry from foreign competition. On the other hand, the government may impose tariffs to generate tax revenues from imports, which are generally nominal. For instance, the UAE imposes 3-4% tariffs on its imports, which may not be termed as protective tariffs.
- **On the Basis of Time Length: Tariff Surcharge vs. Countervailing Duty :** Based on the basis of duration of imposition,

tariffs may be classified either as a surcharge or as a countervailing duty. Any surcharge on tariffs represents a short-term action by the importing country, while countervailing duties are more or less permanent in nature. The reason for imposition of countervailing duties is to offset the subsidies provided by the exporting countries' governments. Countervailing duties have already been discussed in detail in Chapter 3.

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- **On the Basis of Tariff Rates: Specific, Ad valorem, and Combined** : Duties fixed as specific amount per unit of weight or any other measure is known as specific duties. For instance, these duties are in terms of rupees or US$ per kg of weight or per metre or per litre of the product. The CIF value or product cost or prices are not taken into consideration while deciding specific duties. Specific duties are considered to be discriminatory in nature but effective in protecting cheap value products because of their lower unit value. Duties levied on the basis of value are termed ad valorem duties. Such duties are levied as a fixed percentage of dutiable value of imported products. Contrary to specific duties, it is the percentage of duty that is fixed in case of ad valorem duties. The duty collection increases or decreases on the basis of value of the product. Ad valorem duties help protect against any price increase or decrease for an imported product.

  A combination of specific and ad valorem duties on a single product is known as combined or compound duty. Under this method, specific as well as ad valorem rates are applied to an import product.

- **On the Basis of Production and Distribution Points**
  - ✓ **Single Stage Sales Tax:** Tax collected at only one point in the manufacturing and distribution chain is known as single stage sales tax. Single stage sales tax is generally not

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collected unless products are purchased by the final consumer.

- ✓ **Valued Added Tax (VAT)** : It is a multi-stage non-cumulative tax on consumption levied at each stage of production and distribution system and at each stage of value addition. A tax has to be paid each time the product passes from one hand to another in the marketing channel. However, the tax collected at each stage is based on the value addition made during that stage and not on the total value of the product till that point. The VAT is collected by the seller in the marketing channel from a buyer, deducted from the VAT amount already paid by them on purchase of the product and remitting the balance to the government. Since VAT applies to products sold in domestic markets and imported goods, it is considered non-discriminatory. Besides, VAT also conforms to World Trade Organization (WTO) norms.
- ✓ **Cascade Tax :** Taxes levied on the total value of the product at each point in the manufacturing and distribution channel, including taxes borne by the product at earlier stages, are known as cascade taxes. India had a long regime of cascade taxes wherein the taxes were levied at a later stage in marketing channel over the taxes already borne by the product. Such a taxation system adds to the cost of the product making goods non-competitive in the market.
- ✓ **Excise Tax** : It is a one time tax levied on the sale of a specific product. Alcoholic beverages and cigarettes in most countries tend to attract more excise duty.
- ✓ **Turnover Tax** : In order to compensate for similar taxes levied on domestic products, a turnover or equalization tax is imposed. Although the equalization or turnover tax hardly equalizes prices, its impact is uneven on domestic and

imported products.

B) **Non-Tariff Marketing Barriers** : Non-tariff barriers are non-transparent and inhibit trade on a discriminatory basis. As the WTO regime calls for binding of tariffs wherein the member countries are not free to increase the tariffs at their will, non-tariff barriers in innovative forms are emerging as powerful tools to restrict imports on a discriminatory basis. The major non-tariff marketing barriers include:

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- **Government Participation in Trade** : Providing consultations to foreign companies on a regular basis, governments' procurement policies and state trading is often used as disguised protection of national interests and as a barrier to foreign marketers. A subsidy is a financial contribution provided directly or indirectly by a government that confers a benefit. Various forms of subsides include cash payment, rebate in interest rates, value added tax, corporate income tax, sales tax, insurance, freight, and infrastructure, etc. As subsides are discriminatory in nature, direct subsides are not permitted under the WTO trade regime.
- **Customs and Entry Procedure** : Custom classification, valuation, documentation, various types of permits, inspection requirements, and health and safety regulations are often used to hinder free flow of trade and discriminate among exporting countries. These, therefore, constitute important non-tariff marketing barriers. However, the WTO legislation attempts to rationalize these barriers also.

  A cross-country comparison to start a new business should be conducted when selecting international markets.
- **Product Requirements** : Product standards and specifications, regulations are primarily related to packaging, labelling and marking, and product testing are frequently used as innovative barriers to

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trade mainly by high income countries. For example instance of the EU countries on banning the azo dyes had severely hampered India's exports of cotton textiles and readymade garments to Europe and the firms had to resort to the use of vegetable dyes. The US Consumer Product Safety Commission in August 1994 imposed a ban on the import of Indian-made rayon and cotton-blended skirts on the grounds of fire hazard as they were considered to be highly inflammable. The Commission banned Indian skirts without any reported incidence of fire on preventive grounds.

C) **Quotas :** These are the quantitative restrictions on exports intended to protect local industry and to conserve foreign currencies. Various types of quotas include:

- **Absolute quota:** These quotas are the most restrictive, limiting in absolute terms the quantity imported during the quota period. Once the quantity of the import quota is fulfilled, no further imports are allowed.
- **Tariff quota:** It allows import of a specified quantity of quota products at reduced rate of duty. However, excess quantities over the quota can be imported subject to a higher rate of import duty. Such a combination of quotas and tariffs facilitates import and at the same time discourages, through higher tariffs, excessive quantities of imports.
- **Voluntary quota:** Voluntary quotas are unilaterally imposed in terms of a formal arrangement between countries or between a country and an industry. Such agreements generally specify the import limit in terms of product, country, and volume.

  The Multi-fibre Agreement (MFA) was the largest voluntary quota arrangement, wherein the developed countries forced the agreement on economically weaker countries to provide artificial protection to their domestic industries.

- **Financial Controls :** The national governments often impose a variety of financial restrictions to conserve the foreign currencies restricting their markets. Such restriction includes exchange control, multiple exchange rate, prior import deposit, credit restrictions, and restriction on repatriation of profits. India had long followed a stringent exchange control regime to conserve foreign currencies.

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5.5.1.3 Profitability

A market needs to be evaluated in terms of profitability in addition to market potential and growth. Profitability of a market can be significantly affected by the cost of logistics, government subsidies to local firms, price controls, import tariffs, and other statutory provisions of the target market. Besides, various types of risks associated with stability in the target markets, exchange rate, and payment ability of the importing firm. Despite being a high-potential and accessible market, Latin America is not always profitable due to higher logistic costs.

5.5.2 Estimating Market Potential

Emerging markets comprise more than half the world's population, account for a large share of world output, and have a very high growth rate which means enormous market potential. The Centre for International Business Education and Research at Michigan State University (MSU-CIBER) ranks India as the second largest market after China among the emerging markets. However, due to relatively lower ranking on other parameters of measuring market potential, such as market growth rate, market intensity, market consumption capacity, commercial infrastructure, economic freedom, market receptivity, and country risk, India has been ranked as the ninth most attractive market while China is ranked as the fifth most attractive market. The overall market potential of a country is arrived at by various dimensions such as urban population, electricity consumption, commercial infrastructure etc. to determine the overall market potential index.

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However, the selection criteria for a firm may also be product/market specific. A craftsman from Jaipur needs to find a market with higher levels of disposable income (profitability), large size of educated population with leisure time (market size), and few trade barriers (accessibility).

5.5.3 Final Selection and Targeting International Markets

For final selection of international markets, product specific estimation of market size is made for the select number of markets short-listed by preliminary screening using the following methods:

Trade Analysis Method : One of the easiest and relatively quick methods of estimating market size for a country is analysis of its trade data. The market size of a country is theoretically estimated as total production in the country plus imports, subtracting total exports for the product category. Changes in stocks need to be taken into consideration while arriving at an effective market size.

Analogy Method : The information in countries with lower level of development is often not adequate to precisely estimate market size. In these situations, various types of analogy methods may be adopted. In the analogy method, a country at similar stage of economic development and of comparable consumer behaviour is selected whose market size is known. Alternatively, the analogy method for different time periods, which may be compared with similar demand patterns in two different countries, may also be used.

Check Your Progress

Countervailing duties are more or less permanent in nature?

Tariff barriers are non-transparent and inhibit trade on a discriminatory basis?

5.5.4 Tools for International Market Analysis

International marketing planning and strategy development calls for use of market analysis tools to adopt differentiated strategies for different segments. Two of the widely used tools for analyzing international markets are discussed below:

5.5.4.1 Growth-Share (Boston Consulting Group) Matrix

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The Boston Consulting Group (BCG) matrix was developed about 30 years ago by BCG as a model for the classification of strategic business units (SBUs) of an organization. As depicted in Figure 5.1, the BCG matrix classifies the markets on the basis of growth rate and market share.

Such a matrix can be prepared either for a country's exports or a firm's exports so as to facilitate segmentation of the products under the following broad categories.

- **High-Growth High-Share Products (Stars):** Such markets offer high growth potential but require lot of resources to maintain the share in high-growth markets. Forty two per cent of India's exports fall under this category. Gems and jewellery, drugs and pharmaceuticals, readymade garments, etc. constitute the stars for India's exports.
- **Low-Growth High-Share Products (Cash Cows)**: Products under this category bring higher profits but have a slow market growth rate. Marine products, leather and manufacture, oil meals, etc., constitute this category constituting 26% of India's exports.
- **High-Growth Low-Share Products (Question Marks)**: These are the products under the high-risk category with an uncertain future, sometimes called 'problem children.' Roughly nine per cent of India's exports fall under this category which includes petroleum products, tea, cosmetics and toiletries, glass, glassware, and ceramics. It indicates a highly competitive market and strategic

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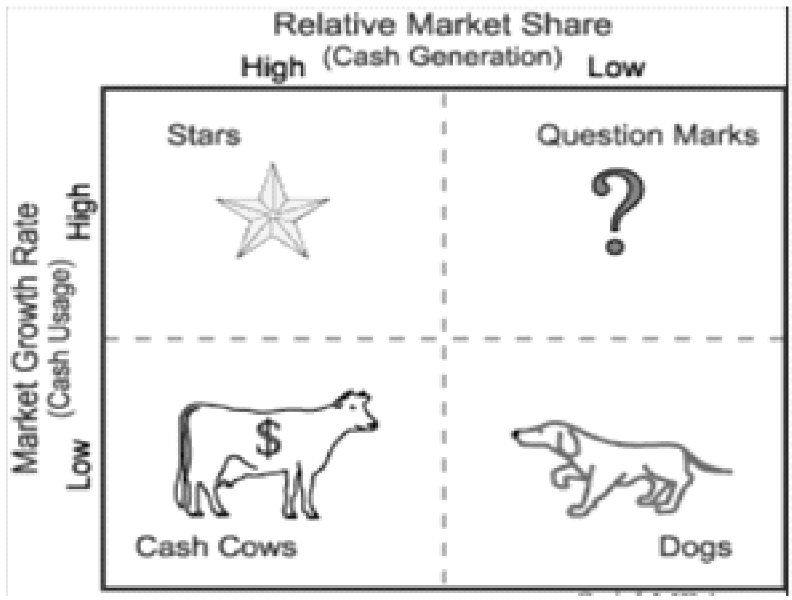
decision is required to invest resources to bring it to the category of stars by achieving a higher market share.

- **Low-Growth Low-Share Products (Dogs)**: These products have low growth and low market share; therefore, they generally do not call for investing resources. India's exports under this category include handicrafts, carpets (handmade), tobacco un-manufactured, coffee, basmati and non-basmati rice, cashew, castor oil, etc.

Figure 5.1



The growth share matrix may be used for working out differentiated strategies for international marketing of each product category.

5.5.4.2 Market Attractiveness/Company Strength Matrix

An analysis is carried out for measuring attractiveness of international markets and the competitive strength of a company. Various factors such as market size, market growth, customers' buying power, average trade margins, seasonality and fluctuations in the market, marketing barriers, competitive structures, government regulations, economic and political stability, infrastructure, and psychic distance contribute to market attractiveness. The competitive strength of a firm is determined by its market share, familiarity, and knowledge about the country, price, product fit to the market, demands, image, contribution margin, technology position, product quality, financial resources, access to distribution channels, and their quality. An analysis can be carried out in the form of a matrix assigning weight to each of these factors. Based on this analysis a matrix may be drawn as below:

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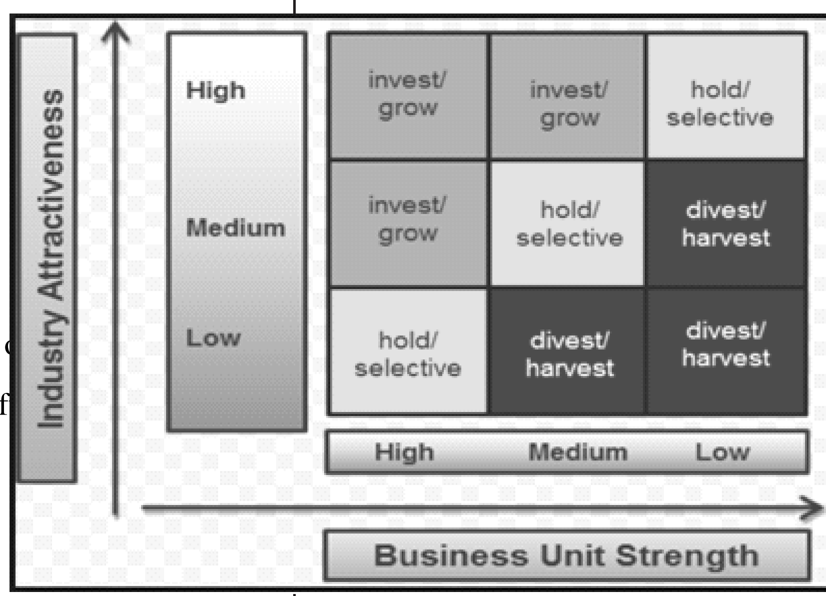
Figure 5.2



Primary Markets

These countries offer the highest marketing c
for a high level of marketing commitment. Firms of
permanent marketing presence in such markets.

Secondary Markets

In these markets the perceived political-economic risks are too high to make long-term irrevocable commitments. A firm has to explore and identify the perceived risk factors or the firm limitations in these markets and adopt individualized strategies such as joint ventures to take care of the marketing limitations.

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Tertiary Markets

These are markets with a high number of perceived risks; therefore, allocation of firm's resources is minimal. Generally, a firm does not have any long-term commitment in such markets and opportunistic marketing strategies such as licensing are often followed.

Based on the above analysis, a firm should focus its market targeting and expansion strategies in countries at the top left of the matrix where the country attractiveness and the competitive strength of the company are very high. On the other hand, the firm should focus on harvesting/divesting its resources from countries where the market attractiveness and company strength are both very low. However, a firm may use licensing as a mode of operation with little resource commitment but continue to receive royalties. Countries at the extreme right top of the matrix signify higher market attractiveness but lower company strength. A firm should identify its competitive weaknesses in these markets and strive to gain competitive strength. It may also enter into a joint venture with other firms, which most of the time are local and have complementarities to gain competitive strength. In markets where a firm has medium competitive strength and marketing attractiveness, it needs to carefully study the market condition and adopt an appropriate strategy.

For example : Ford for its tractors used the country attractiveness/ company strength matrix and placed India in the extreme right top of the matrix wherein the country attractiveness was very high but the competitive strength of the company was low.

5.6 Summary

The decision-making process for international markets is crucial to the success of a firm. The present chapter describes identification, segmentation, selection, and targeting of international markets. A firm has to overcome various distances, viz., geographical, psychic, economic, and political to reach the target markets. A firm can make use of information and services from various export promotion agencies, DGCI&S, the World Bank, and the WTO in identifying markets. The methods of segmenting international markets include geographic, demographic, and psychographic segmentation. International markets can also be segmented on the basis of marketing opportunities under categories of existing, latent, and incipient markets, which represent marketing opportunities for three distinct product types, such as competitive products, improved products, and breakthrough products. Platform countries, emerging markets, growth markets, maturing markets, and established markets represent various segments of international markets on the basis of market attractiveness. Improved segmentation can lead to significantly improved marketing effectiveness. With the right segmentation the right lists can be purchased, advertising result can be improved and customer satisfaction can be increased. Micro analysis of target markets is desired while selecting international markets and strategy development. Trade analysis and market analogy methods are widely used in estimating market size. Growth share and market attractiveness/company strength matrices serve as useful analytical tools in decision-making and strategy development for international markets.

5.7 Key Terms

Market segmentation: Dividing the market of potential customers into homogeneous sub-groups.

Competitive product: A competitive product is one which has no significant advantage over those already on offer.

Improved product: Not a unique product, but provides some improvement over the presently available market offering.

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Breakthrough product: Represents products with significant differentiation and innovation, and, therefore considerable competitive advantage.

International market selection: The process of evaluating various market segments and focusing marketing efforts on a country, region, or a group of people that has significant potential to respond.

Trade-barriers: The official constraints on import of certain goods and services in the form of customs duties on products moving across the borders.

Tariff surcharge: A short-term duty by the importing country.

5.8 Questions and Exercises

1. 'Markets with geographic proximity are not always the most preferred markets.' Examine the statement critically and give suitable examples.
2. Explain segmentation of international markets on the basis of marketing opportunities.
3. Explain various types of marketing barriers.
4. Countervailing duties are more or less permanent in nature.
5. A US firm identified India as a high opportunity market but the company has little competitive strength in the market. Explain with the help of a portfolio matrix, the types of marketing strategies the firm should adopt in India.

5.9 Further Reading and References

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UNIT 6 : ENTERING INTERNATIONAL MARKETS

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6.0 Unit Objectives

After reading this unit, you should be able to:

- Understand the reasons for entering international markets
- Understand various modes of entry into international market
- Know the advantages and disadvantages of each mode
- State the factors affecting selection of appropriate mode of entry.

6.1 Introduction

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Businesses always strive to grab new opportunities be it in a domestic market or in an overseas market. When a firm decides to enter into an overseas market, there are a variety of options by which a company can enter a foreign market. These options vary with cost, risk and the extent of control which a firm can enjoy by choosing any one of them. Before entering into a new market it is inevitable to understand the particular country's culture, customs, needs, business practices and unspoken rules which will directly or indirectly affect your decision. The simplest form of entry into international market is exporting and most complex form of entry into international market is joint venture or foreign direct investment. No one entry strategy works for every international market. In one market exporting can be an appropriate strategy while in other setting up a manufacturing unit can be better. The choice of the most suitable strategy is based on the relevant factors related to the firm and the business environment of the particular country.

6.2 Reasons for Entering International Markets

There are variety of reasons why a firm enters into international market, however the objective of every firm for going international is to expand its business, searching new markets and expand its customer base. Few important reasons are mentioned below:

- Growth & profitability
- Economies of scale
- Risk diversification
- Spreading R&D costs
- Resources and Ideas
- Employees

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6.3 Modes of Entry into International Market

The decision on which market to enter and how to enter the selected market is of critical importance for the company's profit making and sustainable growth. Different firms select different modes of entry based on the nature of the industry, company's abilities and the conditions in the host country. Firms contemplating expansion into international markets have several entry options. These generally include exporting, licensing/franchising, joint ventures (JVs) and wholly owned subsidiaries.

6.3.1 Exporting

Exporting is the simplest and most widely used mode of entering foreign markets. In a simple way, Exporting is the process of sending or carrying of the goods abroad, especially for trade and sales. With Export entry modes, a firm's products are manufactured in the domestic market or a third country, and then transferred to the host market via two broad options: indirect, and direct exporting

6.3.1.1 Indirect Exporting

Indirect exporting is exporting the products either in their original form or in the modified form to a foreign country through another domestic company.

For Example various publishers in India including Himalaya Publishing House sell their products, i.e. books to various exporters in India, which in turn export these books to various foreign countries.

6.3.1.2 Direct Exporting

Direct exporting is selling the products in a foreign country directly through its distribution arrangements or through a host country's company. Although a direct exporting operation requires a larger degree of expertise, this method of market entry does provide the company with a greater degree of control over its distribution channels than would indirect exporting.

For example Baskin Robbins initially exported its ice-cream to Russia in 1990 and later opened 74 outlets with Russian partners. Finally, in 1995, it established its ice-cream plant in Moscow.

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6.3.2 Advantages of Exporting

The reason for a company to consider exporting is quite compelling; the following are few of the major advantages of exporting:

- Selling goods and services to a market the company never had before boost sales and increases revenues. Additional foreign sales over the long term, once export development costs have been covered, increase overall profitability.
- Most companies become competitive in the domestic market before they venture in the international arena. Being competitive in the domestic market helps companies to acquire some strategies that can help them in the international arena.
- By going international companies will participate in the global market and gain a piece of their share from the huge international marketplace.
- Selling to multiple markets allows companies to diversify their business and spread their risk. Companies will not be tied to the changes of the business cycle of domestic market or of one specific country.
- Capturing an additional foreign market will usually expand production to meet foreign demand. Increased production can often lower per unit costs and lead to greater use of existing capacities.
- Companies who venture into the exporting business usually have to have a presence or representation in the foreign market. This might require additional personnel and thus lead to expansion.
- Going international can yield valuable ideas and information about new technologies, new marketing techniques and foreign

Check Your Progress

What are five common international entry modes?

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competitors. The gains can help a company's domestic as well as foreign businesses.

- Many products go through various cycles namely introduction, growth, maturity and declining stage that is the end of their usefulness in a specific market. Once the product reaches the final stage, maturity in a given market, the same product can be introduced in a different market where the product was never marketed before.

6.3.3 Disadvantages of Exporting

While the advantages of exporting by far outweigh the disadvantages, small and medium size enterprises especially face some challenges when venturing in the international marketplace.

- It takes more time to develop extra markets, and the pay back periods are longer, the up-front costs for developing new promotional materials, allocating personnel to travel and other administrative costs associated to market the product can strain the meager financial resources of small size companies.
- When exporting, companies may need to modify their products to meet foreign country safety and security codes, and other import restrictions. At a minimum, modification is often necessary to satisfy the importing country's labeling or packaging requirements.
- Collections of payments using the methods that are available (open-account, prepayment, consignment, documentary collection and letter of credit) are not only more time-consuming than for domestic sales, but also more complicated. Thus, companies must carefully weigh the financial risk involved in doing international transactions.
- Though the trend is towards less export licensing requirements, the fact that some companies have to obtain an export license to export their goods makes them less competitive. In many instances, the

documentation required to export is more involved than for domestic sales.

- Finding information on foreign markets is unquestionably more difficult and time-consuming than finding information and analyzing domestic markets. In less developed countries, for example, reliable information on business practices, market characteristics, and cultural barriers may be unavailable

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6.4 Licensing

In this mode of entry, the domestic manufacturer leases the right to use its intellectual property, i.e., technology, work methods, patents, copy rights, brand names, trademarks etc., to a manufacturer in a foreign country for a fee. The manufacturer in the domestic country is called licensor and the manufacturer in the foreign country is called licensee.

The domestic company can select any international location and enjoy the benefits without overburdening its financial, managerial and ownership responsibilities.

For example in order to gain access to US market, Asahi Breweries Ltd. of Japan established a licensing agreement with the Canadian Molson Brewery in 1994. The deal required Molson to manufacture Asahi Super Dry for distribution in all of North America (New York Times 1998.)

6.4.1 Advantages of Licensing

Licensing affords new international entrants with a number of advantages:

- Licensing is a rapid entry strategy, allowing almost instant access to the market with the right partners lined up.
- Licensing is low risk in terms of assets and capital investment. The licensee will provide the majority of the infrastructure in most situations.

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- Localization is a complex issue legally, and licensing is a clean solution to most legal barriers to entry.
- Cultural and linguistic barriers are also significant challenges for international entries. Licensing provides critical resources in this regard, as the licensee has local contacts, mastery of local language, and a deep understanding of the local market.

6.4.2 Disadvantages of Licensing

- Loss of control is a serious disadvantage in a licensing situation in regards to quality control. Particularly relevant is the licensing of a brand name, as any quality control issue on behalf of the licensee will impact the licensor's parent brand.
- Depending on an international partner also creates inherent risks regarding the success of that firm. Just like investing in an organization in the stock market, licensing requires due diligence regarding which organization to partner with.
- Lower revenues due to relying on an external party are also a key disadvantage to this model. (Lower risk, lower returns.)

6.4.3 Franchising

Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees).

A franchising is the agreement or license between two legally independent parties which gives:

- A person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor)
- The franchisee the right to market a product or service using the operating methods of the franchisor

- The franchisee the obligation to pay the franchisor fees for these rights
- The franchisor the obligation to provide rights and support to franchisees

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6.4.3.1 Franchising Agreement

FRANCHISOR	FRANCHISEE
➢ Owns trademark or trade name ➢ Provides support: • (sometimes) financing • advertising and marketing • training ➢ Receives Fees	➢ Uses trademark or trade name ➢ Expands business with franchisors support ➢ Pays Fees

Some popular business format franchises include:

Fast Food	**Health & Beauty**	**Auto**
Wendy's	Jenny Craig Weight Loss	AAMCO
McDonald's	Great Clips	Midas
Hardee's	Pearle Vision, Inc.	Budget Rent-A-Car
Retail	**Business Services**	**Education**
Athlete's Foot	H & R Block	Sylvan Learning
Blockbuster Video	Signs By Tomorrow	Huntington
Play It Again Sports	UPS Store	New Horizons
Lodging	**Maintenance**	**Restaurants**
Comfort Inn	Roto-Rooter	Blimpie
Embassy Suites	Stanley Steemer	Dairy Queen
Quality Inn	ServiceMaster	Outback Steakhouse

6.4.3.2 Advantages of Franchising

- Owning a franchise allows you to go into business for yourself, but not by yourself.
- A franchise provides franchisees with a certain level of independence

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where they can operate their business.

- A franchise provides an established product or service which may already enjoy widespread brand-name recognition. This gives the franchisee the benefits of a pre-sold customer base which would ordinarily take years to establish.
- A franchise increases your chances of business success because you are associating with proven products and methods.

6.4.3.3 Disadvantages of Franchising

- The franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchisee agreement. These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee.
- In addition to the initial franchise fee, franchisees must pay ongoing royalties and advertising fees.
- Franchisees must be careful to balance restrictions and support provided by the franchisor with their own ability to manage their business.
- A damaged, system-wide image can result if other franchisees are performing poorly or the franchisor runs into an unforeseen problem.
- The term (duration) of a franchise agreement is usually limited and the franchisee may have little or no say about the terms of a termination.

6.4.4 Joint Venture

When two or more firms join together to create a new business entity, it is called a joint venture. In this kind of agreement the companies share their core competencies and share the ownership. Environmental factors like social, technological, economic and political environments may encourage joint ventures.

There are five common objectives in a joint venture:

- Market entry
- Risk/reward sharing
- Technology sharing
- Joint product development
- Conforming to government regulations

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For example in December, 2011, Microsoft Corporation and General Electric formed a joint venture which is a health IT Company of its own kind. Their common objective was to improve patient experience and the economics of health and wellness through providing the health systems with required system wide data and intelligence. The joint venture, known as Caradigm, aims at combining technology and clinical applications to transform it into intelligence which is usable by care providers. The name Caradigm evolved from 'care ' • and 'paradigm,' because Microsoft and GE intended a paradigm shift in the care delivery system.

6.4.4.1 Advantages of Joint Venture

- Since two or more firms join together to form a joint venture, there is availability of increased capital and other resources.
- By engaging with a foreign collaborator, the products and services can be marketed in a foreign country.
- One partner may have the new and improved technology but do not have the resources. Other partner may have resources like capital but do not have the technology. In such causes joint venture can fetch new and improved technology as well as great resources. By engaging a foreign partner, improved foreign technology can be availed from its foreign collaborator.

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- Use of existing marketing arrangements or existing distribution network of one of the party is possible.
- Access to improved resources like experienced technicians, experienced staff, greater capacity and financial resources etc. are possible through joint venture business.
- Joint venture companies can offer their existing product to sell through the partner's network and share the profit. Both JV partners can do the same. By exchanging products and services of the partner, they can diversify the product basket and sell it to their existing customers and increase the profit.

6.4.4.2 Disadvantages of Joint Venture

- It takes time and efforts to form the right relationship.
- The objectives of each partner may differ. The objectives needs to be clearly defined and communicated to everyone involved.
- Imbalance in the share of capital, expertise, investment etc., may cause friction in between the partners.
- Difference in the culture and style of business lead to poor co-operation.
- Lack of assuming responsibility by the partners may lead the collapse of business.
- Lack of communication between the partners may affect the business.

6.4.5 Turnkey Operations

Turnkey operations are common in international business in supply, erection and commissioning of plants. Turnkey operations are a type of collaborative arrangement in which one company contracts with another to build complete, ready-to-operate facilities. Turnkey operations are generally done in the areas of industrial equipment manufacturing and construction. The customer for a turnkey operation is often a government agency.

6.4.5.1 Advantages of Turnkey Projects

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- Turnkey projects are a way of earning great economic returns from the know-how required to assemble and run a technologically complex process.
- Turnkey projects make sense in a country where the political and economic environment is such that a longer term investment might expose the firm to unacceptable political and/or economic risk.

6.4.5.2 Disadvantages of Turnkey Projects

- By definition, the firm that enters into a turnkey deal will have no long-term interest in the foreign country.
- The firm that enters into a turnkey project may create a competitor.
- If the firm's process technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential and/ or actual competitors.

6.4.6 Management Contracts

One of the most important assets a company may have at its disposal is management talent, which it can use to enter into international market by transferring it to its own foreign investment as well as other foreign companies.

Management contract is an agreement between investors or owners of a project, and a management company hired for coordinating and overseeing a contract. The company assists its client for a specified period for a fee. A company usually enters into a management contract when it believes a foreign company can manage its existing or new operation more efficiently.

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For example, the British Airport Authority (BAA) has contracts to manage airports in Indianapolis (US), Naples (Italy) and Melbourne (Australia) because it has developed successful airport management skills.

6.4.6.1 Advantages of Management Contracts

- It enables a firm to exploit an international business opportunity without having to place a great deal of its own physical assets at risk
- Government can award companies management contracts to operate and upgrade public utilities
- Government uses management contract to develop skills o local workers and managers

6.4.6.2 Disadvantages of Management Contracts

- International management in countries that are undergoing political or social unrest can place a threat before the managers of the company to manage its operations
- Suppliers of expertise may put a threat of new competitor in the local market

6.4.7 Foreign Direct Investment

Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct foreign investment may be made through the acquisition of an existing entity or the establishment of a new enterprise.

Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment.

However, it requires a high level of resources and a high degree of commitment.

As increased globalization in business has occurred, it's become very common for big companies to branch out and invest money in companies located in other countries. These companies may be opening up new manufacturing plants and attracted to cheaper labor, production, and fewer taxes in another country.

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For example General Motors and Volkswagen have invested billions in China, starting more than a decade ago. Ford is rushing to catch up by adding production capacity and expanding its dealer network in China. Ford and its joint-venture partner, Chang'an Ford Mazda Automobile, plan to start producing next-generation Ford Focus models at a new, $490 million plant in Chongqingin 2012.

6.4.7.1 Advantages of Foreign Direct Investment (FDI)

- Capital inflows create higher output and jobs.
- Capital inflows can help finance a current account deficit.
- Long term capital inflows are more sustainable than short term portfolio inflows. e.g. in a credit crunch, banks can easily withdraw portfolio investment, but capital investment is less prone to sudden withdrawals.
- Recipient country can benefit from improved knowledge and expertise of foreign multinational.
- Investment from abroad could lead to higher wages and improved working conditions, especially if the MNCs are conscious of their public image of working conditions in developing economies.

Check Your Progress

What would influence a firm's choice of the five entry modes?

6.4.7.2 Disadvantages of Foreign Direct Investment

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- Gives multinationals controlling rights within foreign countries. Critics argue powerful MNCs can use their financial clout to influence local politics to gain favourable laws and regulations.
- FDI may be a convenient way to bypass local environmental laws. Developing countries may be tempted to compete on reducing environmental regulation to attract the necessary FDI.
- FDI does not always benefit recipient countries as it enables foreign multinationals to gain from ownership of raw materials, with little evidence of wealth being distributed throughout society.
- Multinationals have been criticised for poor working conditions in foreign factories (e.g. Apple's factories in China)

CHECK YOUR PROGRESS

1. All of the following are actual modes of market-entry EXCEPT:

   A. Licensing

   B. Standardization

   C. Franchising

   D. Exporting

2. _________ usually means that the company sells to a customer in another country, be it an intermediary or an end-customer.

   A. Indirect exporting

   B. Direct Exporting

   C. Franchising

   D. Cross selling

3. Which of the following alternative market entry modes offers the most control and risk?

A. Franchising

B. Licensing

C. FDI

D. Direct Exporting

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4. All of the following are reasons of market-entry EXCEPT:

A. Economies of Scale

B. Risk Diversification

C. Flexibility

D. Spreading R&D Cost

5. ______________ are a partnership of two or more companies that join forces to create a separate legal entity.

A. Joint Ventures

B. International Consortia

C. Mergers and Acquisitions

D. Co-Branding

6.5 Factors Affecting the Selection of International Market Entry Mode

The selection of appropriate entry mode for a particular foreign market is a very important decision for the firms. They need to understand various factors which can affect their decision and choice of entry. Some of the important factors affecting the firm's decision are being discussed here.

6.5.1 External Factors:

6.5.1.1 Market Size

Market size of the market is one of the key factors an international marketer has to keep in mind when selecting an entry mode. Countries with a large market size justify the modes of entry with long-term commitment requiring higher level of investment, such as wholly owned subsidiaries or equity participation.

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6.5.1.2 Market Growth

Most of the large, established markets, such as the US, Europe, and Japan, has more or less reached a point of saturation for consumer goods such as automobiles, consumer electronics. Therefore, the growth of markets in these countries is showing a declining trend. Therefore, from the perspective of long-term growth, firms invest more resources in markets with high growth potential.

6.5.1.3 Government Regulations

The selection of a market entry mode is to a great extent affected by the legislative framework of the overseas market. The governments of most of the Gulf countries have made it mandatory for foreign firms to have a local partner. For example, the UAE is a lucrative market for Indian firms but most firms operate there with a local partner.

6.5.1.4 Level of Competition

Presence of competitors and their level of involvement in an overseas market is another crucial factor in deciding on an entry mode so as to effectively respond to competitive market forces. This is one of the major reasons behind auto companies setting up their operations in India and other emerging markets so as to effectively respond to global competition.

6.5.1.5 Physical Infrastructure

The level of development of physical infrastructure such as roads, railways, telecommunications, financial institutions, and marketing channels is a pre-condition for a company to commit more resources to an overseas market. The level of infrastructure development (both physical and institutional) has been responsible for major investments in Singapore, Dubai, and Hong Kong. As a result, these places have developed as international marketing hubs in the Asian region.

