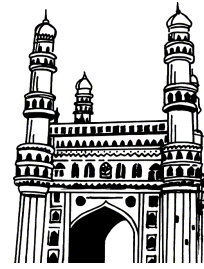


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INTERNATIONAL MARKETING

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Introduction to International Marketing: Environment and Sustainability, Scope, Importance of World Trade, Features, Opportunities and Challenges in International Marketing, Comparison of Domestic with International Marketing, Stages of International Marketing, Motivating Factors of International Marketing, Internationalisation – Reasons and Strategies.

UNIT – II

Global Environmental Drivers: WTO and Globalization – Issues, Types - Political, Economic, Social, Legal and Technological Environments, EXIM Policy, International Trade and its barriers, trade in Goods & Services, International Trade Agreements.

UNIT – III

Global Customers: Drivers of Global Consumers, Influences of the Global Consumer -Role of Culture - elements, Social Factors, Situational Factors, Industrial Buyer, Government Buyer, International Marketing Research: Opportunity Analysis, Market Selection, Assessing Market Size and Sales Potential, Government Policies of Target Markets, SWOT Analysis of Target Markets, Global Market Entry Modes – Strategies, Problems and Challenges.

UNIT – IV

Global Marketing: Globalization Drivers – Market, Cost, Environmental, Competitive Factors, International Marketing Mix, Developing the Global Marketing Program, Segmentation of product & Services, Marketing channels and Distribution Promotion Strategies, Pricing strategies – Factors influencing Pricing Decisions, Concept of International Product Life Cycle.

UNIT – V

Implementing Global marketing strategies: Negotiation with customers and selection method – Cultural and International Negotiations, E-Marketing channels organization &controlling of the global marketing programme, Export Documentation, Export Procedures, Steps in processing an Export Order.

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2. Explain the role /importance of world trade.

Ans : (Imp.)

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3. What are the features, opportunities and challenges in International Marketing ?

Ans : (Sep.-20, Imp.)

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4. What is the comparison of domestic with international marketing ?

Ans : (Sep.-20, Imp.)

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5. What are the stages of International Marketing ?

Ans : (Imp.)

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2. What are the types of global environment ?

Ans : (Imp.)

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Ans : (Imp.)

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4. Explain the concept of international trade and its barriers.

Ans : (Imp.)

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Ans : (Imp.)

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2. What are the Factors Influences of the Global Consumer ?

Ans : (Imp.)

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2. How to developing the global marketing program?

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4. What are the Channels of the Distri-bution Structure ?

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5. What are the Factors affecting Choice of Channels ?

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6. Discuss about Promoting Strategies in Global Marketing.

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Ans : (Dec.-19)

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1. Explain about Implementing Global Marketing Strategies.

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2. Discuss about Negotiation with Customers and Selection Method.

Ans : (Imp.)

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3. Explain about Cultural and International Negotiations.

Ans : (Dec.-19)

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4. What are the Factors Influencing Strategy Creation ?

Ans : (Imp.)

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5. Discuss about Types of E-marketing Channels.

Ans : (Imp.)

Refer Unit-V, Q.No. 13

6. What are the Steps in Processing an Export Order ?

Ans : (Imp.)

Refer Unit-V, Q.No. 24

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UNIT I

Introduction to International Marketing: Environment and Sustainability, Scope, Importance of World Trade, Features, Opportunities and Challenges in International Marketing, Comparison of Domestic with International Marketing, Stages of International Marketing, Motivating Factors of International Marketing, Internationalisation – Reasons and Strategies.

1.1 INTRODUCTION TO INTERNATIONAL MARKETING

Q1. Write about international marketing.

Ans :

International marketing is the application of marketing principles by industries in one or more than one country. It is possible for companies to conduct business in almost any country around the world, thanks to the advances in international marketing.

In simple words, international marketing is trading of goods and services among different countries. The procedure of planning and executing the rates, promotion and distribution of products and services is the same worldwide.

In recent times, companies are not restricted to their national borders, but are open for international marketing. With the increasing change in customers' demands, choices, preferences and tastes, the economies are expanding and giving way to more competitive marketing. Thus, organizations need to respond rapidly to the demands of the customers with well-defined marketing strategies.

Definitions of International Marketing

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

According to Cateora, "International marketing is the performance of business activities that direct the flow of goods and services to consumers and users in more than one nation."

According to Cateora and Graham, "International marketing is the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit."

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."

Nature of International Marketing

- 1. Broader market is available:** Unlike domestic marketing the market is not restricted to national population. Population of other countries can also be targeted in international marketing.
- 2. Involves at least two set of uncontrollable variables:** In domestic marketing the marketers have to interact with only one set of uncontrollable variables. In international marketing at least two set of uncontrollable variables are involved or more if the marketing organization deals in more countries.
- 3. Requires broader competence:** Special management skills and broader competence is required in international marketing/business.
- 4. Competition is intense:** An international marketing organization has to compete with both the domestic competitors and the international competitors. Hence, the competition is intense in international marketing.

5. Involve high risk and challenges:

International marketing is prove to various kinds of risk and challenge like – political risk, cultural differences, changes in fashion and style of foreign customers, sudden war, changes in government rules and regulations, communication challenges due to language and cultural barriers, etc.

1.2 ENVIRONMENT AND SUSTAINABILITY**Q2. Discuss about environment and sustainability.**

Ans :

Environment and Sustainability

A Global Challenge for Ideas, Environmental concerns have become a global phenomenon, and marketers see opportunity. Clean energy, water stewardship, and sustainable manufacturing practices have become high priorities for global marketers as customers and governments worldwide have increased their expectations for corporate environmental performance.

Some corporations have chosen not only to implement sustainability programs but also to align their business strategies with the global movement towards sustainability. One such company is GE, which has included its “ecomagination” program as part of its global marketing campaign of “imagination at work.” In the first of two phases of GE’s Ecomagination Challenge, a “Powering the Grid” challenge was conducted in 2010 to invite ideas on how to build the next-generation power grid. Beth Comstock, GE’s chief marketing officer commented about the first phase: “We ended up with about 4,000 submissions from 150 different countries. We awarded \$55 million to over 20 different great ideas.”

In the second phase of its Ecomagination Challenge, GE launched a \$200 million “Powering Your Home” challenge in 2011 to seek new business ideas. GE invited technologists and entrepreneurs worldwide to submit ideas on how to improve house-hold energy efficiency and to harness wind, solar, hydro, and biomass power. The 856 entrants to the challenge had the opportunity to win cash prizes and to partner with GE to develop their ideas

with capital backing from leading venture capital firms. Regarding the second phase, Comstock said: “What we’re hop-ing is that the world’s great inventors can come up with more of these kind of ideas that we can fund, that we can maybe bring to market, that we can license.” With its Ecomagination Challenge, GE focuses its search for product innovation on global customer needs and highlights it with a global public relations program.

1.3 SCOPE OF INTERNATIONAL MARKETING**Q3. Explain the scope of international marketing.**

Ans :

(Imp.)

Scope of International Marketing

International Marketing constitutes the following areas of business:

1. Exports and Imports

International trade can be a good beginning to venture into international marketing. By developing international markets for domestically produced goods and services a company can reduce the risk of operating internationally, gain adequate experience and then go on to set up manufacturing and marketing facilities abroad.

2. Contractual Agreements

Patent licensing, turn key operations, co – production, technical and managerial know – how and licensing agreements are all a part of international marketing. Licensing includes a number of contractual agreements whereby intangible assets such as patents, trade secrets, know – how, trade marks and brand names are made available to foreign firms in return for a fee.

3. Joint Ventures

A form of collaborative association for a considerable period is known as joint venture. A joint venture comes into existence when a foreign investor acquires interest in a local company and vice versa or when overseas and local firms jointly form a new firm. In countries where fully owned firms are not

allowed to operate, joint venture is the alternative.

4. Wholly owned manufacturing

A company with long term interest in a foreign market may establish fully owned manufacturing facilities. Factors like trade barriers, cost differences, government policies etc. encourage the setting up of production facilities in foreign markets. Manufacturing abroad provides the firm with total control over quality and production.

5. Contract manufacturing

When a firm enters into a contract with other firm in foreign country to manufacture assembles the products and retains product marketing with itself, it is known as contract manufacturing. Contract manufacturing has important advantages such as low risk, low cost and easy exit.

6. Management contracting

Under a management contract the supplier brings a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership.

7. Third country location

When there is no commercial transactions between two countries due to various reasons, firm which wants to enter into the market of another nation, will have to operate from a third country base. For instance, Taiwan's entry into china through bases in Hong Kong.

8. Mergers and Acquisitions

Mergers and Acquisitions provide access to markets, distribution network, new technology and patent rights. It also reduces the level of competition for firms which either merge or acquires.

9. Strategic alliances

A firm is able to improve the long term competitive advantage by forming a strategic alliance with its competitors. The objective of a strategic alliance is to leverage critical capabilities, increase the flow of innovation

and increase flexibility in responding to market and technological changes. Strategic alliance differs according to purpose and structure. On the basis of purpose, strategic alliance can be classified as follows:

1. Technology developed alliances like research consortia, simultaneous engineering agreements, licensing or joint development agreements.
2. Marketing, sales and services alliances in which a company makes use of the marketing infrastructure of another company in the foreign market for its products.
3. Multiple activity alliance involves the combining of two or more types of alliances. For instance technology development and operations alliances are generally multi-country alliances.

On the basis of structure, strategic alliance can be equity based or non equity based. Technology transfer agreements, licensing agreements, marketing agreements are non equity based strategic alliances.

10. Counter trade

Counter trade is a form of international trade in which export and import transactions are directly interlinked i.e. import of goods are paid by export of goods. It is therefore a form of barter between countries. Counter trade strategy is generally used by UDCs to increase their exports. However, it is also used by MNCs to enter foreign markets. For instance, PepsiCo's entry in the former USSR. There are different forms of counter trade such as barter, buy back, compensation deal and counter purchase. In case of barter, goods of equal value are directly exchanged without the involvement of monetary exchange. Under a buy back agreement, the supplier of a plant, equipment or technology. Payments may be partly made in kind and partly in cash. In a compensation deal the seller receives a part of the payment in cash and the rest in kind. In case of a counter purchase agreement the seller receives the full payment in cash but agrees to spend an equal amount of money in that country in a given period.

1.4 ROLE / IMPORTANCE OF WORLD TRADE

Q4. Explain the role /importance of world trade.

Ans : **(Imp.)**

The contribution of trade to the economy of a country is beyond any doubts. The positive contribution of trade to the economy of a country is done through creation of new jobs, encouraging entrepreneurial activities, and bringing new skills, knowledge and competencies into the country.

Founded in 1995 World Trade Organisation (WTO) deals with the rules of trade between nations at a global or near-global level by providing a negotiating forum and helping to settle disputes. Until its formation in 1995, some of the main function of WTO including formulating the rules of international trade was performed by the General Agreement on Tariffs and Trade (GATT) since 1948.

Scope of the WTO

In order to analyse at what extent WTO is contributing to the facilitation of the international trade it is necessary to establish the scope of the organisation. Currently WTO has 153 members and 30 observers, most of whom are striving to be members (Members and Observers, online 2011). Moreover, the amount of trade engaged in by WTO members account for over 97 percent of the total world trade

Role of WTO in International Business

World Trade organization (WTO) has a crucial role to play in the international trade, global economics, political and legal issues arising in the international business because of the globalization.

WTO has emerged as a world's most powerful institutions for reducing trade related barriers between the countries and opening new markets. World Trade Organization is the only International governing body that World Trade Organization replaces General Agreement on Tariffs and Trade (GATT) which was created in the year 1948.

The goal of WTO is to provide a fair platform for its member countries to help in services like

exports, imports and conduct their business in a peaceful manner.

The advantage to the countries being members in the WTO is that they lower trade related barriers among themselves. In contrary to this the countries which are not part of WTO must negotiate trade related agreements independently with their trading partners.

Almost all the industrial and agriculture sectors have been affected by trade barriers between the countries. USA considered being a free trade country because of less number of trade barriers for importing, but still it has got many.

- WTO facilitates implementation, administration and smooth operations of trade agreements between the countries.
- It provides a forum for the trade negotiations between its member countries.
- Settlements of disputes between the member countries through the established rules and regulations.
- It cooperates with the IMF (International Monetary Fund) and World Bank in terms of making cohesiveness in making global economic policies.

Global Linkages

World trade has forged a network of global linkages that bind us all countries, institutions, and individuals much more closely than ever before. These linkages were first widely recognized during the worldwide oil crisis of 1970, but they continue to increase, as was demonstrated dramatically in the financial crisis that was triggered in 2007. Now, a drought in Brazil and its effect on coffee production and prices is felt around the world. U.S. subsidies for ethanol production from corn affect prices for other agricultural crops and live-stock in the far reaches of the world. European and American business executives learned how to pronounce Eyjafjal-lajokull in 2010 as plumes of ash from that Icelandic volcano closed airports and stranded air travelers in many European cities. They received another Icelandic language lesson in 2011 when the Grimsvotn volcano erupted, although to lesser aviation effect. Grimsvotn caused.

These linkages have also become more intense on an individual level. Communication has built new international bridges, be it through music or international programs transmitted by CNN, BBC, A1 Arabiya, A1 Jazeera, and social media. All this has encouraged similar activities around the world where many of us wear jeans, dance to the same music on our iPods, and eat kebabs, curry, and sushi. Transportation linkages let individuals from different countries see and meet each other with unprecedented ease. Common cultural pressures result in similar social phenomena and behavior: for example, more dual-income families are emerging around the world, which leads to more frequent, but also more stressful, shopping.

World trade is also bringing about a global reorientation of corporate processes, which opens up entirely new horizons. Never before has it been so easy to gather, manipulate, analyze, and disseminate information but never before has the pressure been so great to do so. Ongoing global technological innovation in marketing has direct effects on the efficiency and effectiveness of all business activities. Products can be produced more quickly, obtained less expensively from sources around the world, distributed at lower cost, and customized to meet diverse clients' needs. As an example, only a decade ago, it would have been thought impossible for a firm to produce parts for a car in more than one country, assemble the car in yet another country, and sell it in still other nations. Today, such global investment strategies coupled with production and distribution sharing are becoming a matter of routine. Of course, these changes increase the level of global competition, which in turn increases the challenge of staying in a leadership position.

Advances in technology also allow firms to separate their activities by content and context. Firms can operate in a "market space" rather than a marketplace by keeping the content while changing the context of a transaction. For example, a newspaper can be distributed online globally rather than house-to-house on paper, thereby allowing outreach to entirely new customer groups.

The level of global investment is at an unprecedented high. The shifts in financial flows have had major effects. They have resulted in the buildup

of international debt by governments, affected the international value of currencies, provided foreign capital for firms, and triggered major foreign direct-investment activities. Societies can grow concerned about these shifts.

1.5 FEATURES, OPPORTUNITIES AND CHALLENGES IN INTERNATIONAL MARKETING

Q5. What are the features, opportunities and challenges in International Marketing ?

Ans : (Sep.-20, Imp.)

A) Features of International Marketing

1. Large Scale Operations

International marketing is always conducted on a large scale. It is done on a wholesale basis and not on a retail basis, to get the advantage of large scale operations regarding transportation, handling and warehousing.

2. Dominance of MNCs and Developed Countries

MNCs having world wide contacts dominate the scene of international marketing. MNCs conduct business more efficiently and economically. MNCs adopt global approach which is needed in international marketing.

3. International Restrictions

In domestic marketing, there are no restrictions. In international marketing, there are various trade restrictions (tariff and non-tariff) due to the protective policies followed by different countries. Trade barriers are adopted practically by all countries.

4. Presence of Trading Blocs

Certain nations of a region have come together to form trading bloc for and their mutual benefit, economic development and to reduce or eliminate trade barriers among member nations. International marketing is influenced by the presence of such trading blocs. The most powerful trading blocs are NAFTA (North American Free Trade Area) and EU (European Union).

5. Three-faced competition

Suppliers have to face competition from three angles in international marketing. They have to face competition from the other suppliers of the exporter's country, from the local producers of importing country and from the exporter's of competing nations.

6. International Forums

International trade is regulated by international forums like WTO and UNCTAD. International marketers should have a deep knowledge of the forums rules and regulations.

7. International Marketing Research

In international markets, it is required to know about customers, dealers and competitors. In international marketing, marketing research is a must due to different social, cultural, economic and political environment of far off markets.

8. Sensitive and Flexible

International marketing is very sensitive and flexible in character. Due to political and economic reasons, a product may suddenly become unpopular or market may come down quickly. The sale at the international level may be affected by competitors or due to the introduction of a new product by a competitor

9. Advanced Technology

International marketing is very dynamic and competitive. Thus, an organization must be able to sell goods of the best quality, at competitive prices. Advanced countries like U.S.A., Japan and Germany dominate in international marketing because they use advanced or sophisticated technology in production and marketing of goods.

10. Lengthy and Time-consuming

International marketing is lengthy and time consuming due to long distances, restrictions imposed by different countries, payment difficulties because of the use of different currencies, and lengthy procedural formalities.

11. Wide Scope

International marketing has a wide scope. The important areas covered by international marketing are product planning, product development, pricing, packaging, branding, advertising, marking, labeling, communication, procedural formalities, sales promotion, international marketing research etc.

12. Long term marketing planning

International marketing needs long term marketing planning. The need for long term planning in international markets is because the marketing situation in different countries changes due to social, economic and political factors.

13. Advantages to all participating countries

International marketing is advantageous to all the countries participating in international marketing. It helps in having smooth and good relations between countries and thereby ensures world peace. But, the advantages of international marketing are not shared in a fair proportion by all participating countries rich and poor countries. But, some benefits are availed by all participating countries.

B) Opportunities /Importance of International Marketing

Macro level benefits in national perspective: International trade results in macroeconomic effects for each economy. The imports and exports influence the employment, national income and technology. The direct and indirect benefits emanating from international business are listed below:

- 1. Challenges in G Increase in national Income:** A country's export activity promotes industrial and trade activity that generates employment and income for various sections of society. The multiplier effect of income increases the level of output and growth rate of economy. Especially the export of wage-goods can help a developing country to break the vicious circle of poverty and raise the real income of the country.

2. **Efficiency:** While exporting, the countries try to attain specialization in production of goods. In this process, there is optimum and efficient utilization of the resources. The limited domestic market may act as a deterrent to the growth of industry and a resultant under-utilization of resources. The international trade can help industry grow and achieve scale and experience economies.
 3. **Employment generation:** Exports constitute a significant portion of different nations and breed opportunities for more and gainful employment. In addition to reducing direct unemployment, foreign trade reduces underemployment, e.g. exports of Swiss watches engages the farmers in the watch industry during their free time resulting into gainful utilization of their skills.
 4. **Increased linkages:** The staple theory of economic growth recognizes that foreign trade results into increased backward and forward linkages with other sectors of the economy. The industrial and trade linkages cause the development of new industries and enhance efficiency of existing industries.
 5. **Optimal utilization of resources:** International business makes possible the utilisation of agricultural resources as the farmers get a greater access to the overseas markets. This transforms even the subsistence sector into monetized sector raising the standards of living of rural populations. The strengths of Indian agriculture are likely to open new vistas of business opportunities in the days to come as the world trade is likely to become more liberalized as a result of WTO provisions.
 6. **Educative effect:** Exports and international business exposes the executives to overseas market which develops greater skills in them. This removes a great hindrance, often acknowledged as greater than scarcity of capital goods. The entrepreneurial and management expertise generally helps an economy grow faster, and traditional factors of production can be used more effectively.
 7. **Promotes Foreign Direct Investment:** The level of international business of a country often becomes a basis for the flow of foreign direct investment in a country. In today's economic environment, it is difficult to grow in absence of FDI. Several economies have grown following the heavy investments from other parts of the world.
 8. **Stimulates Competition:** International business fosters healthy competition and helps in checking inefficient monopolies. It is established that growth of competitive economies is higher than the growth rate of protective economies. In recent times, the nations have realized the benefits of healthy competition. Several developing and erstwhile communist countries are promoting the same. Switching over to market-led growth which invokes substantially international operations in business, services and technology.
 9. **Technology Sourcing:** In today's rapidly changing world, it is important to keep pace with the changing technology. This is possible only when there exist linkages with other national economies through international trade and business. The technology-driven industries such as information technology telecommunications, automobiles derive immense synergy by their participation in trade across the world.
- II) Microlevel effects of International Business:** An individual firm can reap several benefits by resorting to international marketing and international business.
1. **Growth:**

By all standards, domestic markets have a limitation of growth potential. After a particular level, it is very difficult for a firm to achieve growth. So, it is left with the option of either product innovation or extending operations to other markets. The latter option is a better way of sustaining growth as the product life can increase significantly when it is sold into the world markets.

2. Fighting Competition:

As the protectionist measures by nations are being reduced, firms operating in domestic market only are facing increased levels of competition. Instead of utilizing their resources in fighting competitions, firms continue to look at markets in other countries to cope up with domestic competition. Hence, international business operations provide avenues for both survival and growth.

- 3. Increased efficiency:** By operating on global scale, a firm can select for its expansion lucrative opportunities. Also, it can reduce its product costs through global sourcing and utilize world level technology and talent for business operations. All this makes the business operations more efficient and as a result it can realise higher return per unit investment. This boosts up shareholder's value and the company image.
- 4. Scale economics:** Higher level operations on account of international operations produce benefits of scale and thus enhance the profitability of firm.
- 5. Innovation:** By operating in large markets, companies can afford to invest in research and technology development. It is established that compared to traditional and mind set firms, innovation driven firms can compete effectively.
- 6. Risk Cover:** By operating on global scale, the fluctuations of demand levels in an individual country does not make much difference on the aggregate sales. Consequently, the uncertainties arising out of risk factors on the operations localized to a country are reduced. Even the financial risks, physical risks, politico-legal risks etc. can be managed more effectively by virtue of global operations.

C) Challenges of global marketing

International marketing is never as easy as marketing in the domestic region. There are a number of problems that global marketing brings along when any company starts to pursue it. There are a lot more dynamics that can be uncertain and challenging compared to the national market. The diversity in cultures and political realities in different regions of the world create plenty of obstacles for a company trying to market themselves in a new region. Here are a few problems that any company faces when they are pursuing a global expansion.

1. Tariffs

Taxes and customs duties on imported goods are what can be considered tariff barriers. Companies selling products in another country can find it harder to make profits in the local markets because of the customs duties and other extra expenses they have to compensate for as compared to the locally produced goods. Some countries even impose tariff barriers in a strategic way to dissuade foreign companies from successfully selling their products in the local market and setting a foothold so their own products can thrive more. Frequently changing tariff rates also leads to uncertainty for traders who need to be able to ascertain their profits in a market to plan strategies and their global goals in the long run.

2. Administrative Policies

The bureaucratic situation in both the host and guest countries has a great effect on the marketing. Any tumultuous situation that occurs which might not have anything to do with your company or the products you're selling can still make thriving in any market a steeper hill to climb. International marketers also have to conform to the legal formalities of the country they are operating, giving due diligence to the political situation between their own country and the host country.