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6.5.1.6 Level of Risk

From the point of view of entry mode selection, a firm should evaluate the following risks:

6.5.1.6.1 Political Risk

Political instability and turmoil dissuades firms from committing more resources to a market.

6.5.1.6.2 Economic Risk

Economic risk may arise due to volatility of exchange rates of the target market's currency, upheavals in balance of payments situations that may affect the cost of other inputs for production, and marketing activities in foreign markets. International companies find it difficult to manage their operations in markets wherein the inflation rate is extremely high.

6.5.1.6.3 Operational Risk

In case the marketing system in an overseas country is similar to that of the firm's home country, the firm has a better understanding of operational problems in the foreign market in question.

6.5.1.7 Production and Shipping Costs

Markets with substantial cost of shipping as in the case of low-value high-volume goods may increase the logistics cost.

6.5.1.8 Lower Cost of Production

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It may also be one of the key factors in firms deciding to establish manufacturing operations in foreign countries.

6.5.2 Internal Factors

6.5.2.1 Company Objectives

Companies operating in domestic markets with limited aspirations generally enter foreign markets as a result of a reactive approach to international marketing opportunities. In such cases, companies receive unsolicited orders from acquaintances, firms, and relatives based abroad, and they attempt to fulfill these export orders.

6.5.2.2 Availability of Company Resources

Venturing into international markets needs substantial commitment of financial and human resources and therefore choice of an entry mode depends upon the financial strength of a firm. It may be observed that Indian firms with good financial strength have entered international markets by way of wholly owned subsidiaries or equity participation.

6.5.2.3 Level of Commitment

In view of the market potential, the willingness of the company to commit resources in a particular market also determines the entry mode choice. Companies need to evaluate various investment alternatives for allocating scarce resources. However, the commitment of resources in a particular market also depends upon the way the company is willing to perceive and respond to competitive forces.

6.5.2.4 International Experience

A company well exposed to the dynamics of the international marketing environment would be at ease when making a decision regarding entering into international markets with a highly intensive mode of entry such as Joint ventures and wholly owned subsidiaries.

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6.5.2.5 Flexibility

Companies should also keep in mind exit barriers when entering international markets. A market which presently appears attractive may not necessarily continue to be so, say over the next 10 years. It could be due to changes in the political and legal structure, changes in the customer preferences, emergence of new market segments, or changes in the competitive intensity of the market.

CHECK YOUR PROGRESS

Fill in the blanks:

1. --------------------- is one of the key factors an international marketer has to keep in mind when selecting an entry mode.
2. ------------------------- and ---------------------are considered as highly intensive modes of entry.
3. Level of commitment of --------------------determines the choice of entry mode.
4. Most of the large, established markets, such as the US, Europe, and Japan, has more or less reached ------------------------- for consumer goods such as automobiles, consumer electronics.
5. The level of---------------------- has been responsible for major investments in Singapore, Dubai, and Hong Kong.

6.6 Summary

This unit discusses various modes of entering into international

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market which are varied on the basis of risk level and level of commitment of resources. The unit also discusses the factors influencing the choice of entry mode. The firms must keep in mind their resources while selecting a particular mode of entry. The firms are attracted towards international market because of growth potential available in other markets. Many developed countries have reached a level of saturation in terms of demand of a particular product. To survive in the market the firms always search for new markets. Select ion of a particular mode of entry is guided by various factors like market size, market growth, lower production cost, favorable regulations etc. The unit also points out the advantages and challenges of various modes of entry.

6.7 Key Terms

Management Contract: A management contract is a legal agreement that grants operational control of a business initiative to a separate group. The managerial group executes the necessary tasks in exchange for a negotiated fee. Management contracts can involve the accomplishment of business tasks as well as the outsourcing of such tasks to subcontractors. These tasks can include technical support, personnel management, marketing, sales training and accounting

Economic Risk: Economic risk is the chance that macroeconomic conditions like exchange rates, government regulation, or political stability will affect an investment, usually one in a foreign country.

Multinational Corporation: A multinational corporation (MNC) has facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they coordinate global management.

Diversification: Diversification is a corporate strategy to enter into a new market or industry which the business is not currently in, whilst also creating a new product for that new market

6.8 Questions and Exercises

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1. What are five common international entry modes?
2. What are the advantages of exporting?
3. What is the difference between management contract and turnkey project?
4. What would influence a firm's choice of the five entry modes?
5. What is the possible relationship among the different entry modes?
6. What is international franchising? Explain the basic issues involved in franchising.

6.9 The case study: Huawei's entry to India

Huawei of China is the world's second- largest supplier of telecommunications equipment. The company has been expanding into international markets since 1997 but its brand has until recently remained little known outside its native country. One reason is that Huawei is a business-to-business supplier rather than consumer-focused.

As part of its globalisation strategy, Huawei decided to begin operations in India in 2000.

The challenge

In India, Huawei faced various difficulties. First, the company needed to build a strong and distinctive brand for non-Chinese markets. In India in particular, the telecoms equipment market was crowded. So Huawei needed to establish a reputation as a reliable partner and create a distinctive identity.

Its Chinese roots worked against it on several levels. An enmity still exists between India and China, with an unresolved border dispute in the north and a history of armed conflict as recently as the 1970s. Also, many Indians perceive Chinese companies to be closed rather than transparent.

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Thus, Indian businesses often find it difficult to establish relations of trust with Chinese partners.

Chinese companies also have a reputation – not always deserved – in India for producing low-quality goods. Similarly, Huawei was seen primarily as a low-price manufacturer, which meant its products were regarded as of low quality. The fact that the company spends 10 per cent of its profits a year, about $3bn, on research and development, was not widely known.

The response

Huawei realised that in order to compete in India it would have to invest heavily and get to know the market and its particular features.

With this in mind, it established R&D and service centers in India, and 90 per cent of the jobs created went to Indians. This helped to persuade skeptics that Huawei was interested in value creation in India, not just value extraction. Today, India is Huawei's second-largest research base outside China.

At the company's two production plants in Chennai, Huawei staff work with local companies to help bring the latter's production quality up to international standards. The long-term plan is to source as many components locally as possible. Not only are such components cheaper, they also help local companies achieve higher- quality standards, making them more competitive, spreading skills and boosting the economy.

Huawei has also begun promoting consumer products such as smart phones. Recently the company established a link with a leading Indian English-language news channel to sponsor a contest that projected Huawei smartphones as aspirational products, contrary to the prevailing low-quality perception of Chinese brands.

To build an employer brand, Huawei has developed a strong culture of rewarding R&D talent and promoting Indian employees to managerial positions. The hope is that this will be an added boost to the company's reputation in the country, which has a strong young talent base in engineering. Strengths in research and innovation in India could help Huawei to enhance its reputation worldwide.

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The lessons

There is a tendency to think of cultural barriers as being strongest between west and east, and writers on strategy and marketing sometimes assume that there is a cultural affinity between China and India that greatly reduces such obstacles.

In fact, Chinese companies find market entry in India just as difficult as western companies. Huawei's strategy is one that can be adopted by other foreign companies no matter what their origin: demonstrate trustworthiness, build relationships, commit to India and provide superior quality.

Questions & Erercise

1. What were the reasons of entering into Indian market?
2. How China's relations with India affected Huawei's decision?
3. How did Huawei respond to the challenges?

6.10 Further Reading and References

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UNIT 7 : PRODUCT STRATEGY FOR INTERNATIONAL MARKETS

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7.0 Unit Objectives

After reading this unit, you should be able to:

- Examine the basic concepts of the product, product decisions for international markets
- Describe the concept of product decisions for international markets.
- Explain product standardization vs. adaptation in international markets.
- Understand the quality, packaging, and labelling - decisions in international markets.
- Discuss the process of new product launch and diffusion in international markets.
- Examine international product strategies.

7.1 Introduction

Firms operating in international markets should not only identify the products for various markets but should also evolve suitable strategies for developing such products. Whether a single standardized product can be offered worldwide or a customized product needs to be developed for each market is the most important product decision that a firm has to make while operating in international markets. This chapter discusses the factors that influence the product decision to market standardized vs customized products. In international markets, decisions related to quality, packaging, and labelling of products require special attention and consideration. A new product may be launched in international markets either sequentially or simultaneously, which is also discussed at length in this chapter. The concept of international product life cycle has also been explained to understand the patterns of demand in international markets. Various alternatives related to product promotion strategies in international markets have also been discussed in details.

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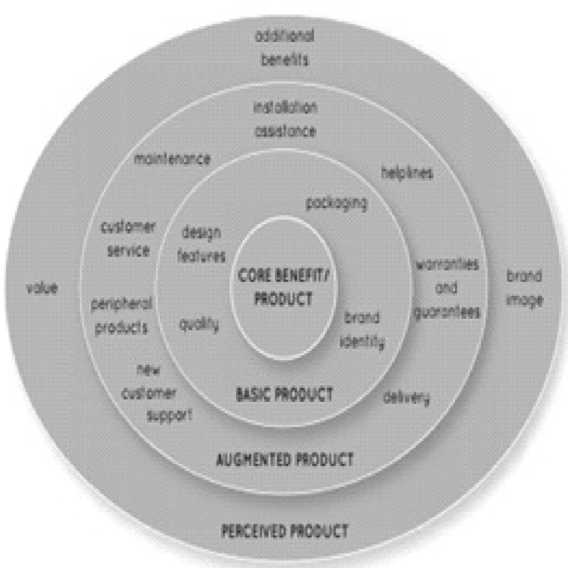
7.2 What is a Product ?

A product can be defined as a collection of physical, psychological, service, and symbolic attributes that collectively yield satisfaction or benefits, to a buyer or user. Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

The following components are an integral part of the product (Ref Fig 7.1).

- **Core Component**: It refers to the core benefit or problem solving services offered by the product.
- **Packaging Component**: It includes the features, quality, design, packaging, branding, and other attributes integral to a product's core benefit.

Figure 7.1



- **Augmented Component**: It includes the support services and other augmented components, such as warranties, guarantees, and after sales service.

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7.2.1 Classification of Products for Global Marketing

A product's physical properties are characterized the same the world over. They can be convenience or shopping goods or durables and nondurables; however, one can classify products according to their degree of potential for global marketing :

1. **Local products** - seen as only suitable in one single market.
2. **International products** - seen as having extension potential into other markets.
3. **Multinational products** - products adapted to the perceived unique characteristics of national markets.
4. G**lobal products** - products designed to meet global segments

7.3 Identification of Products for International Market

As discussed in the previous chapters, firms carry out preliminary screening, that is, identification of markets and products by conducting market research. A poorly conceived product invites marketing failures.

For example Big names of transnational food companies like Kellogg's, Pizza Hut, McDonald's, and Domino's. Pizzas have all run into trouble in the Indian market at one point of time or the other. The common mistakes that these firms made were:

- **Gross overestimation of spending patterns of the consumers**: Despite the ability to buy products, the customers in South Asia are very cautious and selective when spending. They look for value for money in their purchase decisions far more than their Western counterparts do.

- **Gross overestimation of the strength of their transnational brands**: These MNCs estimated and perceived their brand image very high in the international markets and the globalization of markets was considered to be a very potent factor for getting a large number of customers for their products, as happened in African and other East Asian countries.
- **Gross underestimation of the strength of ethnic Indian products**: As Indian food is traditionally prepared on a small scale, and mass manufacturing and organized mass-marketing of Indian products was missing, it was wrongly estimated by these multinationals that the food products manufactured by the multinationals would change the traditional eating habits of the Indian consumers. They failed to recognize the variety and strength of ethnic Indian foods.

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7.4 Developing Products for International Markets

Various approaches followed for developing products for international markets are as follows.

Check Your Progress

Explain the significance of product decisions in international markets?

- **Ethnocentric Approach**: This approach is based on the assumption that consumer needs and market conditions are more or less homogeneous in international markets as a result of globalization. A firm markets its products developed for the home market with little adaptation. However, the ethnocentric approach does not always lead to maximization of market share and profits in international markets since the local competitors are in a relatively better position to satisfy consumers' needs.

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- **Polycentric Approach:** An international firm is aware of the fact that each country market is significantly different from the other. It therefore adopts separate approaches for different markets. In a polycentric approach products are developed separately for different markets to suit local marketing conditions.
- **Regiocentric Approach:** Once an international firm establishes itself in various markets the world over, it attempts to consolidate its gains and tries to ascertain product similarity within market clusters. Generally, such market clusters are based on geographical and psychic proximity.
- **Geocentric Approach** Instead of extending the domestic products into international markets, a firm tries to identify similarities in consumption patterns that can be targeted with a standard product around the world. In a geocentric approach to product development, there is a high degree of centralization and coordination of marketing and production activities resulting in higher economies of scale in the various constituents of the marketing mix. However, it needs meticulous and consistent research of international markets.

7.5 Standardization Vs Adaptation in International Markets

A firm operating in international markets has to make a crucial decision, whether to sell a uniform product across countries or customize the product to meet different market requirements. Although no readymade solution can be suggested for the decision to standardize or adapt the product, in international markets, firms are required to carry out a careful cost-benefit analysis before arriving at a decision. While retaining its brand name, the firm attempts to customize the augmented product components such as features, packaging, and labelling. The support service components including warrantees, guarantees, delivery schedule, installation, and payment terms are most often adapted to suit the needs of the target market.

Generally, industrial products and services are insensitive to cross-country preferences and may be marketed as standardized products, whereas food& fads, fashions, and styles are highly sensitive and customer preferences for these items vary widely among markets. Such products often require a much higher level of customization.

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For example: The leading fast food giant McDonald's serves a variety of customized products in different markets to satisfy customers' needs and expectations It serves hamburgers in the US, chicken tatsuta, teriyaki chicken, and teriyaki Mc Burger in Japan, and has replaced its traditional Big Mac with the Maharaja Mac in India. Despite its image of a family restaurant, McDonald' serves beer as well as McCroissants in Germany.

7.5.1 Product Standardization

Product standardization refers to the process of marketing a product in overseas markets with little change except for some cosmetic changes, such as modified packaging and labelling. The benefits associated with using standardized products in international markets include the following:

- Catering to customers globally
- Projecting a global product image
- Cost savings in terms of economies of scale in production
- Designing and monitoring various components of marketing mix economically
- Facilitating the development of a product as a global brand

The major factors that favour product standardization for international markets include:

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a) **High Level of Technology Intensity :** Products with high technology content are marketed as standardized products to maintain uniform international standards and reduce confusion across international markets. Besides; using standard specification promotes product compatibility internationally.

For example, computer servers, micro and macro processors, VAN (value added networks), etc. are marketed worldwide as standard products.

b) **Formidable Adaptation Costs :** Nature of product and market size determines the cost of adaptation, which might be too 'high to recover. A number of foreign books and motion pictures are sold as standardized products worldwide. Only a few books written in a foreign context are adapted due to prohibitive adoption costs, which are difficult to recover.

c) **Convergence of Customer Needs Worldwide :** Customers in diverse country markets increasingly show convergence of their needs and preferences resulting in growing psychographic market segments across the borders. It has resulted in an increase in demand for similar goods across the world. Products such as Levi's jeans, MTV, McDonald's have gained popularity among international consumers due to the growing convergence of customer needs worldwide. Besides, the rapid growth of transport and telecommunications has also resulted in an increase in transnational travel among people who exhibit similar tastes and preferences across markets.

The Country of Origin Impact

A customer's perception of products differs on the basis of his/her country of origin. For instance, the consumer electronic durables from Japan, fashion designs from Italy, fragrances from France, instruments from

Germany, computer software from India, and herbal products from China and India are considered superior in quality and fetch a premium price and demand in international markets. International firms attempt to retain the image of the product as in the country of origin, and market at least the augmented product with little customization.

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7.5.2 Product Adaptation

Making changes in a product in response to the needs of the target market is termed product adaptation or customization. In view of local consumption requirements, a product for the international markets is often customized. Adaptation of a product may vary from major modifications in the product itself to its packaging, logo, or brand name. A thorough market research needs to be conducted so as to identify the customers' requirements in the target market.

For example-Red bull cans in North American market is designed in red, silver and blue colours. According to the local culture in North America, red colour is perceived as a symbol of action and courage, whereas blue colour is associated with youth and dtnamism.Red bull in Chinese market, on the other hand is designed in gold and red colours, because gold colour represents wealth and happiness in China and red is associated with good luck.

Customizing products for international markets offers a number of benefits including the following :

- It enables a firm to tap markets, which are not accessible due to mandatory requirements.
- It fulfils the needs and expectations of customers in different cultures and environments.
- It helps in gaining market share.
- It increases sales leading to economies of scale.

7.5.2.1 Mandatory factors influencing product adaptation in international markets

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Customizing products includes product modifications that a firm has to carry out in international markets not as a matter of choice but as a compulsion. The major factors influencing product modification are as follows:

a) **Government Regulations :** A firm may have to adapt its products in various markets due to government regulations. Different countries have different quality norms and a marketer is required to follow them before entering an international market. For example, approval by the FDA (Food and Drug Administration) is needed for marketing a food or pharmaceutical product in the US. Similarly, it is mandatory for a marketer to follow the codex standards for marketing such products in the European Union. The ban on the use of azo dyes in Europe requires the use of natural dyes in all the products meant for such markets. The anti-smoking Warnings on cigarette packets in India and other developing countries are very subtle. Singapore law requires that gruesome pictures of death and decay on cigarette packs greet smokers from 1 August 2004.

   The product standards in target markets have caused Indian exporters to modify their production process to meet regulatory requirements. A few such instances are as follows:

   - India's tea exports have been affected by concerns from importing countries regarding the pesticide residue levels in Indian tea.
   - In the early 1980s, Indian shipments of marine products were detained on account of salmonella contamination. Production methods had to be changed quickly to meet importers' standards

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b) **Standards for Electric Current :** The electrical current standards also vary from country to country. In India, electric current of 220 volts at a frequency of 50 Hz is used, while in the US it is 110-120 volts at a frequency of 60 Hz. Therefore, electric equipment should be modified for use in the target market depending on the country's electricity standards

c) **Operating Systems :** Differences in operating systems affect product design, which needs to be adapted to suit the target market. In India, China, the UK, Singapore, Pakistan, UAE, and Tanzania televisions operate on phone alternating lines (PAL) while in the United States, Japan, Philippines, and South Korea they work on national television systems committee (NTSC) standards. However, in France, Vietnam, Russia, and Mauritius televisions operate on (SECAM). Therefore, a television operating on PAL in India is unsuitable for countries with different operating systems such as the US, Japan, and France. Therefore, for marketing televisions in countries with incompatible operating systems, suitable adaptations are mandatory.

d) **Measurement Systems :** Different systems of measurement also affect product design. India follows the metric system with kilogram, metre, and litre as measurement units. However, the US follows the imperial system of measurement using pound, feet, and gallon. Therefore, the packaging size, weights, and measures of products need to be modified depending upon the the measurement system followed in the target market.

e) **Packaging and Labelling Regulations :** Each country prescribes separate regulations for packaging and labelling, which have to be adhered to by an international marketing firm.

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Most countries in the.Middle East emphasize the use of Arabic. Similar linguistic regulations are also required in a number of European. countries. In India, food products generally bear the duration for use of a product. In most developed countries, the date of expiry is also mentioned explicitly, Due to the sensitive vegetarianism issue, regulations in India require food packages to exhibit a mark, i.e., veg. or non-veg., so as to explicitly inform the consumers about their contents.

CHECK YOUR PROGRESS

State True or False

1. Making changes in a product in response to the needs of the target market is termed as product adaptation.
2. Polycentric approach is based on the assumption that consumer needs and market conditions are more or less homogeneous in international markets.
3. Global products are adapted to the perceived unique characteristics of national markets.
4. Products with high technology content are marketed as standardized products.

7.5.2.2 Voluntary factors influencing product adaptation in international markets

Such products modifications are not compulsory and are based on the international marketer's own decision to meet marketing challenges competitively. The major factors influencing product adaptation by exporters in the international market are as follows :

a) **Consumer Demographics:** The physical attributes of the consumers also require product modification. The Chinese and most East Asians are smaller in size while Europeans and

Germans are generally taller. The features and attributes of consumer products such as readymade garments, undergarments, beds, and bed sheets differ significantly between markets depending on the consumer demographics.

For example- Mattel has adapted its Barbie dolls for different countries. Barbie, the number one toy for girls around the world, has customized its dolls to represent 45 different nationalities. The Chinese Barbie evokes the exotic Far East with a costume inspired by those of the Qing Dynasty. The Egyptian Barbie wears a serpent ornament with a stunning golden crown inspired by the royalty of ancient Egypt royalty. The Moja Barbie perfectly reflects the grandeur of the African continent. Mattel has customized • the Barbie doll for India as well by cladding her in a conventional saree and traditional jewellery especially designed to appeal to the Indian masses. The Indian Barbie has been given at least 12 different looks.

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b) **Culture :** Cultural factors also affect products decisions for international markets. In India and other South Asian countries, ghee (clarified butter) is the most important milk product' and sells at a premium price. Besides, ghee is used in the preparation of a variety of Indian sweets and other dishes.

Islam prohibits the consumption of pork. Therefore, in Islamic countries no pork is sold. In India, McDonald's sells neither beef nor pork since Hindus and Muslims comprise a major chunk of the population. Besides, all Muslims are expected to consume halal meat. Therefore, restaurants and hotels in the Islamic countries prominently highlight in their marketing communication the fact that they serve only halal meat. Another fine example is from the worlds leading dinnerware firm, Corelle, manufactures all its products in the USA. However, it customizes the designs of its products differently for different markets.

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c) **Local Customs and Traditions :** The local traditions significantly affect consumption patterns and habits in international markets. Apparently, India is a huge potential market for Western food and music. But India has got a large variety of traditional food items, which have got their intrinsic strengths and popularity. The food habits of India differ widely ranging from chhole bhature (deep fried bread with gram) in Punjab; kachori and jalebi in Uttar Pradesh, choorma dal bati in Rajasthan, dhokla, phapda, and khakri in Gujarat, a wide variety of jalpan including mishthi doi and sondesh preparations in eastern India. It was seen that in 1994, Kellogg launched its brand of cornflakes in India with an initial investment of about US$ 65 million, but faced a major setback after the early years of success. Kellogg's concept of having cornflakes with cold milk did not succeed as people in India like steaming hot food. It was only after several years of operation in the country that Kellogg's realized its mistake and took the corrective seeps. Kellogg's therefore repositioned its cornflakes as complementary to traditional breakfast rather than as a replacement and strived for market creation in the long term.

Also, in India and other Asian countries, the fairness of the skin is one of the most important parameter for women's beauty. There is a huge market in these countries for fairness creams, which is growing annually. A large number of marketers have attempted to exploit this marketing opportunity by introducing a variety of fairness products in the market. On the contrary, Africans are surprised at fairness being considered the key parameter of beauty. In African markets, personal care products like the brand Dark and lovely are highly popular .It is evident that a firm operating in international markets has to understand these nuances and make adaptations to its products accordingly.

d) **Conditions of Use :** Products also have to be adapted .to conditions of use in various international markets. This includes the climatic conditions such as cold and hot weather, humid and dry conditions, dusty conditions, etc. Nokia has introduced its brand 'Nokia 1100' with emphasis on its `Made for India' features such as anti-slip grip, built-in torchlight, dust resistant cover, and, of course, the price. This opens up tremendous marketing scope for products manufactured in India for other developing and least developed countries. For instance, the three-wheelers manufactured by Bajaj Auto capture 85-90% of three-wheeler market in Bangladesh.

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e) **Price :** Low-income countries are highly sensitive to price, which constitutes the most significant determinant of a purchase decision. The level of sophistication of buyers in adopting new products and processes also varies among countries. On a seven point scale, buyers in developed markets, such as the US, Hong Kong and the UK, actively seek the latest products, technologies, and processes as compared to buyers in Angola, Mozambique and Bangladesh who are slow to adopt new products and processes.

Therefore, the product design for high-income countries should emphasize various features and attributes of the product, while in case of low-income countries, the core benefit of the product should be emphasized.

7.5.3 Trade-off Strategy Between Product Standardization and Adaptation

A firm operating in international markets should carry out a cost—benefit analysis of its decisions. Selling standardized products in international markets leads to economies of scale in production and other components of the marketing mix. However, the purpose of a business

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organization is not to save on cost but to maximize market share and profitability. Therefore, firms need to carry out product customization tailored to specific marketing needs. If a firm sells standardized products across the world, it not only leads to a decline in its market share but also generates profits for its competitors. Customization of products involves substantial commitment of financial resources and adversely affects economies of scale. Therefore, a trade-off has to be evolved for the extent of product adaptation in international markets.

7.5.4 Product Quality Decisions for International Markets

Quality plays a vital role in determining the success, goodwill and image in the international markets. Product quality is defined as a set of features and characteristics of a good or service that determines its ability to satisfy needs. A firm has to adapt mandatory quality requirements of the target market but also to attempt to achieve quality excellence. Several Indian companies have achieved quality excellence and made their mark in international markets. For instance, TVS Motor Company was awarded the coveted Deming Prize for total quality management that many of the largest organizations, even American ones like GE, have not managed to get. Thus, India has and is striving to establish its image in quality excellence in several niche market segments.

7.5.5 Packaging and Labelling for International Markets

A firm operating in international markets has to pay special attention to the packaging and labelling of its products. Besides protection and preservation of the goods, packaging and labelling should also meet importer's specifications and the regulations of the importing countries. While packaging and labelling, a firm should keep in mind the socio cultural factors of the target market and also the type of retail outlets it is planning to serve. Packaging serves many purposes. It protects the product from damage which could be incurred in handling and transportation and also has a promotional aspect. It can be very expensive. Size, unit type, weight and volume are very important in packaging. For aircraft cargo the package needs to be light but strong, for sea cargo containers are often the best form. The customer may also decide the best form of packaging. In horticultural produce, the developed countries often demand blister packs for mangetouts, beans, and strawberries and so on, whilst for products like pineapples a sea container may suffice. Costs of packaging have always to be weighed against the advantage gained by it.

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Increasingly, environmental aspects are coming into play. Packaging which is non-degradable - plastic, for example - is less in demand. Bio-degradable, recyclable, reusable packaging is now the order of the day. This can be both expensive and demanding for many developing countries. Similarly, labelling for the international products is very important .

For example: The EU is now putting very stringent regulations in force on labelling, even to the degree that the pesticides and insecticides used on horticultural produce have to be listed. This could be very demanding for producers, especially small scale, ones where production techniques may not be standardized.

7.6 Product Launch for International Markets

7.6.1 New Product Diffusion in International Markets

New product diffusion is the process by which innovations spread throughout a social system over time. The rate of product diffusion is

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influenced significantly by the cultural context. Among the countries with high context 'culture, the new product diffusion is faster in Japan and south-east Asian countries compared to India and the rest of Asia. The US, Canada, and the Scandinavian countries have a faster rate of new product diffusion among the low context countries as compared to the UK and Eastern Europe. While designing new product launch strategies, a firm should take care of the following cultural differences.

It has been observed that in the Oriental countries, the response patterns of the consumers differ widely as compared to their counterparts in the West. It therefore calls for significant adjustments in product launch strategies in international markets.

7.6.2 New Product Launch

Depending upon the market and the product attributes, a firm may adopt one of the following strategies for launching its products in the international markets:

7.6.2.1 'Waterfall' Approach

Under this approach, the products trickle down in the international markets in a cascading manner, and are launched in a sequential manner. In 'waterfall approach' generally longer duration is available for a product to customize in a foreign market before it is launched in another market. Waterfall approach is generally more suitable for firms that have limited resources and find it difficult to manage multiple markets simultaneously. In case the size of the target market and its growth potential are not sufficient to commit resources, a firm may launch its product in a phased manner.

For instance it took almost 22 yrs for Mc-Donald and Coca cola took about 20 yrs to market overseas.

7.6.2.2 Sprinkler Approach

On the other hand, under this approach a product is simultaneously launched in various countries. This approach is preferred under the following conditions:

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- If the competitive intensity of the market is very high
- If the life cycle of the product is very short
- If the firm has large resources to manage the simultaneous product launches in the, multiple markets.

For example in case of luxury consumer goods, wherein trends rapidly change across international markets, simultaneous product launch is preferred. IT software like Microsoft products are launched across the world simultaneously.

7.7 International Product Life Cycle

The international product life cycle is a theoretical model describing how an industry evolves over time and across national borders. This theory also depicts charts the development of a company's marketing program when competing on both domestic and foreign fronts. International product life cycle concepts combine economic principles, such as market development and economies of scale, with product life cycle marketing and other standard business models .The theory explains the variations and reasons for changes in production and consumption patterns in various markets over a time period. The four primary elements of the international product life cycle theory are: the structure of the demand for the product, manufacturing, international competition and marketing strategies, and the marketing strategy of the company that invented or innovated the product.

These elements are categorized depending on the product's stage in the traditional product life cycle. Introduction, growth, maturity, and decline are the stages of the basic product life cycle.

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Check Your Progress

Critically evaluate various product promotion strategies in international market with suitable examples?

1. **Introduction Stage**: The introduction stage of a product's life cycle is when firms can build an awareness of their product or service in certain markets and develop a specific market. This is the stage in which a new product is first made available in the market. In the introduction stage, customers are few, competition is less, sales are low, risk is high and profits are low or nil. There are heavy distribution and promotion expenses. This stage is full of risks and uncertainties prices are also high because (1) costs are high due to low level of output. (2) Technological problems in production may not have been solved, and (3) high profit margins are required to support the heavy promotion expenditure. (4) Substantial resources for R&D activities etc. Since, in the initial stages, the price of new product is relatively high so the firms attempt to find markets for new products in the developed countries in this stage.

2. **Growth Stage:** If the product is popular with consumers, then sales will start to rise. It may be a rapid growth or a slower one. Rapid growths that fall away just as quick are called 'Fads' ,this process is known as Growth. It is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage. In this stage the firm enjoys better opportunities for exports, high competition in the target market and in order to defend its position in the international markets, the firm establishes its production locations in the developed countries.

3. **Maturity Stage**: During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market

share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage. As the technical know-how of an innovative process becomes widely known, a firm begins to establish its operations in middle and low income countries in order to take advantage or resources available at competitive prices. At the very end of the Maturity stage, and where there is no further growth possible, saturation occurs. This is also referred to as Saturation Point. This is when little or no advertising is needed and sales are levelling off. This is the period of stability. During this period, the sale of the product reaches the peak and there is a steady demand for the product and no possibility for growth. However, at this stage other competitors also become popular and capture the market.

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4. **Decline Stage**: Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. The major thrust of the marketing strategy at this stage shifts to price and cost competitiveness, as technical know-how and skills become widely available. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets. Now the emphasis of firm is on the most cost effective locations rather than on productions. Besides developing countries, production is also increased in the less developed nations. (Ref Fig 7.2)

Fig 7.2 International product Life cycle

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7.8 International Product Strategy

7.8.1 International Competitive Procedure

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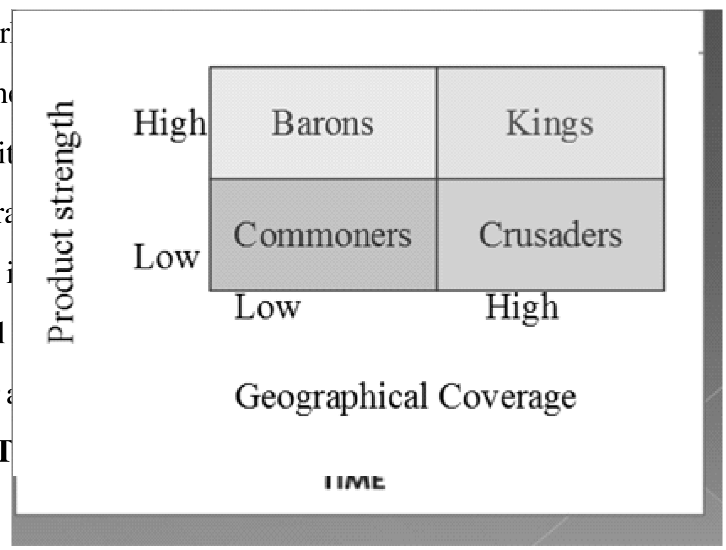

Fig7.3 : T

Kings :

- Firms with a strong product portfolio and wide geographic coverage are termed as kings.
- These firms have strong products and expanded geographic coverage.
- For an effective global strategy, such firms are in the best position.
- Global firms like Coke, Pepsi, Mc Donald, Sony etc. falls under this category.

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Barons :

- Such companies operate in a limited number of countries and due to their high product strength, geographical expansion becomes attractive.
- Firms with weak product portfolios in foreign markets tend to be their takeover targets.
- Alternatively, they may enter into some sort of strategic alliance with such firms in foreign markets.
- The Indian firm, Tata Motors with high product strength in motor vehicles acquired Rs 400 crore Daewoo Commercial Vehicle Company in April 2004.

Crusaders :

- Despite a weak product base, these are the firms that expand globally.
- Such firms are highly prone to global competitors
- Outsourcing, acquisition, or international product development is required by firms to consolidate their product portfolio in international markets.

Commoners :

- Firms with low product strength and limited geographical coverage are termed commoners.

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- These firms sustain themselves in the domestic market or to a limited extend in the overseas market due to protectionist regulations that act as barriers to free market competition.
- There expansion in overseas market is opportunistic in nature.
- These firms need to strengthen their portfolio before expanding into international markets.

7.8.2 Product-Promotion Strategies for International Markets

Keegan has highlighted the key aspect of marketing strategy as a combination of standardization or adaptation of product and promotion elements of the mix and offers five alternative and more specific approaches to product policy:

1. ***Straight extension or one product, one message, worldwide:*** While a number of writers have argued that this will be the strategy adopted for many products in the future, in practice only a handful of products might claim to have achieved this already. For example Coke and levers for its Lux brand of soaps use the straight extension strategy in the international markets.

2. ***Product extension, promotion adaptation:*** While the product stays the same this strategy allows for the adaptation of the promotional effort either to target new customer segments or to appeal to the particular tastes of individual countries. For example in India, chewing gum is viewed primarily as children's product while it is supposed to provide dental benefits in Europe. Under such situations, no changes are made in the product whereas the promotional strategy is customized so as to address customer's needs.

3. ***Product adaptation, promotion extension:*** This strategy is used

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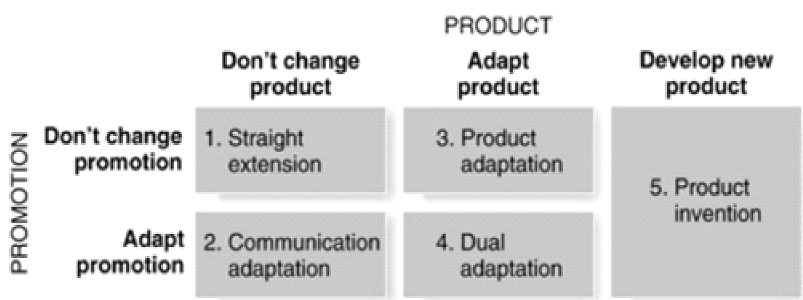
if a promotional campaign has achieved international appeal, but the product needs to be adapted because of local needs. For example the differences in the electrical voltage require product modification in electrical appliances marketed in countries like India & US.