3. Diversity

Every country has its unique culture and traditions. It is a hard fact of life and every body is aware of it but they can still pose a significant problem when it comes to marketing and selling products internationally. There is a massive display of diversity when you're considering your customers on a global scale in terms of their needs, their preferences, habits, languages, expectations, spending ability and so forth. Customers from different countries in the same region can have the complete opposite social values and requirements, which means the marketing strategies for both have to be specifically made for them individually. The marketing approach cannot be generalized and that poses a lot of logistical issues and figuring out their needs is a resource and a time exhaustive process.

4. Political Environment

Every country has its own political climate with different economic structures and policies. Political instability in a country or region is one of the main factors that can affect success in a market. Different political situations either offer more opportunities or considerable challenges to international marketing. Governments can have drastically different philosophies, priorities and approaches to international trading. A company's global sales strategy has to be devised according to the needs of the specific situation at the given time for any given region.

1.6 COMPARISON OF DOMESTIC WITH INTERNATIONAL MARKETING

Q6. What is the comparison of domestic with international marketing ?

Ans :

(Sep.-20, Imp.)

Definition of Domestic Marketing

Domestic Marketing refers to the marketing activities employed on a national scale. Marketing strategies were undertaken to cater customers of a small area, generally within the local limits of a country. It serves and influences the customers of a specific country only.

Domestic Marketing enjoys a number of privileges like easy to access data, fewer communication barriers, deep knowledge about consumer demand, preferences and taste, knowledge about market trends, less competition, one set of economic, social & political issues, etc. However, due to the limited market size, the growth is also limited.

Definition of International Marketing

International Marketing is when the marketing practices are adopted to cater the global market. Normally, the companies start their business in the home country, after achieving the success they proceed their business to another level and become a transnational company, where they seek to enter in the market of several countries. So, the company must be known about the rules and regulations of that country.

International marketing enjoys no boundaries, keeping the focus on the worldwide customers. However, some disadvantages are also associated with it, like the challenges it faces on the path of expansion and globalisation. Some of which are socio-cultural differences, changes in foreign currency, language barriers, differences in buying habits of customers, setting and international price for the product and so on.

S.No.	Domestic Marketing	International Marketing
1)	Area of Operation : It operates within the national boundaries. Its area of operation is limited.	It operates outside the geographical limit of the country, its area of operation is borderless.
2)	Nature of Marketing : It is simple in nature. Marketing practices are uniform.	Nature of international marketing is complicated. Marketing practices are also not uniform.
3)	Language and Culture : It deals with people having one language and one culture.	International marketing is performed with people and countries having different languages and culture.
4)	Scale of Operation : It operates on a small scale in a limited area.	International marketing is performed on large scale in diversified market.
5)	Methods of Payment : Payments are made directly to the seller.	Payments in international trade are made to the exporter through bank only.
6)	Currency : The currency used in home trade is one throughout the country.	The currency used in international trade is different in different countries.
7)	Exchange Funds : No exchange funds are required in the home trade.	International trade cannot be carried without foreign exchange reserves.
8)	Free Trade : Traders are free to trade in any goods except the prohibited area identified in industrial policy.	Every commodity cannot be marketed. Exim policy identifies prohibited items.
9)	Regulatory Authority : Government regulates home trade.	WTO and UNCTAD regulate international trade.
10)	Rules and Regulations : Domestic rules and regulation are applicable in home trade.	International laws regulate the international trade.
11)	Risk : It does not involve much risk and uncertainties.	International marketing is exposed to high risk both political and commercial.
12)	Tariff Regulation : It is not subject to tariff regulations. Tax regulations are simple.	International marketing is subject to Tariff and non-tariff regulations.
13)	Mode of Payment : Payments are made directly in home currency.	Payments are made by L.C / bills of exchange through the bank.
14)	Realization of Sales ; Credit can be extended and sales proceed is decided according to buyers seller relationship.	Export proceed must be realized within 180 days from the date of shipment.
15)	Transport Cost ; Transport cost are low in home marketing.	It involves high transport cost due to long distance, incidental expenses, compulsory insurance.
16)	Competition : Sellers have to face competition from domestic producer only.	It faces high degree of competition from global players.

1.7 STAGES OF INTERNATIONAL MARKETING**Q7. What are the stages of International Marketing ?**

Ans : (Imp.)

Depending on their internal circumstances, external influences, current focus strategies and future expansion plans, companies may have different degrees of involvement and commitment to international trading and marketing. It will be pertinent to note the stages that various companies pass through before they evolve into international marketing organisations. A limited number of companies take off directly as international marketing companies as a deliberate strategy. Even when they start as export-oriented units, they primarily remain exporters only and seldom get into direct marketing activities abroad. They may outsource their marketing activities to other firms abroad, to handle the marketing of their products and services. Such firms take much longer time to become truly international marketing organisations.

In the evolutionary process of international marketing, a firm may have to pass through the following stages.

1. Domestic Marketing Company

A company that focuses exclusively on the home country market is a domestic company. In India, many such organisations start as domestic companies, focusing solely on domestic consumers and domestic economy unless they are forced to reach a stage by local competition and competition by global competitors within domestic market to look for other pastures outside the home country.

2. Export Marketing Company

Many export marketing companies look for avenues to export indirectly, by extending local products to international clients through export marketing divisions. Their focus, however, remains on domestic markets. In India, to a large extent, the cycle industry, the machine tools industry and the pharmaceutical industry remain ethnocentric, earning a greater share of their revenues from domestic markets. Exports add to the total turnover of these organisations.

3. Multinational or International Marketing Company

When a firm starts focusing on consumer needs and requirements in more than one country and accordingly devises product, price and promotion strategies, with special emphasis on the needs of each specific market, it can be called a multinational marketing company. Such a company will have sales offices or even manufacturing bases, through subsidiaries and franchisees or by way of strategic alliances with partners, abroad. LG Electronics, Samsung, Hyundai, GE, National Panasonic, Suzuki and Honda are some such companies that operate as multinationals or international companies. Their efforts, however, are not coordinated across different countries or regions. For instance, Pepsi China has no coordination with Pepsi India, even though both are a part of a multinational firm. Such business organisations are polycentric. At best, regional coordination may be achieved by appointing one regional control office. For example, South Asia may have one controlling office to manage the affairs of the units falling within its jurisdiction.

4. Global or Worldwide Marketing Company

In the global marketing company, focus is on allocating company resources globally without segmentation of the corporate into domestic country specific or region specific. Talent, resources, philosophy, management outlook, thinking and objectives are worked out on a global basis, although, in view of the local requirements, local managers and subsidiaries are used to manage these. Such an organisation allows autonomy to local units to function even though they still depend on their worldwide network for technical expertise to maintain a competitive edge over their rivals. Talking about such a company, Keegan says that "it recognizes similarities and differences and adopts a world view. This is the company that thinks globally and acts locally. It adopts a global strategy allowing it to minimise adaptation in countries to that which will actually add value

to the country customer. This company does not adapt for the sake of adaptations. It only adapts value to add to the offer. Thus, when Bridgestone or Continental Tyres adapts their products to the local needs of the Indian market, they do not forsake their global quality levels, but local quality adaptation will be allowed if it adds value to the customer. Ranbaxy is one such example of a global corporate organisation in India.

1.8 MOTIVATING FACTORS OF INTERNATIONAL MARKETING

Q8. What are the motivating factors of international marketing ?

Ans :

With the shortening of distances in the global economy due to the development of means of communication and travel, interdependence among nations on each other has increased manifold. In the international marketing scenario, today, no country can afford to remain aloof or exclusive. Cable television has enlightened consumers about the difference in the standards of living among the haves and the have-nots, among the developed, the developing and the yet-to-develop economies. Such awareness offers tremendous scope for companies to go international to find shelf space in all kinds of economies and to improve their realisations. If Bajaj Auto wants to go out and sell its motorcycles to the French, it may not mean merely donor - its surplus production. When competition starts to have an impact of its profits in the domestic market it may mean getting better product prices from the export market. Similarly, if Hero Cycles wants to set up a manufacturing hub in China, it will mean facing competition from the Chinese manufacturers on their own home turf, under conditions that will be familiar for Chinese manufacturers and not to Hero Cycles. The motives for taking fast strides in the international market may vary from economic to attaining competitive edge. Some of these are mentioned below.

A) Environment Motivating Factors

1. Competitive Edge

Competition brings out the best. In a closed economy of the kind India had till the early 90s, Indian manufacturers did not feel the need to go international. It was a seller's heaven, in almost all industries. The automobile industry had Ambassador and Fiat, whereas scooter manufacturers like Bajaj were firmly ensconced in their protective territories. Similarly, the manufacturers of white goods offered only a few products with competitive edge, each knowing fully well that consumers will perforce lap up the entire production. Post-1990s, the scenario has changed. Suzuki's entry through Maruti brought in Hyundai, Toyota, General Motors and Ford. When automobiles came in, component manufacturers too followed. Bridgestone Tyres moved into India along with these manufacturers, to keep the competitive edge in the original equipment supplies*. Such situations force the local industry to either give up or to buckle up and to look for new technology and new markets around the world. When Honda tied up with Hero, TVS decided to go with Suzuki. Bajaj had virtually motivated Chinese manufacturers to bring out a replica of its own Pulsar under the brand of Guslar, when their Pulsar brand gained international recognition.

2. Worldwide Integration of Economies

It is developing into a boundaryless business world. The General Agreement In Trade And Tariff (GATT) and subsequent developments in the WTO are helping the manufacturers access markets without tariff or quantity barriers and, moreover, the transition of the old economic order of closely held economies of China and other communist countries to

the market economy has given access to multinationals like Unilever, P&G and others. Unified Germany has become one market, which, eventually, led to a common European market. North American Free Trade Agreement (NAFTA) and South Cone Common Market (MERCOSUR) are other examples of such alliances. ASEAN and SAARC may not yet have become close-knit like Europe but the day is not far when these associations will also offer common customs and other formalities to international trade. Given the fact that each sovereign country today is receptive to transborder trade by privately-held companies, subsidiaries established abroad will not only soon have access to common markets but to other parts of the world as well.

3. Technological Edge

Technology advancement and breakthrough brings about upgradation of standards of living. Technology has standardised manufacturing processes, resulting in large-scale productions offering economies of scale. The manufacturers can today afford to be competitive in any part of the world. The motorcycles produced by Honda Unicom in India can compete with other motorcycles across the world. China has gone further and, in fact, its production levels offer it the highest scale of economies.

Similarly, transportation and telecom have brought the countries of the world even closer. The multi-modal transportation giants have taken away all the problems of exporting and offer their services virtually at the doorsteps of international marketing firms. The establishment of dry ports in many parts of different countries, where the containers move from the exporter's town itself, adds to the convenience. It has brought down the cost of transportation considerably.

The establishment of telecommunication networks, mobile telephones, the Internet and web cams have all contributed to faster

and safer international business. Electronic signatures on the Internet have eliminated many unnecessary paper-processing delays, encouraging the international marketing firms to establish their connections worldwide. The denizens of seven seas of the world today have become one globalised village's residents, each within the reach of a flick of a finger.

4. Purchasing Power

The purchasing power of large Asian nations like China, India and Japan has grown manifold. The middle class of India offers the largest market of haves to the marketers of the world. China's foray into privatisation and allowing private FDIs has led to open foreign trade with China. At the same time, aggressive export and international trading bring home the much-needed dollars, which are then ploughed back into product and infrastructure development.

The Indian economy saw the emergence of local multinationals, which attained multibillion dollar turnovers through outsourcing of business processing and which then offered huge wealth to local manufacturers. The emergence of auto component manufacturers, call centres, software development organisations and health and medical development centres all are examples of an economic upsurge. Infosys, Wipro, Convergys and Persistent are only a few names of the firms that have helped the Indian economic upsurge through their dollar earnings.

5. Emergence of Demanding Consumers

The global media has brought worldclass products into people's living rooms and bedrooms. Today, young people in all corners of the world listen to the same music. They watch IFFA awards at the same time as they watch MTV awards. The consumer is exposed to all international brands, such as Nike, Levi's, LG mobile phones, Motorola phones and many other such products, which are now available simultaneously in many countries of the world. This consumer education has

brought in a natural demand for common and most sought-after brands, virtually motivating marketing firms to start their own distribution worldwide. Shopping malls, retail chains and franchises are all falling over each other to cater to this discerning, knowledgeable and willing-to-spend consumer. Pizza Hut, McDonalds, Cookie Mans, Barista, L.L. Beans and many other international chain food stores all find a consumer whose taste buds are demanding international delicacies.

B) Firm-specific Motivating Factors

Firm-specific motivating factors arise when international firms see the opportunities externally. They are then motivated to analyse their own strengths to leverage against the external factors.

1. Capacity Utilisation and Economic Advantages

In international marketing operations, the break-evens are moving up due to higher cost of setting up globally viable units. In order to reach the levels of production that could bring in positive returns, many times, manufacturers look beyond national boundaries to prepare themselves to compete against the global giants through worldwide operations. As a result, firms usually go for international operations. The steel industry saw such emergence of global operations in the merger of top world manufacturers like Mittal Steels and Arcelor. Similarly, Tata Steel has also gone international to counter competition. Videocon prefers calling itself an Indian multinational to achieve regiocentric operational efficiency that could bring down costs.

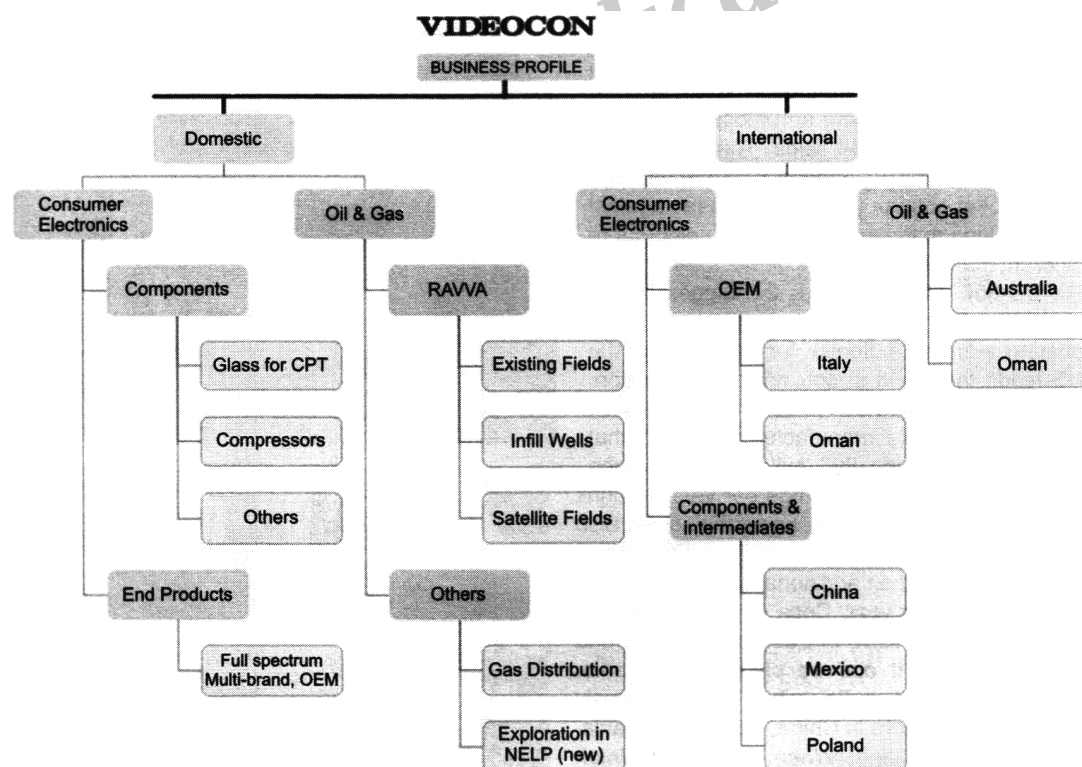


Figure: The International and Domestic Profile of Videocon

2. Product Life Cycle (PLC) Extension

This can only be a short-term strategy. Many times, products on the verge of declining trends on the PLC may get a new lease of life by opening up of new markets internationally. Sometimes even at the introductory and growth stages of PLC, a company may like to recover the high cost of product development by offering the same to international markets, till others catch up with it. The cold drinks and beverages industry of United States got a new lease of life in the early 80s, when both Pepsi and Coke moved into many Asian countries. Similarly, cigarette manufacturers were able to revive their fortunes when they ventured into China and Eastern Europe, after their economies opened up.

3. Experiences Transfer/Benchmarking

Firms attain the standards of international marketing corporate organisations after they have established themselves firmly in their own domestic markets. Again, they may not open up all international fronts in one go, but they may learn their lessons in one economy before they move on to the next. The experiences earned are utilised in establishing new businesses at a low cost and in lesser time. Some of the retail majors like Wal-Mart (US) and Metro A.G. (Germany), which are entering India now, will stand to gain a lot with their experiences worldwide. International companies have information systems that scan case studies of different companies across the world, which can then be used as benchmarks while setting up new businesses.

1.9 INTERNATIONALIZATION**Q9. What is internationalization and, Explain the concept of Internatioanlization.**

Ans :

International Business has been growing recently at a faster pace than global production. Apart from reasons such as to expand sales to acquire resources, to

diversify sources of sales and supplies and to minimize competitive risk, there are other interrelated factors like :

a) Expansion of Technology

In recent years, the pace of technological advance has accelerated to greater heights and the knowledge of products and services is available more quickly and widely due to communication and transportation technology. By increasing the demand for new products and services, technology has tremendous impact on international business.

Conducting business on an international level usually involves greater distance than conducting domestic business and greater distance increases operating costs and makes control of a company's foreign operations difficult.

Improved communication and transportation speed up interactions and improve manager's ability to control foreign operations.

b) Liberalization of Crossborder Movements

Governments today imposes very few restrictions on crossborder movements than they did a decade or two ago. With the enactment of the World Trade Organization in 1995, the restrictions would continue to diminish. The reasons for the government reducing the restrictions are :

- Their domestic products will become more efficient as a result of foreign competition.
- Their citizens expressing the desire for better access to a larger variety of goods and services at lower prices.
- Hoping to induce other countries to reduce their barriers for international movements.

c) Development of Supporting Services

Companies and governments developed services which earn international business. Most producers can be paid relatively easily for goods and services sold abroad because of bank credit agreements, conversion of currency from one country to another and insurance that covers damage in route and the nonpayment by buyer. Govt. granting aid or loans to a foreign govt. to use for the purchase of the granting country's surplus production.

d) Increase in global competition

Due to pressure from foreign competition, domestic companies expand their business into foreign markets. Today companies respond rapidly to many

foreign sales opportunities. They shift production quickly among countries it they are experienced in foreign markets and transport goods efficiently from most places.

Stages of internationalization

1. Domestic sale

The firms in the beginning rely on domestic sale. They do not pay attention to changes in international marketing environment. This approach is referred to as ethnocentric concept; predisposition of a firm is predominantly concerned with viability and legitimacy only in its home country. This makes them vulnerable to charges forced upon them by foreign companies.

2. Export marketing

Here a firm catering to only domestic market receives demand of their products from foreign markets. The firm fulfills this demand and then later on tries to get repeat orders. At this stage due to lack of experience, the firm takes the help of intermediary (trading firm) and carry on the business which is generally referred to as indirect export. With due course of time as the firm gets the necessary experience of international marketing, it enters into direct export eliminating intermediary. At this stage it still retains the ethnocentric orientation.

3. International marketing

With passage of time, firm adopts polycentric orientation. Polycentric orientation is defined as predisposition of a firm to the existence of significant cultural differences among different markets. The firm adopting polycentric orientation visualizes these differences across the market and responds to it with appropriate market specific strategies. Under international marketing, a stage of multi domestic marketing is reached wherein all foreign subsidiaries operating in different countries adopt totally different independent strategies without direct appropriate control from

mother country/head quarters. Here it is difficult to achieve economics of sale and hence multi domestic orientation is preferred only when higher diversity is there among different markets which call for separate independent marketing strategy.

4. Multinational marketing

When a firm tries to consolidate its activities on regional basis to gain advantage of economies of scale in manufacturing and marketing, its policy is referred to as multinational marketing. Here marketing mix decisions are standardized within the region but not across the region.

5. Global marketing

The firm operating in multinational markets may adopt the policy of single marketing methods across the international markets with limited changes. Such a move gives cost efficiencies by eliminating duplication of marketing efforts among the national and regional subsidiaries. Here there will be improved linkages among national marketing infrastructures leading to the development of a global marketing infrastructure which gives rise to global customers that gives opportunity for easy dissemination of products, brands and other ideas across subsidiaries.

6. Local marketing

Obtaining greater market share leading to profit is more critical for a firm than achieving economies of scale. Thus, global marketing firm cannot underestimate the local expectations and finer marketing nuances. It is required to give more attention to local customers. This gives rise to global marketing which indicates policy of global marketing with local focus. Although it increases marketing complexity for the firm but at the same time the firm is able to fulfill customer expectations more competitively and achieve higher market share.

1.9.1 Reasons and Strategies.**Q10. What are the reasons and strategies of Internationalization ?**

Ans :

(Imp.)

Internationalisation - Reasons and Strategies

Many companies have established a strong global presence by way of exporting, joint ventures, strategic alliances and establishing subsidiaries. Some companies have become true multinationals and generate a major share of their revenue from global functions.

Three macro factors seem to underlie the trend towards greater internationalisation. They are:

- (i) The decline in trade barriers
 - (ii) Removal of restrictions on foreign investment
 - (iii) The technological change, particularly the dramatic developments that have occurred in recent years in communications, information processing and transportation technologies.
- A)** This chapter looks at the global market entry strategies of some Indian companies like Ranbaxy, Dr. Reddy's Laboratories, Aurobindo Pharma and the Tata Group.

Global Market Entry of Firms: Some Reasons

Ideally, all companies think about going global because of several reasons. These are as follows.

(i) Domestic Competition

Globalisation has brought about new challenges. It has created a business environment wherein companies are caught in the 'Eat or to be Eaten' situation. Companies that have a strong local presence are also writing business plans for global expansion because domestic patronage, significant though it may be, is ultimately limiting, particularly with increasing competition. That is why the exploration of foreign markets is imperative for ambitious companies such as Mittal, Videocon, and Tata Motors. Many companies believe that, by going global, they can kill two birds with one stone, by capturing the foreign market as well as the domestic market.

(ii) To avoid Dependence on Domestic Market

Companies that aspire to more than simply survive cannot afford to leave their business solely on the fortunes of one country. When an economy booms, companies increase their capacity to produce to meet the growing domestic demand. But if the economy slows down tomorrow, what will happen then? Therefore, it is important for a company to look beyond its boundaries.