4. ***Dual adaptation**:* By adapting both products and promotion for each market, the firm is adopting a totally differentiated approach.

5. ***Product invention**:* Firms, usually from advanced nations, that are supplying products to less well developed countries *adopt* product invention. (Refer Fig 7.4)

Fig 7.4 International product promotion strategies



Source: *Warren J. Keegan, 'Multinational Product planning Strategic Alternatives', Journal of Marketing, January 1969, pp.58-62.*

7.9 Summary

Thus it can be concluded that in international markets, customer's perceptions and needs differ to a large extent, therefore the product decisions become very important. Various approaches are adopted for the product development for international market. A firm also has to make decisions whether to offer a standardized or customize the product. The cyclical patterns followed by the international market have also been explained by the international product life cycle. Understanding of the international product strategy and available strategic options also serves as useful too for marketers for evolving international products.

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7.10 Key Terms

Product adaptation: Modification of products for international markets

Sprinkler approach: Simultaneous product launch in various international markets.

Product: It is anything that can be offered to a market to satisfy a want or need.

Oriental countries: The Oriental is the eastern part of **Asia**. The Orient includes countries and regions like Japan, China, Korea, Hong Kong and Taiwan.

7.11 Questions and Exercises

1. Explain the significance of product decisions in international markets.
2. The product life cycle is a well accepted concept in marketing although it needs to be applied wisely in the international context too-Discuss.
3. Critically evaluate various product promotion strategies in international market with suitable examples.
4. Differentiate between Waterfall and Sprinkler strategies for launching new products in international markets. Identify the strength and weaknesses of these approaches.

7.12 Further Reading and References

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UNIT 8 : BUILDING BRANDS IN INTERNATIONAL MARKETS

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8.0 Unit Objectives

After reading this unit, you should be able to :

- Understand brand, its function and importance
- Describe the major components of marketing mix and their role.
- Understand the major components of branding
- Appreciate the challenges associated with branding
- Know branding strategies used by MNC's
- State the levels of branding in International market.

8.1 Introduction

International market offers great opportunities to firms, both for survival and for its expansion. Firms that take their brands on an international level confronts diverse set-up in terms of socio- cultural environment, demographics, political and economic conditions etc. Hence firms face different options concerning strategic and operational marketing decisions. This unit explains what marketers actually do with the available resources at their disposal to create sustainable international brands. Branding is a major weapon in the hands of marketers and modern organisations are highly reliant upon marketing and skills of marketers.

In today's global marketplace understanding customer needs is at the centre of good marketing. Firms and marketers need to set up effective branding strategies in order to be competitive. They have to get inside the customers heads and understand the offering through the eyes of a customer. They have to create a competitive advantage in comparison to competitors for sustainable advantage. They have to take four major branding decisions:

- Brand versus no brand
- Manufacturer's brand versus private brand
- One brand versus multiple brands
- Worldwide brand versus local brands

8.2 Brands – Meaning and Definition

Brand is defined 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"*(Kotler and Keller, 2006.)

A brand thus signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical (Aaker, 1991). Branding has a purpose of separating a brand from other competitors and to identify a product or a service and to build customer awareness (Kay, 2004). A trademark is a part of brand and is protected by law.

8.2.1 Functions of a brand

While talking about the concept of a brand, one must understand the functions of a brand too. What brands actually do is that they facilitate the identification of products, services and businesses, and simultaneously differentiate them from their competitors. According to Czinkota and Ronakinen (2004), branding has importance to customers, because it simplifies the buying process in the way that it reduces the complicated buying decisions and *"provide emotional benefits, and offer a sense of community"*.

As per Hollensen (2007) the ground purpose of a brand is:

- *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 the promotion of the product*

Hollensen (2007) further states that this creates new sales and also demands for repetitive sales.

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8.2.2 International Branding

When firms move towards foreign markets, there are certain factors to be considered. According to Bradley (2002) it is a process when brands turn international, it first develops like a local brand, and after a while when the brand is known locally, it moves into foreign markets. In today's global market, brand not only compete with regional and national brands but also with International brands and there marketing strategies.

When companies develop brand for international markets it helps them to exploit economies of scale, develop global markets and explore various other market segments. However marketers need to organize their marketing strategies based on diverse external environment.

The reasons for going in an international market are mentioned below:

- *Increased competition and slow growth in domestic market.*
- *To exploit overseas growth and profit opportunities*
- *To diversify risk associated with domestic market*
- *To reduce cost through achieving economies of scale*
- *Recognition among global customers*

8.2.3 Global Brands

Global products are made for global markets. A truly global product is offered in the Triad, in every world region, and in countries at every stage of development. According to Kapferer (1997), a global brand has two functions, "*to distinguish different products from each other*", and "*to indicate a products origin*".

Global brands are similarly positioned and marketed throughout the world. It reflects the same set of values around the world. However in order to succeed, global brands have to take into account cultural trends and values throughout the world. It has to consider the factors which influence customer behaviour. Brands in telecom, airlines and hotel industry, where there is heavy consumer mobility, global branding is more feasible. Global branding is easier, when the country of origin is important. Brands such as Marlboro, whose identity focuses more on the product and its roots, can more easily go global. For untapped market segment, a global brand may fill the gap quickly.

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Advantages of Global Brands

Global brand helps in

- *Achieving economies of scale in production and distribution*
- *Lowers marketing costs and brings uniformity in marketing practices.*
- *Generates premium value in the minds of foreign consume, allowing the marketer to fix a premium price and enjoy optimum profitability.*
- *Creates synergy by appropriate market expansion and collaboration, which helps in innovation and long term growth.*

Some of the major global products/brands are Marlboro, Coke, Mercedes, Toyota, Microsoft, IBM etc. Ten most valuable global brands are mentioned in Table 8.1

Check Your Progress

Define brand and discuss its functions?

Table 8.1 Ten most valuable global brands

Rank	Brand	Brand Value	Industry
1	Apple	$154.1 B	Technology
2	Google	$82.5 B	Technology
3	Microsoft	$75.2 B	Technology
4	Coca-Cola	$58.5 B	Beverages

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5	Facebook	$52.6 B	Technology
6	Toyota	$42.1 B	Automotive
7	IBM	$41.4 B	Technology
8	Disney	$39.5 B	Leisure
9	McDonald's	$39.1 B	Restaurants
10	GE	$36.7 B	Diversified

Source: http://www.forbes.com/powerful-brands/list/

8.3 Branding Issues and Challenges

The problem faced by brand managers is how to overcome branding challenges and frame the policies that can release the full potential of their brand in and across multiple markets. This calls for a structure that can be used widely to gain uniformity in branding across markets. A common structure not only assures global brand management with the same brand language but also follows the same measures as local brand management.

8.3.1 Branding Issues in Global Markets

a) Language differences across geographical boundaries create huge troubles for marketers in crafting the advertising campaigns and product labels. Hence translation of the marketing campaign in local language of the country should be done, such that it conveys the same meaning as intended by the company. For example, in Canada, labels must be in both English and French. In India, there are over 200 different languages, and a similar situation exists in China.

b) Colours have different meanings in different cultures. Companies creating global brands should select country-suitable colours so that the local consumers are not insulted from the product due to colours used in the packaging. Black and white colours are symbol of mourning in Japan and should not be used on a product's package. Similarly, purple is unacceptable in Hispanic nations because it is associated with death.

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c) Cultures have their own distinct set of customs and beliefs. For marketers it is important to learn about them so that they understand what is acceptable and what is not for their marketing programs. For example, Americans believe that sun tans are attractive, youthful, and healthy. However, the Japanese do not. These key differences apply to labels and branding as well.

d) Organizations cannot merely utilize the same brand features in all markets. They have to invent brand features suitable for the target market. For example, in Japan Honda means speed, youth, energy. In US Honda means quality, reliability and value.

e) There exists a problem of regional reawakening. Rise in supra-national associations like EU, WTO, and NATO. There is an increase in regional or local ethnic identity and decentralization of power from large nation-states to smaller states or autonomous regions.

f) With the rise in global consumerism and demand for local answer ability, customers are demanding more brand and corporate transparency. Customers across boundaries want transnational companies to be more socially and environmentally accountable to the local communities in which they manufacture and/or sell. Global brands which are perceived as monolithic with little or no global or local social responsibility are increasingly targeted by campaigners in different nations. Brands can also be exposed to worldwide bad publicity and comment through global news networks.

8.3.2 Challenges in Global Branding

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Whether a business is deciding to enter the foreign market or launching a new product, business owners need to take into account several factors and understand the larger forces shaping their choices. Let's look on some of the challenges face by brand managers:

- **Savy Customers**: Consumers and businesses have become more experienced with marketing, more knowledgeable about how it work and more demanding. Also Media pays an increased attention to companies, their marketing actions, new product launches and communications. Information to consumers is readily available through consumer reports, web sites, blogs and so on. Consulting firms too survey consumer expectations from different brands. This makes increasingly difficult for companies to pursue brand strategies across boundaries.

- **Brand Proliferation**: Another challenge is the proliferation of new brands and products with rise in line and brand extensions. This has led to number of different products with varying degrees of similarity.
- **Increased Cost**: The cost of introducing a new product or supporting an existing product has increased rapidly, making it difficult to match the investment and level of support that brands require. Brand is a long term asset, introduction of price discount or freebie promotion for initial acceptance of the product may lead to brand dilution and failure in the long run.

- **Emotional Appeal** Emotional appeal is essential to communicate the Brand message. Consider the number of media options available to consumers- traditional and emergence of interactive media. For several reasons, marketers have dissociated themselves with

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traditional advertising media due to: *cost, clutter, and fragmentation of audience.* It has become increasingly difficult for the companies to manage consistent brand emotional appeal across media.

- **Economic, Legal and Political conditions**: Condition implies to Economic, legal and political conditions prevailing in a foreign market. Law related to advertising content, product specifications, distribution options, etc vary from one country to another making it difficult for companies for adoption and standardisation.

8.4 International Marketing Mix

International marketing combines the promotion and selling of goods and services with an increasingly interdependent and integrated global economy. The 4P's of Marketing –

- product,
- price,
- place, and
- promotion

These 4 P's pose many challenges when applied to global marketing. Here we focuses on integrating the elements of the marketing mix to build brands internationally and also introduces some of the additional complexities associated with international marketing and the marketing of service products. We will take each one of these P's individually and try to find out the issues related with them. Packaging will also be discussed as marketers use it very effectively for building brands in international markets.

Tablet 8.2 Given below, summarises the 4Ps and shows how they can fit together.

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Table 8.2 Summarises the 4Ps

Product	Price	Place	Promotion
Features (characteristics, attributes)	Price range	Intermediaries (retailers, wholesalers, etc.)	Advertising
Range	Discounts	Coverage	Personal selling
Support services	Allowances	Order processing	Public relations
Brand	Negotiation policy	Stock control	Sales promotion
Design	Credit policy	Delivery	Direct marketing
Packaging	Price changes	Transport	Sponsorship

8.4.1 Product

A product is something both tangible and intangible. A tangible product can be described in terms of physical attributes like shape, dimension, components, form, colour etc. The intangible product includes various services like merchant banking, mutual funds, insurance, consultancy etc. Companies provide a range of products, of differing quality, with different features, different images and different levels of support, to match the prices that different customers are prepared to pay for that product type. So a product is a bundle of characteristics but, of course, that is not what customers really want to buy. What the customer really wants is the benefit that the product brings. Marketers must concentrate on the benefits their products bring to their purchasers – the product features and quality are really just the means by which those benefits are delivered. Here are the important factors to consider when going global with a product or service.

The global consumer makes purchasing decisions to get the best quality products at the most affordable price. They have information available in abundance, thanks to the Internet. Therefore, innovation takes centre-stage to gain adequate attention from potential consumers.

A global marketer must be flexible enough to modify the attributes of its products in order to adapt to the legal, economic, political, technological or climatic needs of a local market. Overall, global

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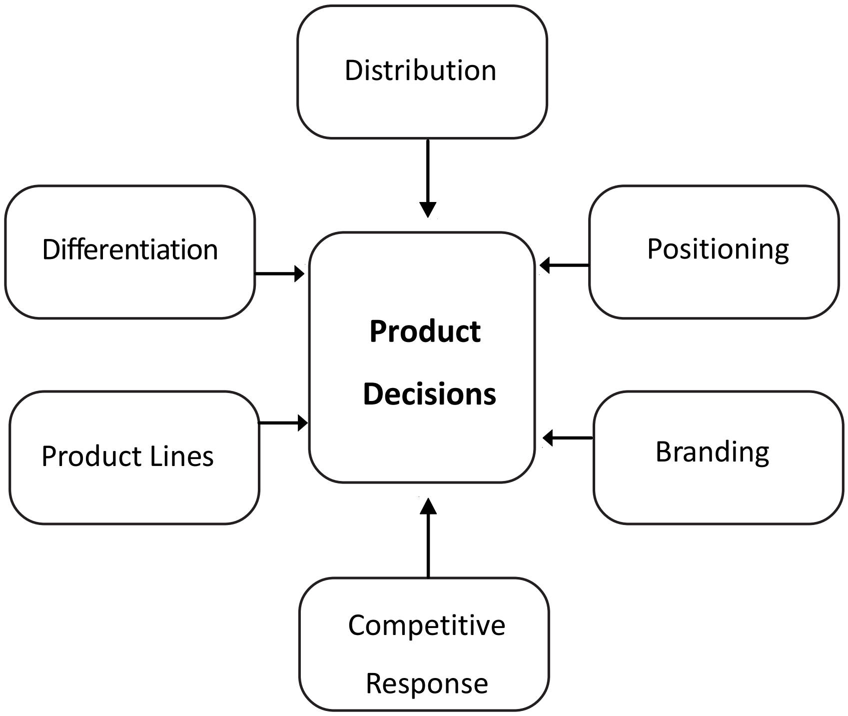

Figure 8.1 – Factors of Importance for Global products

marketing requires the firms to have available and specific processes for product adaptation for success in new markets.

8.4.2 Price

Price is a crucial part of a product. Price is what a business charges its customer for the goods and services it provides. Price may be high from the point of view of cost and low from demand point of view. Price plays an important part when a firm wish to penetrate international markets.

8.4.2.1 Factors affecting International Pricing

The price of a product is usually the most significant part of the value that a customer hands over in exchange for a product. Therefore, the perceived value of the product must be at least equal to the price.

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The most important factors that decide the prices are labelled the 4 C's

- Company *costs, company goals*
- Customers *price sensitivity, segments, and Consumer preferences*
- Competition *market structure and intensity of competition*
- Channels *of distribution*

8.4.2.2 International Pricing Challenges

Global firms face the following challenges while pricing their products and services to suit the requirements of international market

Export Price Escalation " Exporting includes more steps and higher risks than domestic sale. To make up for shipping, insurance and tariffs, and foreign retail prices, the export price may be much higher than domestic country. It is important to know whether external customers are willing to pay an additional price for the products/services and whether the pricing will be competitive in that market. If both answers are negative, then there are two approaches. One is to find a way to decrease the export price, and the second is to position the product as an exclusive or premium brand.

Inflation " Intense and uncontrolled inflation can be a huge obstacle for MNCs. If inflation rates are rampant, setting prices and controlling costs require full dedication of marketing and financial divisions. Some alternatives to counter inflation include changing the components of products or their packaging, procuring raw materials from low-cost suppliers and shortening credit terms, etc.

Currency Movements " Exchange rates being unstable, setting a price strategy that can get rid of fluctuations gets difficult. Key considerations include what proportion of exchange rate gain or loss should be transferred to customers the pass”through issue, and finding which currency price quotes are given in.

Transfer Pricing “ Transfer prices are the charges for transactions that involve trade of raw materials, components, finished products, or services. Transfer pricing include stakeholders, such as the company, local managers, host governments, domestic governments, and joint venture partners. Tax regimes, local conditions, imperfections, joint venture partners and the morale of managers affect transfer pricing.

Anti-dumping Regulations “ Dumping occurs when imports are sold at an unfair and very low price. Recently countries have adopted anti-dumping laws to protect their local industries. Anti-dumping laws should be considered when deciding global prices.

8.4.3 Place

Place refers to the whole distribution process – from customer enquiry to after-sales service. International companies either sell directly or indirectly. An important task of marketing management is to design the marketing channel. The longer the channel, the more removed the producer of the product is from its customers and the more opportunity for things to go wrong. Most manufacturers have little or no customer contact; it is the retailer who builds a relationship with the customer. This lack of contact makes it harder for manufacturers to get to know what their customers think of the products, what they would like to see changed, what new products they might like. It also means they have to work harder to build brand loyalty.

Marketing managers not only have to work out the length of a channel, but its breadth. How many retailers, distributors, etc. will handle the product?

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Direct selling – Foreign Company develops its own overseas marketing department or foreign marketing intermediaries and sells the product in the foreign market.

Indirect Selling – Indirect selling takes place through domestic agents/ domestic merchants. This is a long channel involving a number of marketing intermediaries.

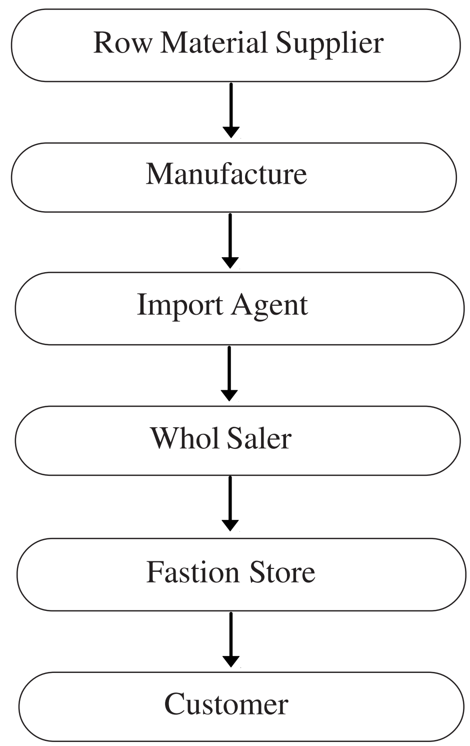

Fig 8.2- Example of marketing channel for clothing

Factors Affecting Choice of Channels

Channel of distribution or middlemen selection must precede the understanding of the characteristics of the foreign market and the established common system there. The major factors to consider while choosing a particular channel are –

- The specific target market within and across countries.
- The goals in terms of volume, market share, and profit margin.
- The financial and organizational commitments.
- Control of the length and characteristics of the channels

8.4.4 Promotion

Promotion comes into picture when a global company wants to communicate its offering to potential customers. How an organization chooses to promote its products and services can have a direct and substantial impact on its sales. Promotion creates desirability of the product among foreign potential buyers. Promotion is more culture bound than other P's. While promotional strategies may be global, differences of language and environment mean that they can rarely be absolutely standard in their detail. Advertisements, packaging and promotions will all have to be translated. Different images, and actors, may need to be used if locals are to relate to them. Some countries insist on local actors appearing in all adverts and there are numerous other regulations that affect what promoters can and cannot do, country by country.

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The promotion mix includes-

1. **Advertising** – It plays a crucial role in international marketing and particularly for consumer goods and consumer durables. Advertising is an important element of the marketing communications mix. Advertising directs a message at large numbers of people with a single communication. Advertising has a number of benefits for the advertiser. The advertiser has control over the message. The advertisement and its message, to an extent, would be designed to the specifications of the advertiser. So the advertiser can focus its message at a huge number of potential consumers in a single hit, at a relatively low cost per head.

2. **Personal selling** – According to American Marketing Association, "personal selling is an oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales". Personal selling in international

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marketing or business is commonly understood as salesmanship outside the home country. It is effective when the market is concentrated or where a salesman has to develop certain amount of confidence in the potential customer.

3. **Sales Promotion** – Sales promotion refers to any consumer or trade programme of limited duration that adds tangible value to a product or brand. So sales promotion is temporary in nature. It is more effective when a product is first introduced in a market. The most common sales promotion techniques are: coupons, contest, and price-offs, sweepstakes, samples, discounts etc.

4. **Public Relations** – It is the conventional method of sales promotion. Public Relations (PR) are any purposeful communications between an organisation and its publics that aim to generate goodwill. PR is proactive and future orientated, and has the goal of building and maintaining a positive perception of an organisation in the mind of its publics. This is often referred to as goodwill. Corporate literature includes financial reports, in-house magazines, brochures; catalogues, price lists and any other piece of corporate derived literature are used to communicate with a variety of publics.

8.4.5 Packaging

Whether or not we grant packaging the status of a fifth P, it is certainly a very important part of the product offering. It is part of the product. Many products have to be packed or they cannot be sold. Packaging can be a key consumer decision criterion, especially for commodity products. Innovative packaging can confer competitive advantage. A supplier who invents a new and better way of packaging has an advantage over its competitors. The packaging is a key part of the brand identity and so is jealously guarded by brand owners. Coca-Cola watches competitors carefully and is quick to object if any rival product looks too similar to its own.

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Packaging is sometimes referred to as the silent salesman because of its marketing communications role. Packaging sends a message about the product inside. Packaging is also informative. It states country of origin, lists ingredients, gives instructions for use and carries warnings (e.g. not suitable for children under 3). The packaging can also be used to persuade people to use more of the product. Good packaging is essential to protect products during distribution. Secondary packaging (large cartons and palettes) may be needed here to make sure goods are easy to handle, can be stacked safely, and arrive at their destination in good condition.

Packaging is an important part of the mix and must be carefully designed for overseas markets. The following should be taken into account:

- Any laws and regulations governing its composition, recycling, the languages used
- Cultural issues that may affect the size of the packet, the colours used – and the languages used
- Education and literacy levels in the country – how should the instructions be written? Perhaps they should be diagrammatic? Dangerous products (e.g. pharmaceuticals) must be especially carefully explained
- Transport – one of packaging's main functions is to protect the goods during transit. How rough is the handling likely to be?

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8.5 Branding

Brands are important assets for many companies, and building and maintaining their strength is a key marketing task that involves all of the marketing mix. A brand is more than a design or a concept. It is a combination of values which together promise customers the solution to their problems. (**Refer Fig 8.3)**

Brand View

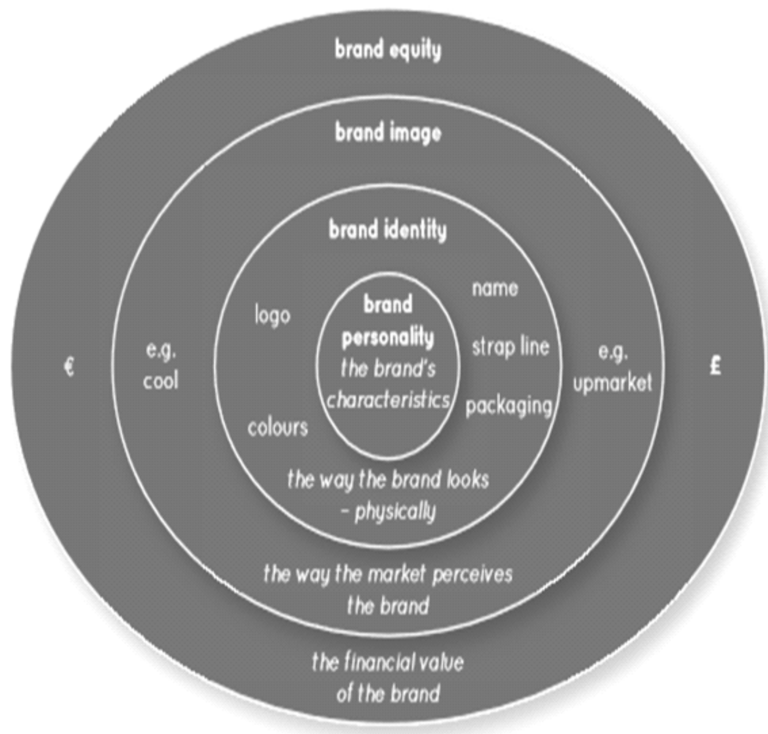

Fig 8.3

Source : Masterson R, and David P., Marketing an Introduction, 3rd edition, Ch. 11, pg 489

Branding has given rise to a host of terms that are often use by firms and consumers. At the heart of the brand is:

Brand Personality : Every brand has a personality and it involves how consumers perceive a brand and how the brand differentiates itself from the competition. Brand personality is the way a brand speaks and behaves. It means assigning human personality traits/characteristics to a brand so as to achieve differentiation.

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Ex: Brands may be young (e.g. FCUK), honest, feminist, optimist (e.g. Dove), rebellious (e.g. Virgin), understated (e.g. Liberty), classy (e.g. Aston Martin), forceful (e.g. Nike), caring (e.g. Body Shop) – any personality descriptor that can be applied to a person. Brand personality is encapsulated in brand identity

Brand Identity: Brand identity is a bundle of mental and functional associations with the brand. It is a set of cues which help people to form their impressions of the brand, e.g. logo, name, colours, strap line and packaging. It stems from an organization, i.e., an organization is responsible for creating a distinguished product with unique characteristics. It is how an organization seeks to identify itself. These associations can include.

Signature tune for example (Britannia "ting-ting-ta-ding"), trademark colours (for example - Blue colour with Pepsi), logo (for example - Nike), tagline (for example - Apple's tagline is "Think different"). The internal processing of these brand values adds up to an overall brand image.

Brand Image: It is the current view of the customers about a brand. It signifies what the brand presently stands for. It is a set of beliefs held about a specific brand. In short, it is nothing but the consumers' perception about the product. It is the manner in which a specific brand is positioned in the market. Brand image conveys emotional value and not just a mental image. The target market's perception of the brand is called the brand image and it is this that really matters to a firm.

Ex. Volvo is associated with safety. Toyota is associated with reliability.

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Brand Equity: A good brand image has a value. Branded goods usually carry higher prices than unbranded ones. Compare the prices of lesser-known brands of sportswear with those of Nike and Adidas. This value is known as brand equity and it is a difficult thing to calculate even though it is one of the company's most valuable assets. Brand Equity is the value and strength of the Brand that decides its worth.

Companies usually have to pay more than the value of a firm's physical assets in order to buy it. They pay for goodwill (ongoing business prospects) and they pay for brands.

8.6 International Brand Architecture

The questions faced by the firm in developing an international branding strategy depend on how it has expanded internationally and how its international operations are organized. Some firms, such as Procter & Gamble (P&G) and Coca-Cola, have expanded through leveraging their domestic "power" brands in international markets. Consequently, as the firms seek to expand further, they must consider whether to develop brands geared to specific regional or national preferences and how to integrate these into their brand strategy. Other firms such as Nestle and Unilever have traditionally adopted country-centred strategies, building or acquiring both national and international brands.

Check Your Progress

Discuss the key concepts of brand?

Here brand structure is used to refer to the firm's current set of brands across countries, businesses, and product-markets.

Brand architecture, in contrast, refers to a formal process and outcome by which management rationalizes the firm's brands and makes explicit how brand names at each level in the organization will be applied.

Brand architecture also indicates how new brands, whether acquired or developed internally, will be treated.

There are three patterns of branding structure or architecture :

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- **Corporate dominant** - Corporate-dominant architecture tends to be most common among firms with a relatively limited range of products or product divisions or with a clearly defined target market. Here such a corporation uses one name and identity worldwide, e.g., Kellogg's, Nike, Benetton, and Shell.

- **Endorsed** - the corporate name is used in association with a subsidiary or product brand, e.g., Cadbury's Dairy Milk. International expansion and consumer needs for assurance about product quality and reliability are resulting in a shift toward corporate endorsement of product brands. This helps forge a global corporate identity for the firm and gathers its products under a global umbrella, which generates potential cost savings through promotion of the global corporate brand rather than multiple independent product brands.

- **Branded** - emphasizes multiple product-level brands, e.g., P&G using brands such as Ariel, Tide and Camay.

8.7 Branding Strategy

Branding strategies are used 'to differentiate products and companies, and to build economic value for both the consumer and the brand owner. The following are some of the more commonly used strategies.

Co-branding is when two companies' brand names appear together, as on PCs when the brand name of the chip manufacturer appears alongside the PC maker (e.g. 'Intel inside'). Either or both brands should benefit from this as the good reputation of one rubs off on the other.

Multi-branding is a strategy employed by companies that have multiple products within the same category. This gives the customer the illusion of choice. They can switch brand but still be buying from the same supplier. For example, Procter & Gamble has many different brands of washing powder: Ariel and Tide.

The above are ongoing strategies. However, one of the great advantages of a strong brand is that it can be used to launch new products with a far greater chance of success. According to Kotler (2003), there are three ways to introduce more products under the auspices of an existing brand:

- **Line extension** – introducing product variants under the same brand name, e.g. a new flavour or colour
- **Brand extension** – using the brand name on products in a new category but within the same, broadly defined market, e.g. a biscuit company starting to produce cakes.
- **Brand stretching** – using the name on products in a different market, e.g. a cigarette company making clothes. The king of brand stretching is Richard Branson of Virgin, taking a brand name originally chosen for the music industry and launching it into airlines, drinks, trains, radio, cosmetics, mobile phones, etc.

8.7.1 Branding Levels and Alternatives

In International market, there are four levels of branding or brand alternatives :

A) No Brand Versus Brand:

B) Private Brand Versus Manufacturer's Brand

C) Single Brand Versus Multiple Brands

D) Local Brands Versus Global Brand

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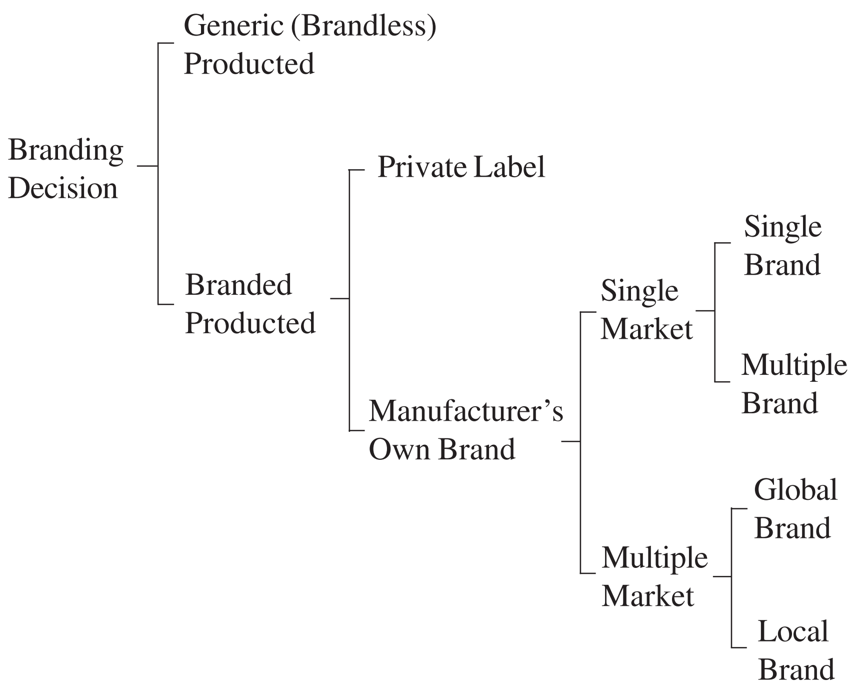

Fig 8.4: Branding Decisions

Source: Onkivisit, S. and Shaw J.J., 2000, p, 428

a) **No Brand versus Brand:** Most products are branded, but that does not mean all products should be branded. Branding does not come free; it includes a lot of cost like: marking, labelling, packaging and legal procedures. However commodities (e.g rice, wheat, diamond, salt etc) are unbranded and undifferentiated products which are sold by grade and not by brands. Here the products are sold by grade differentials instead of uniqueness. Hence branding of such product will become irrelevant. But where branding is possible it should be done because it transforms a commodity into product.

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b) **Private Brand versus Manufacturer's Brand:** Distributors in International market includes trading companies, importers and retailers among others. Their brands are called private brands. A brand that is owned by the product's reseller rather than by its manufacturer. In rare instances, the reseller may be the manufacturer as well. Many portable TV sets made in Japan for US market are sold under private labels.

c) **Single Brand versus Multiple Brands:** A single brand strategy is one that indicates all products under the same brand name have same quality and also simplifies the advertising.

However, marketing of more than two competing and almost identical products, that belongs to a single organization and is filled under different and unrelated brands, is called multi-branding. This is employed when the market in which the business is operating is heterogeneous and therefore should be segmented and targeted with multiple brands. The core idea of multi-brand strategy is to increase the overall market share.

The Advantages of Multi-Branding

- Leaving less shelf space for competitors.
- Effectively using brand-switchers, who love to experiment with different brands?

The Disadvantages of Multi-Branding

- Cannibalization between brands.
- Confusion caused by overlapping segments that will result in brand switching.
- Failure due to poor management.

- Failure from wrong business choices.

Examples of Multi-Brand Strategy

Procter & Gamble (P&G) – Is an American consumer goods company, that sells 23 different brands, for example, Tide, Pampers, Gillette, Head & Shoulders, etc.

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Unilever – Again an FMCG giant and multinational goods company that produces several brands like axe, Rexona, Sunsilk, Dove, Lipton and many more.

d) **Local Brands versus Global Brand:** Local brand is a brand that sold their product or marketed their product in a small or restricted geographical area. This type of brand only can found in the one country or region. It may also be a brand that is developed for a specific national market.

Global brand can be defined as a brand which is perceived to reflect the same set of values around the world. The global brands are more focusing on enduring relationship with consumers across countries and cultures. Nowadays there are many global brands which are sold in international markets. For example of the global brand are Facebook, Apple, Coca cola, McDonald's and Sony. These brands are selling the similar product in the multiple markets. These kinds of brand are also recognized by the cross cultural consumers.

As per findings from the *Global Brand-Origin Survey* released by Nielsen:

- Local Brands Have the Advantage in Food and Beverage Categories
- Global Brands Are Perceived as Quality for Baby Care Categories

- Consumers Love Global Brands for Personal Care and Beauty

"Global brands are able to leverage their scale and expertise, research and development capabilities, and strong brand equity to provide high-quality and innovative personal-care products to local markets around the world," said Dodd.

CHECK YOUR PROGRESS

A) How does a brand help customers and firm simultaneously?

B) Select an Indian brand and analyse its branding strategies in international market.

C) Distinguish between brand identity, brand image and brand positioning.