(iii) Economies of Scale

Another argument for overseas expansion is the fact that the firm achieves international competitiveness and economies of scale, which translate into price benefits. Tagging along is the competitiveness factor, where quality and efficiency are directly improved (or should be) as a result of the high level of competition in foreign markets.

B) Internationalisation : Strategies

In a business, firms follow generic strategies: cost leadership, differentiation.

Each business must develop a competitive strategy focused on its own domestic market. In pursuing this strategy, the home country of operation is often the most important source of competitive advantage. The resources and capabilities of the home country frequently allow the firm to pursue the strategy in the markets located in other countries. The generic strategies under this category are:

(a) International Cost Leadership Strategy:

An international cost strategy is likely to develop in a country with a large demand. Operations for such an industry are centralized in the home country and obtaining economies of scale is the primary goal. Outsourcing of low-value-added operations may take place, but high-value-added operations are retained in the home country. Accordingly, products are often exported from the home country.

(b) International Differentiation Strategy:

Firms based in a country with advanced and specialized factor endowments are likely to develop this strategy.

In order to be a leader in this category, a firm has to continue to differentiate its product in the ways that are attractive to the mass market. Firms may differentiate their products and services through physical characteristics or they may also differentiate in the minds of the consumer.

Short Question and Answers

1. International marketing.

Ans :

International marketing is the application of marketing principles by industries in one or more than one country. It is possible for companies to conduct business in almost any country around the world, thanks to the advances in international marketing.

In simple words, international marketing is trading of goods and services among different countries. The procedure of planning and executing the rates, promotion and distribution of products and services is the same worldwide.

In recent times, companies are not restricted to their national borders, but are open for international marketing. With the increasing change in customers' demands, choices, preferences and tastes, the economies are expanding and giving way to more competitive marketing. Thus, organizations need to respond rapidly to the demands of the customers with well-defined marketing strategies.

Definitions of International Marketing

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

According to Cateora, "International marketing is the performance of business activities that direct the flow of goods and services to consumers and users in more than one nation."

2. Counter Trade.

Ans :

Counter trade is a form of international trade in which export and import transactions are directly interlinked i.e. import of goods are paid by export of goods. It is therefore a form of barter between countries. Counter trade strategy is generally used by UDCs to increase their exports. However, it is also used by MNCs to enter foreign markets. For

instance, PepsiCo's entry in the former USSR. There are different forms of counter trade such as barter, buy back, compensation deal and counter purchase. In case of barter, goods of equal value are directly exchanged without the involvement of monetary exchange. Under a buy back agreement, the supplier of a plant, equipment or technology. Payments may be partly made in kind and partly in cash. In a compensation deal the seller receives a part of the payment in cash and the rest in kind. In case of a counter purchase agreement the seller receives the full payment in cash but agrees to spend an equal amount of money in that country in a given period.

3. Role of WTO in International Business.

Ans :

World Trade organization (WTO) has a crucial role to play in the international trade, global economics, political and legal issues arising in the international business because of the globalization.

WTO has emerged as a world's most powerful institutions for reducing trade related barriers between the countries and opening new markets. World Trade Organization is the only International governing body that World Trade Organization replaces General Agreement on Tariffs and Trade (GATT) which was created in the year 1948.

The goal of WTO is to provide a fair platform for its member countries to help in services like exports, imports and conduct their business in a peaceful manner.

The advantage to the countries being members in the WTO is that they lower trade related barriers among themselves. In contrary to this the countries which are not part of WTO must negotiate trade related agreements independently with their trading partners.

Almost all the industrial and agriculture sectors have been affected by trade barriers between the countries. USA considered being a free trade country because of less number of trade barriers for importing, but still it has got many.

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Ans :

Domestic Marketing refers to the marketing activities employed on a national scale. Marketing strategies were undertaken to cater customers of a small area, generally within the local limits of a country. It serves and influences the customers of a specific country only.

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International marketing enjoys no boundaries, keeping the focus on the worldwide customers. However, some disadvantages are also associated with it, like the challenges it faces on the path of expansion and globalisation. Some of which are socio-cultural differences, changes in foreign currency, language barriers, differences in buying habits of customers, setting and international price for the product and so on.

6. Multinational or International marketing Company.

Ans :

When a firm starts focusing on consumer needs and requirements in more than one country

and accordingly devises product, price and promotion strategies, with special emphasis on the needs of each specific market, it can be called a multinational marketing company. Such a company will have sales offices or even manufacturing bases, through subsidiaries and franchisees or by way of strategic alliances with partners, abroad. LG Electronics, Samsung, Hyundai, GE, National Panasonic, Suzuki and Honda are some such companies that operate as multinationals or international companies. Their efforts, however, are not coordinated across different countries or regions. For instance, Pepsi China has no coordination with Pepsi India, even though both are a part of a multinational firm. Such business organisations are polycentric. At best, regional coordination may be achieved by appointing one regional control office. For example, South Asia may have one controlling office to manage the affairs of the units falling within its jurisdiction.

7. Global Market Entry of Firms : Some Reasons.

Ans :

Ideally, all companies think about going global because of several reasons. These are as follows.

(i) Domestic Competition

Globalisation has brought about new challenges. It has created a business environment wherein companies are caught in the 'Eat or to be Eaten' situation. Companies that have a strong local presence are also writing business plans for global expansion because domestic patronage, significant though it may be, is ultimately limiting, particularly with increasing competition. That is why the exploration of foreign markets is imperative for ambitious companies such as Mittal, Videocon, and Tata Motors. Many companies believe that, by going global, they can kill two birds with one stone, by capturing the foreign market as well as the domestic market.

(ii) To avoid Dependence on Domestic Market

Companies that aspire to more than simply survive cannot afford to leave their business solely on the fortunes of one country. When an economy booms, companies increase their capacity to produce to meet the growing domestic demand. But if the economy slows down tomorrow, what will happen then? Therefore, it is important for a company to look beyond its boundaries.

(iii) Economies of Scale

Another argument for overseas expansion is the fact that the firm achieves international competitiveness and economies of scale, which translate into price benefits. Tagging along is the competitiveness factor, where quality and efficiency are directly improved (or should be) as a result of the high level of competition in foreign markets.

8. Internationalisation : Strategies.

Ans :

In a business, firms follow generic strategies: cost leadership, differentiation.

Each business must develop a competitive strategy focused on its own domestic market. In pursuing this strategy, the home country of operation is often the most important source of competitive advantage. The resources and capabilities of the home country frequently allow the firm to pursue the strategy in the markets located in other countries. The generic strategies under this category are:

(a) International Cost Leadership Strategy:

An international cost strategy is likely to develop in a country with a large demand. Operations for such an industry are centralized in the home country and obtaining economies of scale is the primary goal.

Outsourcing of low-value-added operations may take place, but high-value-added operations are retained in the home country. Accordingly, products are often exported from the home country.

(b) International Differentiation Strategy:

Firms based in a country with advanced and specialized factor endowments are likely to develop this strategy.

In order to be a leader in this category, a firm has to continue to differentiate its product in the ways that are attractive to the mass market. Firms may differentiate their products and services through physical characteristics or they may also differentiate in the minds of the consumer.

UNIT II

Global Environmental Drivers: WTO and Globalization – Issues, Types - Political, Economic, Social, Legal and Technological Environments, EXIM Policy, International Trade and its barriers, trade in Goods & Services, International Trade Agreements.

2.1 GLOBAL ENVIRONMENTAL DRIVERS

Q1. Write about Global Environment Drivers.

Ans :

The World Trade Organisation was established on the basis of the General Agreement on Tariffs and Trade (GATT). Seven rounds of negotiations took place under GATT before the eighth round, known as the Uruguay Round, began in 1986. It concluded in 1995 with the establishment of the WTO. The GATT principles and agreements were adopted by the WTO, which was responsible for administering and extending them. Unlike GATT, the WTO has a substantial institutional structure.

The Marrakesh Agreement, signed in Marrakech, Morocco, on April 15, 1994, established the World Trade Organisation, which came into being upon its entry into force on January 1, 1995. The Marrakesh Agreement developed out of GATT, which it includes, but it supplemented GATT with several other agreements on such issues as trade in services, sanitary and plant health measures, trade-related aspects of intellectual property and technical barriers to trade. It also established a new, more efficient and legally binding means of dispute resolution.

The WTO aims to increase international trade by eliminating trade barriers, both tariff and non-tariff, and by providing a platform for the negotiation of trade and to their business. Currently, it boasts of a membership of more than 150 countries.

WTO decisions, such as adopting agreements and their revisions, are officially determined by consensus. The advantage of consensus decision-

making is that it encourages efforts to find the most widely acceptable decision. Apart from hosting negotiations on trade rules, one of the principal functions of the WTO is to act as an arbiter of disputes between member countries through its Dispute Settlement Body. Unlike most other international organisations, the WTO has significant powers to enforce its decisions through the authorization of trade sanctions against members who fail to comply with its decisions.

2.2 WTO AND GLOBALIZATION

Q2. Discuss about WTO and Globalization.

Ans :

(Sep.-20, May-19)

It is worth noting that the WTO stands for removing the non-tariff barriers in the short-run, and import duty rates in the long run. Firms are becoming increasingly aware of the impact the WTO system on their activities in foreign markets. To a large extent, access to these markets depends on the trade liberalisation process that takes place at the WTO. The WTO rules affect their international marketing decisions such as the choice of an entry mode or the pricing of products. Over the years, trade rules have gained both in coverage and in complexity. This not only means increased opportunity but also WTO's increased importance on a firm's business.

There are economic, business, social and political dimensions of WTO policies. The key to understanding the essence of globalization is found in the reasons why commodity flows and divisions of production occur. This is important because economic exchanges very rarely take place between nations or groups of nations. They take place

between organisations. It is worth noting that globalisation has gathered pace in the past 20 years.

Marketing and selling are not always the most significant aspects of globalisation. However, globalisation is a phenomenon with profound implications for marketers.

Not very long ago, there were barriers of all kinds to the movement of goods, labour and capital. But now goods can flow almost freely. International mobility of services is much higher, as is that of labour. While some restrictions remain on capital flow, things are slowly moving towards a regime of free capital flow. As markets have become more deregulated, there has been a major change in the way in which and the speed with which knowledge is disseminated. This has had profound impact on organisations, often in a way that national governments find uncomfortable and some social and political groups threatening. Although there are criticisms about the WTO, optimistic view about globalisation is about creating a new set of competencies that enable a company to utilise resources on an optimal basis to meet differentiated customer demand cost-competitively without regard for geography. It is about getting an organisation into a position of doing business in any market it chooses.

1. WTO and Developments in the World Economy

The main objective of GATT and WTO is to reduce physical and administrative barriers to international trade. The impact of WTO cannot be evaluated in isolation, but with the forces of globalisation. Some of these factors are outlined below.

Where organisations integrate across borders, they contribute to several economies simultaneously. Potentially, this has positive and negative dimensions from the point of view of national governments. For example, in an increasingly connected world, decisions on interest rates taken in Washington can have a significant economic effect in other parts of the world. A decision to cut interest rates will stimulate consumption for goods produced in China and elsewhere in the Asian region. To some extent, this accounts for the continued high level of growth in GDP in China, which is buoyed by demand in the

developed world, particularly the USA. According to the Nobel prize-winning economist Joseph Stiglitz, the increase in this “connectedness has given rise to the need for a new type of social, political and legal regime that takes into account the dangers of a widening of the gap between the haves and have-nots.”

Customers have got easy access to most of the goods produced in other countries in their own country at competitive rates, with the slash in import duty rates and removal of import restrictions, with the implementation of WTO agreements. They have (those with purchasing power) emerged as kings and queens in the market.

2. Integration of Financial Markets

Financial markets are now e-based and operate 24 hours a day at speeds several times higher than a generation ago. Organisations, irrespective of size, can now cost-effectively manage banking relationships outside their home base. The financial sector has been the most affected among all sectors. Mergers and acquisitions in the banking sector have been both a driver of globalisation and a response to its anticipated potential.

Though firms may be incorporated in one country, they can get listed on several stock markets in other countries.

3. Computer-based Technologies and Information Systems

The advent of affordable computing power, previously available only to organisations with lots of money, has helped to level the playing field. Many of the major breakthroughs are made by small, entrepreneurial companies based in mutually supportive clusters and supply webs. Customers now have an increasing range of choice. Classically, this was seen as a choice between innovation or differentiation and operational efficiency or cost leadership. The dimensions of quality and price are no longer a trade-off.

As a direct result of the development of affordable computing capacity, a whole new range of organizational forms has emerged. A globally competitive firm is one that competes not on the basis of its products alone but on the basis of its network and the value chain of which it is a part.

For example, a very high percentage of the final value of the modern 'Boeing' aircraft is outsourced. The comparative advantage of Boeing, its value-add and, hence, its return on assets derive from its knowledge and skills ranging from basic R&D through engineering design and logistic system management to complex final assembly. The Seattle-based company, Boeing controls but does not undertake fabrication of components and sub-assemblies. These products come from elsewhere. The 'elsewhere' is becoming global, and the new core competency in managing sophisticated I.T. systems enables Boeing to control the whole of its supply chain.

2.3 TYPES OF GLOBAL ENVIRONMENT

Q3. What are the types of global environment ?

Ans : (Imp.)

Types of Global Environment

A) Internal (Controllable) Environment

The internal environment of a firm decides its competence to do business in foreign countries. It is also called as the controllable component of international business environment because the company can control it to a great extent. Some of the components of internal environment are:

1. Mission

The firm's mission decides the course of action that a firm will follow in order to survive and grow. In the present times, the firms develop a few core competencies and develop their entire global business plan on its basis. They do not dissipate their resources by venturing into too many businesses, but concentrate on their core strengths and do not mind outsourcing the rest.

2. Strategy

The mission translates into more operational paradigm in the form of strategy, which operates at various levels. Firms often develop core competences, but only a few are able to convert it into successful business. The classical case of Cannon vs Xerox is an example. Both the companies started by developing core competence in optical scanning, but over a period of time, Xerox outsmarted the former by its superior strategy. Cannon, at one time,

had practically driven Xerox even out of its home country i.e. USA. But, Xerox developed a very comprehensive marketing and customer service strategy and regained its leadership in the photocopier industry.

3. Operations

The operations refer to the operating competence of a company i.e., how well it is able to undertake the work at the ground level. It is that paradigm of the strategy, which can be implemented. A firm's cost leadership, its marketing strategy, its production efficiency and the nature of its human resources have a significant impact on the success of a company. Although, the above components are called as the controllable components of business environment, but in a strict sense, they might not remain controllable at all times.

The external uncontrollable components can become too powerful and can even influence the strategy of a company. For example, when Coke and Pepsi faced a problem because of the presence of pesticides, their strategies had to be redrafted because of a sudden development in the external environment.

B) External (Uncontrollable) Environment

The external environment, also called as uncontrollable, has been divided into two components, namely foreign and international. The foreign environment comprises of the environmental conditions prevailing in the host country, while the international environment refers to the overall international circumstances, which influence the conduct of business. In practice, such a division is not followed strictly and the external environment is studied as one component.

Some of the sub-components of the external environment are :

- A) Economic environment
- B) Political environment
- C) Legal and regulatory environment
- D) Cultural environment
- E) Demographic environment
- F) Social environment
- G) Technological environment

2.3.1 Political Environments**Q4. Explain about political environments.**

Ans :

'Politics' ultimately comes from the Greek word 'polis' meaning state or city. 'Politikos' describes anything concerning the state or city affairs. In Latin, this was 'politicus' and in French 'politique'. Thus it became 'politics' in English. In a nut shell, politics is the way of governing (a state or a nation).

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

The political environment influences the investment decisions. Even though the corporate are least interested in national or international politics, they should be willing to encash the benefits when political relationship between two countries prove. For example, after Iraq war, political relationship between US, UK and Australia has improved to a greater extent which will definitely render opportunities to its corporate an rehabilitation of Iraq. Legal environment go along with political environment. The laws vary from country and this varying nature of laws and interpretations influence the imports, exports and international marketing operations.

A) Multiplicity of Political Environments

The political environment that MNCs face is a complex one because they must cope with the politics of more than one nation. That complexity forces MNCs to consider that environment as composed of three different types of political environment:

1) Domestic Environment

The domestic environment is composed of the controllable and uncontrollable forces which originate in the home country. Obviously, these are the one with which managers are most familiar. Being domestic forces does not preclude their affecting foreign operations.

2) Foreign Environment

The forces in the foreign environments are the same as those in the domestic environment except they occur in a foreign nation. However, they operate differently for several reasons including the following.

- i) Different force values,
- ii) Changes difficult to assess,
- iii) Decision making more complex,
- iv) Forces are interrelated.

3) International Environment

The international environment is essentially the interaction between the environmental forces of the home country and those of the various foreign nations where the company does business. Personnel at the multinational enterprise headquarters work in the international environment, whereas personnel in a foreign subsidiary do not unless they too are engaged in international trade through direct exporting or management of other foreign affiliates. Also included in the international environment are the supranational organizations whose actions affect the business community. These are:

- i) Worldwide bodies such as the World Bank,
- ii) Regional economic grouping of nations (European Community), and
- iii) Organizations of nations bound by industry agreements of which the Organization of Petroleum Exporting Countries is an example.

Regardless of whether the politics are foreign, domestic, or international, the company should keep in mind that political climate does not remain stationary. The political relationship between the

United States and a longtime adversary, China, is a prime example. After decades as bitter enemies, both countries became very interested in improving their political and economic ties so as to dilute the power of the former Soviet Union. In 1996, however, due to both economic and political reasons, the relationship has greatly deteriorated.

B) Political System

Political system in a country is created by the following factors :

- a) Political system accepted by the country,
- b) Constitutional provisions,
- c) Existence of political parties,
- d) Party in power,
- e) Legislation and judiciary system,
- f) External affairs and relationships, and
- g) Political events such as revolution, instability, death of political leader, political scandal, war and aggression.

All these factors, collectively determine the nature and scope of political environment in the country. In the communist countries like Russia all factors of production are owned and controlled by the state while in a free enterprise economy like America, all means of production are privately owned. In a mixed economy as in India, there is a joint ownership of private, public and cooperative sectors.

The following factors contribute to a favourable political environment in the country :

- a) Stable and reliable government that works for and with the people,
- b) Effective role of chambers of commerce, trade unions and such other organizations,
- c) Freedom of expression which can establish dialogue between business and state,
- d) Alert and active opposition parties,
- e) Progressive economic policies,
- f) Peaceful and productive external relationship, and
- g) Political awareness among people.

It is said that the least government is the best government. It is certainly true in the case of business activity. The government should provide infrastructure and create a favourable environment for business enterprises to flourish and prosper. However, the government must ensure that the economic objectives of the business are linked with the social needs of the people.

C) Classifications / Types of Government

Types of government can be classified based on political systems as well as based on economic systems.

A) Political System

- i) **Parliamentary Form** : The government consults the residents from time to time (popularly after every 5 years) in order to know their preferences for type of government.

Types of Governments

- a) **Single Party** : Only one political party is dominant, hence very little opportunity to opposition party. Atleast 20 years after independence in India, Congress was only single party government.
- b) **Two Party** : By rule, only two political parties have presence in politics and these two parties may govern turn by turn. For example, in US and UK the two parties forming the government after every 4 years are republican party and democratic party.
- c) **Many Parties** : It is a type of government in which none of single political party is strong enough to gain control and hence has to take help of many parties to form government. For example, in India, after 1996, coalition government is existing.
- d) **Dominated by Single Party** : The ruling party does not allow any opportunity to opposition party resulting in no alternative to

citizens, but to go for some party. For example, Soviet Union, Cuba and Libya. The dominant party can go to any extent to dominate the opposition.

The most stable government could be under the control of single party and that of two parties.

- ii) **Absolutist** : It includes monarchies and dictatorships. The monarch or dictator does not consult citizens or their priorities, needs and preferences. Before 2nd world war, Germany had Hitler as dictator. In 21st century, we see modified form of Absolutist Monarchies go for parliamentary elections like UK, UAE, Soviet Union, South Korea, Indonesia.

B) Economic Systems

- i) **Capitalist** : It is a market oriented system that allows organisation to produce the goods/services and sell to general public at competitive prices. This system encourages decentralized decision making and innovation. The system provides free market that allows business competition and provides freedom of choice to corporates as well as consumers. US is a capitalist economy.
- ii) **Communists** ; The system believes that all resources should be owned and shared by all the people for the benefit of the society. Government controls all productive resources and industries and hence regulates the jobs, production, price and education. China is a communist economy.
- iii) **Socialism** : It is midway between communist and capitalist. A socialist government owns and operates the basic core industries like steel, power etc. and leaves other businesses to private sector. India and Poland are examples of socialism economy leaning towards capitalism.

D) Political Risk

The risk that an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers or military control. Political risks are notoriously hard to quantify because there are limited sample sizes or case studies when discussing an individual nation. Some political risk can be insured through international agencies or government bodies.

Types of Political Risk

1) Macro-level Political Risk

Macro-level political risk looks at non-project specific risks. Macro political risks affect all participants in a given country. A common misconception is that macro-level political risk only looks at country-level political risk, however, the coupling of local, national, and regional political events often means that events at the local level may have follow-on effects for stakeholders on a macro-level.

2) Micro-level Political Risk

Micro-level political risks are project-specific risks. In addition to the macro political risks, companies have to pay attention to the industry and relative contribution of their firms to local economy. An examination of these types of political risks might look at how the local political climate in a given region may impact a business endeavor.

E) Factors Effecting the Political Risk

1) Opinions of Political Leadership

Political leaders opinions may change over time, and the leaders could be replaced by force or election with politicians whose views toward business and foreign investment are much less positive. Changes may result in adverse operating regulations, such as limits on remittances or discriminatory taxes. Such changes may lead to the breaching of existing contracts or the takeover of the investors property.

2) Civil Disorder

Unrest may occur because of economic conditions, human rights violations, or group animosity within the society. A good example of this risk took place in Argentina at the beginning of 2002 during the height of its economic crisis, when the government froze withdrawals from bank accounts to prevent complete depletion of cash from the banking sector. Groups of street protesters and rioters started targeting and attacking mainly foreign-owned banks. Many banks operated with wooden and steel plates covering their windows.

3) External Relation

Animosity between the host country and the foreign investor's home country may result in work-stoppage protests, the forced divestment of operations, and the loss of supplies and markets. Animosity, especially war, between the host country and any other country may result in property damage and the inability to get supplies or to deliver goods.

F) Indicators of Political Risk

To assess a potential marketing environment, a company should identify and evaluate the relevant indicators of political difficulty. Potential sources of political complication include social unrest, the attitudes of nationals, and the policies of the host government.

1) Social Unrest

Social disorder is caused by such underlying conditions as economic hardship, internal dissension and insurgency, and ideological, religious, racial, and cultural differences. Lebanon has experienced conflict among the Christians, Muslims, and other religious groups. The Hindu-Muslim conflict in India continues unabated. A company may not be directly involved in local disputes, but its business can still be severely disrupted by such conflicts.