8.7.2 The strategic matrix for brand internationalization

We present a matrix of four strategic options. **Refer Fig 8.5** given below

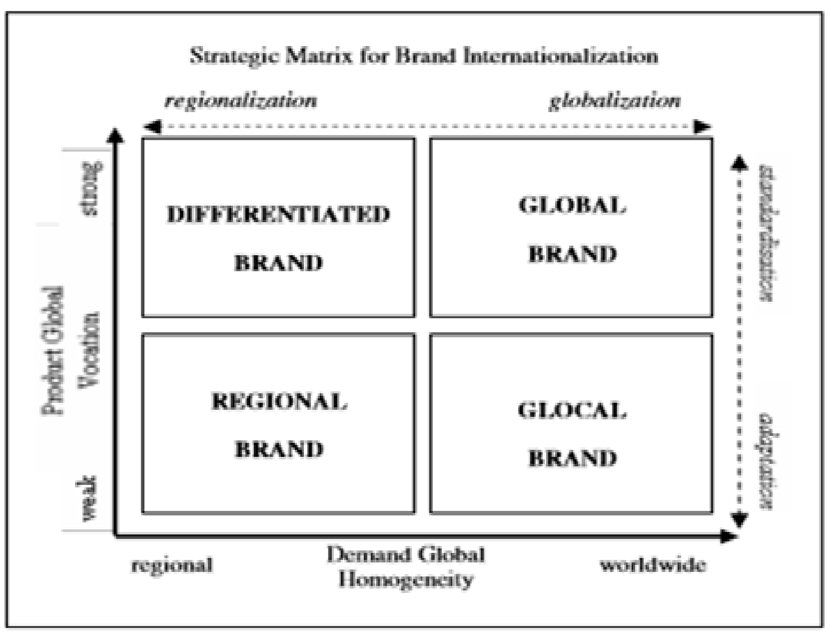

Fig 8.5 Strategic Matrix for Brand Internationalization

a) **Global brand strategy:** Product categories with high global vocation targeting a globally homogeneous public, as in the case of computers. Brand strategy is to highly standardize brand essence as well as executions.

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b) **Glocal brand strategy:** Products with weak global vocation targeting a globally homogeneous public. The brand should standardize its essence across markets and adapt its executions to regional and even local conditions. It integrates both globalism and localism characteristics in the product. It uses the global brand name and differentiates the offer in order to make it appealing to local market.

c) **Regional brand strategy:** Product's global vocation is weak, and demand homogeneity is regional, as in the case of food. A different regional brand line should be created for each region. Adaptations should take into consideration global brand consistency.

Example : Ludhiana based, Cremica Foods is a three-decade old family business, which makes an assortment of foods including sauces, condiments and snacks raised $15 million in June 2016 from Rabo Equity Advisors and is tripling its distribution network, adding a new food park and manufacturing unit and expects to be a Rs 1,000 crore company by 2020. Firms managing director, Akshay Bector says "We want to be a national player and now have the strategy and funds," "From being a mainly north Indian brand we are now ready to be recognised as a pan-India player."

Regional brands have to put in much more effort than established larger rivals to look credible. With limited marketing budgets, regional brands will face a battle keeping pace with their larger (multinational) rivals, if they are to sustain their plans.

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d) **Differentiated brand strategy:** Product is highly global while demand has regional characteristics, such as in banking. The brand should standardize its executions, especially in back office and process, seeking economies of scale, and differentiate its essence (mainly through communication and brand personality) to meet regional targets.

8.8 Summary

As competition gets more intense, managers face challenges to adjust their brands with changed expectations of their customers. Companies need to position their brands in the minds of consumers. To achieve desired goals of their communication strategy, companies have to break the clutter by evolving innovative ways to attract the attention of the target audience. Most marketing plans rely heavily on the marketing mix for their implementation. The 4Ps has been the most commonly used framework for many years but this is always extended to 7Ps when considering services marketing.

The brand managers need to continuously track their brands against the effect of competition and to track the progress as to how their brands are doing in the marketplace. Monitoring the progress of brands in terms of purchasing, consumption, brand recognition, brand recall, advertising awareness, etc. helps the managers to adjust their strategies of marketing to achieve the desired performance of their brands.

A brand's marketing mix should be integrated, each element working with the others to present a united front and support the organisation's marketing objectives. An uncoordinated mix sends conflicting messages to target customers and is much less effective in terms of building brand values and achieving marketing goals.

8.9 Key Terms

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Brand: A name, term, sign, symbol, or design, or a combination of these, intended to identify the goods and services of one seller or a group of sellers and to differentiate them from those of competitors.

International Brand: Brands and products that originate in one country are enthusiastically accepted in others. For example, Louis Vuitton handbags, BMWs, and Columbian coffee are all foreign products and well accepted worldwide.

Marketing Mix: The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion and Place. However, nowadays, the marketing mix increasingly includes several other Ps like Packaging, Positioning, People and Process.

Brand Personality: Summation of all tangible and intangibles aspects of a brand.

Brand Image: The way a brand is perceived the customers

Brand Equity: Brand Assets and liabilities linked to a brand, its name, and symbol that add to or substract from the value provided by a product or service to a firm and/or to that firm's customers.

Co-Branding: is when two companies' brand names appear together on a product. Ex Name of intel processor on IBM laptops.

Glocal Brands: A glocal product / service face competition from both local and international brands in a better way because it meets certain local needs or preferences, at lower costs due to the global edge of the company.

Global Brands: A brand that reflects a consistent positioning worldwide and has balanced global market coverage

8.10 Questions and Exercises

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a) Define brand and discuss its functions.

b) Discuss branding issues and challenges faced by brand managers.

c) How do 4 P's of marketing mix help in International branding

d) Discuss the key concepts of brand.

e) Explain International brand architecture with relevant examples.

f) What are the four branding level in international market?

8.11 Further Reading & References

Books and Book Chapters

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UNIT 9 : PRICING FOR INTERNATIONAL MARKETS

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9.0 Unit Objectives

After reading this unit, you should be able to:

- Explain pricing in International Marketing
- State the Global Perspective of International Pricing
- State the components of pricing as competitive tools in international marketing
- State the pricing pitfalls directly related to international marketing
- Know how to control pricing in parallel imports or grey markets
- Explain price escalations and how to minimise its effects
- Expalin counter trading and its place in international marketing practices
- Explain the Mechanics of Price Quotations

9.1 Introduction

Global pricing is one of the most critical and complex issues which global firms face. Price is the only marketing mix instrument that creates revenues. All other elements entail costs. Thus, a company's global pricing policy may make or break its overseas expansion efforts.

Furthermore, a firm's pricing policy is inherently a highly cross-functional process based on inputs from the firm's finance, accounting, manufacturing, tax, and legal divisions. This unit will focus on global pricing strategies.

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9.2 Global Perspective - The Price War

Setting the right price for a product or service can be the key to success or failure. An offering's price must reflect the quality and value the consumer perceives in the product. As the globalization of world markets continues, competition intensifies among multinational and home-based companies.

The marketing manager's responsibility is to set and control the actual price of goods in different markets in which different sets of variables are to be found.

9.3 Pricing Policy

Pricing is a process of value determination for the product or service that will be offered for sale. International pricing decisions is ridden with difficulties as it involves multiple currencies, trade barriers, additional cost considerations, and longer distribution channels. Before setting the prices, the marketer must know the target market well. When the marketer is clear about the market he is serving, he can determine the price appropriately. The pricing policy must be consistent with the company's overall objectives.

Generally the pricing objectives are: survival, profit, and return on investment, market share, status quo, and product quality.

9.3.1 Pricing Objectives

Usually the price decisions are viewed two ways:

1. Pricing as an active instrument of accomplishing marketing objectives
2. Pricing as a static element in a business decision.

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Companies which follow the first approach which says pricing as an active instrument of accomplishing marketing objective, usually look out for targeted return on profit, a target market share or some other specific goal. And on the other hand companies which follow the second approach of pricing as a static element in decision making usually export only the excess inventory has a low priority on foreign business and views its export sales as a passive contribution to the sales volume.

The more control a company has over the final selling price of the product, the better it is able to achieve its marketing goals.

9.3.2 Parallel Imports

Goods imported by unlicensed distributors for sale at less than the manufacturer's official retail price.

Parallel imports (sometimes referred to as **grey market goods**) refer to branded goods that are imported into a market and sold there without the consent of the owner of the trademark in that market.

Parallel Imports develop when importers buy products from distributers in one country and sell them in another country to distributors who are not part of the manufacturer's regular distribution system. (Cateora).This practice takes place when there are huge margins existing between prices for same products in different countries.

This practice is followed when there are wide margins existing between prices of the same products in different countries.

Reasons for Parallel Market:

- Restrictions brought about by import quotas and high tariffs
  Example: India has a three tier duty structure on computer parts ranging from 50 to 80% on imports. And because of this it is estimated that almost 35% of the India's domestic hardware sales are accounted for by the grey markets.
- Another reason is this that the cost of transportation is cheaper than the price differences between the country.(two markets)
  Example: Pirated CD's of movies

Companies that are serious about restricting the grey market must establish and monitor controls that effectively police distribution channels. Parallel Imports can do long term damage to the companies in the market for trademarked products. Customers who unknowingly buy unauthorised imports are not sure of the quality of the item they buy.

Example: Purchasers of Laptops and Mobile phones may not be able to get parts because authorised dealers have no obligation to service these laptops or Mobile phones.

Further when the product fails, the consumer blames the owner of the trademark, and the quality image of the product is sullied.

9.3.3 Choice of a Pricing Strategy is Dependent on

1) Corporate goals and objectives
2) Customer characteristics
3) Intensity of inter-firm rivalry
4) Phase of the product life cycle

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Check Your Progress

Discuss the causes of and solutions for parallel imports and their effect on price?

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CHECK YOUR PROGRESS

State True or False

1. Determining the price appropriately it is very important that the marketer is clear about the market to be served.
2. The pricing objectives are: survival, profit, and return on investment, market share, status quo, and product quality.
3. **Parallel imports** refer to branded goods that are imported into a market and sold there with the consent of the owner of the trademark in that market.
4. Restrictions brought about by import quotas and a high tariff is one of the reasons of parallel Imports.
5. Parallel Imports can do not damage to the companies in the market for trademarked products.

9.4 Approaches to International Pricing

No company can sell goods below the cost of production nor can the product be sold at any price which is not acceptable in markets. To move globally the firms must have the knowledge of pricing and must be aware of the alternatives such as market segmentation from country to country or market to market, competitive pricing and other market oriented pricing factors.

9.4.1 Full Cost Pricing

In this type of pricing strategy the price of the product is decided after considering both fixed cost and the variable cost of manufacturing that product. The fixed cost includes the cost of machinery; factory cost etc.The variable cost in the incremental cost of making the product

9.4.2 Variable Cost Pricing

In this kind of pricing, the company price their products only on basis of variable cost of producing the goods, completely ignoring the fixed cost. This type of pricing is used to capture market share.

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Example: Chinese manufacturers use this pricing strategy to capture market share in India. To protect domestic manufacturers, the govt of India, applies duty or tax on such Imports. Such kind of duties is called anti dumping duties.

9.4.3 Skimming Pricing

Skimming pricing name is derived from the action of skimming of cream layer on Milk. It means pricing the product at the very high prices in the beginning, so that only limited number of customers with deep pockets and who wish to buy exclusivity can afford its products. Here the target customers are those who are ready to pay exorbitant price for snob value. This strategy maximises profit for the company.

Example 1: Companies like Apple, use skimming pricing by launching new models at very high prices.

Example 2: When Mobile phones were newly launched in India the incoming call rate was Rs16/min.

9.4.4 Penetration Pricing

The companies use penetration pricing to capture market share by deliberately offering products at low prices. The profit margin in this type of pricing is low but the volume of sales make up for it as it maximises revenue.

Example: Jio Pricing for its 4G launch in India. Similarly, Big Bazaar uses this pricing strategy by selling popular goods at cheaper price to bring customers into their stores. Another fine example is that narket share of Samsung captured by Xiomi and Micromax in India.

9.5 Price Escalations

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Often it's been seen while we travel internationally that the goods which are inexpensive in the home country are very expensive in other country. Usually we think that the appreciated price is due to the export cost added to the product. For example the I Phone, will cost 40% more in India than in the US.

First the product passes through the hands of an importer, then to the company with the primary responsibility of sales and services, then to the territory local distributor and finally to the Local Retail Shops from where it reaches the end users.

At every level the profit margins are fixed plus the cost of export and transportation is added to it, hence there are great differences in the prices of the products internationally.

Every time the product changes hands in the international market the cost keeps adding up till it reaches the final consumer.

Price escalation can also refer to the sum of cost factors in the distribution channels which add up to a higher final cost for a product in a foreign market.

Definition: ***Price escalation refers to the added costs incurred as a result of exporting products from one country to another.***

Or

The Cost of disproportionate difference in price between the exporting Country and the Importing Country is Price Escalation. (Cateora)

9.5.1 Factors That Lead to Price Escalation

9.5.1.1 Costs of Exporting

It is the added cost incurred as a result of exporting products from one country to another. Internationally the final prices are raised by shipping costs, insurance, packing, tariffs, and longer channels of distribution, larger middlemen margins, special taxes, administrative costs, and exchange rate fluctuations.

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9.5.1.2 Taxes, Tariffs, and Administrative Costs

Tariffs are special form of taxes levied on goods when they are exported.

A tariff is a tax or duty imposed by one nation on the imported goods or services of another nation. These costs results in higher prices, which are generally passed on to the buyer of the product.

Tariffs are generally imposed for one of four reasons :

a) To protect newly established domestic industries from foreign competition.

b) To protect aging and inefficient domestic industries from foreign competition.

c) To protect domestic producers from “dumping” by foreign companies or governments. Dumping occurs when a foreign company charges a price in the domestic market which is below its own cost or under the cost for which it sells the item in its own domestic market.

d) To raise revenue. Many developing nations use tariffs as a way of raising revenue. For example, a tariff on oil imposed by the government of a company that has no domestic oil reserves may be a way to raise a steady flow of revenue.

Tariffs are of two kinds:

1. **Specific Tariff**
2. **Ad Valorem Tariff**

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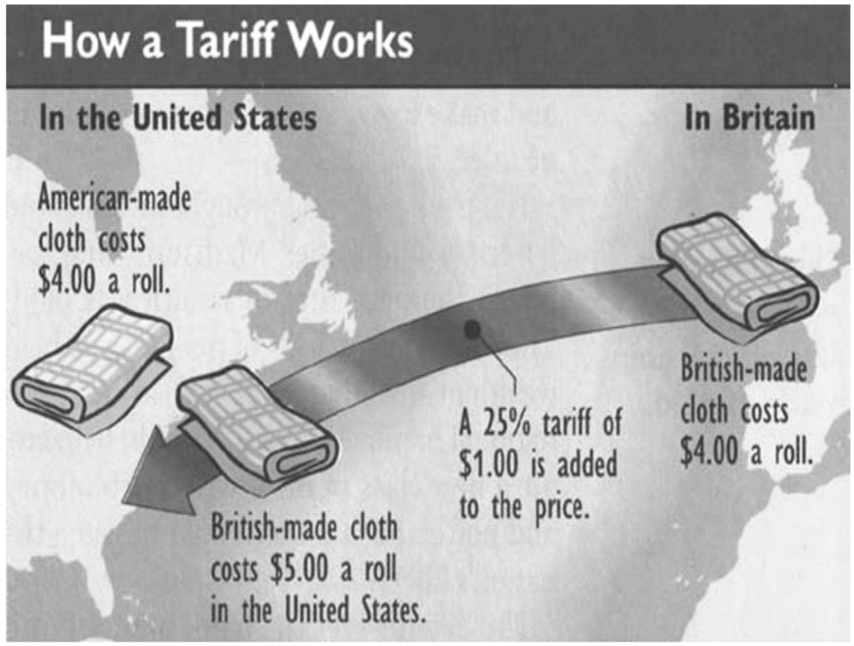

- **Specific Tariff** : Taxes that are levied as a fixed charge for each unit of goods imported.

  Example: The US government levies a 51 cent ***specific tariff*** *on every wristwatch imported into the US.*
- **Ad valorem tariff** : This is levied as a fixed percentage of the value of the commodity imported. "Ad valorem" is Latin for "on value" or "in proportion to the value."

The US currently levies a 2.5% ad valorem tariff on imported automobiles. Thus if $100,000 worth of autos are imported, the US government collects $2,500 in tariff revenue. In this case, $2500 is collected whether two BMWs of $50,000 each are imported or ten Hyundai's of $10,000 each are imported.

a) **Administrative Cost**: These costs include the charges paid for acquiring Import and Export Licenses, other export import documentation, physical arrangements to get the products from port of entry to buyer's locations. These costs are relatively small in amount but they add to the overall costing.

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b) **Inflation**: Inflation is the rising of the average price levels in a country, which in turn reduces the buying power of money. Companies need to adapt the prices to the different inflation ratios in order to combat this effect .Inflation causes consumer prices to escalate and the consumer is faced with rising prices that eventually exclude many consumers from the market

c) **Deflation:** Deflation results in decreasing prices creating a positive result for the consumers. In a deflationary market, it is essential for a company to keep prices low and raise brand value to win the trust of the customers as the spending power of the buyer's decreases.

In a deflationary market, it is very important for a company to keep the prices low and raise the brand value to win the trust of the consumers. Whether the situation is Inflationary or deflationary in both cases the exporter must emphasise on controlling price escalations.

d) **Middleman and Transportation Costs**: Longer channel length, performance of marketing functions and higher margins may make it necessary to increase prices

e) **Exchange Rate Fluctuations and Varying Currency Values**: Currency values swing vis-à-vis other currencies on a daily basis, which may make it necessary to increase prices. There is no certainty of the future value of the currency of any country. Transactions are increasingly being written in terms of Vendor Company's national currency. Hence there are fluctuations in prices internationally.

9.5.2 Approaches to Lessening Price Escalation

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Price escalation is a major pricing problem for the international marketer. How can this problem be counteracted?

Exporting involves more steps and substantially higher risks than simply selling goods in the home market. To cover the incremental costs (e.g., shipping, insurance, tariffs, margins of various intermediaries), the final foreign retail price will often be much higher than the domestic retail price. This phenomenon is known as price escalation.

Price escalation raises two important questions that management needs to confront:

1. Will our foreign customers be willing to pay the inflated price for our product?

2. Will this price make our product less competitive?

If the answer is negative, the exporter needs to decide how to cope with price escalation.

There are various approaches to deal with price escalation:

1. Lowering costs of goods,
2. Lowering tariffs, and
3. Lowering distribution costs (Cateora, Gilly, and Graham, p.543, 2013).
4. Rearrange the distribution channel**.**
5. Eliminate costly features (or make them optional).
6. Downsize the product.
7. Assemble or manufacture the product in foreign markets.
8. Using Foreign Trade Zone

9.5.2.1 Lowering the cost of goods

This may be done by shifting the manufacturing plant to a less expensive area.

Example: Companies such as Samsung, reduce their manufacturing costs by producing their goods in Korea, to benefit from low waged human resources (Cateora, Gilly, and Graham, p.548, 2013).

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On the other hand, reducing the quality of a product minimizes significantly cost of a good. Even though some firms would not opt to sacrifice their image by reducing the quality of a product, hence eliminating some feature and simplifying the product can be a smart option to reduce costs without jeopardizing the brand.

Albeit reducing manufacturing costs may result in benefiting the firm since " the lower the product price" lower will be the tariff to pay.

9.5.2.2 Lowering Tariff

Tariffs account for a large part of price escalation (Cater, Gilly, and Graham, p.549, 2013). A company may be paying an erroneous percentage on tariff, Therefore firms must ensure their products are being placed under the correct category.

Lower tariffs can be achieved through:

a. **Reclassification:** In the evaluative process, descriptions of the product can aid the producer redevelop its product in order to lower a category. For instance a product with certain specification may pay a high tariff whereas coincidently modifying a similar product reducing the dimensions or evading the specifications of the other can significantly reduce the tariff. Such is the case of athletic footwear.

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b. **Persuading foreign country's government:** Furthermore another option to reduce tariff is to assemble part of the product in the country where it is desired to be sold. Thus significantly less cheap if the product is assembles with a local content

9.5.2.3 Lowering Distribution costs

The firm must analyze the distributing procedures of and intent to reduce as much as possible all intermediaries; mostly considering that in most countries taxes are paid every time they change of dealer. Low distribution cost can be achieved by eliminating or reducing middlemen .Designing a channel which has fewer middlemen may lower distribution cost this will lead to eliminating middlemen mark up or rearrange the distribution channel.

9.5.2.4 Eliminate costly features (or make them optional)

Several exporters have addressed the price escalation issue by offering no-frills versions of their product. Rather than having to purchase the entire bundle, customers can buy the core product and then decide whether or not they want to pay extra for optional features.

9.5.2.5 Downsize the product

Another route to dampen sticker shock is downsizing the product by offering a smaller version of the product or a lesser count. This option is only desirable when consumers are not aware of cross-border volume differences. To that end, manufacturers may decide to go for a local branding strategy.

9.5.2.6 Assemble or manufacture the product in foreign markets

A more extreme option is to assemble or even manufacture the entire product in foreign markets (not necessarily the export market). Closer proximity to the export market will lower transportation costs. To lessen import duties for goods sold within European Union markets, numerous firms have decided to set up assembly operations in EU member states.

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9.5.2.7 Using Foreign Trade Zone

- Imported goods stored or processed without imposing tariffs or duties until items leave FTZ areas and is imported into host country
- FTZ's can lower costs through:
  - ✓ Lower duties imposed
  - ✓ Lower labor costs in importing country
  - ✓ Lower ocean transportation costs with unassembled goods (weight and volume are less)
  - ✓ Using local materials in final assembly

CHECK YOUR PROGRESS

State True or False

1. Price escalation refers to the added costs incurred as a result of exporting products from one country to another.
2. Tariffs are imposed to protect aging and inefficient domestic industries from foreign competition**.**
3. A tariff is a tax or duty imposed by one nation on the imported goods or services of another nation.
4. Specific Tariff and Ad-valorem tariffs are one and same.
5. Inflation is the rising of the average price levels in a country.

6. Price escalation is not because of Exchange rate fluctuations and Inflation.

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9.6 Leasing in International Markets

An important selling technique to reduce high prices and capital shortages for capital equipment is the leasing system. Terms of the leases usually run one to five years, with payment made monthly or annually, included in the rental fee are servicing, repairs and spare parts. Just as contracts for domestic and overseas leasing arrangement are similar so are the basic motivations and the shortcoming. For example:

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

9.7 Counter Trade as a pricing tool

Countertrade is an umbrella term used to describe unconventional trade-financing transactions that involve some form of non-cash compensation.

During the last decade, companies have increasingly been forced to rely on countertrade. Estimates on the overall magnitude of countertrade vary but the consensus estimate is that it covers 10 to 15 percent of world trade.

Counter trade is a pricing tool that every international marketer must be ready to employ, and the willingness to accept a counter trade will often give the company a competitive advantage.

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Marketers must be aware of which markets will be likely to require counter trades just as they must be aware of social customs and legal requirements. Assessing this factor of Counter Trade along with all other market factors will enhance a marketer's competitive position.

One of the earliest barter arrangements occurred between Russia and Pepsi Co., PepsiCo wanted to beat Coca-Cola into the Russian market. The only way possible was for PepsiCo to be willing to accept vodka (sold under the brand name Stolichnaya) from Russia and bottled wines (sold under the brand name of Premiat) from Romania to finance Pepsi-Cola bottling plants in those countries. From all indications this has been a very profitable arrangement from Russia, Romania and PepsiCo continues to use counter trade to expand its bottling plants. (Cateora)

In a recent agreement between Pepsi Co. and Ukraine, Pepsi agreed to market $1 billion worth of Ukrainian made commercial sips over an eight year period. Some of the proceeds from the ship sales will be reinvested in the ship building venture and some will be used to buy soft drink equipment and build five Pepsi bottling plants in Ukraine. PepsiCo dominates the cola market in Russia and all the former Soviet Republics in part because of its executive counter trade agreement with Russia which locked Coca- Cola out of the Russian cola market for more than 12 years. After the Soviet Union was dismembered the Russian economy crashed and most of the Russian payment system broke down into barter operation.

Truckloads of aspirin were swapped by one company, and then traded for poultry which in turn was bartered for lumber, in turn to be exchanged for X ray equipment from Kazakhstan – all to settle debts. Many of these transactions involved regional electricity companies that were owed money by virtually everyone.

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9.7.1 Aspects of Counter trade

Countertrade takes place via six aspects as discussed below:

1. **Simple Barter :** Simple barter is a swap of one product for another product without the use of any money. Usually, no third party is involved to carry out the transaction. A single contract covers the entire transaction. It is one of the oldest forms of countertrade, which is very seldom used these days. It is most common in deals that involve subsistence economies.

   Barter is also sometimes introduced into existing contracts to recover debt through goods when the debtor cannot pay cash.

2. **Clearing arrangement :** Under this form, each party sets up an account that is debited whenever goods are traded. Imbalances at the end of the contract period are cleared through payment in hard currency or goods.

   Example: One clearing agreement between Indonesia and Iran specified that Indonesia would supply paper, rubber, and galvanized sheets in exchange for 30,000 barrels per day of Iranian crude oil.

3. **Switch Trading :** This is a variant of clearing arrangements where a third party is involved. In such deals, rights to the surplus credits are sold to specialized traders (switch traders) at a discount. The third party uses then the credits to buy goods from the deficit country.

4. **Buyback (compensation) :** In such transactions, the seller provides the equipment and agrees to be paid (partially or fully) by the products resulting from using the equipment. Such agreements are much more mutually beneficial than the other forms of countertrade.

   Example: An agreement that was settled between PALMCO Holdings, Malaysia's biggest palm oil refiner, and Japan's Kao Corporation. The contract set up a $70 million joint venture to produce palm oil by products in Malaysia. Kao was to be compensated by 60 percent of the output that it could use as inputs for producing detergents, cosmetics, and toiletries.

5. **Counter purchase :** Counter purchase is the most popular form of countertrade. Similar to buyback arrangements, two parallel contracts are set up. Each party agrees to buy a specified amount of goods from the other for hard currency over a set period. Contrary to buybacks, the products are unrelated. Typically, the importer will provide a shopping list from which the exporter can choose.

   Example: In October 1992, PepsiCo set up a joint venture in Ukraine with three local partners. Under the agreement, the partnership was to market ships built in Ukraine. Proceeds from the ship sales were to be used to buy soft-drink equipment, to build bottling plants, and to open Pizza Hut restaurants in Ukraine.

6. **Offset :** Offset is a variation of counter purchase. The seller agrees to offset the purchase price by sourcing from the importer's country or transferring technology to the other party's country. Offset is very common with defence contracts but is also becoming more common in other sectors.

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9.7.2 Reasons why Companies Engage in countertrade

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The most commonly cited benefits are:

a) **Gain access to new or difficult markets :** Countertrade in many ways is a "necessary evil. "It can be very costly and risky. Nevertheless, being prepared to accept counter- trade deals offers for many companies a competitive edge that allows them to penetrate markets with a lack of hard currency cash. Many exporters accept countertrade arrangements because their rivals offer it. A UK survey found that 80 percent of the exporters' competitors were also involved in countertrade.

b) **Overcome exchange rate controls or lack of hard currency:** Shortages of hard currency often lead to exchange controls. To navigate around government imposed currency restrictions, firms use countertrade. Overcome low country credit worthiness. This benefit applies to trade with parties located in countries with low credit ratings. Under such conditions, the other party faces high interest rates or difficult access to credit financing. Countertrade allows both parties to overcome such hurdles.

Check Your Progress

Do Value Added taxes discriminate against value added goods.

c) **Increase sales volume :** Firms with a substantial amount of overheads face a lot of pressure to increase sales. Despite the risks and costs of countertrade, such deals provide a viable opportunity to achieve full capacity utilization.

d) **To dispose of surplus or obsolete products :** A final payoff is that willingness to accept countertrade deals fosters long-term customer goodwill. Once the credit and/or currency situation in the client's country improves, sellers will be able to capitalize on the customer goodwill cemented over the years.

Among these marketing objectives, a survey of industrial firms located in twenty- three countries showed that the most important ones are: (1) sales increase (2) increased competitiveness and (3) entry to new markets.

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CHECK YOUR PROGRESS

State True or False

1. One of the earliest barter arrangements occurred between Russia and PepsiCo.
2. Countertrade comes in six guises: barter, clearing arrangements, switch trading, buyback, counter purchase, and offset.
3. Barter is a swap of one product for cash or gold.
4. Under the process of clearing arrangement two governments agree to import a set specified value of goods from one another over a given period.
5. Buy Backs are much more mutually beneficial than the other forms of countertrade.

9.8 Transfer Pricing Strategy

Prices of goods transferred from a country's operations to its units elsewhere as the companies increase the number of worldwide subsidiaries, joint ventures , company owned subsidiary systems and other marketing arrangements , is known as transfer pricing.

This is done to enhance the ultimate profit of the company as a whole.Intercompany transactions across borders are growing rapidly and becoming more complex.

Transfer pricing is a term used to describe aspects of intercompany pricing arrangements between related business entities and commonly applies to intercompany transfers tangible property, intangible property services and finance transfers.

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9.8.1. Objectives of Transfer Pricing

1. Competitiveness in the international marketplace
2. Reduction of taxes and tariffs
3. Management of cash flows
4. Minimization of foreign exchange risks
5. Avoidance of conflicts with home and host governments over tax issues and repatriation of profits
6. The price that is assumed to have been charged by one part of the company for products and services it provides to another part of the company, In order to calculate each division's product and loss separately.

9.8.2 Transfer Pricing Methods

1. **Market-based transfer price**: In the presence of competitive and stable external markets for the transferred product, many firms use the external market price as the transfer price.
2. **Cost-based transfer price**: The transfer price is based on the production cost of the upstream division. A cost-based transfer price requires that the following criteria be specified :

    - Actual cost or budgeted (standard) cost.
    - Full cost or variable cost.
    - The amount of mark-up, if any, to allow the upstream division to earn a profit on the transferred product.
    - Negotiated transfer price: Senior management does not specify the transfer price. Rather, divisional managers negotiate a mutually-agreeable price.

9.8.3 Benefits of Transfer Pricing

1. Lowering duty costs by shipping goods into high-tariff countries at minimal transfer prices so that duty base and duty are low.
2. Reducing income taxes in high-tax countries by overpricing goods transferred to units in such countries; profits are eliminated and shifted to low-tax countries
3. Facilitating dividend repatriation when dividend repatriation is curtailed by government policy by inflating prices of goods transferred

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9.8.4 Challenges of Transfer Pricing

- **Performance Measurement**
  - ✓ The clouding effect of manipulating intra corporate prices on a subsidiary's apparent and actual profit performance
  - ✓ Difficulty in maintaining relationships with subsidiaries that are negatively impacted by transfer pricing.
- **Taxation**
  - ✓ Tax and regulatory jurisdictions contribute to and compound transfer pricing problems. Pricing that is justified and reasonable in the home country may not be perceived as such in the host country.

CHECK YOUR PROGRESS

State True/False

1. Management of cash flows & Minimization of foreign exchange risks are not the objectives of Transfer Pricing.
2. Transfer Pricing is done to enhance the ultimate profit of the company as a whole.
3. Pricing that is justified and reasonable in the home country may not be perceived as such in the host country.
4. Lowering duty costs by shipping goods into high-tariff countries

at minimal transfer prices so that duty base and duty are low.

9.9 Administered Pricing

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It is an attempt to establish prices for an entire market. Such prices may be arranged through the cooperation of competitors, through national state or local government or by international agreements The end goal of all administered pricing activities is to reduce the impact of price competition or eliminate it. It is done to lessen the effects of destructive pricing

9.10 Cartels

A cartel exists when various companies producing similar products or services work together to control markets for the types of goods and services they produce.Cartels may use formal agreements to set prices, establish levels of production and sales for the participating companies, allocate territories and then redistribute profits.

The largest known CARTEL is OPEC – Organisation of Petroleum Exporting Countries.

9.11 Basic Legal and Ethical issues associated with pricing

a) Inflation : Pricing a product in places wherein inflation is severe and uncontrolled can present a greater risk to the company. In this case the firm´s marketing and financial departments must commit to constantly control pricing; whether that means adapting parts of the products or lowering quality of materials, changing to low-cost supplier of raw materials, limiting or shortening credit terms, comprising escalator clauses in contracts, quoting prices in stable currencies and/or pursuing rapid inventory turnovers (Global Market Today).

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b) Currency Movements : Unfortunately political and economic conditions cause exchange rate fluctuations. This fluctuation is difficult for the creation of a price setting strategy. Thus managers should consider two main issues: "how much of the exchange rate gain or loss should be transferred to customers (the pass-through issue), and deciding what currency price quotes are given in" (Global Market Today).

c) Anti-dumping Regulations : Dumping is an illegal marketing behaviour that occurs when firms sell their products at an inequitable price. This law is monitored by the WTO as a protectionist measure safeguarding local industries from aggressive multinational firms. Anti-dumping rules are rigorous and penalties can harm the integrity of a firm.

d) Price Coordination : Even though price is known to vary from one area to another, firms must coordinate their pricing between a certain scales. An excessive price discrepancy between regions creates gray market.

e) Countertrade : This consists in a trade mostly between the government and an international firm wherein goods are exchanged for other goods instead of currency. These trades can present beneficial offers for a company. For instance PepsiCo made an agreement with the Russia (at the time of the Soviet Union) wherein PepsiCo had to distribute Russian vodka and Rumanian wine in exchange of the financing Pepsi´s bottling plants in those respective countries. This barter gave Pepsi an enormous competitive advantage since they prohibited the entry of Coca Cola during the Soviet Period. Countertrades are classified as: barter, counter purchase and offset, hence barter is the most commonly used nowadays.

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9.12 Summary

Pricing in the international marketplace requires a combination of intimate knowledge of market costs and regulations, an awareness of possible countertrade deals, infinite patience for detail and a shrewd sense of market strategy.

Pricing is one of the most complicated decision areas encountered by international marketers. Rather dealing with one set of market competitors, one set of cost factors and one set of government regulations, international marketers must take all these factors into account, not only for each country in which they operate, but often for each market within a country. The goal of pricing a product is to maximize profits thus settling for one that equilibrate costumer's acquisition capability and beneficial revenues. Nonetheless price escalation can be a burden that can drain a company.

Market prices at consumer level are much more difficult to control in international markets than in domestic marketing. Controlling cost which leads to price escalations when exporting products from one country to another is one of the most challenging pricing tasks facing the exporter.

Due to increase in use of Internet in today's era, the flexibility in pricing is reduced. Now there is a tendency of equalising price differentials between country markets.

The continuing growth of the third world market coupled with their lack of investment capital has increased the importance of countertrade, which will help eliminate some of the problems associated with this practice.

9.13 Key Terms

Parallel Imports: Parallel imports refer to branded goods that are imported into a market and sold there without the consent of the owner of the trademark in that market.

Skimming Pricing: Pricing the product at the very high prices in the beginning, so that only limited number of customers with deep pockets and who wish to buy exclusivity can afford its products

Price Escalations: Price escalation refers to the added costs incurred as a result of exporting products from one country to another.

Counter Trade: Countertrade is an umbrella term used to describe unconventional trade-financing transactions that involve some form of non-cash compensation

Transfer Pricing: Prices of goods transferred from a country's operations to its units elsewhere as the companies increase the number of worldwide subsidiaries, joint ventures , company owned subsidiary systems and other marketing arrangements , is known as transfer pricing.

Penetration Pricing: This pricing is used to capture market share by deliberately offering products at low prices. The profit margin in this type of pricing is low but the volume of sales make up for it as it maximises revenue

Tariffs: A tariff is a tax or duty imposed by one nation on the imported goods or services of another nation. These costs results in higher prices, which are generally passed on to the buyer of the product.

9.14 Questions and Exercises

1. Discuss the causes of and solutions for parallel imports and their effect on price.

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2. What are the causes of Price Escalation and tell why it can mislead an international marketer?
3. Do Value Added taxes discriminate against value added goods.
4. Why is it difficult to assess the prices in international markets? Explain with valid reasons.
5. Out of the types of countertrades discussed in the text, which is the most beneficial one to the seller? Explain.

9.15 Read the article given below and answer the following questions

Why iPhones are Costly in India than other Countries

Apple's latest phone is possibly one of the best smart phones on the planet. The problem is its costs which are as much as a small vacation in India. Pricing starts at Rs 62,000 for the basic 16 GB version and goes all the way up to Rs 92,000 if you want the highest-end 128 GB iPhone 6S Plus. In fact, India is the most expensive country to buy iPhone 6S.

Apple has been trying to reel in more buyers in India, the segment which is dominated by sub-Rs 10,000 Android phones, by striking deals with specialised distribution companies and selling older models for lower prices long after they have been discontinued in the US.

Pricing a phone out of the reach of even your average, well-heeled urban customer seems, therefore, particularly hare-brained – but there are reasons.

1. **A weaker rupee** : Here's what happened to the Indian rupee since the iPhone 6 was released in the country. According to the Reserve Bank of India, the US dollar was Rs 61.61 in October 2014. In October 2015, it was Rs 65.74. That's a 6.2%

increase. In comparison, the iPhone 6S is 13.7% more expensive than the iPhone 6.

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2. **A buffer against currency fluctuation** : In November 2014, the Russian rouble lost 30% versus the US dollar amid falling oil prices and economic sanctions against Russia. In response, Apple hiked iPhone prices by 25%. In less than a month, it halted iPhone sales in Russia entirely, citing "extreme" rouble fluctuations. When Apple opened its online store again in late December, customers balked at the prices, which had been hiked by a further 35%. "The higher pricing of the iPhone 6S includes a built-in buffer, because changing pricing halfway through a cycle is terrible for sales and is not consistent with Apple's policies."

   So you're basically paying extra…just in case. Life's unfair.

3. **More taxes** : During the budget session of Parliament in February, finance minister Arun Jaitley announced the government was making locally manufactured mobiles and tablets cheaper and jacking up the excise duty on imported devices from 6% to 12.5%.

   The rise in import duty meant Apple had to increase pricing on the iPhone 5S and the iPhone 6 by approximately Rs 3,000 on each model.

4. **E-commerce** : The iPhone 4S was released in India in November 2011 for Rs. 44,500, and for a full year, till the iPhone 5 was launched, that was the price it was sold at – no price drops, no discounts. Apple products were notorious for never getting price cuts, but there was a flipside: You could confidently buy a new iPhone the day it released, without fretting that it would be cheaper in a month or two.

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"There was buyer's certainty with iPhones , but then, Flipkart happened, and Snapdeal, and Amazon, and payTM, and everything, including iPhones, started getting heavily discounted. In fact, we could have reached peak iPhone discounts: As a part of Flipkart's Big Billion Days sale this year, you could buy an iPhone 6 for as low as Rs 25,000 if you had an iPhone 5S to swap. Snapdeal had a dozen offers, including freebies like 60 GB of 4G data if you switched to the 6S, and PayTM had a coupon code that shaved off a full Rs 6,000 off the price of the 6S.

"E-commerce discounting is now a phenomenon in India and Apple knows this," says Naravane. "I wouldn't be surprised if prices of the 6S come down in six months or so."

5. **Mind games** : At times the most expensive iPhones are available at lower prices. Here the companies, deliberate move the prices to make its products seem relatively affordable, when they are still much more expensive when you compare them to the competition.

6. **Maintaining a premium position** : This is going to sound funny – but one of the reasons behind the iPhone's sky-high price is because Apple *wants* to be the most expensive smart phone in the market.

   "Apple doesn't want to lose its premium, aspirational slot," says Pathak. "So it's deliberately pricing the iPhone 6S more than its immediate competition."

   Indeed, pricing for premium smartphones across the board has gone up this year. Devices like Samsung's flagship, the Galaxy S6, which the company positions as a direct competitor to the iPhone, cost Rs 56,700. The Galaxy S6 Edge+, Samsung's other flagship this year, starts at Rs 57,900. (These are official company prices. You can get them cheaper on e-commerce websites.)

The iPhone 6S, with its price tag of Rs 62,000, manages to be ever so slightly ahead of them.

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7. **More iPhones, not iPhone 6Ss** : It might seem incredible, but Apple actually has an iPhone in every price bracket – from the budget to the ultra-premium. The iPhone 4S, the oldest iPhone you can buy right now in India, is Rs 13,000 on Snapdeal; the 5S is in the high-20s; the 6 is in the low-40s; the 6 Plus is in the low-50s; and the 6S and the 6S Plus are in the low-60s and low-70s respectively.

This, Pathak believes, is a key part of Apple's India strategy. "The price gap between the newest iPhones and the older models is so much that more people will invariably end up buying the older models," he says.

This is true. According to Counterpoint's data, the iPhone 6 accounted for less than 50% of the 1.7 million iPhones that Apple sold in India this fiscal. The rest was a mix of the iPhone 5S and the iPhone 4S.

Pathak says Apple is totally fine with this. "Apple only accounts for about 3.5 million of India's 170 million smartphones," he says. "So right now, they care about getting more people into the Apple ecosystem, rather than getting them to use the latest Apple device."

This is unlike the US, where the iPhone market is so saturated that Apple now offers its own instalment plan to get people to upgrade to the latest iPhone every single year. "At the end of the day," says Pathak, "it's a gain for Apple in any which way."

(**Source-**http://www.hindustantimes.com/tech/india-the-most-expensive -place-to-buy-an-iphone-6s-but-why/story-nSDEAr7AynBfI4y BM0hf1O.html)

Questions:

1. List the reasons that why iphones are priced high in India?

2. Apple doesn't want to lose its premium slot," so it's deliberately pricing priced high. Comment.

3. Explain what Mind Game is with reference to pricing the iphones.

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9.16 Further Reading and References

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UNIT 10 : INTERNATIONAL LOGISTICS AND DISTRIBUTION

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10.0 Unit Objectives

After reading this unit, you should be able to:

- State the components & Economic importance of International logistics and distribution.
- Explain the methods of entry into the foreign market
- Know the meaning of International contract & various terms related to international trade.
- Explain the International Transportation process & International Insurance options
- Explain the packaging for Export& various issues relating to Customs Clearance
- Factors and Challenges & driving Global Logistics and Distribution
- Explain outsourcing Management & use of Software in International Logistics and Distribution.

10.1 Introduction

Logistical management is an indispensable part of any company and can be manifold complex when undertaken in global economy.

International Logistics is basically the design and management of a system that controls the forward and reverse flow of material, services, and information into, through, and out of the international corporation.

According to the Council of Logistics Management, logistics is the management process of planning, implementing, and controlling the physical and information flows concerned with materials and final goods from the point of origin to the point of usage. International logistics comprises the management of these resources in a company's supply chain across at least one international border.

Globalization brings homogenization of consumer needs, liberalization of trade, and competitive advantages of operating in global markets; and the companies have to think and act internationally in order to survive in such dynamic atmosphere.

10.2 The Economic Importance of International Logistics

Logistics management involves the physical movement of products as raw materials from their point of origin to receipt by end users as a finished product. It is cardinal process for any business for following reasons:

- **Production Inputs :** The production inputs now can be procured from anywhere on the planet. This brings efficiency in the economic system as it saves cost and present opportunities across the globe.
- **Transportation Logistics :** The cost of transporting materials and finished goods affects any decision about where to locate manufacturing facilities or which supplier to use to deliver a given production input. International logistics facilitates to deal with these issues effectively and produce efficient results to the businesses and economy as a whole.
- **Customs Clearance :** Customs procedures are normally highly technical; improperly ensuing can result in costly and extended delays. International logistics handles these hindrances in order

NOTES

Check Your Progress

International logistics and distribution is important to economics?

NOTES

to facilitate smooth international businesses.

- **Supply Chain :** Logistics and distribution management are the answers to quantity of orders that a fulfillment center may process, the time consumed and the possible maneuverability. Sound understanding of these processes facilitates a suave and efficient system of international supplies.

10.3 Components of International Logistics and Distribution

There are few activities that are exclusively specific to international logistics:

10.3.1 Methods of Entry into foreign markets

The first venture of most firms in the international arena is usually more the result of coincidence than the careful planning and thoughtful strategic thinking. After a few haphazard transactions, the firm then realizes that there may be a substantial market. Countless headaches can be avoided if the correct strategy is determined early on, using as many pieces of information as possible.

10.3.1.1. Indirect Exporting

Some firms are not willing to export. They prefer to focus on there domestic markets but they get foreign enquiries and they have to sell to them. Several alternatives are possible as given below:

10.3.1.1.1 Export Trading Company

The ETC is an intermediary which will purchase the goods in the exporting country and resell them to a customer in a foreign country. The use of an ETC makes a great sense for the novice exporters or the company unwilling or unable to dabble in the complexities of an occasional international transaction.

10.3.1.1.2 Export Management Corporation

EMCs are an altogether different type of intermediary. These are located in exporting country and operate as a representative of export oriented manufacturer's representative.

10.3.1.1.3 Piggy Backing

When a customer of a firm enters a foreign market and tells the suppliers that they will need to supply parts for assembly and spare parts for customer service. In some cases the suppliers develop their own independent sales in the market.

Piggy backing is also the case when a successful exporter involves a company that makes a complimentary product in the market that this exporter has developed.

10.3.1.2 Active Exporting

When a firm willingly wants to exploit the possibilities that sales abroad can bring, and thus becomes involved in exporting activities, several alternatives are possible:

10.3.1.2.1 Agent

An agent is usually a small firm or an individual located in the importing country, which acts as a manufacturer's representative for the exporter. An agent does not take to the goods it sells but earns a commission on the sales it makes.

Agents, as a whole, like to keep control over their schedule and over their sales approach, but the exporter's support of their efforts are critical to their success and to the extent to which they expand a lot of efforts selling the exporter's product.

10.3.1.2.2 Distributor

A distributor is usually a firm located in the importing country which buys the goods from exporters. A distributor therefore takes title to the goods it sells and earns a profit on the sales it makes.

A distributor takes much more risk in its relationship with the exporter than does an agent and experiences much higher costs.

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10.3.1.2.3 Marketing Subsidiary

Instead of employing an agent or a distributor when a firm creates its own sales or marketing subsidiary in a foreign country. A marketing subsidiary is a foreign office, staffed by employees of the exporting firm. The costs of the marketing subsidiaries are higher, and a good portion of them is fixed. This is a contrast of sales through agent or distributorship.

10.3.1.3 Production Abroad

Another alternative to exporting is for a company to start operations abroad. This strategy is followed when the manufacturing costs are lower abroad, or when the shipping costs are prohibitive, or when domestic manufacturing capacity is reached or when the product has a significant intangible content, such as services.

10.3.1.3.1 Contract Manufacturing

It is the alternative when the company enters an agreement with a producer in the foreign market to manufacture its good.

10.3.1.3.2 Licensing

Licensing is the granting of rights to intellectual property owned by a company to another company for a fee. The intellectual property can be a patent, technology, process, design, product, trademark, brands, copyright, a trade secret, or any other know-how. The company using the intellectual property only has the right to use the property, and for every use it has to pay a fee called royalty.

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10.3.1.3.3 Franchising

In franchising, the franchisor grants right to a large number of intellectual property items, all bundled in a business package. The business model is comprised of trademarks, copyrights, and patents; as well as know-how, training, and methods of operation. The franchisors have the opportunity to gain market share without having to invest any capital. Franchising involves a lot of piggy-backing as the franchisor demand that the franchisees use exactly the same resources worldwide.

10.3.1.3.4 Joint Venture

In joint venture the firm finds one or more partners with which to share the cost of the venture. The venture is jointly owned by these joint venture partners in any combination of ownership percentages. Most joint ventures involve two partners owning 50-50 percent, 51-49 percent. Some joint ventures include three or more partners, but they are less frequent.

10.3.1.3.5 Subsidiary

Subsidiary is a hundred percent investment in a foreign venture. This strategy is useful for the firms who seeks total control of an investment and are willingly ready to take risk of such a venture. Subsidiaries are also known as Wholly Foreign Owned Enterprise (WFOE). Here the firm does not have to share its trade secret, its know-how etc. and nor have to share profit with anyone.

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10.3.1.4 Parallel Imports

In parallel import, there is a discrepancy between the price charged in one country and the price charged in another country. These goods are also called grey goods. Grey goods are legitimate items but are sold out of the channel chosen or made by the company. Parallel imports occur in all sorts of product lines.

10.3.1.5 Others

There are certain other ways of entry into the foreign market, like Foreign Trade Zones. When an area of a country acquires a special customs status in order to encourage foreign investments and exports. There are no duty and quotas for shipping of goods. The goods can be produced, assembled, repacked in such areas freely. Some countries use foreign trade zones aggressively.

CHECK YOUR PROGRESS:

1. International logistics _______the cost of transportation of international supply chain.

   a) Increases b) Decreases

2. With the help of international logistics management, the input factors can be procured:

   a) Globally b) Locally

3. Following is not a method of entry in the international market:

   a) Export Trading Company b) Piggy Backing

   c) Market Subsidiary d) None of the above

4. Licensing is:

   a) Granting of right b) Transfer of ownership

   c) Partnering of right d) Partnering of Ownership

10.4 International Contracts

International business transactions are described in the form of an international contract, containing the objective(s) and commitments of each of the parties involved and the terms which govern the transaction.

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10.4.1 International Sales Contract and the CISG

Whether a sales contract is international or not is not always self-evident. There are two criteria generally to decide whether a contract is international, economic criterion and judicial criterion. The economic criterion checks whether there was a transaction that involved a transfer of merchandise from one country to another and transfer of funds. The judicial criterion checks whether the transaction has links to the laws of states involved. CISG (Contracts for the International Sale of Goods) is ratified by more than sixty countries whose export and import represents eighty percent of the world trade.

10.4.2 Agency Vs. Distributorship

An agency represents the exporter firm abroad and earns a commission on the sales it makes. In distributorship, the distributorship firm purchases goods from the exporter, with the idea of reselling them in its country, earning a profit in the process. The distributor sets own prices, have inventory and is responsible for after sales service. Each country has its own laws and regulations regarding these agreements and the jurisprudence of each country may differ even on similar statutes.

10.4.2.1 Elements of an Agency or Distributorship Contract

There are a number of points that must be covered in any international contract.

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10.4.2.1.1 Contract Language

Some agreements are entered into by two parties who do not share a common language so it is needed to write the contract in both/all the languages. However it is impossible to translate accurately and precisely contract terminology in some other language.

10.4.2.1.2 Good Faith

The implied covenant of good faith is a presumption that the parties to the international contract will deal with each other honestly, fairly, and in good faith, so as to not destroy the right of the other party or parties to receive the benefits of the contract arising out of cross-border.

10.4.2.1.3 Corporate Accounts

Corporate accounts are very large customers that have negotiated terms that will apply to all their purchase worldwide. It is important for an exporter to pay close attention to the number of corporate accounts that are included in a representation agreement.

10.4.2.1.4 Terms of appointment

Determining the duration of the contract appropriately is critical. The contract should be long enough to allow the representative good time to develop the market, as well as, it should be short enough so that an ineffective representative may be removed.

10.4.2.1.5 Choice of Law

To avoid the different interpretation of specific clauses, every contract includes a clause that determines which of the two sets of laws should be used by a court or by the arbitration panel.

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10.4.2.1.6 Choice For Forum and Arbitration

An increasing number of contracts include a clause, which does not call for a court to settle disputes, but for an arbitration panel. Mediation or conciliation is encouraged before arbitration or litigation is undertaken.

10.4.2.2 Termination

Termination is the act of ending the relationship. All contracts spell out to termination clause. A pre-termination notice should be given and a termination compensation is given to agent or distributor equivalent to amount he would have earned for a certain period.

10.4.3 Terms of Trade or Incoterms

Whenever an exporter sells goods to a foreign company, there are a large number of steps involved in getting the goods to the customers like clearing the goods for export, organizing the transport of the goods between the exporter and the importer, often using several means of transportation, and, clearing customs in the importing country. Incoterms are trade terms published by the International Chamber of Commerce (ICC) that are commonly used in both international and domestic trade contracts. Incoterms are used to make international trade easier by helping traders who are in different countries to understand one another.

10.4.3.1 Free Carrier (FCA)

FCA is used for any merchandise and for any means of transportation. Though it was created for multi-modal transportation.

FCA is expected to become one of the most popular incoterms as the number of multi-modal shipments increase.

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10.4.3.2 Free Alongside Ship (FAS)

FAS is specifically designed for ocean transportation and is not meant for any other means of transportation or for merchandise that is not meant to be ocean shipped. In a free alongside ship transaction, the exporter is responsible to bring the goods to the port alongside a ship designated by the importer, at which time the responsibility shifts to the importer.

10.4.3.3 Free on Board (FOB) Port of Departure

FOB is specifically designed for ocean transportation. The FOB sometimes also called Freight on board is one of the oldest maritime terms of trade. In FOB, the point of delivery is extremely clear and has been governed by centuries of maritime tradition. The exporter is responsible for packaging the goods for export, shipping them to the port of departure, and loading them onto the ship. The importer is responsible for arranging and paying for ocean transportation from the port of departure to the good's destination, custom clearance in the importing country, and eventually arranging and paying for it.

10.4.3.4 Cost and Freight (CFR)

CFR is specifically designed for ocean transportation. In a CFR transaction, the delivery does not take place in the port of destination, but in the port of departure. The exporter is responsible for the goods until they are placed on the ship and the importer is responsible for them after that, but the exporter pre-pays the ocean freight.

10.4.3.5 Delivered Ex-Ships (DES)

DES inciters is mostly used for bulk shipments of commodities where the parties wish to have the importer pay for the unloading of the ship. In a delivered Ex-ship transaction, the exporter is responsible for the goods until they are placed at the disposal of the importer in the port of destination.

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10.4.3.6 Delivered Duty Unpaid (DDU)

The DDU incoterm can be used for any merchandise, and can be used for any means of transportation, including goods that are meant to be carried by ocean. In a delivered duty unpaid transaction, the exporter is responsible for the goods until they arrive, still loaded on a truck or a railroad car, in the city of destination. Although there is no transportation document that corresponds to this delivery, it is common for the exporter to provide the bill of lading at the time of delivery.

10.4.4 Terms of Payment

To succeed in today's global marketplace and sales against international trade presents a spectrum of risk, which causes uncertainty over the timing of payments between the seller and buyer. For sellers, any sale is a gift until payment is received and therefore the sellers want to receive payments as soon as possible. For buyers payment is donation until the goods are received therefore buyers want to receive goods as soon as possible.

10.4.4.1 Cash in Advance/Prepayment

With cash-in-advance payment terms, the exporter can avoid credit risk because payment is received before the ownership of the goods is transferred. Wire transfer and credit cards are the most commonly used cash-in-advance options available to exporters.

However, requiring payment in advance is the least attractive option for the buyer because it creates cash flow problems. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance.

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10.4.4.2 Letters of Credit

Letters of Credit are one of the most secure instruments available to international traders. Letter of Credit is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank.

10.4.4.3 Documentary Collection

Documentary collection is a transaction whereby the exporter entrusts the collection of a payment to the remitting bank (exporter's bank) which sends documents to a collecting bank (importer's bank) along with instructions for payment. Documentary collection involves using a draft that requires the importer to pay the face amount either at sight or on specified date. Drafts are generally less expensive that LCs.

10.4.4.4 Open Account

An open account transaction is a sale where the goods are shipped and delivered before payment is due which is usually in 30 to 90 days. This option is most advantageous to the importer in terms of cash flow and cost, but it is consequently the highest risk option for an exporter. Exporters who are reluctant to extend credit may lose a sale to their competitors.

10.5 International Logistics Documents

There are many documents involved in international trade, such as commercial documents, financial documents, transport documents, and other international trade related documents. It is therefore important to understand the role of each document and its requirements in international trade.

NOTES

10.5.1. Commercial Documents

10.5.1.1 Quotation

An offer to sell goods and should state clearly the price, details of quality, quantity, trade terms, delivery terms and payment terms.

10.5.1.2 Sales Contract

An agreement between the buyer and the seller stipulating every detail of the transaction. Since this is a legally binding document, it is therefore advisable to seek legal advice before signing the contract.

10.5.1.3 Pro Forma Invoice

An invoice provided by a supplier prior to the shipment of merchandise, informing the buyer of the kinds and quantities of goods to be sent, their value, and importation specifications.

10.5.1.4 Commercial Invoice

A formal demand note for payment issued by the exporter to the importer for goods sold under a sales contract. It should give details of the goods sold, payment terms and trade terms.

10.5.1.5 Packing List

A list with detailed packing information of the goods shipped.

10.5.1.6 Inspection Certificate

A report issued by an independent surveyor (Inspection Company) or the exporter on the specifications of the shipment, including quality, quantity, and price, required by certain buyers and countries.

10.5.1.7 Insurance Policy

An insurance document, with full details of the insurance coverage, evidencing insurance has been taken out on the goods shipped.

10.5.1.8 Insurance Certificate

This certifies that the shipment has been insured under a given open policy and is to cover loss of or damage to the cargo while in transit.

10.5.1.9 Product Testing Certificate

This certifies the products are conformed to a certain international / national technical standard, such as product quality, safety, and specifications.

10.5.1.10 Health Certificate

Document issued by the competent country when agricultural or food products are being exported, to certify that they comply with the relevant legislation in the exporter's country and were in good condition at time of inspection, prior to shipment and fit for human consumption.

10.5.1.11 Phytosanitary Certificate

Frequently an international requirement that any consignment of plants or planting materials importing into a country shall be accompanied by a Phytosanitary Certificate issued by the exporting country stating that the consignment is found substantially free from diseases and pests and conforms with the current phytosanitary regulations of the importing country.

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10.5.1.12 Fumigation Certificate

A pest control certificate issued to certify that the concerned products have been undergone the quarantine and pre-shipment fumigation by the approved fumigation service providers.

10.5.1.13 ATA Carnet

An international customs document used to obtain a duty-free temporary admission for goods such as exhibits for international trade fairs, samples, and professional equipment, into the countries that are signatories to the ATA Convention.

10.5.1.14 Consular Invoice

A document required by some foreign countries, showing shipment information such as consignor, consignee, and value description, etc. Certified by a consular official of the importing country stationed in the foreign country, it is used by the country's customs officials to verify the value, quantity, and nature of the shipment.

10.5.2 Transport Documents

10.5.2.1 Shipping Order

A document with details of the cargo and the shipper's requirements, and is the basic document for preparing other transport documents such as bill of lading, air waybill, etc.

10.5.2.2 Dock Receipt

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A receipt to confirm the receipt of cargo on quay / warehouse pending shipment. The dock receipt is used as documentation to prepare a bill of lading. It has no legal role regarding processing financial settlement.

10.5.2.3 Bill of Lading

An evidence of contract between the shipper of the goods and the carrier. The customer usually needs the original as proof of ownership to take possession of the goods.

10.5.2.4 House Bill of Lading

A bill of lading issued by a forwarder and, in many cases, not a title document. Shippers choosing to use a house bill of lading ,should clarify with the bank whether it is acceptable for letter of credit purpose before the credit is opened.

10.5.2.5 Sea Waybill

A receipt for cargo which incorporates the contract of carriage between the shipper and the carrier but is non-negotiable and is therefore not a title document.

Check Your Progress

International Contracts?

10.5.2.6 Air Waybill (AWB)

A kind of waybill used for the carriage of goods by air. This serves as a receipt of goods for delivery and states the condition of carriage but is not a title document or transferable / negotiable instrument.

10.5.2.7 House Air Waybill (HAWB)

An air consignment note issued by an air freight agent to provide the cargo description and records. Again, it is not a title document.

10.5.2.8 Shipping Guarantee

NOTES

Usually a pre-printed form provided by a shipping company or the bank, given by an importer's bank to the shipping company to replace the original transport document. The consignee may then in advance take delivery of goods against a shipping guarantee without producing the original bill of lading. The consignee and the importer bank will be responsible for any loss or charges occurred to the shipping company if fault is found in the collection. It is usually used with full margin or trust receipt to protect the bank's control to the goods.

10.5.2.9 Packing List

A list providing information needed for transportation purpose, such as details of invoice, buyer, consignee, country of origin, vessel / flight date, port / airport of loading, port / airport of discharge, place of delivery, shipping marks / container number, weight / volume of merchandise and the fullest details of the goods, including packing information.

10.5.3 Financial Documents

10.5.3.1 Documentary Credit D/C

An arrangement between a customer and his bank by which the customer may enjoy the convenience of cashing cheques, up to a value. It is also known as performance bond. This is usually found in large transactions, such as crude oil, fertilizers, fishmeal, sugar, urea, etc.

10.5.3.2 Collection Instruction

An instruction given by an exporter to its banker, which empowers the bank to collect the payment subject to the contract terms on behalf of the exporter.

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1.5.3.3 Bill of Exchange or Draft

An unconditional written order, in which the importer addressed to and required by the exporter to pay on demand or at a future date a certain amount of money to the order of a person or bearer.

10.5.3.4 Trust Receipt

A document to release a merchandise by a bank to a buyer (the bank still retains title to the merchandise), the buyer, who obtains the goods for processing is obligated to maintain the goods distinct from the remainder of his / her assets and to hold them ready for repossession by the bank.

10.5.3.5 Promissory Note

A financial instrument that is negotiable evidencing the obligations of the foreign buyer to pay to the bearer.

10.5.4 Government Documents

10.5.4.1 Certificate of Origin (CO)

This certifies the place of manufacture of the exported goods to meet the requirements of the importing authorities.

10.5.4.2 Certificate of Origin Generalized Systems of Preferences (GSP) Form A (or as Form A)

A CO to support the claim for preferential tariff entry (a reduced or zero rate) of the exporting country's products into the GSP donors under the GSP they operate

10.5.4.3 Import / Export Declaration

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A statement made to the Director of Customs at port of entry / exit, declaring full particulars of the shipment. The nature and the destination / exporting country of the ship's cargo. Its primary use is for compiling trade statistics.

10.5.4.4 Import / Export License

A document issued by a relevant government department authorizing the imports and exports of certain controlled goods.

10.5.4.5 International Import Certificate (IIC)

A statement issued by the government of country of destination, certifying the imported strategic goods will be disposed of in the designated country. In Hong Kong, it is issued only to meet an exporting country's requirement.

10.5.4.6 Delivery Verification Certificate (DVC)

A statement issued by the government of country of destination, certifying a specific strategic commodity has been arrived in the designated country.

10.5.4.7 Landing Certificate

A document issued by the government of country of destination, certifying a specific commodity has been arrived in the designated country.

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10.5.4.8 Customs Invoice

A document specified by the customs authorities of the importing countries stating the selling price, costs for freight, insurance, packing and payment terms, etc., for the purpose of determining the customs value.

10.6 International Insurance

Risks in transportation are an integral part of foreign trade, partly due to our inability to adequately control the forces of nature or to prevent human failure as it affects the safe movement of goods. Export-import firms depend heavily upon the availability of insurance to cover against risks of transportation of goods.

10.6.1 Marine and Aviation Insurance

Marine policy is the most important type of insurance in the field of international trade. This is because (1) ocean shipping remains the predominant form of transport for large cargo, and (2) marine insurance is the most traditional and highly developed branch of insurance. All other policies, such as aviation and inland carriage, are largely based on principles of marine insurance.

10.7 International Transportation

Managing the international transportation process is more complex than that of domestic transportation because of the many differences between the trading nation's transportation and customs regulations, infrastructure, exchange rates, culture, and language.

The transportation elements include the selection of carriers, ports/gateways, intermediaries, and the acquisition of insurance. At least three carriers are involved in an international shipment: a domestic, an international, and a foreign carrier.

Specific types of carriers that transport U.S. ocean-borne trade are: Liners, Tramps, and Private vessels.

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Four types of air carriers are available for international shippers: Air parcel post, Express or courier, Passenger, and cargo.

In many parts of the world, land transportation is accomplished through trucking which is a vital way of shipping internationally. In some areas of the world, it represents 100 percent of the international traffic. In others, it is a lower percentage, but trucking is still a significant part of the international traffic volume.

Multimodal transport is the transportation of goods under a single contract, but performed with at least two different means of transport; the carrier is liable for the entire carriage.

10.8 Packaging for Export

Different kind of goods needs different kinds of protection. Transport packaging must protect goods, from source to destination, against storage risks before, during, and after distribution, transport risks throughout distribution, and, Handling risks at all points in the distribution chain.

10.9 Customs Clearance

Customs Departments are the government titled authority to implement the policies related to import and export. These collect customs duties and facilitate movement of people, goods, and cargo into and out of the country.

Every country annually publishes its policy for Foreign Trade, which stipulates the conditions under which goods and services are eligible to be exported or imported. Customs departments implement the provisions of the policy under customs rules, regulations, and tariffs.

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Imports in many countries may be allowed freely, or some categories may be permitted with due licenses. Many items are also published as banned for import and not allowed entry into the country.

All of the items imported into the country have to be custom cleared. Cargo imported into the country from any point of entry is warehoused at customs bonded area under customs jurisdiction until it is released after clearance. Customs clearance work involves preparation and submission of documentations required to facilitate export or imports into the country, representing client during customs examination, assessment, payment of duty and co taking delivery of cargo from customs after clearance along with documents.

Case: Crossing Borders: You don't look like a Mexican Peanut to Me!

Canadians are well aware that the U.S. government is serious about its import restrictions on a variety of goods. In agricultural products, for example, it doesn't look kindly on peanuts from China being shipped as Mexican peanuts. But how do you tell where peanuts, orange juice, and other agricultural goods come from? With an "inductively coupled plasma mass spectrometer," that's how.

Ever since the late 1990s, the U.S. Customs Service has been using such a machine to determine whether a peanut headed for Safeway matches a peanut grown in Mexico or Georgia. It's a little like DNA testing for plants. While the machine can't tell exactly whether the peanuts come from a specific country, it can tell if the peanuts in a sample match a sample of peanuts known to come from a specific country. This process began about 10 years ago with the analyzing of frozen orange juice. Since frozen orange juice from different countries has different tariff schedules, transshipment through a lower-tariff country can make a big difference in tariffs paid.

In a little over a year, with the help of the machine, U.S. Customs was able to build a case of "dumping" against Chinese garlic, an illegal transshipment case against Argentine peanuts, and a case against a California coffee distributor who was adulterating Hawaiian Kona coffee with cheaper Central American beans and selling the result as pure Kona.

Source: *Guy Gugliotta, "High-Tech Trade Enforcement Tracks Peanuts Across Borders," Washington Post, December 4, 1997, p. A21, and Bob Dart, "U. S. Takes Aim at Peanut Traffickers: High-tech Equipment Is Helping to Detect Illegal Over-the-Border Shipments: Undercutting NAFTA," The Atlanta Journal and Constitution, December 9, 1997, p A12.*

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10.10 Factors and Challenges Driving Global Logistics and Distribution

Factors driving logistics in the twenty-first century are focused on companies striving to become more competitive. An analysis of the competitive advantage identifies three elements, each of which has an interface with the other – customer, company, and competitor.

Each of these elements may be located in a different country. As goods and materials move across national frontiers managing the customs function is a key factor to success within the efforts of supply chain management.

Some of the specific areas where we frequently see challenges in global logistics execution include:

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- Sub-optimal sourcing results due to inadequate total cost data
- High overhead costs to manage the global sourcing and logistics function
- High inventories and lost sales as companies struggle to match supply and demand in the long supply chain
- High costs for expedited freight
- High levels of inbound lead-time variability
- Reactive rather than proactive logistics management
- Disconnect between inbound international movements and domestic transportation operations

10.11 Outsourcing Management

Outsourcing management of logistics typically include service providers specializing in integrated operation, warehousing and transportation services which can be scaled and customized to customers' needs based on market conditions, such as the demands and delivery service requirements for their products and materials. Often, these services go beyond logistics and include value-added services related to the production or procurement of goods, i.e., services that integrate parts of the supply chain. It is also called third part logistics.

10.12 Use of Software in Logistics and Distribution

Software is used for logistics automation which helps the supply chain industry in automating the workflow as well as management of the system.

Companies are spending significant amounts of money on specialized supply chain software. In fact, at one point, UPS was spending four times as much on information technology annually as it was spending on buying trucks, raising the question whether it is really a trucking company or an information technology company.

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10.13 Summary

International logistics comprises the management of various resources in a company's supply chain across at least one international border. There is an economic importance of international logistics like wideness of production inputs, efficient transportation, and network of manufacturing locations. There are two main methods of entry in foreign markets – indirect exporting and direct exporting. Various methods under these are discussed in the chapter. The vital points of international contract have also been explored in the chapter that presents CISG and explanation of agent and distributors. Trade terms are discussed in order to develop the understanding in learners about doing international trade through various modes. Terms of payments, insurance of shipment and international commercial documents are also critical in case of managing international logistics.

10.14 Key Terms

Logistics: Planning, execution, and control of the procurement, movement, and stationing of personnel, material, and other resources to achieve the objectives of a campaign, plan, project, or strategy.

Distribution: the action of sharing something out among a number of recipients.

Export: To send goods or services across national borders for the purpose of selling and realizing foreign exchange.

Import: Products of foreign origin brought into a country.

Arbitration: Settlement of a dispute (whether of fact, law, or procedure) between parties to a contract by a neutral third party (the arbitrator) without resorting to court action.

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Incoterms: International commercial terms. Thirteen terms of sale accepted worldwide in assignment of costs and responsibilities between the buyer and the seller.

10.15 Questions and Exercises

Write short notes on following:

1. International logistics and distribution is important to economics.
2. Name various financial documents required for international logistics management.
3. Name various government documents required for international logistics management.
4. Name components of international logistics.
5. International Contracts.
6. Terms of international trade.
7. International commercial documents.
8. International Insurance.
9. Customs Clearance in international transportation.
10. Factors and Challenges Driving Global Logistics and Distribution.