2) Attitudes of Nationals

An assessment of the political climate is not complete without an investigation of the

attitudes of the citizens and government of the host country.

The nationals' attitude toward foreign enterprises and citizens can be quite inhospitable. Nationals are often concerned with foreigners' intentions in regard to exploitation and colonialism, and these concerns are often linked to concerns over foreign governments' actions that may be seen as improper. Such attitudes may arise out of local socialist or nationalist philosophies, which may be in conflict with the policy of the company's home country government. Any such inherent hostility is certain to present major problems because of its relative permanence.

3) Policies of the Host Government

Unlike citizens' inherent hostility, a government's attitude toward foreigners is often relatively short-lived. The mood can change either with time or change in leadership, and it can change for either the better or for the worse. The impact of a change in mood can be quite dramatic, especially in the short run. Government policy formulation can affect business operations either internally or externally. The effect is internal when the policy regulates the firm's operations within the home country. The effect is external when the policy regulates the firm's activities in another country.

4) Economic Performance

A poor economic performance and forecast are likely to lead to greater levels of unrest in the country. Of particular concern, are high inflationary rates and high unemployment rates, both of which could lead to political instability? General business performance is also important. Commercial payment terms and collection experience indicate the availability of hard currency reserves and access to hard currency. Default on loans is likely to be a threat to companies contemplating to enter the market. Finally, an increase in regulatory restrictions on investment, capital, or trade flows should be closely monitored.

5) Political Repression

Repression of certain ethnic groups is a signal of potential political instability. The repression of the Albanian minority in the former Yugoslavia resulted in war in the region, as did the repression of the Tutsi minority by the Hutu in East Africa. Other areas are also ripe for conflict: The repression of gypsies and Muslims in Central and Eastern Europe could present a problem in the future.

6) Internal Diversity and Incongruent Interests

Even if no political repression exists within a country, ethnic diversity and incongruent interests lead to a history of distrust and conflict (open or simmering) in the population.

7) Political Stability and the Stability of Government Policies

Although presidents and governments change every few years, with a few exceptions, national government policies do not necessarily change radically, nor does the level of political risk. Yet political change can be a cause for concern for international firms. Companies that have operated in countries that have had decades of stability and prosperity under a one-party rule can be affected instantly by political turmoil.

G) Managing Political Risk

International businesses employ different methods for managing political risks. Some of them are :

- 1) Avoiding Investment:** The simplest way to manage political risks is to avoid investing in a country ranked high on such risks. Where investment has already been made, plants may be wound up or transferred to some other country which is considered to be relatively safe. This may be a poor choice as the opportunity to do business in a country will be lost.
- 2) Adaptation:** Another way of managing political risk is adaptation. Adaptation means incorporating risk into business strategies, MNCs incorporate risk by means of the

following three strategies, local equity and debt, development assistance and insurance.

i) Local Equity and Debt : This involves financing subsidiaries with the help of local firms, trade unions, financial institutions and government. As partners in local businesses, these groups ensure that political developments do not disturb operations. Localisation entails modifying operations, product mix or any such activity to suit local tastes and culture. When McDonald's commenced franchisee operations in India, it ensured that sandwiches did not contain any beef.

ii) Development Assistance : Offering development assistance allows an international business to assist the host country in improving its quality of life. Since the firm and the nation become partners, both stand to gain. In Myanmar, for instance, the US oil company Unocal and France's total have invested billions of dollars to develop natural gas fields and also spend \$6 million on local education, medical care and other improvements.

iii) Insurance : This is the last means of adaptation. Companies buy insurance against the potential effects of political risk.

3) Threat

Political risk can also be managed by trying to prove to the host country that it cannot do without the activities of the firm. This may be done by trying to control raw materials, technology and distribution channels in the host country. The firm may threaten the host country that the supply of materials, products or technology would be stopped if its functioning is disrupted.

4) Lobbying

Influencing local politics through lobbying is another way of managing political risks. Lobbying is the policy of hiring people to represent a firm's business interests as also its

views on local political matters. Lobbyists meet with local public officials and try to influence their position on issues relevant to the firm. Their ultimate goal is getting favourable legislation passed and unfavourable ones rejected.

5) Terrorism Consultants

To manage terrorism risk, MNCs hire consultants in counter terrorism to train employees to cope with the threat of terrorism.

2.3.2 Economic Environments

Q5. Discuss about economic environments.

Ans :

The primary concern in analyzing the economic environment is to assess opportunities for marketing the company's products abroad or possibly for locating some of the company's production and distribution facilities outside of the country. Indeed, when striving to identify potential countries to focus on, one of the major differentiating factors will be the differences in the economic environments that exist between potential target countries.

Decisions about how much of a product people buy and which products they choose to buy are largely influenced by their purchasing power. If a large portion of a country's population is poor, the market potential for many products may be lower than it would be if they were reasonably prosperous. If a country is expected to enjoy rapid economic growth and large sectors of the population are expected to share in the increased wealth, sales prospects for many products would clearly be more promising than if the economy was stagnating.

A) Components of Economic Environment

As the micro environment factors which constitute the economic environment of a country. For the purpose of convenience, we purpose to include the following forces :

- 1) Classification of countries on the basis of income,
- 2) Countries classified by economic system,
- 3) Region-wise classification of countries,

- 4) Economic trade policies,
- 5) Economic institutions, and
- 6) Economies in transition.

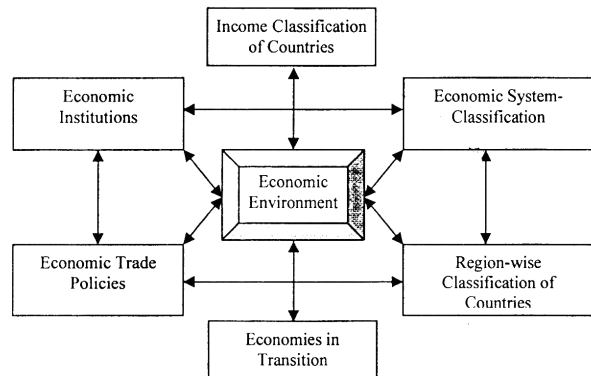


Fig. : Components of Economic Environment

A) Income-wise Classification of Countries

- i) **Developing Countries** : Most developing countries share a set of common and well-defined goals. These include a reduction in poverty, inequality and unemployment, the provision of minimum levels of education, health, housing and food to every citizen, the broadening of economic and social opportunities and the forging of a cohesive nation-state.
- ii) **Developed Countries** : Those countries that are highly industrialised, highly efficient and whose people enjoy a high quality of the life are the developed countries. People in these countries usually receive excellent health care and benefit from the best educational systems in the world.

B) Countries Classified by Economic System

Another way of classifying countries is by their economic system. Keeping this in view, countries are classified as market economies, command economies and mixed economies.

- i) **Market Economy** : In a market economy, also called capitalism, all productive functions are privately

owned. Production of goods and services is not planned by individuals.

ii) Command Economy : It is also called socialism, in a command economy planning is a must. Decision relating to all economic activities what to produce, how to price are determined by economy, a central government plan. In fact, in a pure command economy the tools of production are organized, managed and owned by the government, with the benefits accruing to the public. Consistent with collective ideology, the objective of a command economy is for government own and run business for the good of society.

iii) Mixed Economy : This falls midway between a market economy and a command economy. Largely followed in France, India, Italy and Sweden, mixed economies admit existence of private sector along with government ownership. The economic set-up under this philosophy is split into three parts :

- Sectors in which both production and distribution are entirely managed and controlled by the state to the complete exclusion of private enterprise.
- Sectors in which the state and private enterprise jointly participate in production as well as in distribution.
- Sectors in which the private enterprise has complete access subject only to the general control and regulation of the state.

C) Classification of Countries by Region

A final way of classifying countries is by the region to which a nation belongs. The major regions are,

- i) East Asia and Pacific.

- ii) Europe (East and Central Europe) and Central Asia.
- iii) Latin America and the Caribbean.
- v) Middle East and North Africa.
- v) South Asia.
- vi) Sub-Saharan Africa.
- vii) High income countries which are widely scattered.

D) Economies in Transition

During the past two decades, many countries with command economy orientation have been remarking themselves to emerge as market friendly economies. This process, called economic transition, involves changing a country's fundamental economic organisation and creating entirely new market institutions. The process typically involves the following reform measures :

- i) Macroeconomic stabilization to reduce budget deficits and expand credit availability.
- ii) Liberalization of economic activity that is decided by prices reflecting supply and demand.
- iii) Legalization of private enterprises and privatization of state-owned enterprises in accordance with an effective system of individual property rights.
- iv) Removal of trade and investment barriers in goods and services and removal of controls on convertibility of the nation's currency.

E) Economic Trade Policies

Trade policy refers to all the procedures and practices that have a bearing on the trade movement of a country.

At the international level, trade policy of a country may be inward-looking or outward-looking. An inward-looking approach advocates that a country should not trade

with other nations, whereas an outward-looking strategy calls for easy movement of goods and services among nations.

F) **International Institutions, Treaties and Conventions**

International institutions such as the UN, the United Nations, World Bank, the International Monetary Fund, the International Labour Organization (ILO), the World Trade Organization (WTO) and regional trading blocks play a considerable role promoting and conducting international trade.

B) **Preliminary Economic Indicators**

Whenever a firm moves abroad for international business, it takes into account some preliminary economic indicators of the host country at a particular point of time, as well as over a particular period. These economic indicators help the firm know, among other things:

- 1) **Size of Demand** : The size of demand depends inter alia upon the level of income and its distribution, the propensity to consume, and rate of inflation.
 - i) Level of Income and Its Distribution
 - ii) Inflation
 - iii) Consumption Behavior
- 2) **Cost of Production**: The cost of production depends upon the availability of human and physical resources; development of infrastructure; and on the fiscal, monetary, and industrial policies.
 - i) Availability of Human and Physical Resources
 - ii) Network of Infrastructure
 - iii) Fiscal, Monetary, and Industrial Policies
- 3) **Smoothly Repatriation** : Smooth repatriation of income and profit depends upon the strength of the external sector. Multinational firms are greatly interested in

repatriating profits to their parent unit. Repatriation is easier when the monetary authorities in the host country pursue a liberal policy in this respect. The policy is liberal only when the balance of payments position is strong enough and the size of foreign exchange reserves is comfortably large.

2.3.3 International Social Environments

Q6. **Explain about International Social Environments.**

Ans : (Imp.)

When a firm operates in an international business environment, as an individual is bound by the society in which people live, it needs to understand the importance of society. Social class is an important part of the society. In most Western societies, these classes are classified as upper, middle, and lower. The level of perception of each class and their frequency of buying goods differ from one country to another.

In countries like India perception and trends of the consumers have been changing owing to the liberalization and the changes in lifestyles. Another important aspect of society is the group. The performance of groups differs in individualistic and collectivist societies. The family is an important part of the social environment.

It is a primary group that influences the consumption and buying behaviour of consumers. The traditional family lifecycle has been changing owing to the differing lifestyles. So, marketers have to analyze these trends and bring in products that are suitable to these changing consumer segments. Also jobs and workplaces have to be designed according to the changing lifestyles.

Growth and movement in populations around the world are important factors heralding social changes. Eighty per cent of the world's population lives in developing countries; by 2025 this is likely to reach 85 per cent. Two out of every five people live in China and India. However, whilst world population is growing dramatically, the growth patterns are not consistent around the world.

Over the next half century, Africa's population will almost treble. China's population will rise much

more slowly from 1.2 billion to 1.5 billion. With a population of 1.53 billion people, India will have more inhabitants than China in 50 years' time. Europe is the only region where the population is expected to decline; any increase in population in high income countries is entirely due to migration.

There are also visible moves in the population within many countries, leading to the formation of huge urban areas where consumers have a growing similarity of needs across the globe. By 2010, 50 per cent of the world's population will live in urban areas; the world is moving into gigantic congregations. The population of greater Tokyo is soon to be close to 30 million and Mexico City 20 million. Cities such as Lagos, Buenos Aires and Jakarta will soon outstrip cities such as Paris, London and Rome.

In the year 2015, no European city will be in the top 30 and 17 of the world's mega cities of 10 million plus will be in emerging markets. This has powerful implications for international marketing. These cities will be markets in themselves. Urban dwellers require similar products (packaged conveniently and easy to carry). Similarly, they demand services, telephones and transportation of all kinds and modern visual communications. It also means for the incoming company, that customers are accessible. They are identifiable and firms can communicate with them efficiently via supermarkets, advertising and other marketing communication tools. Table below shows the ten mega cities in the world forecast for 2015.

City	Country	Population (Millions)
Tokyo	Japan	26.4
Mumbai	India	26.1
Lagos	Nigeria	23.2
Dhaka	Bangladesh	21.1
Sao Paulo	Brazil	20.4
Karachi	Pakistan	19.2
Mexico City	Mexico	19.2
New York	USA	17.4
Jakarta	Indonesia	17.3
Calcutta	India	17.3

Table : World's Ten Mega Cities in 2015

A) Various Social Factors affect the International Trade

The social environment encompassing religion, language, customs, traditions and beliefs influences buying consumption habits. Many companies face failure in foreign countries due to their inability to understand the socio-cultural environment of those countries. For example, whenever any company establishes business in an African country, the local population expects many jobs to open up for them. Thus, socio-cultural environment of the economy affects the operations of firms in the foreign markets. Conversely, the socio-economic environment of the foreign market is also affected by the operations of the foreign firms.

One example of this is southern China, which has completely changed to become an affluent society due to the fact that almost 2,000 companies get their products manufactured in coastal regions of the southern China. Various social factors that affect the flow of international trade are :

- a) **National Taste:** Tastes and preferences of consumers differ not only from country-to- country but also within different regions of the same country. In Thailand, people prefer black shampoo; Nestle

brews different varieties for instant coffee because people in different countries have varying tastes that may be uncommon in other countries. Green is the favourite colour of all Arab countries and red is still widely used in Russia in banners, posters and hoardings even though communism is in no way prevalent in modern Russia.

- b) Language: Cross** culture and cross-border operations call for necessary language skills. For example, South Koreans have learned Indian languages to be able to operate in India. This can be seen in the Hyundai or LG factories in India. Companies must also change their brand name or slogans to give them local flavour. It is necessary for a brand and slogan to associate with local people. Prior to promoting the brand, the marketer must consider the socio-cultural background of a specific national and the different interpretations of a name in their local language.
- c) Values and Beliefs:** International marketer must understand the significance of different beliefs associated with symbols and colours in different countries. For example, blue is perceived as feminine in Holland and masculine in Sweden. Green is a favourite colour in the Muslim world, but is associated with illness in Malaysia. White indicates death in China and Korea, but is the colour of bridal dresses in Europe. 'Swastika', is considered sacred in India, but has completely different connotations in the West.
- d) Demography:** A number of demographic factors, such as age, sex, income level, educational background, race and religion, size of family and economic activities undertaken have influence on buying pattern of consumers in different countries. In fact, demographic variables are most widely used basis of segmentation in the international market. Different companies concentrate on different segments. For example, Barbie generates huge revenues through the children's segment of affluent countries in different parts of the world.
- e) Literacy rate:** Countries with a high literacy rate experiences a better standard of living. Again such population prefer standardised and branded goods. For a country with an educated population, the amount of training required for the staff will be far less than in countries with a low literacy rate. This is an important factor as it influences incurred costs. The same argument holds in the case of educating the consumer about the products. Certain products like laptops and multimedia kits have demand only among educated population.
- f) Female Workforce:** The most spectacular change that has taken place in the current era is the empowerment of women throughout the world. In China, Indonesia, Russia and Thailand, women are major contributors to the GDP. With economic independence, women no longer have to depend on men to make decisions about what to buy. Dulux, a well known brand of paint in Europe, was promoted through campaigns directed at women because it was felt that women have an aesthetic taste for colours in the household paint segment.
- g) Double Income Families:** As the household income increases, the demand for the number of products increases proportionately. This is especially true for packaged food items, electronic gadgets, household appliances, health equipments and entertainment electronics. French perfumes dominate in Europe and North America and fast-food chains such as Pizza Express, McDonalds and Kentucky Fried Chicken invariably rule the households of double-income families throughout the world.
- h) Impulse buying :** Benefit-oriented and rational buying dominates all markets of the world. However, a new trend of unplanned or impulse buying is gradually taking shape in most of the developed and developing countries due to rise in income level and development of the concept of shopping malls and super markets. Buying decisions are more instant - consumers simply see, ask and buy. Thus, providing benefits to lure impulse buying is a major challenge to international marketers.

2.3.4 Legal Environments**Q7. Explain about legal environments.**

Ans :

The country's legal system is the means and methods that it uses to regulate business practices, define how companies conduct business transactions, specify the rights and obligations of those engaged in business transactions, and spell out the methods of legal redress to those who believed they have been wronged. Generally, differences in the structure of law influence the attractiveness of a country as an investment site.

The purpose of the regulation is to ensure equality and justice in society by framing laws, acts, and regulations. As the labor laws of various nations differ an authority is required to regulate matters relating to employment and labor at the international level. The International Labor Organization has laid down many laws and guidelines to regulate labor matters in the international trade.

The global Legal Environment refers to the legal environment in international business. The legal environment regulates the operations of firms in international markets. It is sufficient for a firm operating at the domestic level to stick to regulations of the land, but organizations operating in different countries need to know and comply with the laws of the domestic country as well as all the host countries they operate in.

Governments impose laws to protect the home industry from cut-throat global competition. They impose different kinds of tariffs, enter into agreements and sign treaties to protect indigenous industry and promote local trade. When Governments feel that the home industry is affected because of dumping, under

Article VI of GATT, they can impose heavy anti-dumping duties. To protect domestic industry, they can also impose non-tariff barriers and frame regulations on foreign investments.

In international business, disputes and litigation are common. To resolve differences between countries, all member nations of the WTO have established a Dispute Settlement Body. It is the final authority and passes rulings and frames

regulations on disputes between/among member countries. WTO members have entered in to agreements and established committees to regulate and govern international trade in information technology products. Laws have also been framed to regulate and bring uniformity to the interpretation of transportation rules among countries.

International marketing is affected by three bodies of law :

1) International Laws

A body of rules and regulations that countries agree to abide by. International law addresses agreements among countries with regard to trade, protection of property, and other issues in the political and economic sphere. International law agreements, although not enforceable, can be appropriately addressed by international law bodies.

2) Host-Country Laws

Laws of the different countries where the company operates. The legal system in the host country could differ substantially from that of the company's home country.

3) Home-Country Laws

Laws of the company's home country. Home-country laws follow the company all over the world.

A) Multiplicity of Legal Environment

Much like the political environment, there is a multiplicity of legal environments: domestic, foreign, and international. At their worst, laws can prohibit the marketing of a product altogether. To most business people, laws act as an inconvenience. Club Med's policy of rotating its international staff every six months, e.g., is hampered by the U.S. immigration law, which makes the process of rotation both time-consuming and costly.

The multiplicity of political and legal environments in the international market creates vastly different business problems, opening some market opportunities for entrepreneurs and eliminating other. For example, U.S. environmental standards have eliminated the possibility of entrepreneurs establishing ventures to import several models of European cars. Another significant event

in the political-legal environment involves the price fluctuations in oil and other energy products.

Each element of the business strategy of an international entrepreneur has the potential to be affected by the multiplicity of legal environments. Pricing decisions in a country that has a value-added tax are different from those decisions made by the same entrepreneur in a country with no value-added tax. Advertising strategy is affected by the variations in what can be said in the copy or in the support needed for advertising claims in different countries.

Product decisions are affected by legal requirements with respect to labeling, ingredients, and packaging. Types of ownership and organizational forms vary widely throughout the world. The laws governing business arrangements also vary greatly with over 150 different legal systems and national laws.

There are many products that cannot be legally imported into most countries. Examples include counterfeit money, illicit drugs, pornographic materials, and espionage equipment. It is usually also illegal to import live animals and fresh fruit unless accompanied by the required certificates. Furthermore, many products have to be modified to conform to local laws before these products are allowed across the border. The modification may be quite technical from an engineering standpoint or only cosmetic, as in the case of certain packaging changes.

There is no international law *per se* that prescribes acceptable and legal behavior of international business enterprises. There are only national laws - often in conflict with one another, especially when national politics is involved. This complexity creates a special problem for those companies that do business in various countries, where different laws may demand contradictory actions.

For example, Wal-Mart Canada, to comply with the demand of the U.S. government, removed 10,000 pairs of Cuban-made pajamas. Canada was not pleased and ordered the Canadian branch of Wal-Mart to put the pajamas back on the shelves.

B) Types / Kinds of Legal Systems

Globally, countries resort to three main legal systems namely common law, civil laws and theocratic laws.

1) Common Law

A common law system is a legal system that relies heavily on precedents and conventions. Judges' decisions are guided by previous court decisions and not so much by statutes. As a result, these countries' laws are tradition-oriented. Tradition refers to a country's legal history, precedent to the legal cases and decisions given by the courts in the past and the manners and ways in which laws have been applied to. Countries with such a system include the United States, Great Britain, Canada, India, and other British colonies.

2) Civil Law

Countries employing a statute law system, also known as code or civil law, include most continental European countries and Japan. Most countries over seventy are guided by a statute law legal system. As the name implies, the main rules of the law are embodied in legislative codes. Every circumstance is clearly spelled out to indicate what is legal and what is not.

There is also a strict and literal interpretation of the law under this system. Code law has its roots in the Roman Law and more than 80 countries including Germany, France, Japan, Russia, China and Taiwan operate with the code/civil Law system.

3) Theocratic Law

As the name suggests, theocratic laws are based on religious teaching as preached in the religious scriptures.

Shariat is the most widely practiced theocratic system in today's world. It is based on morality rather than commercial requirements of human behaviour. Islamic Law is based on the holy book of Islam i.e., 'Kuran' and the interpretation of practices and sayings of Prophet Mayhemmed. Broadly speaking, Islamic law defines a complete system that prescribes specific patterns of social and economic behaviour of an individual.

C) International Regulatory Authorities

The major international regulatory authorities are as follows :

1) World Trade Organization (WTO)

During great depression of 1930s the international trade was badly affected and various countries imposed import restriction for safeguarding their economies. This resulted in a sharp decline in the world trade in 1945. USA put forward many proposals for extending international trade and employment. On October 30, 1947, 23 countries at Geneva, signed an agreement related to tariffs imposed on trade. This agreement is known as General Agreement on Tariffs and Trade (GATT). It came into force on January 1, 1948. Initially GATT was established in the form of a temporary arrangement but later on it took the shape of a permanent agreement. GATT's headquarter was in Geneva. On December 12, 1995, GATT was abolished and replaced by World Trade Organization (WTO), which came into existence on January 1, 1995.