10.16 Futher Reading And References

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UNIT 11 : EXPORT AND IMPORT PROCEDURE AND DOCUMENTATION

NOTES

NOTES

11.5 Importing Procedure

11.5.1 Trade Enquiry

11.5.2 Procurement of Import License and Quota

11.5.3 Obtaining Foreign Exchange

11.5.4 Placing the Indent or Order

11.5.5 Dispatching a Letter of Credit

11.5.6 Obtaining Necessary Documents

11.5.7 Customs Formalities and Clearing of Goods

11.5.8 Making the Payment

11.5.9 Closing the Transactions

11.6 Export/Import Documentation

11.6.1 Commercial Documents

11.6.1.1 Quotation

11.6.1.2 Sales Contract

11.6.1.3 Pro Forma Invoice

11.6.1.4 Commercial Invoice

11.6.1.5 Packing List

11.6.1.6 Inspection Certificate

11.6.1.7 Insurance Policy

11.6.1.8 Insurance Certificate

11.6.1.9 Product Testing Certificate

11.6.1.10 Health Certificate

11.6.1.11 Phytosanitary Certificate

11.6.1.12 Fumigation Certificate

11.6.1.13 ATA Carnet

11.6.1.14 Consular Invoice

11.6.2 Transport Documents

11.6.2.1 Shipping Order S/O

11.6.2.2 Dock Receipt D/R or Mate's Receipt

11.6.2.3 Bill of Lading (B/L)

11.6.2.4 House Bill of Lading (Groupage)

11.6.2.5 Sea Waybill

NOTES

11.0 Unit Objectives

After reading this unit, you should be able to:

- Understand the organization for Export and Import Operations
- Understand the Preliminary consideration in Export & Import
- Understand the Export and Import Procedures
- Understand Export & Import Documentation

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11.1 Introduction

International trade is the exchange of goods and services across national boundaries. It is the most traditional form of international business activity. It is also the first type of foreign business operation undertaken by most companies because importing or exporting requires the least commitment of, and risk to, the company's resources.

These activities are governed by various procedures. This also involves documentation, procedures, rules and regulations imposed by both the exporting and importing countries.

To participate in this activity a firm needs to clearly understand the various, procedures and documentations of this activity.

11.2 Organizing for Export and Import Operations

When a company decides to get into international trade (exporting & importing), the big challenge before a company is to organize a smooth, efficient, and compliance-oriented (and, therefore, profitable) exporting or importing. For that reason, the company personnel require certain specialized knowledge. This knowledge varies from county to country and product to product. In small companies, one person may perform all of the relevant functions, while in large companies or companies with a large amount of exports or imports, the number of personnel may be large. As business increases, specialties may develop within the department, and the duties performed by any one person may become narrower.

11.2.1 Export & Import Departments

In many companies, some or all of the functions of the export and import departments are combined in some way. In smaller companies, where the volume of exports or imports does not justify more personnel, one or two persons may have responsibility for both export and import procedures and documentation. As companies grow larger or the volume of export/import business increases, these functions tend to be separated more into export departments and import departments. However, because both departments may end up being in contact with some of the same outside parties (such as banks, those freight forwarders that are also customs brokers, or domestic transportation companies), some of these activities may be consolidated in specific persons for both export and import, while other personnel will work exclusively on exports or on imports. A diagram of the interrelationships between the export and import personnel in the company and outside service providers is shown in the following figure

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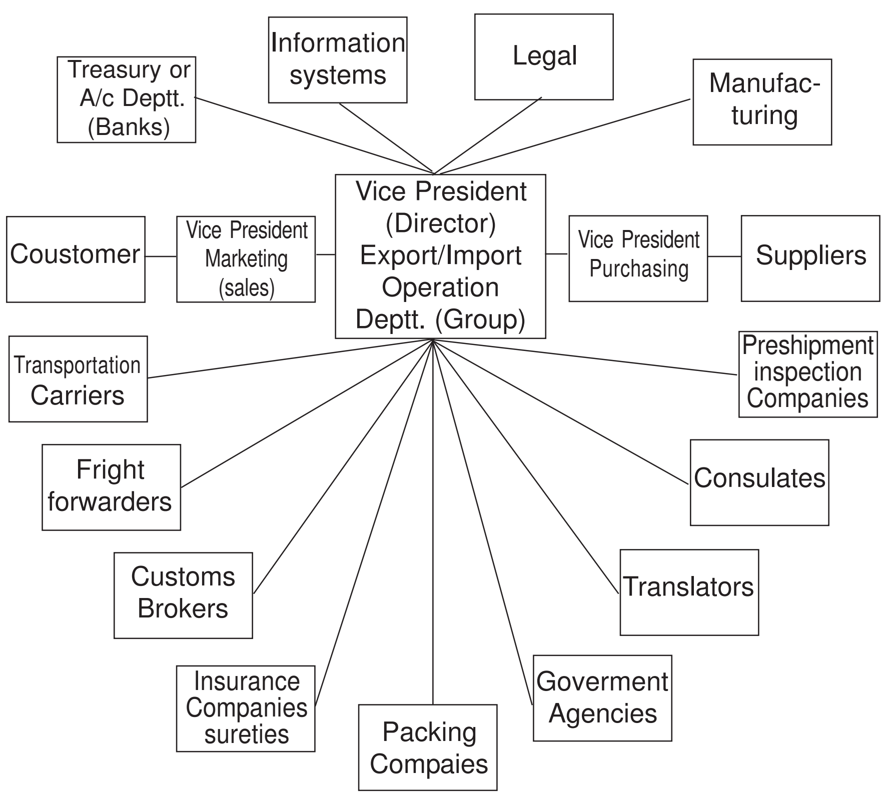
Interrelationships with Outside Service Providers



11.3 Exporting & Importing: Preliminary Considerations

Before beginning to import, and on each transaction, the exporter/seller or importer/buyer should consider a number of preliminary matters that will make a great deal of difference in smooth and efficient importing.

11.3.1 Products

Initially, the exporter and importer should think about certain considerations relating to the products they need to export or import. For example,

- Is the product normally utilized as a component in a customer's manufacturing process?
- Is it sold separately as a spare part?
- Is the product a raw material, commodity, or finished product?
- Is it sold singly or as part of a set or system? Does the product need to be modified such as the size, weight, or color—to be salable in the foreign market?
- Is the product new or used? (If the product is used, some countries prohibit importation or require independent appraisals of value, which can delay the sale.)

Often the appropriate methods of manufacturing and marketing, the appropriate documentation, the appropriate procedures for exportation/Importation, and the treatment under foreign law, including foreign customs laws, will depend upon these considerations.

11.3.2 Volume

What is the expected volume of export o import of the product? Will this be an isolated sale/purchase of a small quantity or an ongoing series of transactions amounting to substantial quantities? Small quantities may be exported or import under sale/purchase orders and sale/purchase order acceptances. Large quantities may require more formal international sales/purchase agreements; more secure methods of payment; special shipping, packing, and handling procedures.

NOTES

11.3.3 Country Market and Product Competitiveness Research

On many occasions, a company's export and import business consist of customer demand in domestic country and responding to orders from customers located in foreign countries without any active sales efforts by the company. However, as a matter of successful exporting or importing, it is imperative that the company adequately evaluate the various world markets where its product is likely to be marketable and from where it can import products at a reasonable price. This will include a review of macroeconomic factors such as the size of the population and the economic development level and buying power of the country, and more specific factors, such as the existence of competitive products in that country.

> **Check Your Progress**
> What are the various considerations in exporting & importing?

The United Nations publishes its *International Trade Statistics Yearbook* (http://comtrade.un.org/), and the International Monetary Fund (IMF) publishes its *Direction of Trade Statistics Yearbook* (http://www.imf.org/external/) showing what countries are buying and importing all types of products. The U.S. Department of Commerce, Bureau of Census gathers and publishes data to assist those who are interested in evaluating various country markets, including its International Data Base and Export and Import Trade Data Base (http://www.census.gov/foreign-trade/ statistics/country/index.html).

11.3.4 Identification of Customers/Suppliers Distributors, and Sales/Purchase Agents

Once a company has evaluated the countries with the best market potential and the international competitiveness of its products, the specific purchasers and suppliers, such as end users of the products, manufacturer o products, sales and purchase agents who can solicit sales and purchase in domestic and foreign countries, or distributors who are willing to buy and resell the products in that country, must be identified. This is a highly important decision and some of the worst experiences in exporting and importing result from not having done adequate homework in selecting customers, suppliers, sales/purchase agents, and distributors. It is far more efficient and profitable to spend significant amounts of time evaluating potential customers and suppliers sales and purchase agents, and distributors than to have to start over again because such customers/supplier, sales/ purchase agents, or distributors turn out to be unable to pay, unable to perform, or difficult to work with.

11.3.5 Compliance with Foreign Law

Prior to entering into exporting and importing or even agreeing to sell or purchase to a customer/supplier in a foreign country, a company should be aware of any foreign laws that might affect its foreign operations. Information about foreign laws must be obtained from authentic sources. Incorrect information about foreign law may result in the prohibition of importation or exportation of product, or it may mean that the customer cannot resell the product as profitably as expected. Some specific examples are as follows:

- Industry Standards
- Foreign Customs Laws
- Government Contracting
- Exchange Controls and Import Licenses

- Value-Added Taxes

11.3.6 Export Controls and Licenses

It is a very important preliminary consideration because if any kind of export or import license from the host country is required, and such license is not obtained by the exporter or importer, the host country will detain the shipment, and the sale & purchase cannot be completed.

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CHECK YOUR PROGRESS

1. All are the examples common laws related to export/import except
   a) Industry Standards
   b) Foreign Customs Laws
   c) Government Contracting
   d) Value-Added Taxes
2. One of the preliminary considerations in export & import is-
   a) Procedure
   b) Product & Volume
   c) Foreign Laws
   d) Export Order
3. The exporter and importer should think about certain considerations relating to the products they need to export or import except
   a) Is it sold separately as a spare part?
   b) Is the product a raw material, commodity, or finished product?
   c) Is it sold singly or as part of a set or system? Export Order
   d) Is the product in demands?
4. In many companies, some or all of the functions of the export and import departments are……………..
5. Export Controls and……………………is a very important preliminary consideration.

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11.4 Exporting Procedure

An export exercise is concluded successfully only after the exporter has been able to deliver the consignment in accordance with the export contract and receive payment for the goods.

This involves practice of prescribed procedure to be performed . The fact is that one does not need only to be very well informed about export company, products, suppliers, export chain, the world market, but one also needs to know the export rules and terms, the different cultures that one targets and the final customers 'needs.

Therefore, it seems pertinent now to learn the various steps' involved in the processing of an export order. These are listed as follows:

11.4.1 Having an Export Order

Processing of an export order starts with the receipt of an export order. An export order, simply stated, means that there should be an agreement in the form of a document, between the exporter and importer before the exporter actually starts producing or procuring goods for shipment. Generally an export order may take the form of proforma invoice or purchase order or letter of credit. You have already learnt these just in the preceding section.

11.4.2 Examination and Confirmation of Order

Having received an export order, the exporter should examine it with reference to the terms and conditions of the contract. In fact, this is the most crucial stage as all subsequent actions and reactions depend on the terms and conditions of the export order.

The examination of an export order, therefore, includes items like product description, terms of payment, terms of shipment, inspection and insurance requirement, documents realizing payment and the last date of negotiation of documents with the bank. Having being satisfied with these, the export order is confirmed by the exporter.

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11.4.3 Manufacturing or Procuring Goods

The Reserve Bank of India (RBI), under the export credit (interest subsidy) scheme, extends pre-shipment credit to exporter to finance working capital needs for purchase of raw materials, processing them and converting them into finished goods for the purpose of exports. The exporter approaches the bank on the basis of laid down procedures for the pre-shipment credit. Having received credit, the exporter starts to manufacture / procure and pack the goods for shipment overseas.

11.4.4 Clearance from Central Excise

As soon as goods have been manufactured/ procured, the process for obtaining clearance from central excise duty starts. The Central Excise and Sale Act of India and the related rules provide the refund of excise duty paid. There are two alternative schemes whereby 100 per cent rebate on duty is given to export products on the submission of the proof of shipment.

The first scheme is to make payment of the excise duty at the time of removing the export consignment from the factory and file a claim for rebate of duty after exportation of goods. The second scheme is to remove goods from factory/warehouse without payment but under an appropriate bond with the excise authorities. The exporter needs to apply on a form known as AR4 or AR4A to the Central Excise Range Superintendent for obtaining excise clearance.

Form A is filed when goods are to be cleared after examination by the excise inspector. In all other cases, form AR4A is filed.

11.4.5 Pre-Shipment Inspection

There are number of-goods whose export requires quality certification as per the Government of India's notification. Consequently, the Indian custom authorities will require the submission of an inspection certificate issued by the competent and designated authority before permitting the shipment of goods takes place.

Inspection of export goods may be conducted under

a. Consignment-wise Inspection
b. In-process Quality Control, and
c. Self-Certification.

The Inspection Certificate is issued in triplicate. The original copy is for the customs verification. The second copy of the certificate is sent to the importer and the third copy remains with the exporter for his reference purpose.

11.4.6 Appointment of Clearing and Forwarding Agents

On completion of the process of obtaining the Inspection Certificate from the custom agencies, the exporter appoints clearing and forwarding agents who perform a number of functions on behalf of the exporter.

The main functions performed by these agents include packing, marking and labeling of consignment, arrangement for transport to the port arrangement for shipment overseas, customs clearance of cargo, procurement of transport and other documents.

In order to facilitate the exporter in discharging his duties, the following documents are submitted to the agent:

1. Commercial invoice in 8-10 copies
2. Customs Declaration Form in triplicate
3. Packing list
4. Letter of Credit (original)
5. Inspection Certificate (original)

6. G.R. Form (in original and duplicate)
7. AR4/ AR4A (in original and duplicate)
8. GP-l/GP-2 (original)
9. Railway Receipt/Lorry Way Bill, as the case may be

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11.4.7 Goods to Port of Shipment

After the excise clearance and pre-shipment inspection formalities are completed, the goods to be exported are packed, marked and labeled. Proper marking, labeling and packing help quick and safe transportation of goods. The export department takes steps to reserve space on the ship through which goods are to be sent to the importer.

The shipping space can be reserved either through the clearing and forwarding agent or freight broker who works on behalf of the shipping company or directly from the shipping company. Once the space is reserved, the shipping company issues a document known as Shipping Order. This order serves as a proof of space reservation.

If goods are sent through a road carrier to the port, no specific formality is involved. In case, the goods are sent by rail to the port of shipment, allotment of wagon needs to be obtained from the Railway Board.

The following documents are submitted to the booking railway yard/station:

1. Forwarding Note (A Railway Document)
2. Shipping Order
3. Wagon Registration Fee Receipt

Once wagons have been allotted, goods are loaded, for which railways will issue Railway Receipt (RR). Then, this receipt and other documents are sent to the clearing and forwarding agent at the port town. At the same time, the production/export department takes insurance policy in duplicate for risk coverage (internal as well as overseas) for the goods to be exported.

11.4.8. Port Formalities and Customs Clearance

Having received the documents from the export department, the clearing and forwarding agent takes delivery of the cargo from the railway station or the road transport company and stores it in the warehouse. He also obtains customs clearance and permission from the port authorities to bring the cargo into the shipment shed.

The custom department grants permission for export at the office of the customs and physical verification of goods in the shipment shed. The clearance for export is given on the Shipping Bill.

The clearing and forwarding agent is required to submit the following documents with the Customs House for obtaining customs clearance and permission:

1. Shipping Bill
2. Contract Form
3. Letter of Credit, if applicable
4. Commercial Invoice
5. GR Form
6. Inspection Certificate
7. AR4/AR4A Form
8. Packing List, if needed

After receiving documents from the export department, the clearing and forwarding agent presents the Port Trust Document to the Shed Superintendent of the port. He obtains carting order bringing the cargo to the transit shed for physical examination by the Dock Appraiser.

The Dock Appraiser is presented the following documents to facilitate him in physical examination of export goods:

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1. Shipping Bill
2. Commercial Invoice
3. Packing List
4. AR4/ AR4A Form and Gate Pass
5. GR Form (duplicate)
6. Inspection Certificate (original)

The Dock Appraiser, after making examination, makes 'Let Export' endorsement on the duplicate copy of the Shipping Bill and hands over it to the Forwarding Agent. All these documents are presented to the Preventive Officer who puts an endorsement 'Let Ship' on the duplicate copy of the Shipping Bill. The preventive officer supervises the loading of cargo on board the vessel.

After the goods are loaded on board the vessel, the captain of the ship issues a receipt known as 'Mate's Receipt' to the Shed Superintendent of the port concern. The forwarding, agent after paying port charges, takes the delivery of the 'Mate Receipt'. He submits to Shipping Company and requests it to issue the Bill of Lading.

11.4.9 Dispatch of Documents by Forwarding Agent to the Exporter

After obtaining the Bill of Lading from the Shipping Company, the clearing and forwarding agent dispatches all the documents to his / her exporter.

These documents include :

1. Commercial Invoice (attested by the customs)
2. Export Promotion Copy
3. Drawback Copy

4. Clean on Board Bill of Lading
5. Letter of Credit
6. AR4/ AR4A and Gate Pass
7. GR Form (in duplicate)

11.4.10 Certificate of Origin

On receipt of above documents from the forwarding agent, the exporter now applies to the Chamber of Commerce for a Certificate of Origin and obtains it. If the goods are exported to countries offering GSP concessions, the exporter needs to procure the GSP Certificate of Origin from the concerned authority like Export Inspection Agency.

11.4.11. Dispatch of Shipment Advice to the Importer

At last, the exporter sends 'Shipment Advice' to the importer intimating the date of shipment of the consignment by a named vessel and its expected time of arrival at the destination port of the importer.

The following documents are also sent to the importer to facilitate him for taking delivery of the' consignment:

1. Bill of Lading (non-negotiable copy)
2. Commercial Invoice
3. Packing List
4. Customs Invoice

11.4.12 Submission of Documents to Bank

At the end of the process, the exporter presents the following documents to his bank for realization of his amount due to the importer:

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1. Commercial Invoice
2. Certificate of Origin
3. Packing List
4. Letter of Credit
5. Marine Insurance Policy
6. GR Form
7. Bill of Lading
8. Bill of Exchange
9. Bank Certification
10. Commercial Invoice

11.4.13. Claiming Export Incentives

On completion of the processing of an export order at the three levels of shipment i.e., pre-shipment, shipment and post-shipment, the exporter claims for export incentives admissible to him / her.

11.5 Importing Procedure

Import trade refers to the purchase of goods from a foreign country. The procedure for import trade differs from country to country depending upon the import policy, statutory requirements and customs policies of different countries. In almost all countries of the world import trade is controlled by the government. The objectives of these controls are proper use of foreign exchange restrictions, protection of indigenous industries etc. The imports of goods have to follow a procedure. This procedure involves a number of steps.

The steps taken in import procedure are discussed as follows:

11.5.1 Trade Enquiry

The first stage in an import transaction, like any other transaction of purchase and sale relates to making trade enquiries. An enquiry is a written request from the intending buyer or his agent for information regarding the price and the terms on which the exporter will be able to supply goods.

NOTES

The importer should mention in the enquiry all the details such as the goods required, their description, catalogue number or grade, size, weight and the quantity required. Similarly, the time and method of delivery, method of packing, terms and conditions in regard to payment should also be indicated.

In reply to this enquiry, the importer will receive a quotation from the exporter. The quotation contains the details as to the goods available, their quality etc., the price at which the goods will be supplied and the terms and conditions of the sale.

11.5.2 Procurement of Import License and Quota

The import trade in India is controlled under the Imports and Exports (Control) Act, 1947. A person or a firm cannot import goods into India without a valid import license. An import license may be either general license or specific license. Under a general license goods can be imported from any country, whereas a specific or individual license authorizes to import only from specific countries.

The Government of India declares its import policy in the Import Trade Control Policy Book called the Red Book. Every importer must first find out whether he can import the goods he wants or not, and how much of a certain class of goods he can import during the period covered by the relevant Red Book.

For the purpose of issuing license, the importers are divided into three categories:

(a) Established importer

(b) Actual users, and

(c) Registered exporters, i.e., those import under any of the export promotion schemes.

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In order to obtain an import license, the intending importer has to make an application in the prescribed form to the licensing authority. If the person imported goods of the class in which he is interested now during the basic period prescribed for such class, he is treated as an established importer.

An established importer can make an application to secure a Quota Certificate. The certificate specifies the quantity and value of goods which the importer can import. For this, he furnishes details of the goods imported in any one year in basic period prescribed for the goods together with documentary evidence for the same, including a certificate from a chartered accountant in the prescribed form certifying the c.i.f. value of the goods imported in the selected year.

The c.i.f. value includes the invoice price of the goods and the freight and insurance paid for the goods in transit. The quota certificate entitles the established importer to import upto the value indicated therein (called Quota) which is calculated on the basis of past imports. If the importer is an actual user, that is, he wants to import goods for his own use in industrial manufacturing process he has to obtain license through the prescribed sponsoring authority.

The sponsoring authority certifies his requirements and recommends the grant of license. In case of small industries having a capital of less than Rs. 5 lakhs, they have to apply for licenses through the Director of Industries of the state where the industry is located or some other authority expressly prescribed by the Government.

Registered exporter importing against exports made under a scheme of export promotion and others have to obtain license from the Chief Controller of Exports and Imports. The Government issues from time to time a list of commodities and products which can be imported by obtaining a general permission only. This is called as O.G.L. or Open General license list.

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11.5.3 Obtaining Foreign Exchange

After obtaining the license (or quota, in case of an established importer), the importer has to make arrangement for obtaining necessary foreign exchange since the importer has to make payment for the imports in the currency of the exporting country.

The foreign exchange reserves in many countries are controlled by the Government and are released through its central bank. In India, the Exchange Control Department of the Reserve Bank of India deals with the foreign exchange. For this the importer has to submit an application in the prescribed form along-with the import license to any exchange bank as per the provisions of Exchange Control Act.

The exchange bank endorses and forwards the applications to the Exchange Control Department of the Reserve Bank of India. The Reserve Bank of India sanctions the release of foreign exchange after scrutinizing the application on the basis of exchange policy of the Government of India in force at the time of application.

The importer gets the necessary foreign exchange from the exchange bank concerned. It is to be noted that whereas import license is issued for a particular period, exchange is released only for a specific transaction. With liberalization of economy, most of the restrictions have been removed as rupee has become convertible on current account.

11.5.4 Placing the Indent or Order

After the initial formalities are over and the importer has obtained the license quota and the necessary amount of foreign exchange, the next step in the import of goods is that of placing the order. This order is known as Indent. An indent is an order placed by an importer with an exporter for the supply of certain goods.

It contains the instructions from the importer as to the quantity and quality of goods required, method of forwarding them, nature of packing, mode of settling payment and the price etc. An indent is usually prepared in duplicate or triplicate. The indent may be of several types like open indent, closed indent and Confirmatory indent.

In open indent, all the necessary particulars of goods, price, etc. are not mentioned in the indent, the exporter has the discretion to complete the formalities, at his own end. On the other hand, if full particulars of goods, the price, the brand, packing, shipping, insurance etc. are mentioned clearly, it is called a closed indent. A confirmatory indent is one where an order is placed subject to the confirmation by the importer's agent.

11.5.5 Dispatching a Letter of Credit

Generally, foreign traders are not acquainted to each other and so the exporter before shipping the goods wants to be sure about the creditworthiness of the importer. The exporter wants to be sure that there is no risk of non-payment. Usually, for this purpose he asks the importers to send a letter of credit to him.

A letter of credit, popularly known as 'L/C or 'L.C is an undertaking by its issuer (usually importer's bank) that the bills of exchange drawn by the foreign dealer, on the importer will be honored on presentation up to a specified amount.

11.5.6 Obtaining Necessary Documents

After dispatching a letter of credit, the importer has not to do much. On receipt of the letter of credit, the exporter arranges for the shipment of goods and sends Advice Note to the importer immediately after the shipment of goods. An Advice Note is a document sent to a

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Check Your Progress

Discuss in detail the step by step process of exporting?

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purchaser of goods to inform him that goods have been dispatched. It may also indicate the probable date on which the ship is expected to reach the port of destination.

The exporter then draws a bill of exchange on the importer for the invoice value of goods. The shipping documents such as the bill of lading, invoice, insurance policy, certificate of origin, consumer invoice etc., are also attached to the bill of exchange. Such bill of exchange with all these attached documents is called Documentary Bill. Documentary bill of exchange is forwarded to the importer through a foreign exchange bank which has a branch or an agent in the importer's country for collecting the payment of the bill.

There are two types of documentary bills:

(a) D/P, D.P. (or Documents against payment) bills.

(b) D/A, D.A. (or Document against acceptance) bills.

If the bill of exchange is a D/P bill, then the documents of title of goods are delivered to the drawee (i.e., importer) only on the payment of the bill in full. D/P bill may be sight bill or usance bill. In case of sight bill, the payment has to be made immediately on the presentation of the bill. But usually a grace period of 24 hours is granted.

Usance bill is to be paid within a particular period after sight. If the bill is a D/A bill, then the documents of title of goods are released to the drawee on his acceptance of the bill and it is retained by the banker till the date of maturity. Usually 30 to 90 days are provided for the payment of the bill.

11.5.7 Customs Formalities and Clearing of Goods

After receiving the documents of title of the goods, the importer's only concern is to take delivery of the goods, when the ship arrives at the port and to bring them to his own place of business. The importer has to comply with many formalities for taking delivery of goods. Unless the following mentioned formalities are complied with, the goods lie in the custody of the Custom House.

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(a) **To obtain endorsement for delivery or delivery order :** When the ship carrying the goods arrives at the port, the importer, first of all, has to obtain the endorsement on the back of the bill of lading by the shipping company. Sometimes the shipping company, instead of endorsing the bill in his favour, issues a delivery order to him. This endorsement of delivery order will entitle the importer to take the delivery of the goods.

The shipping company makes this endorsement or issues the delivery order only after the payment of freight. If the exporter has not paid the freight, i.e., when the bill, of lading is marked freight forward, the importer has to pay the freight in order to get green signal for the delivery of goods.

(b) **To pay Dock dues and obtain Port Trust Dues Receipts :** The importer has to submit two copies of a form known as 'Application to import' duly filled in to the 'Lading and Shipping Dues Office'. This office levies a charge on all imported goods for services rendered by the dock authorities in connection with lading of goods. After paying the necessary charges, the importer receive back one copy of the application to import as a receipt 'Port Trust Dues Receipt'.

(c) **Bill of Entry :** The importer will then fill in form called Bill of Entry. This is a form supplied by the custom office and is to be filled in triplicate. The bill of entry contains the particulars regarding the name and address of the importer, the name of the

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ship, packages number, marks, quantity, value, description of goods, the name of the country wherefrom goods have been imported and custom duty payable.

The bill of entry forms are of three types and are printed in three colours-Black, Blue and Violet. A black form is used for non-dutiable or free goods, the blue form is used for goods to be sold within the country and the violet form is used for re-exportable goods, i.e., goods meant for re-export. The importer has to submit three forms of bill of entry along-with Port Trust Dues Receipt to the customs office.

(d) Bill of Sight : If the importer is not is a position to supply the detailed particulars of goods because of insufficiency of information supplied to him by the exporter, he has to prepare a statement called a bill of sight. The bill of sight contains only the information possessed by the importer along-with a remark that he is not in a position to give complete information about the goods. The bill of sight enables him to open the package and examine the goods in the presence of custom officer so as to complete the bill of entry.

(e) To pay Customs or Import Duty :

There are three types of imported goods:

- Non dutiable or free goods,
- Goods which are to be sold within the country or which are for home consumption, and
- Re-exportable goods i.e. goods meant for re-export. If the goods are duty free, no import duty is to be paid at the custom office.

Custom authorities will permit the delivery of such goods after usual examination of the goods. But if the goods are liable for duty, the importer has to pay custom or import duty which may be based on weight or measurement of goods, called Specific Duty or on the value of imported goods Ad-valorem Ditty.

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There are three types of import duties. On some goods quite low duties are levied and they are called revenue duties. On some others, quite high duties are charged to give protection to home industries against foreign competition. While goods imported from certain nations are given preferential treatment for the levy of import duties and in their case full protective duties are not charged.

(f) Bonded and Duty paid Warehouses : The port trust and custom authorities maintain two types of warehouses-Bonded and Duty paid. These warehouses are situated near the dock and are very useful to importers who do not have godown of their own to store the imported goods or who, for business reasons, do not wish to carry them to their own godowns.

The goods on which the duty has already been paid by the importer can be kept in the duty paid warehouses for which a receipt called 'warehouse receipt' is issued to him. This receipt is a document of title and is transferable. The bonded warehouses are meant for goods on which duty has been paid by the importer. If the importer cannot pay the duty, he may keep the goods in Bonded warehouses for which he is issued a receipt, called 'Dock Warrant'. Dock Warrant, also like warehouses receipt, is a document of title and is transferable.

The bonded warehouses are used by the importer when:

- He has no godown of his own.
- He cannot pay the duty immediately.
- He wants to re-export the goods and thereby does not want to pay the duty.

- He wants to pay the duty in installments.

A nominal rent is charged for the use of these warehouses. One special advantage of these warehouses is that the importer can sell the goods and transfer the title of goods merely by endorsing warehouse receipt or dock-warrant. This will save the importer from the trouble and expenses of carrying the goods from the warehouses to his godown.

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(g) **Appointment of clearing Agents :** By now we understand that the importer has to fulfill many legal formalities before he can take delivery of goods. The importer may take the delivery of the goods himself at the port. But it involves much of time, expenses and difficulty. Thus, to save himself from the complicated formalities of compliance, the importer may appoint clearing agents for taking the delivery of the goods for him. Clearing agents are the specialized persons engaged in the work of performing various formalities required for taking the delivery of goods on behalf of others. They charge some remuneration on performing these valuable services.

11.5.8 Making the Payment

The mode and time of making payment is determined according to the terms and conditions as agreed to earlier between the importer and the exporter. In case of a D/P bill the documents of title are released to the importer only on the payment of the bill in full. If the bill is a D/A bill, the documents of title of the goods are released to the importer on his acceptance of the bill. The bill is retained by the banker till the date of maturity. Usually, 30 to 90 days are allowed to the importer for making the payment of such bills.

11.5.9 Closing the Transactions

The last step in the import trade procedure is closing the transaction. If the goods are to the satisfaction of the importer, the transaction is closed. But if he is not satisfied with the quality of goods or if there is any shortage, he will write to the exporter and settle the matter. In case the goods have been damaged in transit, he will claim compensation from the insurance company. The insurance company will pay him the compensation under an advice to the exporter.

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CHECK YOUR PROGRESS

1. Processing of an export order starts with ………………….. of an export order
2. The examination of an export order includes items like product description, …………………..terms of shipment, inspection and insurance requirement, documents realizing payment and …………………… of documents with the bank.
3. The exporter needs to apply on a form known as ………………………. to the Central Excise Range Superintendent for obtaining excise clearance.
4. The Inspection Certificate is issued in…………………
5. The shipping space can be reserved either through the ……………………. or freight broker.
6. Once wagons have been allotted, goods are loaded, for which railways will issue…………………
7. The first stage in an import transaction is …....…………………
8. In order to obtain an import license, the intending importer has to make …………………………… in the prescribed form to the licensing authority.

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9. .... includes the invoice price of the goods and the freight and insurance paid for the goods in transit.
10. The last step in the import trade procedure is ....

11.6 Export/Import Documentation

There are many documents involved in international trade, such as commercial documents, financial documents, transport documents, insurance documents and other international trade related documents. In processing the export consignment, documentation may be executed in up to four contracts: the export sales contract, the contract of carriage, the contract of finance and the contract of cargo insurance. It is therefore important to understand the role of each document and its requirements in international trade.

11.6.1 Commercial Documents

11.6.1.1 Quotation

An offer to sell goods and should state clearly the price, details of quality, quantity, trade terms, delivery terms and payment terms.

Prepared by: exporter

Visit the following link for sample quotation

(http://www.tfrec.wsu.edu/pdfs/P2360.pdf)

11.6.1.2 Sales Contract

An agreement between the buyer and the seller stipulating every detail of the transaction. Since this is a legally binding document, it is therefore advisable to seek legal advice before signing the contract.

Prepared by: exporter and importer

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11.6.1.3 Pro Forma Invoice

An invoice provided by a supplier prior to the shipment of merchandise, informing the buyer of the kinds and quantities of goods to be sent, their value, and importation specifications (weight, size and similar characteristics). This is not issued for demanding payment but may be used when applying for an import license / permit or arranging foreign currency or other funding purposes.

Prepared by: exporter

11.6.1.4 Commercial Invoice

A formal demand note for payment issued by the exporter to the importer for goods sold under a sales contract. It should give details of the goods sold, payment terms and trade terms. It is also used for the customs clearance of goods and sometimes for foreign exchange purpose by the importer.

Prepared by: exporter

11.6.1.5 Packing List

A list with detailed packing information of the goods shipped.

Prepared by: exporter

11.6.1.6 Inspection Certificate

A report issued by an independent surveyor (inspection company) or the exporter on the specifications of the shipment, including quality, quantity, and / or price, required by certain buyers and countries.

Prepared by: Inspection Company or exporter

11.6.1.7 Insurance Policy

An insurance document, with full details of the insurance coverage, evidencing insurance has been taken out on the goods shipped.

Prepared by: insurer or insurance agent or insurance broker

11.6.1.8 Insurance Certificate

This certifies that the shipment has been insured under a given open policy and is to cover loss of or damage to the cargo while in transit.

Prepared by: insurer or insurance agent or insurance broker

11.6.1.9 Product Testing Certificate

This certifies the products are conformed to a certain international / national technical standard, such as product quality, safety and specifications.

Prepared by: accredited laboratories

11.6.1.10 Health Certificate

Document issued by the competent country when agricultural or food products are being exported, to certify that they comply with the relevant legislation in the exporter's country and were in good condition at time of inspection, prior to shipment and fit for human consumption.

Prepared by: exporter / inspection authority

11.6.1.11 Phytosanitary Certificate

Frequently an international requirement that any consignment of plants or planting materials importing into a country shall be accompanied by a Phytosanitary Certificate issued by the exporting country stating that the consignment is found substantially free from diseases and pests and conforms with the current phytosanitary regulations of the importing country. Application of the certificate in Hong Kong should be made to the Agriculture and Fisheries Department.

Prepared by: exporter

11.6.1.12 Fumigation Certificate

A pest control certificate issued to certify that the concerned products have been undergone the quarantine and pre-shipment fumigation by the approved fumigation service providers. It is mainly required by the US, Canada, Australia, New Zealand and UK's customs on solid wood packing material from Hong Kong and the Chinese Mainland.