The WTO was established on January 1, 1995. The WTO is the embodiment of the Uruguay Round results and the successor to GATT. 76 Governments became members of the WTO on its first day. As of September 1999, there are 134 members of the WTO and 34 countries have an observer status. There is a waiting list of 31 members. They account for more than 90 percent of the world trade.

Functions of WTO

WTO has five specific functions :

- i) The WTO shall facilitate the implementation, administration and operation, and further the objectives of the Multilateral Trade Agreements, and shall also provide the framework for the implementation, administration and operation of Plurilateral Trade Agreements.
- ii) The WTO shall provide the forum for negotiations among its members

concerning their multilateral trade relations in matters dealt with under the Agreements.

- iii) The WTO shall administer the 'Understanding on Rules and Procedures Governing the Settlement of Disputes'.
- iv) The WTO shall administer the 'Trade Review Mechanism'.
- v) With a view to achieve greater coherence in global economic policy making, the WTO shall co-operate, as appropriate, with the IMF and IBRD and its affiliated agencies.

The General Council will serve four main functions :

- i) To supervise on a regular basis the operation of the revised agreements and ministerial declarations relating to: Goods, services, and TRIPs.
- ii) To act as a Dispute Settlement Body,
- iii) To serve as a Trade Review Mechanism,
- iv) To establish Goods Council, Services Council and TRIPs Council, as subsidiary bodies.

The WTO is a more powerful body with enlarged functions than the GATT and is envisaged to play a major role in the world economic affairs. To become a member of the WTO, a country must completely accept the results of the Uruguay Round.

2) United Nations Conference on Trade and Development (UNCTAD)

UNO declared 1960-70 as Development Decade. In 1961 UNO attempted to increase the income of developing countries with a growth rate of 5% p.a. during this development decade. In July 1962, a conference of developing countries was held at Cairo, which resolved to convene a World Conference for this purpose. Economic and Social Council of the UNO called a World Trade and Development Conference, which was held between March 31, 1964 and June 16, 1964. A worldwide international trade

policy was determined in this conference. Various issues related to extension of international trade of developing countries were also discussed in this Conference. This Conference came to be known as UNCTAD.

Functions of UNCTAD

- i) To promote international trade all over the world-between developed and developing countries with different socio-economic systems, and thus to accelerate economic development.
- ii) To formulate principles and policies on international trade and related problems of economic development.
- iii) To make proposals for putting the said principle and policies into effect.
- iv) Generally, to review and facilitate the co-ordination of activities of the other institutions within the U.N. system in the field of international trade.
- v) To be available as a centre for harmonious trade and related documents in development policies of governments.

D) International Regulations

International business is governed or influenced by several laws, treaties, agreements, conventions etc. There are several international regulations of the trade between countries :

1) Regulations Related to Products

- i) **Product Standards** : Many countries have established standards for many of the products. Such standards pertain to quality, safety, health consideration, etc. For example, ISO 9000 accreditation is necessary for certain products for selling in markets like European Union. Each country may have its own product standards or specifications. For example, in some countries the steering wheel should be on the left-side while in others it should be on the right side.
- ii) **Disclosures** : In many countries it is mandatory to make certain disclosures about the products like the ingredients,

potency, shelf life, possible adverse effects (if any) etc.

- iii) **Environmental Laws** : Production or harvesting of the produces, which cause serious ecological problem may not be permitted to be marketed in some countries. Similarly, biologically non-degradable packaging may not be allowed or penalties or fees may have to be paid for the social costs of using such materials.

- iv) **Product Liability** : In several countries, if a person suffers any damage because of a product, the injured person has to prove-that the producer was at fault in respect of the defect in the product (fusing the damage, to get compensation for it. But the product liabilities laws of countries like the USA and several European countries place the consumer in a very comfortable position. The consumer does not have to prove that the producer was at fault.

2) Packing and Labeling Regulations

There may be regulations regarding the packaging materials, method of packaging, packaging standards etc. Similarly, there may be regulations regarding the different aspects of packaging. There may be certain mandatory disclosures to be made. Labeling in local language is compulsory in some countries. For example, in Canada, use of both French and English is compulsory.

3) Regulation of Price

Many countries have laws regulating price. This is true of even the market economies.

4) Regulation of Promotion

Promotional activities are, generally, subject to various types of controls. The nature of the controls, vary widely between countries. In some countries, certain products like alcoholic drinks, tobacco products etc., are not allowed

to be advertised in any or some of the media. A number of countries have regulations controlling false claims. Product comparison advertisements are not permitted in some countries. The use of superlatives like best, better or excellent is prohibited for product comparisons in some countries. Some countries have restrictions on illustrations and use of photographs of women in advertisements.

In many countries, including India, the package and advertisements of cigarettes shall carry the statutory warning that cigarette smoking is injurious to health.

5) Regulation of Trade Practices

Many countries have laws regulating trade practices like restrictive trade practices. Similarly, there are also laws designed for consumer protection.

E) Issues in Legal Environment

Some of the major issues in legal environment are as follows :

- 1) Bribery,
- 2) Branch vs. subsidiary,
- 3) Counterfeiting, and
- 4) Gray/grey Market.

1) Bribery

Bribery, a form of pecuniary corruption, is an act implying money or gift given that alters the behaviour of the recipient. Bribery constitutes a crime and is defined by Black's Law Dictionary as "the offering, giving, receiving, or soliciting of any item of value to influence the actions of an official or other person in discharge of a public or legal duty". The bribe is the gift bestowed to influence the recipient's conduct. It may be any money, good, right in action, property, preferment, privilege, emolument, object of value, advantage, or merely a promise or undertaking to induce or influence the action, vote, or influence of a person in an official or public capacity.

One must be careful of differing social and cultural norms when examining bribery. Expectations of when a monetary transaction is appropriate can differ from place to place. Tipping, for example, is considered bribery in some societies, while in others the two concepts may not be interchangeable. In some Spanish-speaking countries, bribes are referred to as "mordida" (literally, "bite"), in Arab countries it is referred to as "Backshish or Bakshish".

2) Branch Vs Subsidiary

When establishing a foreign operation, a company often must decide between making that operation a branch or a subsidiary.

i) Branch: A foreign branch is a foreign operation not legally separate from the parent company. Branch operations are possible only if the parent holds 100 per cent ownership. A branch is not a legal corporate entity separate from the foreign company. Practically speaking, a branch is merely an extension of the parent company; it does not have its own stock or its own board of directors, and its establishment generally involves fewer corporate formalities.

ii) Subsidiary: A subsidiary is an FDI that is legally a separate company, even if the parent owns all of the voting stock. A subsidiary is considered a separate company. However, in practice, filing a branch is a demanding process that requires the execution of formal duties and the translation of documents, which in some cases may represent a bigger constraint than those applicable to incorporating a company. The subsidiary will have its own stock, articles of incorporation and bylaws. The subsidiary must hold shareholders' meetings and observe other corporate formalities. Usually, the subsidiary will be owned and controlled by the parent company.

3) Counterfeiting

A counterfeit product is an imitation which infringes upon a production monopoly held by either a state or corporation. Goods are produced with the intent to bypass this monopoly and thus take advantage of the established worth of the previous product. The word counterfeit frequently describes both the forgeries of currency and documents, as well as the imitations of clothing, software, pharmaceuticals, watches, electronics, and company logos and brands. In the case of goods it results in patent infringement or trademark infringement.

Counterfeiting of money is usually pursued aggressively by all governments. The ethics of counterfeiting goods on the other hand is looked at differently in different areas of the world.

4) Gray/Grey Market

Gray markets are the result of arbitrage in which companies buy a product in the market and sell it in other markets, benefiting from the prevailing price differential. Grey market goods typically are international products with a unique brand name, high international price differences and low costs of arbitrage. The costs connected with the arbitrage of goods from one country to the other are transportation costs, tariffs, taxes and costs for modifying products, such as changing the usage instructions for pharmaceutical products.

2.3.5 Technological Environments

Q8. Discuss about technological environment.

Ans :

Technological environment, like its counterparts - political and legal - wields considerable influence on International Business.

According to J K Galbraith, "Technology is a systematic application of scientific or other organized knowledge to practical tasks".

Technology is a major driving force both in international marketing and in the move towards a

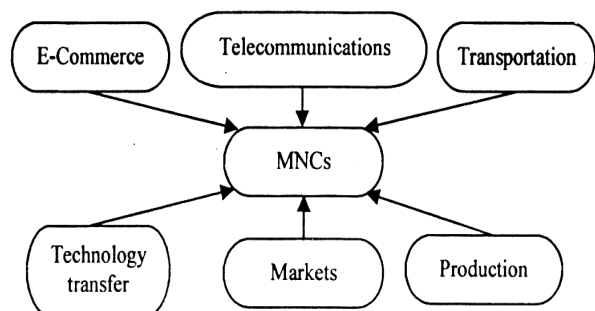
more global marketplace. The impact of technological advances can be seen in all aspects of the marketing process. The ability to gather data on markets, management control capabilities and the practicabilities of carrying out the business function internationally have been revolutionized in recent years with the advances in the electronic communications.

Technology can be defined as the method or technique for converting inputs to outputs in accomplishing a specific task. Thus, the terms 'method' and 'technique' refer not only to the knowledge but also to the skills and the means for accomplishing a task. Technological innovation, then, refers to the increase in knowledge, the improvement in skills, or the discovery of a new or improved means that extends people's ability to achieve a given task.

High technology has become like a force of nature. It transforms the economy, schools, consumer habits, and the very character of modern life. Investors pour money into it; parents urge their children to study it; communities vie to attract its factories; decorators adopt it as a style; politicians push it as a panacea.

A. Effect of Technology on International Business

Technology is beneficial to international business. It may be stated that lowering of trade barriers has made globalization of markets and production a theoretical possibility, technology has made it a practical reality. Specifically, technology is facilitating international business in at least six ways.



1) Telecommunications

This is the most obvious dimension of the technological environment facing international business. Now people are using

cellular phones, beepers and other telecommunications service, giving a way to international growth. As a result, growth in the wireless technology business worldwide has been rapid and the future promises even more. This growth is welcome as business, domestic or global, cannot prosper without an efficient telephone system. Technologies such as 3G, MMS of NOKIA have fostered closely knit global business.

2) Transportation

Technology In addition to developments in computers and telecommunications, several major innovations in transportation have occurred since World War II. In economic terms, the most important are probably the development of commercial jet aircraft and super freighters and the introduction of containerization, which simplifies transshipment from one mode of transport to another. While the advent of commercial jet has reduced the travel time of businessmen, containerization has lowered the costs of shipping goods over long distances.

3) Globalization of Production

Technological breakthroughs have facilitated globalization of production. A worldwide communications network has become essential for any MNC. Texas Instruments (TI), the US electronics firm, For example, has nearly 50 plants in 19 countries. A satellite based communications system allows TI to coordinate on a global scale; its production planning, cost accounting, financial planning, marketing, customer service and human resource, 21 in some ways conventional Ricardian theories appear to be irrelevant as shown in figure below.

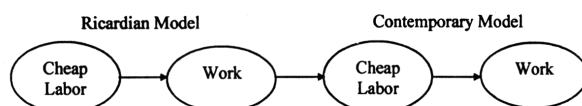


Fig. : Ricardian and Contemporary Models of International Business

4) Globalization of Markets

Along with the globalization of production, technological innovations have facilitated the inter-nationalization of markets. As stated earlier, containerization has made it more economical to transport goods over long distances, thereby creating global markets. Low-cost global communications networks such as the World Wide Web are helping to create electronic global market places.

In addition, low-cost jet travel has resulted in the mass movement of people around the world. This has reduced the cultural distance between the countries and is bringing about convergence of consumer tastes and preferences. At the same time, global communications networks and global media are creating a worldwide culture. Worldwide culture is creating world market for consumer goods. Signs of a global market are already visible. It is now easy to find, a McDonald's restaurant in Tokyo as it is in New York, to buy a Sony Walkman in Mumbai as it is in Berlin and to buy Lewis's jeans in Paris as it is in San Francisco.

5) E-Commerce

The Internet and the access gained to the World Wide Web have revolutionized international marketing practices. Firms ranging from a few employees to large multinationals have realized the potential of marketing globally on-line and so have developed the facility to buy and sell their products and services online to the world.

Because of the low entry costs of the Internet it has permitted firms with low capital resources to become global marketers, in some cases overnight. There are, therefore, quite significant implications for SMEs. For all companies, the implications of being able to market goods and services online have been far reaching. The Internet has led to an explosion of information to consumers, giving them the potential to source products from the cheapest supplier in the world. This had led to the increasing standardization of prices across borders or, atleast, to the narrowing

of price differentials as consumers become more aware of prices in different countries and buy a whole range of products via the net.

In B2C marketing this has been most dramatically seen in the purchase of such things as flights, holidays, CDs and books. The Internet, by connecting end-users and producers directly, has reduced the importance of traditional intermediaries in international marketing (i.e., agents and distributors) as more companies have built the online capability to deal direct with their customers, particularly in B2B marketing.

6) Technology Transfer

Technology transfer is a process that permits the flow of technology from a source to a receiver. The source in this case is the owner or holder of the knowledge, while the recipient is the beneficiary of such knowledge. The source could be an individual, a company, or a country.

B) Impact of Technology

The impact of technology discusses under three heads :

- 1) Technology and social change,
- 2) Economic effects of technology, and
- 3) Technology and plant level changes.

1) Technology and Society

Perhaps the most striking influence of technology is found on society. Practically every area of social life and the life of every individual has been, in some sense or the other, changed by the developments in technology.

- i) **High Expectations of Consumers :** Technology has contributed to the emergence of affluent societies. Affluent citizens want more of many things than more of same things. New varieties of products, superior in quality, free from pollution, safer, and more comfortable, are produced and supplied to the affluent sections. This calls for substantial

investments in R&D. One important compulsion for investing in technological advances in Japan is its customer's high expectations regarding design sophistication, quality, delivery schedules, and prices.

- ii) **System Complexity:** Technology has resulted in complexity. Modern machines work better and faster no doubt. But if they fail they need the services of experts for repair. They fail often because of their complexity. A machine or a system is composed of several hundred components. All parts must work in tandem to accomplish a desired task. Reliable performance of each part therefore assumes greater significance.

Also there is interdependence of systems. Failure of power supply, for example, will cause dry water taps, closed petrol bunks, suspended elevators between floors, dark streets, dark houses, no television and radio broadcasts, closed retail establishments, and so on. A localized problem in a power house balloons into regional problem affecting thousands of people.

- iii) **Social Change:** The role of technology on social change may be observed in more than one way.
- a) First, there is the change in social life, which results from a change in a technological process. Thus an invention may destroy the economic basis of a city, displace thousands of workers, yet the same invention may result in the creation of a new city somewhere else and create even more jobs than it originally destroyed.
 - b) Secondly, besides uprooting population, technology directly changes the patterns of their social life, for instance the family, the sensitive recorder of all types of change, alters with technological development. An invention may open new employment

opportunities to women, radically change hours spent at work and in the family, increase available leisure time, open jobs to youth, and deny them to middle-aged or old workers.

- c) Thirdly, though social differences tend to be ironed out, status differences are likely to be created by technological advancement in developing countries. Technology flows to less developed countries mainly through multinational companies. With vast resources at their command, multinational corporations have carved out places and images for themselves distinct from local companies.
- d) Finally, the way we cook, communicate, use media and work are affected by technology. Even the language we use is changing, terms that until recently were not even part of our lexicon such as superconductivity, computer engineering, robotics, unmanned factories, miracle drugs, space communications lasers, fiber optics, satellite networks, e-business and electronic funds transfer have become common place. New terms continue to emerge as new products are introduced or improved - always with the anticipation that there will be a newer, faster, and better innovation in the market any day.

Concepts like house-husband, surrogate mother, and domestic partner all represent changes in society.

2) Economic effects of technology

Developments in technology also have significant economic implications,

- i) **Increased Productivity:** The most fundamental effect of technology is greater productivity in terms of both

quality and quantity. This is the main reason why technology at all levels is adopted. In a hospital the objective may be qualitative, such as maintaining life with electronic monitoring equipment regardless of costs. In a factory, the objective may be quantitative in terms of more production at less cost.

- ii) **Need to Spend on R and D:** Research and Development (R&D) assumes considerable relevance in organizations as technology advances. In this context, firms are required to consider, decide and take action on atleast six issues.

- a) Firstly, the allocation of resources to R&D.
- b) Secondly, technology transfer, the process of taking new technology from the laboratory to the market place is equally important.
- c) Thirdly, time factor is important in R&D.
- d) Fourthly, as new technology comes in, the old technology needs to be abandoned.
- e) Fifthly, the firm must also decide on its own R&D or to outsource technology.
- f) The sixth and the final issue relates to the decision on product innovation or process innovations.

- iii) **Jobs tend to become more Intellectual and Knowledge-oriented :** With the advent of technology, jobs tend to become more intellectual or upgraded. A job hitherto handled by an illiterate and unskilled worker now requires the services of an educated and competent worker. A clerical post in an office now demands the services of an expert in computers.

- iv) **Problem of Techno Structure:** Not only jobs become more intellectual and knowledge-oriented, even the incumbents tend to become highly professional and knowledgeable. An

organization that has adopted the latest technology is flush with scientists, engineers, MBA's, college graduates, and knowledge workers as teammates. Though such an organization can boast of a progressive and modern outlook of its personnel complement, the problems such an enterprise has to face on this account are serious, to say the least.

- a) Motivation of such employees, for instance, is a difficult task. Such mundane incentives as attractive remuneration, job security, and just treatment, hardly inspire the enlightened employees to, work more. They are instead motivated by opportunities which offer challenges or growth or achievement.
 - b) Secondly, retaining such employees for long is a difficult job.
 - c) Thirdly, constitute, what Galbraith calls, the techno structure of a modern organization. The techno structure tries to control the organization through influencing management's decision-making.
While there may be nothing wrong in making decisions prompted by the techno structure, the problem lies in the social effect that is involved.
 - d) People constituting techno structure are experts, no doubt. But they are more action-oriented and are yet to learn social problems of business decisions.
- v) **Increased Regulation and Stiff Opposition:** A by-product of technological advancement is the ever-increasing regulation imposed on business by the government of the land and stiff opposition from the public. The host government has the powers to investigate and ban products that are directly harmful or hurt the sentiments of a section of society. Import of animal tallow has been banned by the Government of India because the

alleged mixture of tallow with vanaspati oil hurt the feelings of Hindus.

- vi) **Rise and Decline of Products and Organizations:** Change of technology, therefore, is a norm and not an exception. This poses another problem to business. A new technology may spawn a major industry but it may also destroy an existing, one. Transistors, for example, hurt the vacuum-tube industry and xerography hurt the carbon-paper business.

3) Technology and plant level changes

The impact of technology at the plant level is also significant.

- i) **Technology and Organisation Structure :** Technology has considerable influence on organization structure, length of the line of command, and span of control of the chief executive. Where companies use technology, which is fast changing, matrix structures are more common. Some companies use a matrix even though the rate of technological change is not fast. Besides technology, other factors that have their influence on organization structure are history and background of a company and the personalities of the people who founded the firm and managed it subsequently, but the impact of technology is considerable.
- ii) **Fear of Risk:** There is always the fear of risk. A research-oriented company like DuPont, which was responsible for adding totally new dimensions to the textile industry with its introduction of synthesis fibers beginning in 1939, was unable to manage technology without great risks and some subsequent failures.
- iii) **Resistance to Change:** The manager of a given business unit shall face resistance to change. New -technology poses new problems which may not be to the liking of the organizational men. The resistance to change is often psychological.

2.4 EXIM POLICY**Q9. What is exim policy ? and explain its policies.**

Ans :

For India to become a major player in world trade, an all encompassing, comprehensive view needs to be taken for the overall development of the country's foreign trade. While increase in exports is of vital importance, we have also to facilitate those imports which are required to stimulate our economy.

Coherence and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development. Thus, while incorporating the existing practice of enunciating an annual Exim Policy, it is necessary to go much beyond and take an integrated approach to the developmental requirements of India's Foreign trade.

The Government of India, Ministry of Commerce and Industry announces Export Import Policy after every five years. EXIM policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position. The current Exim Policy covers the period 2004-2009. The Export Import Policy (EXIM Policy) is updated every year on the 31st of March and the modifications, improvements and new schemes becomes effective from 1st April of every year.

General Objectives of Exim Policy

1. To establish the framework for globalization.
2. To promote the productivity competitiveness of Indian Industry.
3. To Encourage the attainment of high and internationally accepted standards of quality.
4. To augment export by facilitating access to raw material, intermediate, components, consumables and capital goods from the international market.
5. To promote internationally competitive import substitution and self-reliance.

Objectives Of EXIM policy (2008 – 2009)

Trade is not an end in itself, but a means to economic growth and national development. The primary purpose is not the mere earning of foreign exchange, but the stimulation of greater economic activity.

The Foreign Trade Policy is rooted in this belief and built around two major objectives. These are :

1. To double our percentage share of global merchandise trade within the next five years; and
2. To act as an effective instrument of economic growth by giving a thrust to employment generation.

Strategy of Exim Policy

These objectives are proposed to be achieved by adopting, among others, the following strategies:

1. Unshackling of controls and creating an atmosphere of trust and transparency to unleash the innate entrepreneurship of our businessmen, industrialists and traders
2. Simplifying procedures and bringing down transaction costs.
3. Neutralizing incidence of all levies and duties on inputs used in export products, based on the fundamental principle that duties and levies should not be exported.
4. Facilitating development of India as a global hub for manufacturing, trading and services.
5. Identifying and nurturing special focus areas which would generate additional employment opportunities, particularly in semi-urban and rural areas, and developing a series of 'Initiatives' for each of these
6. Facilitating technological and infrastructural up gradation of all the sectors of the Indian economy, especially through import of capital goods and

- equipment, thereby increasing value addition and productivity, while attaining internationally accepted standards of quality
7. Avoiding inverted duty structures and ensuring that our domestic sectors are not disadvantaged in the Free Trade Agreements/Regional Trade Agreements/Preferential Trade Agreements that we enter into in order to enhance our exports.
 8. Upgrading our infrastructural network, both physical and virtual, related to the entire Foreign Trade chain, to international standards.
 9. Revitalizing the Board of Trade by redefining its role, giving it due recognition and inducting experts on Trade Policy.
 10. Activating our Embassies as key players in our export strategy and linking our Commercial Wings abroad through an electronic platform for real time trade intelligence and enquiry dissemination.

Main Annual Supplement Highlights (2008 – 09)

1. DEPB scheme has been extended till May 2009.
2. Refund of service tax on almost all the services.
3. Income tax benefit to 100% EOUs has been extended by Government.
4. Coverage of FMS has been increased and additional 10 countries have been included. These are Mongolia, Bosnia-Herzegovina, Albania, Macedonia, Croatia, Honduras, Djibouti, Sudan, Ghana and Colombia.
5. Split-up facility under DFIA Scheme introduced.
6. Duty free import of samples has been increased from Rs.75, 000 to Rs.1,00,000.
7. Value of jeweler parcels, through Foreign Post Office is raised to US\$ 75,000. Earlier it was from US\$ 50,000.
8. EOUs shall be allowed to pay excise duty on monthly basis, instead of the present system of paying duty on consignment basis.
9. Customs duty payable under EPCG Scheme has been reduced from 5% to 3%.

Some Other Highlights of The EXIM Policy

1. **Inter State Trade Council.** To engage the State Government in providing an enabling environment for boosting international trade, by setting up an Inter State Trade Council.
2. **Removal of Export Cess.** Proposed to abolish cess on export of all agricultural and plantation commodities levied under various commodity Board Acts.
3. **Export Promotion Capital Goods Scheme (EPCG).** This scheme is extended to Agricultural sector, SSI sector, Retail Sectors in order to promote exports from them.
4. **Service Export.** To upgrade infrastructure in the service related companies.
5. **Agri Export.** Benefits under 'Vishesh Krishi Upaj Yojana' have been extended to exports of poultry and dairy products in addition to export of flowers, fruits, vegetables and their value added products.
6. **Package for Marine Sector.** Duty free import of specified specialized chemicals and flavoring oils as per a defined list shall be allowed to the extent of 1% of FOB value of preceding financial years export.
7. **Advance Licensing Scheme.** The Scope of Advance License for annual requirement has been extended to all categories of exporters having past export performance.
8. **Duty Free Replenishment Certificate.** Brass scrap, Additives, paper board, and dye stuff have been removed from the list of items prescribed for import under DFRC.
9. **Procedural Simplification.** Proposed to simplify procedures and reduce the documentation requirements so as to reduce the transaction cost of the exporters and thereby increase their competitiveness

- 10. EDI Initiatives.** DGFT shall introduce an automated electronic system for filing, retrieval and authentication of documents based on agreed protocols and message exchange with other authorities such including Customs and banks.

Implications of The Foreign Trade (2004-09)

- 1. Implications on Indian Economy.** This policy propose to simplify procedures and develop technology and infrastructure.
- 2. Implications on Agriculture.** Special Agricultural Produce Scheme has been introduced for promoting the export of fruits, vegetables, flowers, and their value added products.
- 3. Implications on Handlooms and Handicraft.** Establishment of Handicraft SEZ and Handicraft Export Promotion Council would promote development of Handloom and Handicraft Industry.
- 4. Implications on Gem and Jewellery Sector.** This is special thrust area in this policy. Duty free imports of other inputs would give a further boosted this sector
- 5. Implications on Leather and Footwear Industry.** Duty free import as a specified percentage of exports. Exemption on customs duty on equipment for effluent treatment plants would help promoting export form this sector.
- 6. Implications on Service Industry.** An exclusive service promotion council has been set up in order to map the opportunities for key services in key market.

Negative List of Exports

The negative list consists of goods, the import or export of which is ether prohibited, restricted through licensing or otherwise to be canalized through a designate government agency . The negative list of exports, as per the EXIM Policy

- 1. Prohibited Items :** Which items completely banned from the exports.
 - All forms of wild animals including their parts and products.

- Special Chemicals as notified by the DGFT.
- Exotic birds as notified by the DGFT.
- Beef.
- Sea Shells, as specified
- Human Skeleton.
- Peacock Tail
- Red sanders wood in any form.

- 2. Restricted Items :** which items allowed for exports under special license issued by the DGFT.

- Dress materials, ready-made garments, fabrics or textile items with imprints of excerpts or verses of the Holy Quran.
- Horses – Kathiawadi, Marwari, and Manipuri breeds.
- Fresh and frozen silver prom frets of weight less than 300gm.
- Paddy (Rice in husk).
- Seaweeds of all types.
- Chemical Fertilizer all types.

2.5 INTERNATIONAL TRADE AND ITS BARRIERS

2.5.1 Concept of International Trade

Q10. Explain the concept of international trade and its barriers.

Ans :

(Imp.)

International trade existed in one form or the other since time immemorial. Indian traders crossed seven seas and ventured to Java and Sumitra long back. International trade theories, however, were developed much later. Fundamentally, in a market system individuals trade because they expect to gain from the exchange, i.e., they expect to be better off as a result of trading. In this respect, trade occurs for the same reasons among nations as it does

among regions within a given country. Thus, domestic trade occurs within the political boundaries of a nation whereas international trade occurs across the political boundaries of different nations.

"International trade consists of transactions between residents of different countries."

- Wasserman and Haltman

The principle of comparative advantage is the basis of international trade. Each nation or region specialises in the production of those goods and services in which it enjoys maximum comparative advantage and imports or purchases its other requirements from the other nations. Thus, principle of division of labour and specialisation is the basis of world trade.

A situation in which a country does not indulge in international trade is called a situation of autarchy. An economy without an international trade is known as closed economy, on the other hand an economy with international trade relations is known as open economy.

Internal trade is the exchange of goods and services between individuals and group of individuals within the country. International trade may be defined as the exchange of goods and services among the citizens of different countries.

Need for International Trade

The need for International Trade arises from the following reasons :

1) Large Scale Production

Economics of large scale can be applicable only when the goods are produced on a large scale. Large scale production enables a producer to minimize the cost and maximize the profits. For example, one industrial unit producing locomotive engines may be sufficient to cater to the needs of the Indian Railways in India; however, it can specialize in the production of locomotives and export them to the neighboring countries.

2) Degree of Self-sufficiency

No country of the world is self-sufficient. All the countries have to enter into International Trade to arrange for goods which they cannot produce at all or produce at a very high cost.

For example, Soviet Russia imports only 2 to 3 per cent of the total goods which the people of Russia consume. The United States of America imports 4 to 5 per cent goods of its total requirements. In the underdeveloped countries the extent of imports is 50 to 60 per cent.

3) Geographic Factors

Countries differ in factor endowment. Diversities in geographical conditions make a country more efficient in the production of a particular commodity and another country in some other commodity. For example, because of favorable natural conditions, India and Sri Lanka jointly produce about 87 per cent of the world's tea production. Mica in India, manganese in Soviet Russia, oil in the Arab countries, etc., are a few examples of the geographical factors which encourage International Trade.

4) Occupational Distribution

The size of population and its occupational distribution differs from country to country. India has specialization in the production of food-grains and other agricultural products because of the characteristic features of its population. Likewise, England is specialized in the manufacturing goods because of the abundance of capital resources and scarcity of land. Therefore, countries employ their population in different occupations on the basis of specialization.

5) Means of Transportation

Raw materials used in production are generally classified into two categories:

- i) Materials like soil, sand, etc., and
- ii) Localized like coal, iron-ore, mineral oil, etc. Localized materials are further subdivided into :
 - a) Weight losing material like sugarcane, and
 - b) Materials not losing weights like steel, cloth, etc. Industries using raw materials losing weight and involving high transportation cost

will be located at places where the raw material is localized.

6) **Compensating the Production**

There is always a need for international trade because the countries have different capabilities and they specialize in producing different things. To compensate for what they do not produce, they have to involve in trade with other countries. For example, not all the countries have oil resources, the rest of the countries import oil from the oil producers. Most of the oil producers on the other hand import finished goods because they do not produce enough. Similar example is that of agricultural products.

Participants in Foreign Trade

In India, Government as well as private sector participates in foreign trade. In India before independence, foreign trade was mainly carried on by private sector. However, after independence, Government of India set up a number of organizations to engage in foreign trade.

1) **Government Organization**

The government organizations mainly carry out foreign trade in bulk items like food grains, iron-ore, minerals and metals, etc. Examples of government agencies engaged in foreign trade are STC (State Trading Corporation), MMTC (Mineral and Metal Trading Corporation), etc., The need for such agencies arose because the government wanted to play a larger role in foreign trade of the country.

2) **Private Sector**

Private sector is also engaged in foreign trade. Some of the important items exported by this sector are readymade garments, gem and jewelry handicrafts, tea and coffee, etc. Some of the items imported by private sector are capital goods, consumer goods, etc. However, with economic reforms, the share of these government agencies in foreign trade is being reduced and increasing role has been assigned to the private sector.

Factors Affecting Foreign Trade

Because international trade can significantly affect a country's economy, it is important to identify and monitor the factors that influence it. The most influential factors are :

1) **Impact of Inflation**

If a country's inflation rate increases relative to the countries with which it trades, its current account will be expected to decrease, other things being equal. Consumers and corporations in that country will most likely purchase more goods overseas (due to high local inflations), while the country's exports to other countries will decline.

2) **Impact of National Income**

If a country's income level (national income) increases by a higher percentage than those of other countries, its current account is expected to decrease, other things being equal. As the real income level (adjusted for inflation) rises, so does consumption of goods. A percentage of that increase in consumption will most likely reflect an increased demand for foreign goods.

3) **Impact of Government Policies**

A country's government can have a major effect on its balance of trade due to its policies on subsidizing exporters, restrictions on imports, or lack of enforcement on piracy.

4) **Subsidies for Exporters**

Some governments offer subsidies to their domestic firms, so that those firms can produce products at a lower cost than their global competitors. Thus, the demand for the exports produced by those firms is higher as a result of subsidies.

Many firms in China commonly receive free loans or free land from the government. These firms incur a lower cost of operations and are able to price their products lower as a result, which enables them to capture a larger share of the global market.

5) Restrictions on Imports

If a country's government imposes a tax on imported goods (often referred to as a tariff), the prices of foreign goods to consumers are effectively increased. Tariffs imposed by the U.S. government are on average lower than those imposed by other governments. Some industries, however, are more highly protected by tariffs than others. American apparel products and farm products have historically received more protection against foreign competition through high tariffs on related imports.

6) Lack of Restrictions on Piracy

In some cases, a government can affect international trade flows by its lack of restrictions on piracy. In China, piracy is very common, individuals (called pirates) manufacture CDs and DVDs that look almost exactly like the original product produced in the United States and other countries. They sell the CDs and DVDs on the street at a price that is lower than the original product. They even sell the CDs and DVDs to retail stores. It has been estimated that U.S. producers of film, music, and software lose \$2 billion in sales per year due to piracy in China.

As a result of piracy, China's demand for imports is lower. Piracy is one reason why the United States has a large balance-of-trade deficit with China. However, even if piracy were eliminated, the U.S. trade deficit with China would still be large.

7) Impact of Exchange Rates

Each country's currency is valued in terms of other currencies through the use of exchange rates, so that currencies can be exchanged to facilitate international transactions.

2.5.2 Barriers of International Trade**Q11. What are the Barriers of International Trade ?**

Ans :

Trade barriers are restrictions imposed on movement of goods between countries. Trade barriers are imposed not only on imports but also

on exports. The trade barriers can be broadly divided into two broad groups: (a) Tariff Barriers, and (b) Non-tariff Barriers.

A) Tariff Barriers

Tariff is a customs duty or a tax on products that move across borders. The most important of tariff barriers is the customs duty imposed by the importing country. A tax may also be imposed by the exporting country on its exports. However, governments rarely impose tariff on exports, because, countries want to sell as much as possible to other countries. The main important tariff barriers are as follows:

- 1. Specific Duty:** Specific duty is based on the physical characteristics of goods. When a fixed sum of money, keeping in view the weight or measurement of a commodity, is levied as tariff, it is known as specific duty.

For instance, a fixed sum of import duty may be levied on the import of every barrel of oil, irrespective of quality and value. It discourages cheap imports. Specific duties are easy to administer as they do not involve the problem of determining the value of imported goods. However, a specific duty cannot be levied on certain articles like works of art. For instance, a painting cannot be taxed on the basis of its weight and size.

- 2. Ad valorem Duty:** These duties are imposed "according to value." When a fixed percent of value of a commodity is added as a tariff it is known as ad valorem duty. It ignores the consideration of weight, size or volume of commodity.

The imposition of ad valorem duty is more justified in case of those goods whose values cannot be determined on the basis of their physical and chemical characteristics, such as costly works of art, rare manuscripts, etc. In practice, this type of duty is mostly levied on majority of items.

- 3. Combined or Compound Duty:** It is a combination of the specific duty and ad valorem duty on a single product. For instance, there can be a combined duty when 10% of value (ad valorem) and Re 1/- on

every meter of cloth is charged as duty. Thus, in this case, both duties are charged together.

4. **Sliding Scale Duty:** The import duties which vary with the prices of commodities are called sliding scale duties. Historically, these duties are confined to agricultural products, as their prices frequently vary, mostly due to natural factors. These are also called as seasonal duties.
5. **Counter wailing Duty:** It is imposed on certain imports where products are subsidised by exporting governments. As a result of government subsidy, imports become more cheaper than domestic goods. To nullify the effect of subsidy, this duty is imposed in addition to normal duties.
6. **Revenue Tariff:** A tariff which is designed to provide revenue to the home government is called revenue tariff. Generally, a tariff is imposed with a view of earning revenue by imposing duty on consumer goods, particularly, on luxury goods whose demand from the rich is inelastic.
7. **Anti-dumping Duty:** At times, exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping. As a result of dumping, domestic industries find it difficult to compete with imported goods. To offset anti-dumping effects, duties are levied in addition to normal duties.
8. **Protective Tariff:** In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally, a very high duty is imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

Note

Tariffs can be also levied on the basis of international relations. This includes single column duty, double column duty and triple column duty.

B) Non-Tariff Barriers

A non tariff barrier is any barrier other than a tariff, that raises an obstacle to free flow of goods

in overseas markets. Non-tariff barriers, do not affect the price of the imported goods, but only the quantity of imports. Some of the important non-tariff barriers are as follows:

1. **Quota System:** Under this system, a country may fix in advance, the limit of import quantity of a commodity that would be permitted for import from various countries during a given period. The quota system can be divided into the following categories :
 - a) Tariff/Customs Quota
 - b) Unilateral Quota
 - c) Bilateral Quota
 - d) Multilateral Quota
 - **Tariff/Customs Quota:** Certain specified quantity of imports is allowed at duty free or at a reduced rate of import duty. Additional imports beyond the specified quantity are permitted only at increased rate of duty. A tariff quota, therefore, combines the features of a tariff and an import quota.
 - **Unilateral Quota:** The total import quantity is fixed without prior consultations with the exporting countries.
 - **Bilateral Quota:** In this case, quotas are fixed after negotiations between the quota fixing importing country and the exporting country.
 - **Multilateral Quota:** A group of countries can come together and fix quotas for exports as well as imports for each country.
2. **Product Standards:** Most developed countries impose product standards for imported items. If the imported items do not conform to established standards, the imports are not allowed. For instance, the pharmaceutical products must conform to pharmacopoeia standards.
3. **Domestic Content Requirements:** Governments impose domestic content requirements to boost domestic production. For instance, in the US bailout package (to

bailout General Motors and other organisations), the US Govt. introduced 'Buy American Clause' which means the US firms that receive bailout package must purchase domestic content rather than import from elsewhere.

4. **Product Labelling:** Certain nations insist on specific labeling of the products. For instance, the European Union insists on product labeling in major languages spoken in EU. Such formalities create problems for exporters.
5. **Packaging Requirements:** Certain nations insist on particular type of packaging materials. For instance, EU insists on recyclable packing materials, otherwise, the imported goods may be rejected.
6. **Consular Formalities:** A number of importing countries demand that the shipping documents should include consular invoice certified by their consulate stationed in the exporting country.
7. **State Trading:** In some countries like India, certain items are imported or exported only through canalising agencies like MMTC. Individual importers or exporters are not allowed to import or export canalised items directly on their own.
8. **Preferential Arrangements:** Some nations form trading groups for preferential arrangements in respect of trade amongst themselves. Imports from member countries are given preferences, whereas, those from other countries are subject to various tariffs and other regulations.
9. **Foreign Exchange Regulations:** The importer has to ensure that adequate foreign exchange is available for import of goods by obtaining a clearance from exchange control authorities prior to the concluding of contract with the supplier.
10. **Other Non-Tariff Barriers:** There are a number of other non – tariff barriers such as health and safety regulations, technical formalities, environmental regulations, embargoes, etc.

Q12. What are the Various initiatives designed to reduce international trade barriers and promote free trade ?

Ans :

A number of organizations work to ease barriers to trade, and more countries are joining together to promote trade and mutual economic benefits. Let's look at some of these important initiatives.

A) Trade Agreements and Organizations

Free trade is encouraged by a number of agreements and organizations set up to monitor trade policies. The two most important are the General Agreement on Tariffs and Trade, and the World Trade Organization.

1. General Agreement on Tariffs and Trade

After the Great Depression and World War II, most countries focused on protecting home industries, so international trade was hindered by rigid trade restrictions. To rectify this situation, twenty-three nations joined together in 1947 and signed the General Agreement on Tariffs and Trade (GATT), which encouraged free trade by regulating and reducing tariffs and by providing a forum for resolving trade disputes. The highly successful initiative achieved substantial reductions in tariffs and quotas, and in 1995 its members founded the World Trade Organization to continue the work of GATT in overseeing global trade.

2. World Trade Organization

Based in Geneva, Switzerland, with nearly 150 members, the World Trade Organization (WTO) encourages global commerce and lower trade barriers, enforces international rules of trade, and provides a forum for resolving disputes. It is empowered, for instance, to determine whether a member nation's trade policies have violated the organization's rules, and it can direct "guilty" countries to remove disputed barriers (though it has no legal power to force any country to do anything it doesn't want to do). If the guilty party refuses to comply, the WTO may authorize the plaintiff nation to erect

trade barriers of its own, generally in the form of tariffs.

Affected members aren't always happy with WTO actions. In 2002, for example, the Bush administration imposed a three-year tariff on imported steel. In ruling against this tariff, the WTO allowed the aggrieved nations to impose counter-tariffs on some politically sensitive American products, such as Florida oranges, Texas grapefruits and computers, and Wisconsin cheese. Reluctantly, the administration lifted its tariff on steel.

B) Financial Support for Troubled Economies

The key to helping developing countries become active participants in the global marketplace is providing financial assistance. Offering monetary assistance to some of the poorest nations in the world is the shared goal of two organizations: the International Monetary Fund and the World Bank. These organizations, to which most countries belong, were established in 1944 to accomplish different but complementary purposes.

1. The International Monetary Fund

The International Monetary Fund (IMF) loans money to countries with troubled economies, such as Mexico in the 1980s and mid-1990s and Russia and Argentina in the late 1990s. There are, however, strings attached to IMF loans: in exchange for relief in times of financial crisis, borrower countries must institute sometimes painful financial and economic reforms. In the 1980s, for example, Mexico received financial relief from the IMF on the condition that it privatize and deregulate certain industries and liberalize trade policies. The government was also required to cut back expenditures for such services as education, health care, and workers' benefits.

2. The World Bank

The World Bank is an important source of economic assistance for poor and developing countries. With backing from wealthy donor countries (such as the United States and Japan), the World Bank provides about \$30

billion annually in loans to some of the world's poorest nations. Loans are made to help countries improve the lives of the poor through community-support programs designed to provide health, nutrition, education, and other social services.

Criticism of the IMF and the World Bank

In recent years, the IMF and the World Bank have faced mounting criticism, though both have their supporters. Some analysts, for example, think that the IMF is often too harsh in its demands for economic reform; others argue that troubled economies can be turned around only with harsh economic measures. Some observers assert that too many World Bank loans go to environmentally harmful projects, such as the construction of roads through fragile rain forests. Others point to the World Bank's efforts to direct funding away from big construction projects and toward initiatives designed to better the lot of the world's poor—educating children, fighting AIDS, and improving nutrition and health standards.

C) Trading Blocs

So far, our discussion has suggested that global trade would be strengthened if there were no restrictions on it—if countries didn't put up barriers to trade or perform special favors for domestic industries. The complete absence of barriers is an ideal state of affairs that we haven't yet attained. In the meantime, economists and policy makers tend to focus on a more practical question: Can we achieve the goal of free trade on the regional level? To an extent, the answer is yes. In certain parts of the world, groups of countries have joined together to allow goods and services to flow without restrictions across their mutual borders. Such groups are called trading blocs. Let's examine two of the most powerful trading blocks—NAFTA and the European Union.

1. North American Free Trade Association

The North American Free Trade Association (NAFTA) is an agreement among the governments of the United States, Canada, and Mexico to open their borders to unrestricted trade. The effect of this agreement is that three very different economies are combined into one economic zone with

almost no trade barriers. From the northern tip of Canada to the southern tip of Mexico, each country benefits from the comparative advantages of its partners: each nation is free to produce what it does best and to trade its goods and services without restrictions.

When the agreement was ratified in 1994, it had no shortage of skeptics. Many people feared, for example, that without tariffs on Mexican goods, more U.S. manufacturing jobs would be lost to Mexico, where labor is cheaper. A decade later, most such fears have not been realized, and, by and large, NAFTA has been an enormous success. Since it went into effect, the value of trade between the United States and Mexico has grown substantially, and Canada and Mexico are now the United States' top trading partners.

2. The European Union

The forty-plus countries of Europe have long shown an interest in integrating their economies. The first organized effort to integrate a segment of Europe's economic entities began in the late 1950s, when six countries joined together to form the European Economic Community (EEC). Over the next four decades, membership grew, and in the late 1990s, the EEC became the European Union.

3. The Euro

Many EU initiatives have been less successful than those of NAFTA, yet it can claim at least one very important exception: the introduction of a common currency. A key step toward unification occurred in 1999, when most (but not all) EU members agreed to abandon their own currencies and adopt a joint currency. The actual conversion occurred in 2002, when a common currency called the euro replaced the separate currencies of participating EU countries. The common currency facilitates trade and finance because exchange-rate differences no longer complicate transactions.

Its proponents argue that the EU will not only unite economically and politically distinct countries, but further will create an economic

power that can compete against the dominant players in the global marketplace. Individually, each European country has limited economic power, but as a group, they could be an economic superpower.

4. Other Trading Blocs

Other countries have also opted for economic integration. Four historical rivals in South America—Argentina, Brazil, Paraguay, and Uruguay—have established MERCOSUR (for Mercado Commun del Sur) to eliminate trade barriers. A number of Asian countries, including Indonesia, Malaysia, the Philippines, Singapore, and Thailand, are cooperating to reduce mutual barriers through ASEAN (the Association of Southeast Asian Nations).

Only time will tell whether the trend toward regional trade agreements is good for the world economy. Clearly, they're beneficial to their respective participants; for one thing, they get preferential treatment from other members.

2.5.3 Trade in Goods and Services

Q13. Explain about eliminating trade barriers on environmental goods and services.

Ans :

The aim is to create "win win win" situations for trade, the environment and development. These negotiations deal with the reduction or elimination of tariff and non-tariff barriers to environmental goods and services — for example catalytic converters, air filters or consultancy services on wastewater management.

The 2001 Doha Ministerial Declaration instructs members to negotiate on the reduction or, as appropriate, elimination of tariff and non-tariff barriers on environmental goods and services. It has been emphasized that these negotiations should aim at achieving sustainable development by creating a triple win situation for trade, the environment and development.