Prepared by: exporter or Inspection Company

11.6.1.13 ATA Carnet

An international customs document used to obtain a duty-free temporary admission for goods such as exhibits for international trade fairs, samples and professional equipment, into the countries that are signatories to the ATA Convention.

Prepared by: exporter

11.6.1.14 Consular Invoice

A document required by some foreign countries, showing shipment information such as consignor, consignee, and value description, etc. Certified by a consular official of the importing country stationed in the foreign country, it is used by the country's customs officials to verify the value, quantity and nature of the shipment.

Prepared by: exporter

11.6.2 Transport Documents

11.6.2.1 Shipping Order S/O

A document with details of the cargo and the shipper's requirements, and is the basic document for preparing other transport documents such as bill of lading, air waybill, etc.

Prepared by: shipper / transport companies

11.6.2.2 Dock Receipt D/R or Mate's Receipt

A receipt to confirm the receipt of cargo on quay / warehouse pending shipment. The dock receipt is used as documentation to prepare a bill of lading. It has no legal role regarding processing financial settlement.

Prepared by: shipping company

11.6.2.3 Bill of Lading (B/L)

An evidence of contract between the shipper of the goods and the carrier. The customer usually needs the original as proof of ownership to take possession of the goods. There are two types: a STRAIGHT bill of lading is non-negotiable and a negotiable or shipper's ORDER bill of lading (also a title document) which can be bought, sold or traded while goods are in transit and is used for many types of financing transactions.

Prepared by: shipping company

11.6.2.4 House Bill of Lading (Groupage)

A bill of lading issued by a forwarder and, in many cases, not a title document. Shippers choosing to use a house bill of lading, should clarify with the bank whether it is acceptable for letter of credit purpose before the credit is opened. Advantages include less packing, lower insurance premiums, quicker transit, less risk of damage and lower rates than cargo as an individual parcel / consignment.

Prepared by: forwarder

11.6.2.5 Sea Waybill

A receipt for cargo which incorporates the contract of carriage between the shipper and the carrier but is non-negotiable and is therefore not a title document.

Prepared by: shipping company

11.6.2.6 Air Waybill (AWB)

A kind of waybill used for the carriage of goods by air. This serves as a receipt of goods for delivery and states the condition of carriage but is not a title document or transferable / negotiable instrument.

Prepared by: airline

11.6.2.7 House Air Waybill (HAWB)

An air consignment note issued by an air freight agent to provide the cargo description and records. Again, it is not a title document.

Prepared by: forwarding agent

11.6.2.8 Shipping Guarantee

Usually a pre-printed form provided by a shipping company or the bank, given by an importer's bank to the shipping company to replace the original transport document. The consignee may then in advance take delivery of goods against a shipping guarantee without producing the original bill of lading. The consignee and the importer bank will be responsible for any loss or charges occurred to the shipping company if fault is found in the collection. It is usually used with full margin or trust receipt to protect the bank's control to the goods.

Prepared by: importer's bank / shipping company / consignee

11.6.2.9 Packing List (sometimes as packing note)

A list providing information needed for transportation purpose, such as details of invoice, buyer, consignee, country of origin, vessel / flight date, port / airport of loading, port / airport of discharge, place of delivery, shipping marks / container number, weight / volume of merchandise and the fullest details of the goods, including packing information.

Prepared by: shipper

11.6.3 Financial Documents

11.6.3.1 Documentary Credit D/C

A bank instrument (issuing or opening bank), at the request of the buyer, evidencing the bank's undertaking to the seller to pay a certain sum of money provided that specific requirements set out in the D/C are satisfied.

Prepared by: the issuing bank upon an application made by the importer

11.6.3.2 Standby Credit

An arrangement between a customer and his bank by which the customer may enjoy the convenience of cashing cheques, up to a value. Or a credit set up between the exporter and the importer guaranteeing the exporter will pay the importer a certain amount of money if the contract is not fulfilled. It is also known as performance bond. This is usually found in large transactions, such as crude oil, fertilizers, fishmeal, sugar, urea, etc.

Prepared by: exporter / issuing bank

11.6.3.3 Collection Instruction

An instruction given by an exporter to its banker, which empowers the bank to collect the payment subject to the contract terms on behalf of the exporter.

Prepared by: exporter

11.6.3.4 Bill of Exchange (B/E) or Draft

An unconditional written order, in which the importer addressed to and required by the exporter to pay on demand or at a future date a certain amount of money to the order of a person or bearer.

Prepared by: exporter

11.6.3.5 Trust Receipt (T/R)

A document to release a merchandise by a bank to a buyer (the bank still retains title to the merchandise), the buyer, who obtains the goods for processing is obligated to maintain the goods distinct from the remainder of his / her assets and to hold them ready for repossession by the bank.

Prepared by: importer

Promissory Note

A financial instrument that is negotiable evidencing the obligations of the foreign buyer to pay to the bearer.

Prepared by: importer

11.6.4 Government Documents

11.6.4.1 Certificate of Origin (CO)

This certifies the place of manufacture of the exported goods to meet the requirements of the importing authorities.

Prepared by: Trade and Industry Department and five Chambers of Commerce [1]

11.6.4.2 Certificate of Origin Generalized Systems of Preferences (GSP) Form A (or as Form A)

A CO to support the claim for preferential tariff entry (a reduced or zero rate) of the exporting country's products into the GSP donors under the GSP they operate. In general, a Form A is issued only when the goods concerned have met both the origin rules of the preference receiving country as well as the origin criteria of the respective donor country's GSP.

Prepared by: Trade and Industry Department and five Chambers of Commerce

11.6.4.3 Import / Export Declaration

A statement made to the Director of Customs at port of entry / exit, declaring full particulars of the shipment, e.g. the nature and the destination / exporting country of the ship's cargo. Its primary use is for compiling trade statistics.

Prepared by: exporter / importer

11.6.4.4 Import / Export License

A document issued by a relevant government department authorizing the imports and exports of certain controlled goods.

Prepared by: Trade and Industry Department, Customs &

Excise Department, etc

11.6.4.5 International Import Certificate (IIC)

A statement issued by the government of country of destination, certifying the imported strategic goods will be disposed of in the designated country. In Hong Kong, it is issued only to meet an exporting country's requirement.

Prepared by: Trade and Industry Department

11.6.4.6 Delivery Verification Certificate (DVC)

A statement issued by the government of country of destination, certifying a specific strategic commodity has been arrived in the designated country. In Hong Kong, it is issued only to meet an exporting country's requirement.

Prepared by: Trade and Industry Department

11.6.4.7 Landing Certificate

A document issued by the government of country of destination, certifying a specific commodity has been arrived in the designated country. In Hong Kong, it is issued by the Census and Statistics Department. Application requirements include letter stating the reason for the application, import declaration & receipt; bill of lading, sea waybill & land manifest; supplier's invoice; and packing list (if any).

Prepared by: Census and Statistics Department

11.6.4.8 Customs Invoice

A document specified by the customs authorities of the importing countries stating the selling price, costs for freight, insurance, packing and payment terms, etc, for the purpose of determining the customs value.

Prepared by: exporter

CHECK YOUR PROGRESS

1. A document issued by the government of country of destination, certifying a specific commodity has been arrived in the designated country is called…………………..
2. **GSP stands for……………………………………..**
3. **Standby Credit is also called……………………….**
4. **Packing List is prepared by…………………………..**
5. **Inspection certificate is issued by…………………………**

11.7 Summary

This unit structure of organizing export and import. The unit also discusses procedure of export and import. The firms must adhere to these procedures while taking part in the export/ import activity. The unit also discusses the various export and import documents required to successfully perform the activities. These documents are issued by various authorities.

11.8 Key Terms

Free On Board : It is a contractual term that refers to the requirement that the seller deliver goods at the seller's cost via a specific route to a destination designated by the buyer.

CIF : Cost, insurance and freight (**CIF**) is a trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier.

EPCG : It is a term used in India under exports and imports. **EPCG** means, Export Promotion Capital Goods. **EPCG** is one of the schemes provided by government of India to importers and exporters to promote exports. In simple and easy language, **EPCG** is a scheme related to machinery, machinery parts and similar goods.

APEDA : The Agricultural and Processed Food products Export Development Authority (**APEDA**) is an export promotion organization under Ministry of Commerce & Industries, Government of India. It is mandated with the responsibility of promotion and development of the export of its scheduled products.

11.9 Questions and Exercises

1. What are the various considerations in exporting & importing?
2. Discuss in detail the step by step process of exporting.
3. What are the relevant documents for transportation of goods?
4. What are the documents required for customs clearance of goods?
5. What are the various financial documents required for exporting and importing?

11.10 Further Reading and References

- P. Subba Rao, International Business-Himalaya Publishing House, 4th Edition
- John Daniels, Lee Radebaugh, Daniel Sullivan, International Business, 12th Edition
- Handbook of Procedures (1st April, 2015–31st March, 2020) by Government of India Ministry of Commerce and Industry, Department of Commerce.

NOTES

UNIT 12 : FOREIGN TRADE POLICIES OF INDIA

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12.0 Unit Objectives

After reading this unit, you should be able to:

- Understand the reasons of trade policies in developing economies
- Understand various Strategic Options for Trade Policy
- Understand the principles of foreign policies of India
- Understand the foreign trade policies of India

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12.1 Introduction

Foreign trade policy is also known as Export-Import policy or EXIM Policy. The EXIM polices are adopted by any country regarding the exports and imports goods and services with other countries in the world. Trade policies can be of two types, the free trade policy and the protective trade policy. In free trade policy there is complete absence of restrictions on the exchange of goods and services among the nations. There is also a complete absence of tariffs, quotas, taxes and subsides on productions, factors use and consumption. Theoretically, the free trade has several advantages for mostly the developed countries but if we will talk about the developing countries the free trade does not proved much productive or proved to be a disadvantage. As earlier India has also a type of closed economy and free trade was also absent in India till 1980's. After 1990, by the emergence of new industrial policy Indian trade comes with the contact of foreign countries and became the part of liberalized economy or globalized economy after 1991.

12.2 Reasons of Trade Policies in Developing Economies

As it has been analyzed that the free trade policy is not a fertile exercise for the developing countries but still has the worse need of dynamic trade policy to promote the economic development of developing economies for the number of reasons. It is impossible to avoid that such countries confronted with the continuous definite in their trade balances arising out of their mounting expenditure for the sake of development. To seek the development in the developing countries the countries call for the increase in imports of capital goods, raw material and technology, but it is impossible to meet out these imports by the increase in exports. The insistently repetitive deficits in the balance of trade have the definite potential to produce an adverse effect on the

NOTES

development of these types of economies.

On the other hand if the developmental expenditure is reduced from these countries then it creates a long term development problems in the developing countries.

There have been many studies regarding the persistent deficit in trade balance which has been analysed empirically of the developing countries. Agogo Mawuli, who analysed seventeen developing countries as a sample in their study and experienced the deficit trade balance only because of the rapid accumulation of capital. On the other hand, M.M Metwelly and Rick Tamaschke have also taken the reference of six developing countries and found the same problem of mounting expenditure of developing countries for the sake of development. It can be inferred from the researches that these countries are unable to meet out the imports to their exports as results the terms of trade is worsened day by day and their position is deteriorating continuously. Due to less export of India or unmanageable export of India the country had mounting trade deficit and under external debt. In 1996 the external debit on India was estimated as 28.90% of the GDP in 1995-96. At the present time India still is facing a huge amount of shape of external debt

In 2012-13 the external debit on India stood at US $ 390.00 million. As a result the large share of our export earnings are eaten up by this external burden and the economy did not get rid of deficit of trade in balance.

12.3 Strategic Options for Trade Policy

12.3.1 Free Trade Policy

A Free trade policy is one which does not impose any restriction on the exchange of goods and services between different countries. A free trade policy involves complete absence of tariffs, quotas, exchange restrictions, taxes and subsidies on production, factor use and consumption.

12.3.2 Protective Trade Policy

A Protective trade policy pursued by a country seeks to maintain a system of trade restrictions with the objective of protecting the domestic economy from the competition of foreign products.

12.3.3 Inward Looking Trade Policy

An **Inward looking trade policy (import substitution)** stresses the need for a country to evolve its own style of development and to be the master of its own fate, with restrictions on the movement of goods, services and people in and out of the country. An inward looking trade policy encourages the development of indigenous technologies appropriate to a country's resource endowment.

12.3.4 Outward Looking Trade Policy

An **Outward looking trade policy (export-led growth)** encourages not only free trade but also the free movement of capital, workers, enterprises and students, a welcome to the multinational enterprise, and an open system of communications.

12.4 Principles of Indian Foreign Policies

12.4.1 Non-Alignment

The policy of non-alignment is the most important contribution of India to international community. Immediately after the hostilities ended with the Second World War, a new and unprecedented tension developed between the erstwhile friends and allies. The acute state of tension came to be called cold war. The division of the world into two blocs led by United States and the former Soviet Union respectively caused the cold war. India made up its mind not to join any of the power blocs.

12.4.2 Panchsheel and Peaceful Co-Existence

Peaceful co-existence of nations of diverse ideologies and interests is an important principle of our foreign policy. Indian Philosophy of vasudhaiva Kutumbkam promotes the feeling of 'one world.' In practice it means the nations inhabited by peoples belonging to different religions and having different social systems can co-exist, live together in peace, while each follows its own system. The five principles were mentioned under the personable of the agreement are:

1. Mutual respect for each other's territorial integrity and sovereignty;
2. Mutual non- aggression;
3. Mutual noninterference in each other internal affair;
4. Equality and Mutual benefit; and
5. Peaceful co-existence.

12.4.3 Freedom of Dependent Peoples: Anti-Imperialism

Anti-colonialism and imperialism has been a matter of faith with India's Foreign policy makers.

Having been a victim of British imperialism for a long time, India divided to oppose all forms of colonialism and Imperialism.

12.4.4 Opposition to Racial Dissemination

India finally believes in equality of all human beings. It policy is aimed to all forms of social discrimination.

12.4.5 Foreign Economic Aid and India's Independent Policy

India firmly believed that economics development of a country was an urgent necessity. Soon after Independence India devoted its energies to a planned and rapid all round development.

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12.4.6 Support to the United Nations

India is one of the founder member of United Nations organization and many of the international organization and agencies.

12.4.7 Peaceful Settlement of International Disputes

Disputes among nations are unavoidable; there can be only two methods of setting international disputes war or peaceful settlements. War has been the most used method of deciding disputes form the prehistoric days.

CHECK YOUR PROGRESS

1. If the developmental expenditure is reduced from these countries then it creates a .... development problems in the developing countries.
2. In 1996 the external debit on India was estimated as …………….. of the GDP.
3. Indian Philosophy of .... promotes the feeling of 'one world.'
4. The policy of .... is the most important contribution of India to international community.
5. India is one of the founder members of ……………………….

Check Your Progress

Describe the role of foreign trade policy for developing nations?

12.5 India's Foreign Trade Policy

Upto 1991 the Indian economy is under the coverage of heavy tariffs more than 200 percent and there was extensive imposition of quantitative restrictions and full protection on the foreign investment in India. In 1991 the India economy got liberalized and almost in all the sectors the restrictive policies abolishes only under the conditions of extreme necessity. Since that time the trade has produced remarkable achievement in the GDP of India which is increased from 15 percent from 1991 and in 2005 the percentage share of trade in the total GDP in 35 percent and now in 2012-13 it is 43 percent.

In the recent years India stand on the path of beneficial trade policies for the producers as well as the consumers and for the whole economy as well. With the passage of time India is quite sensitive in its trade policies which are reflecting in the recent trade policies. The trade policies of 2004-09 and 2009-14, in these policies it is determined that India had to facilitate those imports which are required to stimulate

12.5.1 EXIM Policy of 1997-2002

The policy of 1997-2002 has brought a new concept in the trade policies of Indian and provide Indian economy a gateway to liberalization and modernization by which the Indian economy is able to integrate with the different and developed economies of the world. The policy contains a number of significant features. The most controversial (VABAL) value based license scheme has been abolished and 542 items have been transferred from the restricted list to special import license (SIL) and freely importable list. The new Entitlement passbook scheme has also been introduced.

12.5.1.1 Objective of the EXIM Policy 1997-2002

The principal objectives of the Export Import Policy 1997-2002 are as follows:

- To accelerate the economy from low level of economic activities the high level of economic activities by marketing it a globally oriented vibrant economy and drive maximum benefits from expanding global market opportunities.

- To create new employment opportunities and encourage the attainment of internationally accepted standards of quality.
- To give quality consumer product at practical prices.

12.5.1.2 Higlights of the EXIM Policy 1997-2002

- Period of the EXIM Policy: This policy is valid for five years instead of three years as in the case of earlier policies. It is effective from 1st April 1937 to 31st March
- Liberalization: A very important feature of the policy is liberalization. It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.
- Imports liberalization: of 543 items from restricted list 150 items have been transferred to special import license (SIL) list and remaining 392 items have been transferred to open General License (OGL) list.
- Export promotion Capital Goods (EPCG) Scheme: The duty on imported capital goods EPCG scheme has been reduced from 15 per cent to 10 per cent. Under the zero duty EPCG scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied sectors.
- Advance License Scheme: Under advance License scheme, the period for export obligation has been extended from 12 months to 18 months. A further extension from six months can be given on payment of 1 per cent of the value of unfulfilled exports.
- Duty Entitlement Pass (DEFB) Scheme: Under the DEFB, An exporter may apply for credit, as a specified percentage of FOB value of export, made in freely convertible currency. Such credit can be utilized for import of raw materials, intermediates, components, parts, packaging material etc. For export purpose.

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12.5.1.3 Impact of EXIM Policy 1997-2002

(A) The EXIM Policy 1997-2002 proposed with an aim to prepare a framework for globalization of Indian economy. This is evident from the very fast objective of the policy, which states. To accelerate the economy from the level of economic activities to high level of economic activities by marketing it a globally market oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.

(B) **Impact on Agriculture**: Many encouraging steps have been taken in the EXIM Policy 1997-2002 in order to give a boost to Indian agricultural sector. These steps includes provision of additional SIL of 1% for export of agro products, allowing EOU's and other units in EPZs in agriculture sectors to 50% of their output in the domestic tariff area (DTA) on payment of duty.

(C) Impact on foreign Investment: In order to encourage foreign investment in India, the EXIM Policy 1997-2002 has permitted 100% foreign equity participation in case of 100% EOU's and units set up in EPZs.

12.5.2 Export- Import Policy (2002-07)

Union commerce and industry Minister Mr. Murasoli Maran announced the EXIM policy for the year period (2002-07) on March 31, 2002. The main thrust of the policy was to push India's exports aggressively by undertaking several measures aimed at augmenting exports of farm goods, the small scale sector, textile, gems and jewelry, electronic hardware etc.

12.5.2.1 Special Economic Zones

Indian banks were allowed to set up offshore banking units (OBUs) in special economic zones. These units would act as magnets to attract foreign direct investment. These offshore banking units would be virtually foreign branches of Indian banks, but located in India. OBUs would be exempt from cash reserve ratio (CRR), statutory liquidity ratio (SLR) and would be given access to SEZ developers to international finance at international rates. This measure was aimed to make special economic zones internationally competitive.

12.5.2.2 Employment Oriented Measures

EXIM (2002-07) policy initiated a number of Measures which would help employment orientation. Among them were the Following:

(A) Agriculture- EXIM policy removed all quantitative restriction on all Agricultural products except a few sensitive items like jute and onions.

(B) Cottage Sector and Handicrafts:

1. An amount of Rs. 5 crores under market access initiative (MAI) were earmarked for promoting cottage sector export coming under KVIC. The units under handicrafts could also access funds under MAI.
2. Under export promotion capital goods (EPCG) scheme, these Units would not be required to maintain an average level of exports, while calculating export obligation.
3. The units in handicraft sector would be entitled to duty free Imports of an enlarged of items up to 30% of o.b. value of their exports.

(C) Small Scale Industry: with a view to encouraging further development of economic and export excellences such as tirpur of hosiery, woolen blankets in Panipat, woollen knitwear in Ludhiana, following benefits would be available to small sector

1. Common service provides in these areas would be entitled to the facility of export promotion capital Goods (EPCG) scheme.

NOTES

2. Entitlement for the export houses status at Rs.5 crores instead of Rs. 15 crores for others.

A big initiative to permit offshore banking units (OBUs) would help to develop foreign branches of Indian Banks. The move was intended to provide international finance at international rates. This would lower the cost of credit to our exporters and thus made them more competitive. This initiative, specially directed at special economic zones was another healthy feature of the Exim policy.

Due to the change the central government, foreign trade policy (2002-07) was to be scrapped and introduced new policy (2004-09) was announced.

12.5.3 Foreign Trade Policy (2004-09)

Union commerce and industry Minister Mr. Kamal Nath announced the foreign trade policy for the five year period (2002-09) on 31st August 2004 which aimed doubling India's percentage share in global merchandise trade from 0.7 % in 2003 to 1.5 % in 2009. During 2003-04, India's merchandise exports were valued at $ 61.8 billion accounting for about 0.7% of world's exports. If share was to doubled, it would imply that the country's exports would have to reach $ 195 billion by 2009, assuming a 10% compound annual growth rate in world trade. For this purpose, India's exports should grow at the annual average growth rate of 26%. Besides this, the service sector is also expected to increase its share in export of invisible to over $ 100 billion. Together, the two sectors are expected to reach the target of $ 300billion by 2009.

12.5.3.1 Main Elements of EXIM Policy 2004-09

The new EXIM Policy 2004-09 has the following main elements:

- Legal Framework
- Board of Trade
- General Provision Regarding Imports and Exports

- Export Promotion Capital goods Scheme
- Export Oriented Units (EOUs), Electronics Hardware technology Parks (BTPs) (EHTPS), software, Technology Parks ((STPs) and Bio- Technology (BTPs)
- Special Economic Zones
- Free trade and Warehousing Zones
- Deemed Exports

NOTES

12.5.3.2 Free Exports

In case an export of import that is permitted freely under export import policy is subsequently subjected to any restriction of regulation, such imports or exports will ordinarily be permitted not withstanding such or regulation. To keep under consideration to double the India's trade share globally which in turn will expand the employment opportunities and so many other things which will enhance the Indian economy all over, and the special focus has been identified for agriculture, gems and jewelry, leather and marine sectors. Government of India shall make efforts to promote exports to these sectors by sectoral strategies shall be notified from time to time.

12.5.3.3 Board of Trade EXIM Policy 2004-09

BOT has a clear and dynamic role in the advising government on relevant issues connected with foreign trade.

1. In the light of emerging national and international economic scenarios to advise government on policy measures for the preparation and implementation of short term and long term plans for increasing exports.
2. To review the export performance of various sectors and to identify the constraints and suggest industry specific measures to optimize export earnings.

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3. To review policy instruments and procedure for imports and exports and suggest steps to rationalize such schemes for optimum use.
4. To examine issues which are considered relevant for the promotion of India's foreign trade and to strengthen international competitiveness of Indian goods and services

Permeable of EXIM Policy 2004-09: It is a speech given by the Ministry of Commerce Government of India has set up several institutions whose main function are to help an exporter in his work. It would be advisable for an exporter to acquaint these institutions and the nature of the help that they can provide so that he can initially contact them and have a clear picture of what help he can expect of the organized sources in his export effort. Some of these institutions are as follows:

- Export Promotion Council
- Commodity Boards
- Marine Products Export Development Authority
- Agriculture and Processed Food Products Export Development Authority
- Indian Institute of Foreign trade
- India Trade Promotion Organisation (ITPC)
- National Centre for trade Information (NCTI)
- Export Credit Guarantee Corporation (ECGC)
- Export-Import Bank
- Export Inspection Council
- Indian Council of Arbitration
- Federation of Indian Export Organisation
- Department of commercial Intelligence and statistics
- Directorate General of Shipping
- Freight Investigation Bureau

12.5.4 India's Foreign Trade Policy (2009-14)

The foreign trade policy which was announced on August 28, 2009 is an integrated policy for the period (2009-14).

12.5.4.1 Objectives of Foreign Trade Policy 2009-14

1. To arrest and reverse declining trend of export is the main aim of the policy. This aim will be reviewed after two years.
2. To double India's exports of goods and services by 2014.
3. To double India share in global merchandise trade 2020 as a long term aim of this policy. India's share in global merchandise export was 1.45 percent in 2008. Simplification of the application procedure for availing various benefits.
4. To set in motion the strategies and policy measures which catalyze the growth exports.
5. To encourage exports through a mix of measures including fiscal incentives, institutional changes, procedural rationalization and efforts for enhance market access across the world and diversification of export.

Aim in General : The policy aims at developing export, improving export performance, boosting foreign trade and earning valuable foreign exchange. FTP assumes great significance this year as India's exports have been battered by the global recession. A fall in exports has led to the closure of several small and medium scale export oriented units, resulting in large scale unemployment.

Targets

- Export Target $200 billion for 2010-11.
- Export Growth Target: 15 % for next two year and 25% thereafter.

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EPCG

- Obligation under EPCG scheme relaxed.
- To aid technological up gradation of export sector. EPCG scheme at Zero duty has been introduced.
- Export obligation or import of spares, molds etc. Under EPCG scheme has been reduced by 50%.

12.5.4.2 Highlights of foreign Trade Policy 2009-14

12.5.4.2.1 Higher Support for Market and Product Diversification

- Incentive schemes under Chapter 3 have been expanded by way of addition of new products and markets.
- 26 new markets have been added under Focus Market Scheme (FMS).
- Incentive available under FMS rose from 2.5% to 3%.
- Incentive available under Focus Product Scheme (FPS) rose from 1.25% to 2%.
- Widens scope for products to be included for benefits under FPS. Additional engineering products, plastic and some electronics get a look in.
- Market Linked Focus Product Scheme (MLFPS) expanded by inclusion of products like pharmaceuticals, textile fabrics, rubber products, glass products, auto components, motor cars, bicycle and its parts etc. Benefits to these products will be provided, if exports are made to 13 identified markets (Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand).
- Common simplified application form introduced for taking benefits under FPS, FMS, MLFPS and VKGUY.

- Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI)
- To aid technological upgradation of export sector, EPCG Scheme at Zero Duty has been introduced.
- Jaipur, Srinagar and Anantnag have been recognised as 'Towns of Export Excellence' for handicrafts; Kanpur, Dewas and Ambur for leather products; and Malihabad for horticultural products.
- Export obligation on import of spares, moulds etc. under EPCG Scheme has been reduced by 50%.
- Taking into account the decline in exports, the facility of Re-fixation of Annual Average Export Obligation for a particular financial year in which there is decline in exports from the country, has been extended for the 5 year Policy period 2009-14. Support for Green products and products from North East
- Focus Product Scheme benefit extended for export of 'green products 'and some products from the North East.

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12.5.4.2.2 Status Holders

- To accelerate exports and encourage technological upgradation, additional Duty Credit Scrips shall be given to Status Holders @ 1% of the FOB value of past exports. The duty credit scrips can be used for procurement of capital goods with Actual User condition. This facility shall be available for sectors of leather (excluding finished leather), textiles and jute, handicrafts, engineering (excluding Iron & steel & non-ferrous metals in primary and intermediate form, automobiles & two wheelers, nuclear reactors & parts, and ships, boats and floating structures), plastics and basic chemicals (excluding pharma products) [subject to exclusions of current beneficiaries under Technological Upgradation Fund Schemes (TUFS)]. This facility shall be available upto 31 March, 2011.

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- Transferability for the Duty Credit scrips being issued to status holders under paragraph 3.8.6 of FTP under VKGUY Scheme permitted on condition that scraps would be utilized for the procurement of cold chain equipments only.

12.5.4.2.3 Stability/ continuity of the Foreign Trade Policy

- To impart stability to the Policy regime, Duty Entitlement Passbook (DEPB) Scheme is extended beyond 31-12-2009 till 31.12.2010.
- Interest subvention of 2% for pre-shipment credit for 7 specified sectors has been extended till 31.3.2010 in the Budget 2009-10.
- Income Tax exemption to 100% EOUs and to STPI units under Section 10B and 10A of Income Tax Act, has been extended for the financial year 2010-11 in the Budget 2009-10.
- The adjustment assistance scheme initiated in December, 2008 to provide enhanced ECGC cover at 95%, to the adversely affected sectors, is continued till March, 2010.

12.5.4.2.4 Marine sector

- Fisheries have been included in the sectors which are exempted from maintenance of average EO under EPCG Scheme, subject to the condition that Fishing Trawlers, boats, ships and other similar items shall not be allowed to be imported under this provision. This would provide a fillip to the marine sector which has been affected by the present downturn in exports.
- Additional flexibility under Target Plus Scheme (TPS) / Duty Free Certificate of Entitlement (DFCE) Scheme for Status Holders has been given to Marine sector

12.5.4.2.5 Gems & Jewelry Sector

- To neutralize duty incidence on gold Jewellery exports, it has now been decided to allow Duty Drawback on such exports.
- In an endeavour to make India a diamond international trading hub, it is planned to establish "Diamond Bourse(s)".
- A new facility to allow import on consignment basis of cut & polished diamonds for the purpose of grading/ certification purposes has been introduced.
- To promote export of Gems & Jewellery products, the 13 value limits of personal carriage have been increased from $ 2 million to US$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased from US$ 0.1 million to US$ 1 million.

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12.5.4.2.6 Agriculture Sector 6

- To reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multi functional nodal agencies to be accredited by APEDA.

12.5.4.2.7 Pharmaceutical Sector

- Export Obligation Period for advance authorizations issued with 6-APA as input has been increased from the existing 6 months to 36 months, as is available for other products.
- Pharma sector extensively covered under MLFPS for countries in Africa and Latin America; some countries in Oceania and Far East.

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12.5.4.2.8 Flexibility provided to exporters

- Payment of customs duty for Export Obligation (EO) shortfall under Advance Authorization / DFIA / EPCG Authorization has been allowed by way of debit of Duty Credit scrips. Earlier the payment was allowed in cash only.
- Import of restricted items, as replenishment, shall now be allowed against transferred DFIAs, in line with the erstwhile DFRC scheme.
- Time limit of 60 days for re-import of exported gems and jewelry items, for participation in exhibitions has been extended to 90 days in case of USA.
- Transit loss claims received from private approved insurance companies in India will now be allowed for the purpose of EO fulfillment under Export Promotion schemes. At present, the facility has been limited to public sector general insurance companies only.

12.5.5 India's Foreign Trade Policy 2015-2020

The Foreign Trade Policy 2015-20 was unveiled by Minister of Commerce & Industry Mrs. Nirmala Sitharaman, at Vigyan Bhawan. The new five year Foreign Trade Policy, 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in keeping with the "Make in India" vision of Prime Minister. The focus of the new policy is to support both the manufacturing and services sectors, with a special emphasis on improving the 'ease of doing businesses.

During her address Mrs. Sitharaman stated that there were various forces shaping India and its equation with the rest of the world. She urged the Government and industry to work in tandem to deal with the challenges posed.

The release of Foreign Trade Policy was also accompanied by a FTP Statement explaining the vision, goals and objectives underpinning India's Foreign Trade Policy, laying down a road map for India's global trade engagement in the coming years. The FTP Statement describes the market and product strategy and measures required for trade promotion, infrastructure development and overall enhancement of the trade eco system. It seeks to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development. She promised to have regular interactions with all stakeholders, including State Governments to achieve the national objectives.

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12.5.5.1 Objectives of Foreign Trade Policy 2015-2020

The policy seeks to make India a bigger player in global trade by doubling the overseas sales to $900 billion by 2019-20, while integrating the foreign trade with "Make in India" and "Digital India Programme" The major objectives of FTP 2015-2020 are as follows:

- FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme.
- The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development.
- To arrest and reverse declining trend of exports is the main aim of the policy. This aim will be reviewed after two and half years.
- Simplification of the application procedure for availing various benefits.

Check Your Progress

State the basic principles of India's foreign trade policy?

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- To set in motion the strategies and policy measures which catalyze the growth of exports.
- To encourage exports through a mix of measures including fiscal incentives, institutional changes, procedural rationalization and efforts for enhance market access across the world and diversification of export markets.

12.5.5.2 Highlights of the Foreign Trade Policy 2015-2020

The Foreign Trade Policy (FTP) 2015-20 was unveiled by Ms Nirmala Sitharaman, Minister of State for Commerce & Industry (Independent Charge), Government of India on April 1, 2015. Following are the highlights of the FTP :

- FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme.
- The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development.
- FTP 2015-20 introduces two new schemes, namely 'Merchandise Exports from India Scheme (MEIS)' for export of specified goods to specified markets and 'Services Exports from India Scheme (SEIS)' for increasing exports of notified services.
- Duty credit scrips issued under MEIS and SEIS and the goods imported against these scrips are fully transferable.
- For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2 per cent to 5 per cent. Under SEIS the

selected Services would be rewarded at the rates of 3 per cent and 5 per cent.

- Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75per cent of the normal export obligation.
- Measures have been taken to give a boost to exports of defense and hi-tech items.
- E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).
- Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. This 'Approved Exporter System' will help manufacturer exporters considerably in getting fast access to international markets.
- A number of steps have been taken for encouraging manufacturing and exports under 100 per cent EOU/EHTP/STPI/BTP Schemes. The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.
- 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, 'Niryat Bandhu Scheme' has been galvanized and repositioned to achieve the objectives of 'Skill India'.
- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the major

objectives of new FTP is to move towards paperless working in 24x7 environments.

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12.5.5.3 Impact on the Economy

According to some experts the focus in this FTP has been "Simplicity and Stability". Accordingly, the policy on the one hand seeks to realign the multiple schemes with the objective of reducing complexities. On the other had it want to promote the increased use of technology to reduce the transaction cost and manual compliances

Supporters have given their verdict for this new FTP, stating it as 'progressive', 'path breaking' and 'development friendly' as exports of books, handicraft, handlooms, toys, textiles, defense and ecommerce platforms would be easier and faster. According to them, a big step is cleaning up the plethora of export promotion schemes and clubbing them under two schemes, one for goods (Merchandise Exports from India Scheme) and one for services (Services Exports from India Scheme).The duty scrips under these schemes come without conditions and can be freely transferred.

One significant announcement in the policy is that it will move away from relying largely on subsidies and sops. Critics however point out that, this is prompted by World Trade Organisation (WTO) requirements that export promotion subsidies should be phased out, but according to some experts there are ways of getting around it and other countries are doing it all the time.

There has been talk of boosting services exports for quite a few years now, but information technology and information technology-enabled services (IT/ITES) dominated the basket. The share of this segment in the overall export basket is 50 percent and 90 percent in the services export basket.

More importantly, this sector was overly dependent on western markets and, consequently, extremely vulnerable to even the smallest of developments there. The policy, fortunately, turns its attention to other sectors where India has inherent advantages – healthcare, education, R&D, logistics, professional services, entertainment, as well as services incidental to manufacturing.