Win-win-win

- First, the negotiations can facilitate trade through the reduction or elimination of tariff and non tariff barriers (NTBs). Domestic purchasers, including business and

governments at all levels, will be able to acquire environmental technologies at lower costs. In addition, liberalizing trade in environmental goods will encourage the use of environmental technologies, which can in turn stimulate innovation and technology transfer.

- The negotiations can also benefit the environment by improving countries' ability to obtain high quality environmental goods. This can directly improve the quality of life for citizens in all countries by providing a cleaner environment and better access to safe water, sanitation or clean energy. In addition, the use of environmental goods can reduce harmful side-effects of various activities (what economists call "negative externalities") that damage the environment and are hazardous to human health and can help make the use of energy significantly more efficient.
- Finally, the liberalization of trade in environmental goods and services can be beneficial for development by assisting developing countries in obtaining the tools needed to address key environmental priorities as part of their on going development strategies.

Goods and Services

Trade in environmental services is closely linked with trade in goods, since the provision of those services often relies on the use of related goods.

For instance, wastewater management includes the removal, treatment and disposal of household, commercial and industrial sewage and other waste water. These services require in most cases the use of goods, such as waste pipes, sewers and drains, cesspools or septic tanks, etc.

Q14. Discuss about Internal Trade vs. International Trade.

Ans :

Internal Trade Vs. International Trade

It has been a matter of great controversy whether there is any difference between internal trade and international trade. Holding a view that there are certain fundamental differences between internal trade and international trade, the classical economists propounded a separate theory of international trade. According to them, the basis of international trade was the comparative cost differences. On the other hand, modern economists like Bertil Ohlin, Haberler, etc., have regarded these two as similar.

"International trade is but a special case of inter-local or inter-regional trade."

- Ohlin

"Domestic trade is among us; international trade is between us and them."

- Friedman List

Nevertheless, there are several reasons to believe the classical view that international trade is basically different from internal trade.

Internal Trade	International Trade
1. Meaning: Internal trade means trade between different regions or states of a country by exchange of same currency which is regulated by the same laws, rules and regulations.	International trade means trade between two or more countries by exchange of different currencies and regulated by laws, rules and regulations of the concerned countries.
2. Geographical Area It takes place within the geographical and political boundaries of the nation.	It takes place between two or more than two countries, i.e. outside the political and geographical boundaries of the nation.

3. Means of Exchange

It is done through country's national currency.

It is done through internationally accepted currencies like dollar, pound, yen, etc.

4. Degree of Competition

There is lesser degree of competition as its scope is restricted to only domestic producers.

There is greater degree of competition as firms from all over the world participate in the international trade.

5. Trade Customs and Policies

Trade customs and policies adopted in the internal trade are same.

Trade customs and policies adopted in international trade differ from country to country.

6. Cost and Price

Costs and prices of commodities are more or less uniform through out the country.

Difference in cost and price of the commodity is base of international trade.

2.6 INTERNATIONAL TRADE AGREEMENTS
Q15. Discuss about international trade agreements.

Ans :

(Imp.)

Traditionally trade was regulated through bilateral treaties between two nations. For centuries under the belief in mercantilism most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in the United Kingdom, a belief in free trade became paramount. This belief became the dominant thinking among western nations since then. In the years since the Second World War, controversial multilateral treaties like the General Agreement on Tariffs and Trade (GATT) and World Trade Organisation have attempted to create a globally regulated trade structure. These trade agreements have often resulted in protest and discontent with claims of unfair trade that is not mutually beneficial.

Free trade is usually most strongly supported by the most economically powerful nations, though they often engage in selective protectionism for those industries which are strategically important such as the protective tariffs applied to agriculture by the United States and Europe. The Netherlands and United Kingdom were both strong advocates of free trade when they were economically dominant, today United States, United Kingdom, Australia and Japan are its greatest proponents. However, many other countries (such as India, China and Russia) are increasingly becoming advocates of free trade as they become more economically powerful themselves. As tariff levels fall there is also an increasing willingness to negotiate non-tariff measures, including foreign direct investment, procurement and trade facilitation. The latter looks at the transaction cost associated with meeting trade and customs procedures.

The regulation of international trade is done through the World Trade Organisation at the global level, and through several other regional arrangements such as MERCOSUR in South America, the North American Free Trade Agreement (NAFTA) between United States, Canada and Mexico, and the European Union between 27 independent states.

Types of Trading Agreements

- 1. Bilateral Trade Agreement:** Bilateral Trade agreements are between two nations at a time. They are fairly easy to negotiate, and give those two nations favoured trading status between each other.

For example, in the absence of a successful multilateral trade agreement, a series of bilateral agreements will usually take place.

2. **Multilateral Trade Agreement:**

Multilateral trade agreements are between many nations at one time. For this reason, they are very complicated to negotiate, but are very powerful once all parties sign the agreement. The primary benefit of multilateral agreements is that all nations get treated equally, and so it levels the playing field, especially for poorer nations that are less competitive by nature.

For example, the Doha round of trade agreements is a multilateral trade agreement between all 149 members of the World Trade Organisation.

Bilateral Trade Agreement

Bilateral Trade agreements are between two nations at a time. They are fairly easy to negotiate, and give those two nations favoured trading status between each other.

A bilateral trade laws/ regulation usually include a broad range of provisions regulating the conditions of trade between the contracting parties. These include stipulations governing customs duties and other levies on imports and exports, commercial and fiscal regulations, transit arrangements for merchandise, customs valuation bases, administrative formalities, quotas, and various legal provisions. Most bilateral trade laws, either explicitly or implicitly, provide for reciprocity, most-favoured-nation treatment, and national treatment of non-tariff restrictions on trade.

Bilateral trade agreement is defined as an economic contract between two nation states. Bilateral agreements are used to improve economic trade imbalances between nations. Taxes, tariffs and quotas are often lifted, reduced or restricted on specific goods or services to realign trade deficits and restore economic stability between the two parties.

Some of the world's widely known multinational groups and agreements started as bilateral trade agreements. The North American Free Trade Agreement initially started as a pact between Canada and the U.S. in 1988. Mexico was

subsequently included in the pact in 1992, starting as an agreement solely between U.S. and Mexico. NAFTA primarily affects agricultural trade between the countries. According to the United States Department of Agriculture, NAFTA also has other provisions, such as implementing standardised, sanitary and phytosanitary measures and export subsidies.

Bilateral agreements often serve as the basis for trade between countries with restrictive conditions, such as:

1. **Non-Convertible Currencies:** Currencies that cannot be freely exchanged against each other [as in the Commonwealth of Independent States (CIS) - a group of countries including Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgistan, Moldova, Russia, Tadjikistan, Turkmenistan, Ukraine, and Uzbekistan - formed in 1991 after the dissolution of the Soviet Union].
2. **Centrally Controlled Economies:** Economies with no or very few official free market exchanges where a central planning bureaucracy determines and controls all official flows of goods and capital (as in the Democratic Republic of Korea or in Cuba).
3. **Lack of Hard Currency:** A national currency that is not accepted as a unit of payment by international suppliers (as in most developing countries of Africa, Asia, and Latin America but also in many countries of the former Soviet Union). For example, a bilateral barter clearing agreement has been signed between the governments of Iran and Ukraine in which Iranian oil and gas have been exchanged for weapons, metal scrap, refined products, chemicals, and machinery.

There is a tendency for industrialised nations to sign bilateral agreements among themselves. One such agreement is the Free Trade Area Treaty between the U.S. and Israel, which was signed in April 1985, providing for the eventual elimination of virtually all barriers to trade between the two countries. It has also been the first trade agreement ever to cover explicitly a full range of services, including transportation, travel, tourism, communications, banking, insurance, construction,

accounting, education, law, management consulting, computer services, and advertising. Since the failure of the WTO World Trade Conference in Cancun, Mexico, in 2003 the U.S. Government has signed several bilateral agreements with countries such as Chile or Singapore to improve trade conditions.

Advantages of Bilateral Trade Agreements

Major advantages bilateral trade agreements are as follows:

1. **Commercial Relationships between Countries:** Bilateral trade agreements give preference to certain countries in commercial relationships, facilitating trade and investment between the home country and the foreign country.
2. **Reducing Constraints:** Bilateral trade agreement involves in removal of tariffs, quotas or other restrictions on international trade, enabling global production of goods and services in them most effective and efficient way possible.
3. **Reinforcing Country's Trade:** Bilateral trade agreements are also useful for negotiators to learn how to negotiate thus contributing to reinforcing a country's trade institutions. Many regional trade agreements have been the bedrock for peace and greater political stability.
4. **Economic Development:** The promotion of bilateral trade through preferential agreements can foster trade liberalisation and benefit the economic development by integrating developing countries into the world economy.

2.6.1 Multilateral Trade Agreement

Q16. Explain about multilateral trade agreement.

Ans :

A multilateral trade agreement involves three or more countries who wish to regulate trade between the nations without discrimination. They are usually intended to lower trade barriers between participating countries and, as a consequence, increase the degree of economic integration

between the participants. Multilateral trade agreements are considered the most effective way of liberalising trade in an interdependent global economy.

Multilateral Trade Negotiations are the negotiations between General Agreement on Tariffs and Trade (GATT) member nations that are conducted under the auspices of the GATT and that are aimed at reducing tariff and non-tariff trade barriers. The World Trade Organisation has now replaced the GATT as the administrative body.

Prior to the Uruguay Round of multilateral trade negotiations, which were concluded in December 1993, multilateral trade negotiations were seen as a preserve of the developed countries and the developing countries have only a marginal role to play in the negotiation process; they were primarily the recipients of preferential market access and other special differential treatment. Since the Uruguay Round, although the developing countries have been actively involved in the negotiation process, they face serious challenges in keeping pace with the growing area of international trade law.

In parallel with GATT multilateral trade negotiations, RTAs were announced since the 50s of past century, and their numbers have been increasing until now. The most remarkable one was the common European market, which became later the E.U. That currently has huge impact on international agricultural markets. With the increased influence globalisation, the actions of one nation bear on other nations more than ever. Multilateral agreements have become an increasingly important means for nations to resolve important issues in a way that establishes common ground and resolves actual and potential points of difference. Multilateral agreements frequently require complex negotiations necessary to resolve the differences between the various parties and bring them into agreement.

Purpose of Multilateral Agreements

1. **Multilateral Agreements to Deter Military Escalation:** Multilateral agreements are often negotiated to deter the escalation of international tensions by mapping out the terms of an accord between the various parties involved. One example is the Antarctic Treaty, which came into force

in 1961. The Antarctic Treaty specified an agreement among several nations, including the United States and the former Soviet Union, to prohibit all military activity and nuclear testing, as well as to promote scientific cooperation, on the Antarctic continent during the height of the Cold War.

2. **Multilateral Agreements for Economic Purposes:** An ongoing example of a multilateral agreement that promotes the economic interests of the member parties is the European Union. The terms of the European Union have allowed for the development of a single currency (the Euro) within what is called the Euro zone, to replace the multiple currencies of the member countries. Another feature of the European Union is a common EU passport for citizens of member nations, allowing for free movement across borders within the Union for work and visiting.
3. **Multilateral Agreements for Environmental Purposes:** The Kyoto Protocol is an example of a multilateral agreement designed to promote the environmental interests of the parties in agreement. The basis for the Kyoto Protocol is the attempt to mitigate the effects of climate change by regulating such aspects as carbon dioxide emissions levels. One of the major challenges of a multilateral agreement is ensuring that its terms are followed and/or enforced. In the case of the Kyoto Protocol, most of the world's industrialised nations have signed and ratified the agreement.
4. **Multilateral Agreements for Humanitarian Purposes:** Another purpose for multilateral agreements is to promote humanitarian standards. One example of a multilateral, multinational agreement for humanitarian purposes is the United Nations Millennium Declaration, which was drawn up in September 2000. The declaration states a general agreement among the countries signing it to uphold human dignity and equality and especially to guard the welfare of children.

Short Question and Answers

1. Global Environment Drivers

Ans :

The World Trade Organisation was established on the basis of the General Agreement on Tariffs and Trade (GATT). Seven rounds of negotiations took place under GATT before the eighth round, known as the Uruguay Round, began in 1986. It concluded in 1995 with the establishment of the WTO. The GATT principles and agreements were adopted by the WTO, which was responsible for administering and extending them. Unlike GATT, the WTO has a substantial institutional structure.

The Marrakesh Agreement, signed in Marrakech, Morocco, on April 15, 1994, established the World Trade Organisation, which came into being upon its entry into force on January 1, 1995. The Marrakesh Agreement developed out of GATT, which it includes, but it supplemented GATT with several other agreements on such issues as trade in services, sanitary and plant health measures, trade-related aspects of intellectual property and technical barriers to trade. It also established a new, more efficient and legally binding means of dispute resolution.

The WTO aims to increase international trade by eliminating trade barriers, both tariff and non-tariff, and by providing a platform for the negotiation of trade and to their business. Currently, it boasts of a membership of more than 150 countries.

WTO decisions, such as adopting agreements and their revisions, are officially determined by consensus. The advantage of consensus decision-making is that it encourages efforts to find the most widely acceptable decision. Apart from hosting negotiations on trade rules, one of the principal functions of the WTO is to act as an arbiter of disputes between member countries through its Dispute Settlement Body. Unlike most other international organisations, the WTO has significant powers to enforce its decisions through the authorization of trade sanctions against members who fail to comply with its decisions.

2. Political Environments

Ans :

'Politics' ultimately comes from the Greek word 'polis' meaning state or city. 'Politikos' describes anything concerning the state or city affairs. In Latin, this was 'politicus' and in French 'politique'. Thus it became 'politics' in English. In a nut shell, politics is the way of governing (a state or a nation).

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

The political environment influences the investment decisions. Even though the corporate are least interested in national or international politics, they should be willing to encash the benefits when political relationship between two countries prove. For example, after Iraq war, political relationship between US, UK and Australia has improved to a greater extent which will definitely render opportunities to its corporate an rehabilitation of Iraq. Legal environment go along with political environment. The laws vary from country and this varying nature of laws and interpretations influence the imports, exports and international marketing operations.

3. Economic Environments

Ans :

The primary concern in analyzing the economic environment is to assess opportunities for marketing the company's products abroad or possibly for locating some of the company's production and distribution facilities outside of the country. Indeed, when striving to identify potential

countries to focus on, one of the major differentiating factors will be the differences in the economic environments that exist between potential target countries.

Decisions about how much of a product people buy and which products they choose to buy are largely influenced by their purchasing power. If a large portion of a country's population is poor, the market potential for many products may be lower than it would be if they were reasonably prosperous. If a country is expected to enjoy rapid economic growth and large sectors of the population are expected to share in the increased wealth, sales prospects for many products would clearly be more promising than if the economy was stagnating.

4. Exim policy ? and explain its policies.

Ans :

For India to become a major player in world trade, an all encompassing, comprehensive view needs to be taken for the overall development of the country's foreign trade. While increase in exports is of vital importance, we have also to facilitate those imports which are required to stimulate our economy.

Coherence and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development. Thus, while incorporating the existing practice of enunciating an annual Exim Policy, it is necessary to go much beyond and take an integrated approach to the developmental requirements of India's Foreign trade.

The Government of India, Ministry of Commerce and Industry announces Export Import Policy after every five years. EXIM policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position. The current Exim Policy covers the period 2004-2009. The Export Import Policy (EXIM Policy) is updated every year on the 31st of March and the modifications, improvements and new schemes becomes effective from 1st April of every year.

General Objectives of Exim Policy

1. To establish the framework for globaliza-tion.

2. To promote the productivity competi-tiveness of Indian Industry.
3. To Encourage the attainment of high and internationally accepted standards of quality.
4. To augment export by facilitating access to raw material, intermediate, components, consumables and capital goods from the international market.
5. To promote internationally competitive import substitution and self-reliance.

5. International trade

Ans :

International trade existed in one form or the other since time immemorial. Indian traders crossed seven seas and ventured to Java and Sumatra long back. International trade theories, however, were developed much later. Fundamentally, in a market system individuals trade because they expect to gain from the exchange, i.e., they expect to be better off as a result of trading. In this respect, trade occurs for the same reasons among nations as it does among regions within a given country. Thus, domestic trade occurs within the political boundaries of a nation whereas international trade occurs across the political boundaries of different nations.

"International trade consists of transactions between residents of different countries."

- Wasserman and Haltman

The principle of comparative advantage is the basis of international trade. Each nation or region specialises in the production of those post and services in which it enjoys maximum comparative advantage and imports or purchases its other requirements from the other nations. Thus, principle of division of labour and specialisation is the basis of world trade.

A situation in which a country does not indulge in international trade is called a situation of autarchy. An economy without an international trade is known as closed economy, on the other hand an economy with international trade relations is known as open economy.

Internal trade is the exchange of goods and services between individuals and group of individuals

within the country. International trade may be defined as the exchange of goods and services among the citizens of different countries.

6. Tariff Barriers

Ans :

Tariff is a customs duty or a tax on products that move across borders. The most important of tariff barriers is the customs duty imposed by the importing country. A tax may also be imposed by the exporting country on its exports. However, governments rarely impose tariff on exports, because, countries want to sell as much as possible to other countries. The main important tariff barriers are as follows:

1. **Specific Duty:** Specific duty is based on the physical characteristics of goods. When a fixed sum of money, keeping in view the weight or measurement of a commodity, is levied as tariff, it is known as specific duty.

For instance, a fixed sum of import duty may be levied on the import of every barrel of oil, irrespective of quality and value. It discourages cheap imports. Specific duties are easy to administer as they do not involve the problem of determining the value of imported goods. However, a specific duty cannot be levied on certain articles like works of art. For instance, a painting cannot be taxed on the basis of its weight and size.

2. **Ad valorem Duty:** These duties are imposed "according to value." When a fixed percent of value of a commodity is added as a tariff it is known as ad valorem duty. It ignores the consideration of weight, size or volume of commodity.

The imposition of ad valorem duty is more justified in case of those goods whose values cannot be determined on the basis of their physical and chemical characteristics, such as costly works of art, rare manuscripts, etc. In practice, this type of duty is mostly levied on majority of items.

3. **Combined or Compound Duty:** It is a combination of the specific duty and ad valorem duty on a single product. For

instance, there can be a combined duty when 10% of value (ad valorem) and Re 1/- on every meter of cloth is charged as duty. Thus, in this case, both duties are charged together.

4. **Sliding Scale Duty:** The import duties which vary with the prices of commodities are called sliding scale duties. Historically, these duties are confined to agricultural products, as their prices frequently vary, mostly due to natural factors. These are also called as seasonal duties.
5. **Counter wailing Duty:** It is imposed on certain imports where products are subsidised by exporting governments. As a result of government subsidy, imports become more cheaper than domestic goods. To nullify the effect of subsidy, this duty is imposed in addition to normal duties.

7. Non-Tariff Barriers

Ans :

A non tariff barrier is any barrier other than a tariff, that raises an obstacle to free flow of goods in overseas markets. Non-tariff barriers, do not affect the price of the imported goods, but only the quantity of imports. Some of the important non-tariff barriers are as follows:

1. **Quota System:** Under this system, a country may fix in advance, the limit of import quantity of a commodity that would be permitted for import from various countries during a given period. The quota system can be divided into the following categories :

- a) Tariff/Customs Quota
- b) Unilateral Quota
- c) Bilateral Quota
- d) Multilateral Quota

- **Tariff/Customs Quota:** Certain specified quantity of imports is allowed at duty free or at a reduced rate of import duty. Additional imports beyond the specified quantity are permitted only at increased rate of duty. A tariff quota, therefore, combines the features of a tariff and an import quota.

- ▶ **Unilateral Quota:** The total import quantity is fixed without prior consultations with the exporting countries.
- ▶ **Bilateral Quota:** In this case, quotas are fixed after negotiations between the quota fixing importing country and the exporting country.
- ▶ **Multilateral Quota:** A group of countries can come together and fix quotas for exports as well as imports for each country.

2. **Product Standards:** Most developed countries impose product standards for imported items. If the imported items do not conform to established standards, the imports are not allowed. For instance, the pharmaceutical products must conform to pharmacopoeia standards.

8. General Agreement on Tariffs and Trade

Ans :

After the Great Depression and World War II, most countries focused on protecting home industries, so international trade was hindered by rigid trade restrictions. To rectify this situation, twenty-three nations joined together in 1947 and signed the General Agreement on Tariffs and Trade (GATT), which encouraged free trade by regulating and reducing tariffs and by providing a forum for resolving trade disputes. The highly successful initiative achieved substantial reductions in tariffs and quotas, and in 1995 its members founded the World Trade Organization to continue the work of GATT in overseeing global trade.

9. International Trade Agreements

Ans :

Traditionally trade was regulated through bilateral treaties between two nations. For centuries under the belief in mercantilism most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in the United Kingdom, a belief in free trade became paramount. This belief became the dominant thinking among western nations since then. In the years since the Second World War, controversial multilateral treaties

like the General Agreement on Tariffs and Trade (GATT) and World Trade Organisation have attempted to create a globally regulated trade structure. These trade agreements have often resulted in protest and discontent with claims of unfair trade that is not mutually beneficial.

Free trade is usually most strongly supported by the most economically powerful nations, though they often engage in selective protectionism for those industries which are strategically important such as the protective tariffs applied to agriculture by the United States and Europe. The Netherlands and United Kingdom were both strong advocates of free trade when they were economically dominant, today United States, United Kingdom, Australia and Japan are its greatest proponents. However, many other countries (such as India, China and Russia) are increasingly becoming advocates of free trade as they become more economically powerful themselves. As tariff levels fall there is also an increasing willingness to negotiate non-tariff measures, including foreign direct investment, procurement and trade facilitation. The latter looks at the transaction cost associated with meeting trade and customs procedures.

The regulation of international trade is done through the World Trade Organisation at the global level, and through several other regional arrangements such as MERCOSUR in South America, the North American Free Trade Agreement (NAFTA) between United States, Canada and Mexico, and the European Union between 27 independent states.

10. Types of Trading Agreements

Ans :

1. **Bilateral Trade Agreement:** Bilateral Trade agreements are between two nations at a time. They are fairly easy to negotiate, and give those two nations favoured trading status between each other.

For example, in the absence of a successful multilateral trade agreement, a series of bilateral agreements will usually take place.

- 2. Multilateral Trade Agreement:** Multilateral trade agreements are between many nations at one time. For this reason, they are very complicated to negotiate, but are very powerful once all parties sign the agreement. The primary benefit of multilateral agreements is that all nations get treated equally, and so it levels the playing field, especially for poorer nations that are less competitive by nature.

For example, the Doha round of trade agreements is a multilateral trade agreement between all 149 members of the World Trade Organisation.

11. Multilateral Trade Agreement

Ans :

A multilateral trade agreement involves three or more countries who wish to regulate trade between the nations without discrimination. They are usually intended to lower trade barriers between participating countries and, as a consequence, increase the degree of economic integration between the participants. Multilateral trade agreements are considered the most effective way of liberalising trade in an interdependent global economy.