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By extending benefits under EPCG on domestic procurements and offering them more products under MEIS, the policy further seeks to incentives the exports in right direction.

According to the Commerce Minister Nirmala Sitaraman, It's a focused policy, one in which exports through Make in India is underlined by looking at sectors that give greater employment and have high-tech value addition. That is because the intention is to join the global value chain and above all, the environment part, where you are looking at eco-friendly systems and producing wealth out of waste. So, the priority areas are technology-driven, labour-intensive-driven and environment-driven. You are also looking at traditional markets, emerging markets and diversifying into new markets.

CHECK YOUR PROGRESS

1. ECGC is related to……………………………………..
2. Free Trade Policy refers to a policy where there is…………………….
3. Many a time we hear about SEZ in newspaper /magazines. SEZ stands for………………………..
4. Name the two schemes introduced under the new foreign trade policy?
   a. Merchandise Export from India Scheme & Services Export from India Scheme
   b. Services Export from India Scheme & Services Import from India Scheme
   c. Services Import from India Scheme & Merchandise Export from India Scheme
   d. Merchandise Import from India Scheme & Services

Export from India Scheme

5. The Indian Government unveiled the new Foreign Trade Policy 2015-20 on _____.
   a. 30th Mar 2015
   b. 31st Mar 2015
   c. 1st April 2015
   d. 30th April 2015

12.6 Key Terms

Special Economic Zones (SEZ) : A special economic zone (SEZ) refers to designated areas in countries with special economic regulations that differ from other areas in the same country. These regulations tend to contain measures that are conducive to foreign direct investment. Conducting business in a SEZ usually means a company receives tax incentives and the opportunity to pay lower tariffs.

EPCG : It is a term used in India under exports and imports. **EPCG** means, Export Promotion Capital Goods. **EPCG** is one of the schemes provided by government of India to importers and exporters to promote exports. In simple and easy language, **EPCG** is a scheme related to machinery, machinery parts and similar goods.

MEIS scheme : Merchandise Exports from India Scheme (MEIS) under Foreign Trade Policy of India (FTP 2015-20) is one of the two schemes introduced in Foreign Trade Policy of India 2015-20, as a part of Exports from India Scheme. (The other scheme is SEIS, Service Exports from India Scheme).

Duty Credit : It refers to import duty credit. For example, under the Focus Market Scheme, if an exporter exports to an identified country Rs.100 worth of goods, he will get 2.5% of Rs.100 on export **of all products** to the notified countries, which he can either use to pay customs duty on his imported inputs or sell in the market as these scrips would be freely transferable. Similarly, under the Focus Product Scheme, duty credit facility at the rate of 2.5% of f.o.b. value of exports on 50% of export turnover of **notified products** would be allowed.

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Status Holders : An exporter recognised as One to Five Star Export House by DGFT/Development Commissioner for the purpose of benefits and facilitation.

12.7 Summary

This unit describes the foreign trade policies of India from 1997 to 2020. The most recent FTP of India is FTP 2015-2020. The unit further discusses the objectives, highlights and impacts of various foreign trade policies of India. The unit also explains the reasons of FTP's for developing nations.

12.8 Questions and Exercises

1. Describe the role of foreign trade policy for developing nations.
2. What are special economic zones? Highlight their role in improving export.
3. State the basic principles of India's foreign trade policy.
4. Compare the FTP 2009-2014 with FTP 2015-2020.
5. Write the main objectives of EXIM policy 2002-2007.
6. Read the given case let and answer the following questions:

Case Study Next Page

Case Study

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The Export Import policy 2002-2007 has emphasised on increasing the exports and thereby achieves a tremendous breakthrough in economic development of the country. The policy is aimed at creating an environment for achieving rapid increase in exports, raise India's share in world exports and make exports an engine for achieving higher economic growth. It is the truth that many large economies in the world have succeeded as they have stressed on opening the domestic economy into the global environment.

The experience shows that the rapid economic growth and increase in economic growth and increase in employment depends on the increased exports and it is not surprising that all the fast growing economies of the developing world are modifying their export policies to boost their export activities. It is clear that if we have to achieve sustained high growth year by year, it is necessary to diversify our export activities.

The needs for higher level of technological and industrial progress made the Government of India devise a series of export promotional schemes. EOU and SEZ scheme is one of them, which provides and internationally competitive duty free environment coupled with better infrastructure facilities for export production. ECU's have contributed more to country's export performance and it is at 12.96%. Their export growth rate of 17.37% compares very favorably with national export growth rate.

Questions

1. How EOU scheme is is aiding in export?
2. State the benefits of EOU scheme.
3. What is the procedure for setting up such EOU's?

12.9 Further Readings and References

- Paul R. Krugman and Maurice Obstfeld, International Economics: Theory and Policy, Sixth Edition
- Handbook of Procedures [1st April, 2015–31stMarch, 2020] by Government of India Ministry of Commerce and Industry, Department of Commerce

12.10 Annexure

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India's Foreign Trade 2015-16

Table 1: India's Foreign Trade

(US $ billion)

	2011-12	2012-13	2013-14	2014-15	2015-16	Growth (FY16/FY15)
	.4	-190.1	-134.0	-137.5	-118.5	-14.2
	.7	300.2	314.9	310.1	261.1	-15.8
	.9	60.8	63.3	56.6	29.1	-48.6
	.9	239.4	251.5	253.5	232.0	-8.5
	.1	490.2	448.8	447.6	379.1	-15.3
	.0	163.8	164.9	137.8	82.3	-40.3
	.2	326.4	283.9	309.8	296.8	-4.2
	.3	53.7	27.5	34.4	31.8	-7.8

Export Profile

Table 2: Composition of Exports

(US $ billion)

Commodities	2014-15 (Apr-Feb)	2015-16 (Apr-Feb)	Share in FY16 (%)	Growth (%)
All commodities	286.07	237.37	100	-17.02
Petroleum & crude products	54.15	27.41	11.55	-49.38
Non-POL	231.92	209.96	88.45	-9.47
Agricultural & allied products	35.57	29.17	12.29	-18.00
Ores & minerals	2.20	1.67	0.70	-24.14
Manufactured goods	191.30	175.91	74.11	-8.05
Leather & leather manufactures	5.75	5.14	2.16	-10.64
Chemicals & related products	29.34	29.65	12.49	1.04
Engineering goods	63.75	52.57	22.15	-17.54
Iron and steel	8.01	5.09	2.14	-36.47
Ferrous and non-ferrous metals	14.61	11.92	5.02	-18.39
Machinery & instruments	15.20	14.38	6.06	-5.40
Transport equipment	23.25	18.32	7.72	-21.20
Electronic goods	6.53	6.15	2.59	-5.83
Textiles (excluding readymade garments)	16.52	15.52	6.54	-6.04
Readymade garments	15.26	15.45	6.51	1.23
Other manufactured goods	54.15	51.44	21.67	-5.02
Gems & jewellery	37.81	35.46	14.94	-6.21

Source: CMIE

POL- Petroleum oil and lubricants

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Imports Profile

Table 3 : Composition of Imports

India's Trade partners Year: 2015-16

Rank	Country	*Exports* *from the host country (USD million)*	Share	Chang[6]
1	USA.	40'283	15.3%	-5.1
2	U.A.E	30,308	11.5%	-8.2
3	Hong Kong	12'140	4.6%	-10.7
4	China	9'028	3.4%	-24.3
5	U.K.	8'829	3.3%	-5.2
6	Singapore	7'722	2.9%	-21.2
7	Germany	7'093	2.7%	-5.8
47	*Switzerland*	*984*	*0.37%*	*-7.9*
	EU	44'510	16.9%	-9.7
	Total	262'031	100 %	-15.5

Source: Department of Commerce, Indian Minis

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Source : Department of Commerce, ***Indian Mi***
and Industry

Rank	Country	*Imports* to the host country (USD million)	Share	Chang
1	China	61'702	16.2%	2.1
2	USA.	21'776	5.7%	-0.1
3	Saudi-Arabia	20,319	5.3%	-27.7
4	U.A.E.	19'421	5.1%	-25.7
5	*Switzerland*	19'299[7]	5.0%	-12.8
6	Indonesia	13'067	3.4%	-12.9
7	South Korea	13'047	3.4%	-3.5
8	Germany	12'088	3.1%	-5.4
	EU	43'899	11.5%	-10.7
	Total	380'664	100 %	-15.0

y of Commerce and Industry

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UNIT 13 : EMERGING ISSUES IN INTERNATIONAL MARKETING

13.0 Unit Objectives

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After reading this unit, you should be able to:

- Know the evolution of Global markets.
- Explain the economic liberalization and how does it extends the boundaries of economic markets.
- Explain the role of advanced technology in internationalization of markets.
- Know the change in Demography that is affecting the international markets.
- Enulerate the economic events of global importance that insurrects the international markets.

13.1 Introduction

Country competitiveness is neither ûxed nor stable. In 1830, China and India alone accounted for about 60% of the manufactured output of the world. Since then, the share of the world manufacturing output produced by the 20or so countries that are today known as the rich industrial economies moved from about 30% in 1830 to almost 80% by 1913.

13.2 Speedy Evolution of Global Markets

Organizations compete in an environment dramatically shaped by current economic conditions as well as ongoing challenges such as globalization, increasing customer demands, and escalating operational costs. Some businesses respond by cutting operations to the bone, while others go on offensive and use technology to help them stay agile, streamline processes, and find greater efficiencies across their organizations.

International trade has become the jet engine of world economy and has played tremendous role in global economic integration. The emergence of network technologies and increasing income has facilitated the firms' ability to exploit international markets**.** Markets worldwide are likely to grow at a much higher rate than anticipated. Organizations compete in an environment dramatically shaped by current economic conditions as well as ongoing challenges such as globalization, increasing customer demands, and escalating operational costs. Some businesses respond by cutting operations to the bone, while others go on the offensive and use technology to help them stay agile, streamline processes, and find greater efficiencies across their organizations.

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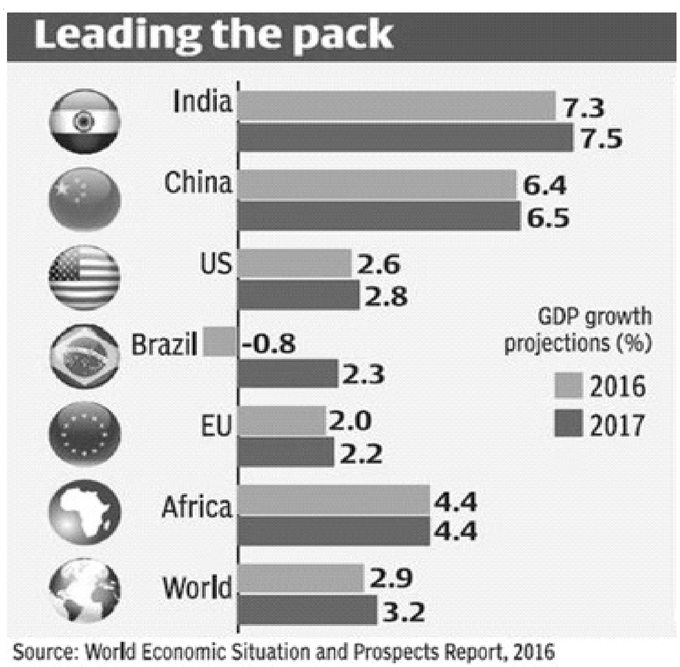
13.3 Liberalization of Economy and Marketing Borders

Marketing boundaries are disappearing very fast as the markets across the countries are becoming global. International marketing boundaries are breaking down because of liberalization of regulations and tariff structures. Multilateral trade regime has simplified the reduction of tariff and non-tariff marketing barriers.



Proliferation of regional trade agreements has facilitated the reduction of marketing barriers among the member nation. Countries which were not open for capitalist market-driven economic systems are now opening up for the same and the pace is accelerating.

13.4 Sublimation of Distance

The fast transportation means and advent of information and communication technologies have left no room for the hurdle of physical distance. These means are not only fast but are cheapening every day. The tariff rates of international telecommunication and internet charges are dwindling down very fast.

13.5 New Developments

At global level a convergence is happening relating to buying habits and product liking. All the goods are becoming startlingly similar across the countries. This is happening because of new age technologies like transnational satellite TV and other information internet based commercial and social sharing platforms. Financial viability of nuclear families have made television the prominent source of culturalization worldwide. Advances in the modes of transport and increased international travel have greatly contributed to the growing similarity in customer preferences across the countries. The new age is the age of customization. The demands of the customers are ever increasing which is more inclined towards customization of products which is triggering the competitive pressure to develop new products and maintain its market share. This proliferation has pushed the firms to make unique marketing propositions (UMP). The technological breakthroughs have shortened the product life cycle. For instance manual typewriter survived the market for more than a century, whereas electronic typewriters survived merely for a decade. The life span of computers and their components and software is reducing faster than Moore's Law. New product development involves considerable investment of resources, firms are under intense pressure to recover their investment as early as possible and often resort to adopting market skimming strategies. One practice which is emerging is that retailers buy products directly from the manufacturers and put their own labels which results in higher margins for the retailers. The growing power of retailers has given rise to the adoption of push strategies.

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Cell phones were introduced in India about a decade ago with the presumption that their use would be restricted to the upper segment of the Indian market. The western manufacturers simply shipped European models to India. However, cell phones became a mass product consequent to the mobile revolution that started in 2000. It necessitated product adaptation for Indian market. Nokia launched its model 1100 which has host of unique features such as special grip, torchlight, etc. to suit the needs of its target segment - the Indian truckers. Consequent to economic liberalization, most multinational targeted the urban middle class but more than 70% of population still lives in villages which are a huge market to be tapped by international marketing.

13.5.1 Rising Awareness

Charity is no more just for charity's sake. Social entrepreneurship is the buzzword. The number of those firms are increasing who apart from their growth and profit objectives have clear-cut overall corporate responsibility objective. The IBM Institute for Business Value conducted a survey of 250 business leaders worldwide in 2008. The survey found out that businesses have assimilated a much more strategic view, and that 68% companies reported are utilizing CSR as an opportunity and part of a sustainable growth strategy.

Check Your Progress

What is meant by internationalization and how does this relate to the global marketer?

Some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping

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them sustain a competitive advantage by using their social contributions as another form of advertising. Though Corporations that employ CSR behaviors do not always behave consistently in all parts of the world.

13.5.2 Changing Demographics

There has been a drastic change in the demographics of the world economy in the last 30 years. The impact is changing world output and world trade picture, changing foreign direct investment picture, changing nature of the multinational enterprise and the changing world order. The share of United States is continuously accounted lesser percentage whereas the share of world output accounted for by developing nations is rising and is expected to account for more than 60% of world economic activity by 2020. Many former communist nations in Europe and Asia are now committed to democratic politics and free market economies and so, creating new opportunities for international businesses. China and Latin America are also moving towards greater free market reforms. If these countries are able to accelerate their job creation to keep pace with their growing working-age population they have the potential to boost their growth and poverty reduction in coming years.

With demography-informed policies, countries – old and young, developing and developed – have the chance to turn the past fears of the population bomb into development opportunities for the future. This all has a due impact on international markets.

13.5.3 E-Readiness

E-readiness is the maturity of citizens, businesses, NGOs, and governments for participating in the electronic world. The achievement of high levels of e-readiness is being increasingly heralded as one of the top priorities for developing countries.

The Economic Intelligence Unit annually publishes an e-readiness ranking for the world's 60 largest economies based on nearly 100 qualitative and quantitative criteria to assesstheir technology infrastructure, their general business environment, the degree to which e-business is adopted by the consumers and companies, social and cultural conditions that influence internet user, and the availability of a support structure for e-business.

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Furthermore, a growing amount of time, money, and effort is being invested in calculating the level of a country's e-readiness. Emerging markets continue to rack up the biggest advances in connectivity, or the extent to which people are connected to communications networks. Most countries are making progress in implementing e-government programs, and a few developing countries keep pace or even outperform the e-readiness leaders in some areas. The governments of Mexico, Jordan, and Vietnam, for example, have made substantial progress in recent years in making digital channels. E-readiness has now a strategic role to play in serving and expanding international markets.

13.5.4 Waves of Information and Communication Technologies

The internet is particularly the availability of big data coupled with a wide variety of digital marketing channels, offers substantial opportunity. Organizations are tasked with managing more marketing options than ever before, and consumers are more integrated with marketing information than they have been in the past.

Malcolm McDonald provides a useful summary of the impact of technology on marketing:

- Integration – know your client
- Interactivity – beyond addressability to dialogue
- Individualization – information enabled tailoring
- Independence of location – death of distance

- Intelligence – informed strategy
- Industry restructuring – redrawing the marketing map

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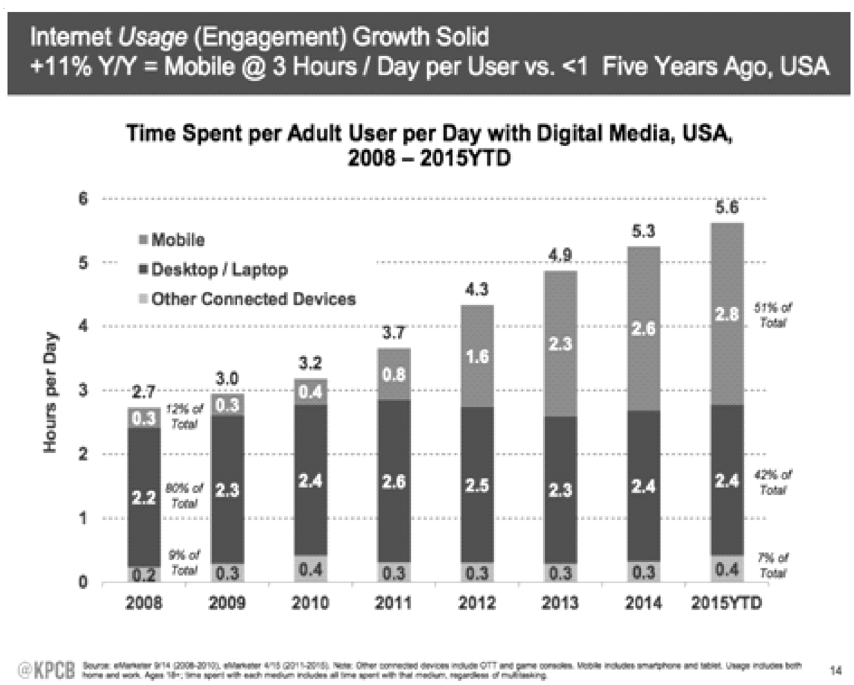
The Internet is changing the product and services available in a big way. In professional services, the Internet is allowing firms to develop new 'packaged' products – sometimes by providing integrated or related services such as financial and estate agents services. Using extranets means that certain clients can be provided with access to the firm's internal systems which both adds value and 'locks in' clients to your service.

13.5.4.1 Global E-marketing

Ecommerce now makes up over 10% of total retail sales, not a bad chunk of the market, but one that leaves it with plenty of room to grow. Retailers are increasingly focusing on their online presence, including online shops that operate alongside existing store-based outlets. This leads to the idea of "endless aisle" within the retail space, as retailers can lead consumers to purchasing products online that fit their needs without having to carry the inventory within the physical location of the store. Solely internet-based retailers are also entering the market, and some are establishing



corresponding store-based outlets to provide personal services, professional help, and tangible experiences with their products. Five years ago mobile advertising was very much a fringe activity that made up a tiny percentage of ad budgets. The rate for 2015 was the highest ever by a healthy 10 billion margin. Only the last year mobile outstripped desktop for the first time when it came to web traffic.

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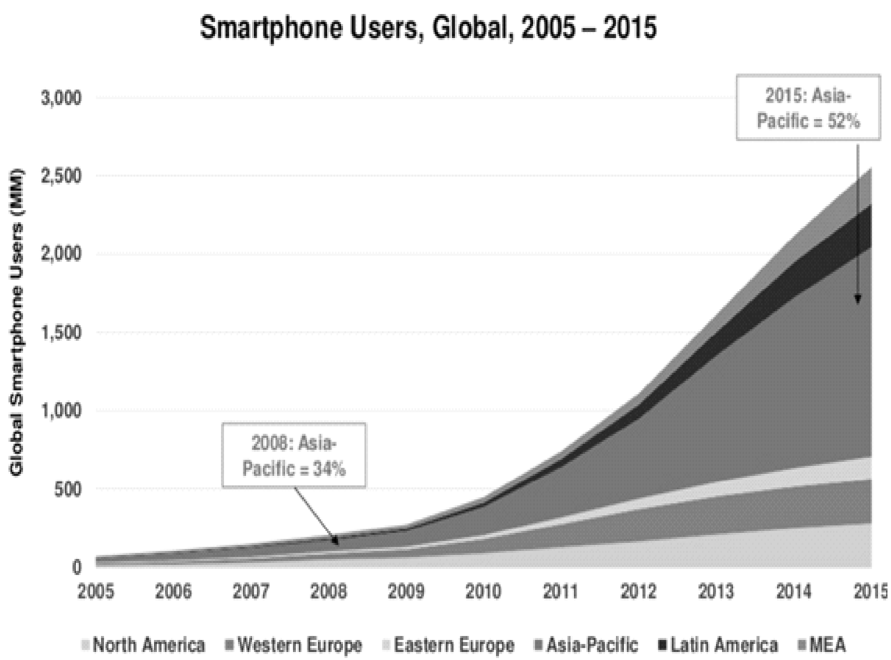
We see smartphone use is continuing its strong growth, and now the biggest markets are in developing economies. Asia now makes up over half of the entire global smartphone user base, something marketers should bear in mind when looking to enter new markets in this region.



Monthly users of messaging apps have increased massively over the last couple of years, with WhatsApp reaching a massive 1 billion people and Facebook Messenger and WeChat not far behind. Video has gone social as social sites have woke up to the potential of hosting videos on their own platforms. Moreover, voice assistance technology have more than doubled in popularity, being used by 65% of smartphone users in 2015.

13.5.4.2 Big Data

Big data is one of the hyped terms of the past couple of years. Data processing is no longer the sole domain of relational databases. Unstructured data such as digital photos, videos, and social media are growing at an even faster rate than structured data. Big data and predictive analytics technologies represent the opportunity to turn the table on the house. In other words, sales and marketing can finally become more about math than magic. Real-time sales data visualization technologies will emerge, empowering sales managers to adjust battlefield tactics based on live data feeds.

13.5.4.3 Search Engine Optimization (SEO) and Digital Marketing

International SEO is the process of setting up your website so that search engines can easily identify which countries you want to reach and what languages you use for business.

Due to the internet and e-commerce, shoppers are increasingly looking to purchase internationally, with over 50% in the study who purchased online in the last six months stating they bought from an overseas retailer. Using an Omni-channel strategy is becoming increasingly important for enterprises to adapt to the changing expectations of consumers who want ever-more sophisticated offerings throughout the purchasing journey, in which the internet is becoming an essential component.

Extending your web presence internationally can be challenging, especially without local resources at your disposal. Understanding the basic principles of International SEO readies you to enter a new foreign market successfully and retain that.

13.5.4.4 Content Marketing

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Content marketing is a strategic marketing approach focused on creating and distributing **valuable, relevant**, and **consistent content** to attract and retain a clearly-defined audience and, ultimately, to drive profitable customer action. The rise of content marketing has also accelerated the growth of online platforms at International level. Businesses that actively curate their content on these platforms have been able to expand their reach to new markets. Content marketing taps into the first two stages of the buying process by raising awareness of solutions and educating consumers about a product they may have never considered before.

13.5.4.5 Reverse Marketing

In traditional marketing, the marketers used to initiate the marketing activities but today the information and communication technology has completely changed the marketing system, enabling customers to initiate the marketing activities. The phenomenon is termed as reverse marketing where the customers initiate the exchanges and gather the required information.

User content marketing is based on a psychological response known as social proof. Social proof explains we are hardwired to learn from others to help us avoid making potentially harmful choices. For example, if we see someone else touch a hot pan and experience pain, we are probably not going to try it for ourselves. Brands that focus their efforts not on selling themselves but on encouraging their customers to sell them can achieve what traditional marketing methods fail at: building trust, earning credibility and selling more.

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13.5.4.6 Internet of Things Marketing Applications

We witnessed the continuous invasion of sensor technologies into all 'things' – enabling 'smart' app-enabled technologies to blossom, creating opportunities for useful, converged (digital & physical) experiences to be delivered to us humans. What might not be so evident is that the next great social marketing opportunity lies within this same neo-connectivity. Physical 'things' are now being transformed into social 'things' and when they communicate data with one another, there is an amazing opportunity to create better, more useful experiences at this digital chasm.

13.5.4.7 Mobile Marketing

Mobile marketing is marketing on or with a mobile device, such as a smart phone. Mobile marketing can provide customers with time and location sensitive, personalized information that promotes goods, services, and ideas.

Over the past few years SMS marketing has become a legitimate advertising channel in some parts of the world. Mobile marketing via SMS has expanded rapidly in Europe and Asia as a new channel to reach the consumer. Short codes are 5 or 6 digit numbers that have been assigned by all the mobile operators in a given country for the use of brand campaign and other consumer services. Push notifications were first introduced to smart phones by Apple with the Push Notification Service in 2009. It is a message that pops up on a mobile device. It is the delivery of information from a software application to a computing device without any request from the client or the user. Mobile App Development is now a days the technology that is benefiting various companies in order to maximize their profits.

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Brands are now delivering promotional messages within mobile games or sponsoring entire games to drive consumer engagement. There are essentially three major trends in mobile gaming right now: interactive real-time 3D games, massive multi-player games and social networking games.

Moreover, QR codes allow a customer to visit a web page address by scanning a 2D image with their phone's camera, instead of manually entering a URL.

Mobile marketing via proximity systemsallows messages (such as advertising or public information) to be broadcast to all mobile users in a specified geographical area.Also, Location-based services (LBS) are offered by some cell phone networks as a way to send custom advertising and other information to cell-phone subscribers based on their current location.

13.6 Customer Relationship Marketing (CRM)

The traditional transaction marketing focus was on single sales transaction. The Customer Relationship Marketing is about laying greater emphasis on retaining existing customers than on acquiring new one. With CRM systems customers are served better on day to day process and with more reliable information their demand of self service from companies will decrease. If there is less need to contact with the company for different problems, customer satisfaction level increases. With the help of Information and Communication Technology, CRM is gaining next levels. The Apollo Hospitals in India provide a number of Internet-based Services to the patients who are its customers, such as information search about medical specialists, booking of appointments, periodic checkups, and location of Apollo specialty hospital.

13.7 Foreign Direct Investment (FDI)

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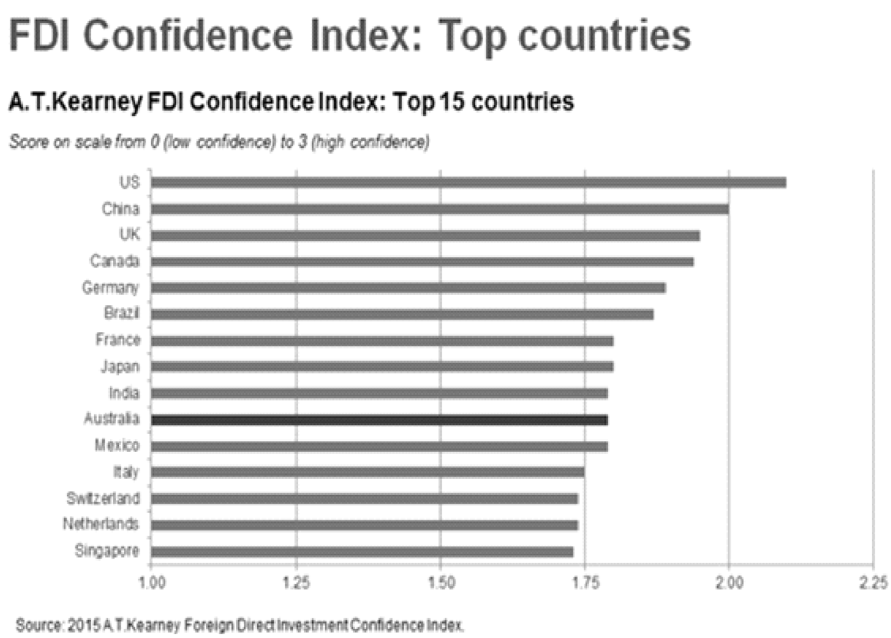
Foreign direct investment also plays an important role in international marketing. FDI is one example of international factor movements. A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. One great example of a successful foreign direct investment is Suzuki Motor Company's joint venture in India through Maruti Suzuki India Limited. Since the joint venture was created, the company has become a market leader in India's automobile industry. And Suzuki's majority ownership stake has since provided it with billions in profits over the years.



An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country.A 2010 meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. United States is the largest recipient of foreign direct investment topping China.

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India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%.

China is seen as the world's leading manufacturer and the fastest growing consumer markets. On the other hand, India is seen as the world's IT processes and R&D Services provider. And both are seen as different propositions by foreign investors.

Economic growth, job creation, and employment, technology transfer are few key benefit features that gives a soar to international marketing.

13.8 International Markets and Global Recessions

In middle-October 2008, the Baltic Dry Index, a measure of shipping volume, fell by 50% in one week, as the credit crunch made it difficult for exporters to obtain letters of credit.

In February 2009, The Economist claimed that the financial crisis had produced a "manufacturing crisis", with the strongest declines in industrial production occurring in export-based economies.

In March 2009, Britain's Daily Telegraph reported the following declines in industrial output, from January 2008 to January 2009: Japan "31%, Korea "26%, Russia "16%, Brazil "15%, Italy "14%, Germany "12%. The crisis affected all countries in some ways, but certain countries were vastly affected more than others. By measuring currency devaluation, equity market decline, and the rise in sovereign bond spreads, a picture of financial devastation emerges.

Check Your Progress

Is the role of the international marketer only to attempt to increase sales?

Many international businesses put on hold the expansion plans and their forays into other markets. Since international businesses rely on global trade to sustain themselves the shrinking of the global economy with exports falling and imports replaced by domestic consumption meant

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pulled out of emerging economies or those who resorted to fire sales of their operations. This also means that eventually when the economies and the markets pick up, those companies that had solid fundamentals are the ones who would survive the downturn.

13.9 Demonetization and its Effect

The term demonetization has become a household name since the government pulled the old Rs. 500 and Rs. 1,000 notes out of circulation in November 2016. The goal of the demonetization move in India is to make the economy stronger and eliminate the parallel cash economy which is unaccounted and untaxed. While this can impact the GDP negatively in the short term, it should have positive long term consequences. For e-commerce companies such as Amazon which already have a digital payments system in place, it should lead to higher online payment and eventually eliminate the painful cash on delivery option. The cash crunch has impacted business of several industries and can have a significant impact on the “Cash on Delivery” model of e-commerce companies in India.

It is also thought that demonetization drive will wipe out a measure of corruption and tax evasion in India’s market giving it a complete revamp.

An increase in fiscal headroom will allow the government to maintain fiscal discipline that will have different implications at international marketing.

13.10 Summary

As the business grows domestically, it may have to look at selling internationally to remain profitable. Before examining foreign markets, the business have to be aware of the major trends in international business in order to take advantage of those that might favor the company. International markets are evolving rapidly, and the business can take advantage of the changing environment to create a niche for the company.

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There are so many change mongers those have given a spur to businesses for global expansion.

Emergence of new network technologies, swift increase in income, new business, and management tools are giving way to new order of the market.

Liberalization of economy, death of distance and time, convergence of goods and services, financial viability of nuclear families, shortened product life-cycle are some other factors.

Rising awareness, changing demographics, convergence in information age, and greater dependencies on Information and communication technologies, increasing E-readiness of the countries, a paradigm shift from traditional marketing to digital marketing, big data analytics, and other online ways of innovative marketing have started a new era of international marketing. The economic occurrences of world importance also are the game changers in the arena of international marketing.

13.11 Key Terms

Global Marketing: The process of conceptualizing and then conveying a final product or service worldwide with the hopes of reaching the international marketing community.

Liberalization: The removal of or reduction in the trade practices that thwart free flow of goods and services from one nation to another.

Demography: Socioeconomic characteristics of a population expressed statistically, such as age, sex, education level, income level, marital status, occupation, religion, birth rate, death rate, average size of a family, average age at marriage.

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ICT: an abbreviation for information and communication technology refers to all equipment, applications, and services that involve communication. Computers, cell phones, televisions, radios, and satellite systems are all part of ICT.

CSR: A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship through their waste and pollution reduction processes, by contributing educational and social programs, and by earning adequate returns on the employed resources.

E-marketing: The promotion of products or brands via one or more forms of electronic media.

Demonetization: Withdrawal of a particular form of currency from circulation.

Trade tariff: A tariff is a tax imposed on goods and services imported from another country. This is a tool used by governments as a trade barrier.

13.12 Questions and Exercises

1. What is meant by internationalization and how does this relate to the global marketer?
2. Is the role of the international marketer only to attempt to increase sales?
3. Discuss how international marketing help to increase productivity and efficiency.
4. Read the case let given below and discuss the strategies of the company for sustaining in the emerging market:

Caselet : Will Amazon be Number One Forever?

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Amazon Inc. is an American international e-commerce company. It was started by Jeffrey P. Bezos in the year 1994 which is world's largest online retailer. When many dot com companies were not able to survive during the 90's, Amazon managed to survive and is successful now. It is 11th most searched site around the world. Amazon also acquired many about to close dot com companies like IMDB, CDNow and Pets.com.

When Amazon was started initially, its name was "Cadabra" but to make it more unique owner of this company "Jeff Bezos" changed its name to "Amazon". The reason behind is that alphabetically this name stands at the top when listed somewhere. Secondly, Amazon River is the biggest river and he want to make his store just like the same. Telling a reporter Jeff Bezos said, "There's nothing about our model that can't be copied over time. But you know, McDonald's got copied. And it still built a huge, multibillion-dollar company. A lot of it comes down to the brand name. Brand names are more important online than they are in the physical world."

Amazon always welcomed addition of new products to its site. Even though it has started its business selling books, presently it deals with 21 different categories of product. Amazon has focused to start a separate website for each country like -amazon.in for India, amazon.fr for France, amazon.de for Germany, amazon.it for Italy. Amazon allows other stores to sell their products on Amazon. This is the biggest source of profit for Amazon where all the payments are handled by Amazon. There are about 900,000 members' selling their products on Amazon.

The wide range of products availability has created a very strong customer base. If any individual wants anything, the first vendor that comes to people's mind is amazon. It is easy to sell your product with the help of amazon. This attracted many suppliers. One can't get things at a cheaper price anywhere than amazon. Amazon has entered into the cloud computing business. The company has good scope on the cloud computing and its performing well. It's also said to be one of the safest site for CC by Forbes.

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13.13 Further Readings and References

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