Multilateral Trade Negotiations are the negotiations between General Agreement on Tariffs and Trade (GATT) member nations that are conducted under the auspices of the GATT and that are aimed at reducing tariff and non-tariff trade barriers. The World Trade Organisation has now replaced the GATT as the administrative body.

Prior to the Uruguay Round of multilateral trade negotiations, which were concluded in December 1993, multilateral trade negotiations were seen as a preserve of the developed countries and the developing countries have only a marginal role to play in the negotiation process; they were primarily the recipients of preferential market access and other special differential treatment. Since the Uruguay Round, although the developing countries have been actively involved in the negotiation process, they face serious challenges in keeping pace with the growing area of international trade law.

UNIT III

Global Customers: Drivers of Global Consumers, Influences of the Global Consumer - Role of Culture - elements, Social Factors, Situational Factors, Industrial Buyer, Government Buyer, International Marketing Research: Opportunity Analysis, Market Selection, Assessing Market Size and Sales Potential, Government Policies of Target Markets, SWOT Analysis of Target Markets, Global Market Entry Modes - Strategies, Problems and Challenges.

3.1 GLOBAL CUSTOMERS

Q1. Write about Global customers.

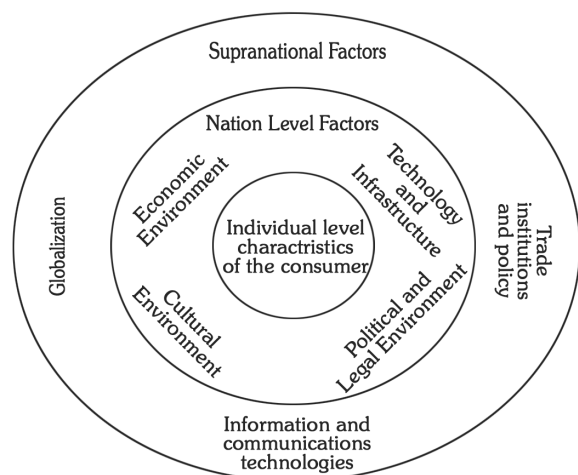
Ans :

Globalization and technological advances have coincided with the diffusion of world culture, rising living standards, and enhanced opportunities for companies to market their brands around the world. In this contemporary environment, companies target various types of customers. Globalization stimulates interest in and facilitates the ability to acquire products and services from the broadest range of companies worldwide. It seems that wherever people live today, they encounter global brands Airbus, Coca-Cola, Madonna, McDonald's, Samsung, Siemens, Toyota, and countless others.

As highlighted in The International Market place 6.1, globalization, improving technologies, and other trends have led to the emergence of the "global consumer," who is relatively sophisticated, often more demanding, and comfortable with buying international brands.

In addition, recent trends have made possible the ability of companies to source needed inputs from the best suppliers worldwide. From alternators to zippers, purchasing managers scour the world to find the raw materials, parts, supplies, and services their firms need to fulfill their business needs. Likewise, governments count on multinational firms to supply them with the products and services they use to serve constituents and perform their administrative tasks. Growing consumerism and global sourcing in emerging markets has opened opportunities for firms to target billions of buyers world-wide who, only a few decades ago, were relatively inaccessible.

Figure displays three levels of factors that shape the world of consumers today. At the outermost level are supranational factors, which transcend national borders and affect the global consumer at a macro, international level. As explained below, the influence of globalization and information and communications technologies on the emergence and nature of the global consumer has been pervasive. Trade institutions and policy refer to global entities such as the WTO, IMF, and others that influence the evolution of trade and investment at a global level. In terms of national-level factors (the middle circle in the exhibit), consumers everywhere are affected by the economic, political, legal, technological, infrastructural, and cultural conditions that characterize the nations where they live.



The inner circle in the exhibit represents the consumer, whose preferences are determined to a large extent by personality traits, personal situational factors, and other conditions that exist at the individual level.

Consumers are the focus of marketing activity. Marketing programs are designed to influence them to purchase the firm's products or services.

Sales people are fond of saying that "nothing happens in business unless someone buys something." In this chapter, we examine the various types of buyers in international marketing retail consumers, industrial buyers, and governments. We explore the characteristics of buyers around the world and the factors that influence global consumers to behave the way they do. We contrast buyers affected by where a product is made and those who embrace global brands. We then examine the managerial requirements for marketing success with global consumers.

3.2 DRIVERS OF GLOBAL CONSUMERS

Q2. Explain about Drivers of Global Consumers.

Ans : (Sep.-20)

The emergence of the global consumer coincides with two important driving trends: globalization and advancing information and communications technologies.

- 1) Globalization refers to the growing interconnectedness of nations, the organization of life on a global scale, and the consolidation of world society. Growing integration of world markets enables individuals, companies, and nations to reach around the world more deeply and efficiently than ever before. Globalization is characterized by a combination of falling trade barriers and the industrialization and modernization of nations worldwide. Today many trade barriers have declined almost to zero, particularly among the advanced economies and emerging markets. In this way, globalization reflects the spread of free-market capitalism, which both fosters and is fostered by massive growth in international trade and investment.
- 2) Globalization is a revolution in progress, a historic transformation in world economies, living standards, and modes of existence. Globalization also implies that many nations are losing some autonomy as larger countries and corporations extend their political and economic power around the world.

Globalization coincides with the emergence of "world culture," which is marked by the growing interconnectedness of varied local cultures or the appearance of a relatively homogeneous, global culture. From Nairobi to Paris to Shanghai, for example, hip-hop music has gained a following that spans cultural, linguistic, and geographic boundaries. Hip-hop youth culture affects nearly every country. Hip-hop music, fashion, and accessories have flooded markets worldwide.

- 3) The second major trend refers to technological developments in information and communications. A century ago, nations were largely cut off from one another due to trade barriers, geographic distance, and lack of efficient transportation technologies that could convey goods quickly from one corner of the world to another. This geographic distance, however, has been dramatically reduced thanks to developments in transportation, such as fast ships, containerized shipping, and commercial aircraft. For example, electronics, furniture, and clothing retailers now regularly source their offerings from factories in Asia, Central America, Eastern Europe, and other far-flung localities worldwide.
- 4) International mass media primarily television, movies, and the Internet have played a major role in the emergence of the global consumer. People worldwide view much of the same media programming, often flowing from the United States. The enjoyment by people in much of the world of TV shows such as Friends, Flouse, and CSI Miami has coincided with the tendency of buyers to acquire similar characteristics. Many international shows have also been adapted to the United States. The Office and Who Wants to Be a Millionaire are examples. In a related trend, more than two-thirds of the movies shown around the world are produced in Hollywood in the United States. Such media project a lifestyle and living standard that increasingly transcends national boundaries, representing a way of life that myriad people wish to embrace.

3.3 INFLUENCES OF THE GLOBAL CONSUMER

SOCIAL FACTORS, SITUATIONAL FACTORS, INDUSTRIAL BUYER & GOVERNMENT BUYER

Q3. What are the Factors Influences of the Global Consumer ?

Ans : (Imp.)

In international marketing, certain factors are known to influence the preferences and buying behavior of consumers. These factors are summarized in and explained in detail in the following sections.

A) Economic Status

The ability to purchase goods and services is strongly influenced by income level. Comparisons can be based on the level of each nation's percapita gross domestic product (GDP). Only about one billion consumers worldwide are in the highest income category, earning an average annual income of \$34,000. An additional two billion consumers are in the middle income category, about \$13,000 per year. Known as emerging markets, they are typified by countries such as China, Mexico, and Poland. At the lowest income level, people typically earn an average of \$5,000 per year. Many consumers in this group have incomes well below this level.

Historically, international marketers targeted the low-hanging fruit meaning developed markets and their high-income consumers. Increasingly, firms are also targeting the emerging markets. Most of these countries have rapidly rising incomes and represent promising market opportunities. Numerous companies are now also targeting the developing markets. Most countries in Africa, and some in Asia and Latin America, are in this category. Despite very low incomes, the countries at the bottom of the pyramid collectively represent huge potential markets and can be targeted with numerous goods and services. However, infrastructure is often very poor in developing markets. Consequently, firms usually must devise novel business strategies, which usually include offering low-cost products via innovative

marketing communications and distribution approaches.

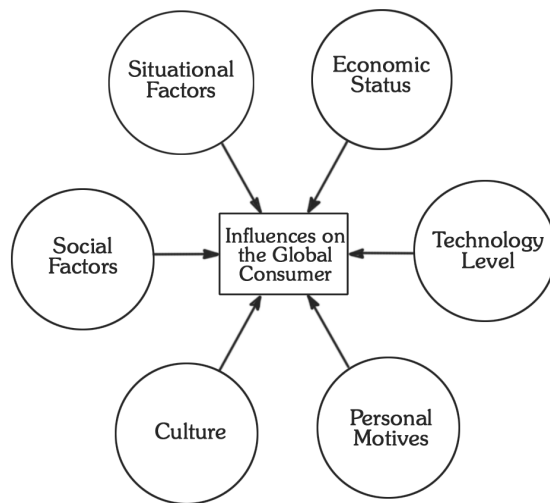


Figure: Influences on the Global Consumer

Countries in the developed and emerging markets often have numerous highly profitable firms. High income at the individual and corporate levels implies a superior ability to purchase products and services. The consumption tendency extends even to relatively poor countries. In rural parts of China, for example, annual percapita income levels may be less than \$5,000. However, consumers are still willing to spend hundreds of dollars to acquire cell phones and personal computers. In China by the year 2016, mobile-phone handset sales and personal computer sales are expected to exceed \$50 billion and \$100 billion, respectively. Already more than one-quarter of China's population, about 330 million people, owns a personal computer.

Income levels are related to the size of the middle class, the people located in the middle of each country's economic hierarchy. The size of the middle class reflects how wealth is distributed. In many countries, income distribution is quite skewed, with a small upper class holding most of the wealth. In spending power terms, a sizeable middle class represents an important target market. In each of Brazil and Russia, for example, the middle class amounts to more than 65 million people with percapita incomes greater than \$10,000. Collectively, these segments represent an attractive target market. The International Market-place 6.2 examines the rise of the middle class in emerging-market countries.

Growing convergence of income levels has coincided with the emergence of consumers with similar tastes around the world. As consumers attain higher levels of affluence, they want to buy more, and they increasingly aspire for the same types of products and services. Mass media expose consumers in less developed economies to the lifestyles of people in Europe, North America, and other advanced economies. Such exposure triggers growing desire for many of the same types of goods and promotes the emergence of a consumer class with similar needs and tastes.

Economic status is also related to occupation. In countries whose economies are still rooted in agriculture or manufacturing (such as China, India, and most of Africa), workers need rugged clothing suitable for farming or factory jobs. By contrast, when the largest proportion of people is employed in the service sector, they are more likely to wear business attire. Recent decades have seen a convergence of clothing styles among those employed in the global corporate world.

B) Technology Level

Technology refers to knowledge and usage of tools, machines, techniques, or methods of organization applied to solving problems or performing particular functions. Technology varies across all areas of human endeavor and includes computers, factory equipment, communications systems, and accumulated knowledge about specific industries. Advanced technologies are characteristic of economically developed nations. In the absence of advanced technologies, a nation's productivity level and living standards are relatively limited. People in poor countries usually have little access to advanced technologies or knowledge of how to use such tools. Many are employed in subsistence farming or other low-value-adding activities. Their ability to work in most industrial fields, and resultant prospects for earning a good living, is limited. As consumers, their needs are relatively simple, often restricted to acquiring the basics of food, clothing, and shelter.

Technology level is strongly influenced by the nature of education systems in individual countries. In the United States, Australia, Canada, and most European countries, education is compulsory through about age 16. In Africa, Latin America, and

other less economically developed areas, school may end at age 14 or younger. This tendency affects literacy rates, the ability of citizens to deal with advanced technologies, and ultimately earnings potential.

C) Personal Motives

A motive is an internal force that orients a person's activities toward satisfying a need or achieving a goal. Perhaps the most recognized explanation on the formation of motives is that of the psychologist Abraham Maslow. Maslow's "hierarchy of needs" suggests that people are motivated to fulfill basic needs before moving on to other needs, all of which motivate ultimate behavior. Let us review the needs, from most basic to most advanced.

1. Physiological needs describe the needs vital to survival, such as the need for food, water, and sleep. All subsequent needs are secondary until physiological needs are met.
2. Safety needs refer to people's need for safety and security. They include the desire for steady employment, health care, safe neighborhoods, and shelter from the environment.
3. Love and belonging needs are basic to everyone and represent the desire for friendships, romantic attachments, and families, fulfilling a need for acceptance and companionship.
4. Esteem needs are sought once the first three needs have been met. Esteem needs describe the desire for objects and activities that enhance self-esteem, personal worth, social recognition, and accomplishment.
5. Self-actualization needs represent the highest level in the hierarchy of needs and refer to the desire for personal growth and the ability to achieve one's full potential. Most people worldwide tend to neglect self-actualization because they are so occupied with achieving the four prior needs.

Two points about the hierarchy of needs are especially relevant to international marketing. First, need levels vary worldwide as a function of economic status, technology level, and other factors.

Most countries are characterized by substantial poverty, in which the focus is on satisfying physiological and safety needs. Second, worldwide, people do not consistently follow Maslow's hierarchy of needs. In developing economies, for example, people may forgo meeting some physiological needs (such as eating three meals a day) or safety needs (such as living in a safe neighborhood) in order to purchase higher-level products such as cell phones and automobiles. Emergent research suggests esteem and self-actualization needs tend to vary by country. For example, the need for esteem and self-actualization may be less important in collectivist countries such as China. The International Marketplace 6.3 reviews other characteristics of consumers in China.

D) Culture

Culture is the integrated system of learned behavior patterns that distinguish the members of a given society. It represents basic beliefs, values, and behavioral tendencies that are learned from family and other important institutions. As such, culture strongly influences consumption in each country. Culture is characterized by norms, which are accepted behaviors within a society or group.

They may be explicit or implicit and define the rules of behavior regarding interactions with others. Norms vary substantially from country to country. Product and service purchases deemed acceptable in one country may not be accepted in another. Within countries, norms also differ through time and across social classes and groups. Because they determine one's acceptance and popularity within particular groups, norms are especially important in cultures with a strong collectivist orientation, such as countries in Asia. In the luxury goods market in China, for example, young shoppers feel pressure to purchase internationally well-known brands. Due to increased emphasis on sustainability, many Europeans buy hybrid cars, superefficient heating systems, and other products that save energy and protect the natural environment.

Other cultural norms that affect consumers and their purchase behaviors

include *conservatism*, the tendency to prefer traditions and choices that have stood the test of time, and *materialism*, a belief about the importance of possessions in one's life. Conservative consumers tend to remain loyal to existing brands and product types. Thus, markets with numerous conservative consumers can be difficult to enter. Materialistic consumers are relatively anxious to purchase products that demonstrate their affluence, including many new and differentiated goods. As income levels improve, marketers perceive growing numbers of consumers wishing to acquire products typical of affluent consumers in the advanced economies, such as large home appliances, automobiles, and big-screen TVs.

Countries are characterized by *subcultures*, groups of people with shared value systems based on common life experiences and situations. Subcultures may be distinguished by differences in nationality, religion, racial group, or geographic region. Many subcultures constitute important market segments. Religion is a major dimension of culture known to affect consumer behavior. For instance, Islam places various limitations on what or when people should buy. In Islamic countries, consumers may go on shopping sprees to buy new clothes and specialty foods following the fasting phase in the holy month of Ramadan. Religion strongly influences the dietary choices of Orthodox Jews. A *kosher* diet implies one should avoid pork and follow dietary rules described in Jewish scripture. Both Buddhism and Hinduism are characterized by numerous tenets and holidays that affect consumption patterns. Among various influences, Christianity affects store opening hours and the tendency of Christians to shop for gifts during the Christmas season.

E) Social Factors

Family and social groups strongly influence consumer behavior. In many countries, the family is the center of social life. In Asia, family members may exert considerable influence on the consumption patterns of individuals.

The family may serve as a buying unit as purchase decisions are made by two or more family members. In some European countries where the draft has been abolished, parents place their children into school earlier, and the number of school years has been reduced, universities now have to prepare for first-year male students aged 17 rather than the traditional age of 21. The effect on housing, self-sufficiency, teaching, and learning approaches are significant.

North America and Europe have seen elevated levels of divorce, late marriage, and lifestyles that diminish the historic role of the nuclear family. The growth of single-parent and single-occupant households, as well as dual-career couples, has coincided with the emergence of a mass market for convenience goods (such as frozen dinners and microwave ovens) and services that substitute for traditional family roles (such as child care centers). In addition to family members, consumer behavior is often determined by secondary groups, such as friends, neighbors, and coworkers.

In each society, people develop beliefs and attitudes based on the norms of their *reference groups*. These include religious groups, professional associations, and trade unions. In Latin America, for example, most people belong to the Catholic faith. Members of the church that one normally attends are an important reference group and influence purchases regarding food, clothing, and educational pursuits. A buyer may develop a purchase decision based on consulting a single individual, who would be considered a reference individual. The effect of reference groups is particularly strong for purchases that are "public" or conspicuous such as clothing and automobiles.

F) Situational Factors

Situational factors are environmental or locational conditions that affect how consumers behave. Physical surroundings include geographical location and climate. The buying experience differs between Mexico and the United Kingdom simply due

to differences in geography, landscape, and weather. The rainy season in Thailand affects tourism and consumers' likelihood to shop. In Russia, consumers minimize automobile shopping during periods of severe cold and snow. Physical surroundings also vary at individual stores and include retail settings, store locations, and "atmospherics" inside stores, such as music and lighting. To save energy in Mexico, for example, grocery stores often use limited lighting in aisles, which can affect consumer decision making. In Australia, Canada, and the United States, store locations are influenced by the tendency of consumers to drive to shopping destinations, while in Europe and Japan stores are more often located at sites well served by public transportation.

The institutional environment refers to the public organizations and constraints that societies create to give structure to human interactions. Institutions include government and legal systems. Laws, regulations, and other formal institutions determine the structure and efficiency of marketing systems. Most developing economies are characterized by weak institutions, which deters many multinational enterprises (MNEs) from entering such countries. In nations with weak institutional guidelines, corruption is often a factor that affects the purchase behavior of organizational buyers. By contrast, extensive rules and regulations may constrain consumer behavior. In Greece, for example, the government regulates the opening hours of retail stores, which are usually required to close at 9:00 p.m. or earlier. In India, government outlays on physical education are very limited, which reduces selling prospects for sports-related equipment and apparel.

G) Industrial Buyer, and Government Buyer

Also known as organizational buyers or businesses, industrial buyers differ substantially from retail consumers. Industrial buyers purchase raw materials, parts, components, and supplies in order to produce other products or run a business. Some industrial buyers function as wholesalers or retailers who purchase unfinished or finished goods

to sell and distribute to other industrial buyers or to retail consumers. Industrial buyers may have substantial face-to-face contact with vendors, with whom they often develop long-term relationships. Purchases are usually based on specifications and technical data, with buyers applying relatively scientific and rational approaches to the buying process. Buying is performed by professional purchasing managers who may buy enormous quantities of goods. Industrial buyers often employ competitive bidding and negotiations during the buying process.

Industrial buyers are strongly influenced by globalization. Segmenting markets on a global scale is generally more feasible for industrial products than for retail goods. For example, industrial goods such as bulk metals, semiconductors, and pressure valves require less differentiation to meet industrial buyer needs. Industrial buyers prefer using standardized inputs whenever possible to minimize costs. For example, while Swedish appliance manufacturer Electrolux might sell dozens of distinctive refrigerator models to retail consumers, the firm prefers to source only a limited variety of thermostats, compressors, and other parts to make refrigerators. Their approach helps minimize the costs of purchasing, inventory, manufacturing, and quality control. Chrysler, Honda, and other automakers emphasize modular architecture, where suppliers manufacture single component modules, which are then bolted into a car or truck body rolling down assembly lines. The modular approach minimizes the total cost of vehicle manufacturing.

Industrial buying is associated with two important concepts: derived demand and cost-performance. Derived demand refers to demand for raw materials, parts, and other inputs that depends on demand for some other good. For example, demand for antennas used in building Airbus A320 commercial jetliners depends on demand for the jetliners themselves the more A320s that Airbus sells, the more antennas it buys from vendors. Cost-performance refers to the expected performance of a product relative to the cost to buy and use it. Cost-performance is emphasized because organizations aim to maximize profitability. Profits hinge on ensuring the firm obtains maximal performance from input goods for a given level of cost. Firms from developing economies usually have

limited resources and give greater weight to the cost-performance relationship when buying industrial goods.

Governments are important targets for sales of goods and services. Governments at both federal and local levels purchase nearly every kind of good, from aircraft to thumbtacks, from construction services to training services. Many seemingly private companies are actually government-owned enterprises. Some of the largest firms in China, for example, are state owned. Most are energy utilities, oil companies, railways, and others in industries considered vital to China's national security or serving China's huge market with essential products and services. State-owned enterprises are found in all countries but are the norm in developing economies.

Most governments have a system, often required by international agreements or treaties, for opening government purchases that exceed a certain dollar value to international bids. The aim of competitive bidding is to ensure the government pays a competitive price, receives quality goods, and avoids the corruption that may accompany choosing suppliers based on personal relationships. Procurement opportunities are huge, with governments spending up to 15 percent of national GDP on purchasing in the advanced economies and up to 20 percent of GDP in the developing economies.

The nature of government procurement varies worldwide. Compared to industrial sales, selling to governments can be highly bureaucratic. For example: India has an extensive, burdensome bureaucracy with formidable to closing the sale, particularly for foreign firms. Negotiating with governments is often arduous and requires much skill and experience. Many governments have regulations that limit purchases to domestic producers, and in many procurement situations, nations discriminate against nonnative suppliers. In Saudi Arabia, for example, contractors must subcontract 30 percent the value of any government contract to firms owned by Saudi nationals. The EU countries require open, competitive bidding but usually discriminate against bids with less than 50 percent EU content. The content requirement applies to foreign suppliers of goods and services related to water, energy, urban transport, and postal services.

In Brazil, foreign firms face obstacles in public procurement deals unless, they are associated with a local firm. The U.S. government favors home-country suppliers for supplying goods deemed vital to national security. In addition, the United States and other countries often prohibit their own citizens from selling certain product categories abroad, especially those related to national security.

Most advanced economies and a few emerging markets are party to the Agreement on Government Procurement (GPA) of the World Trade Organization. The GPA's main goal is to open government procurement to international competition. It also aims to ensure procurement laws, regulations, and procedures are transparent and do not protect domestic products or suppliers nor discriminate against foreign products or suppliers. However, in many industries, developing economies lack a substantial supplier base and, consequently, are relatively open to receiving bids from foreign vendors. In fact, very few countries can supply all the inputs needed to develop large-scale public projects, such as building computer systems, railway lines, and power plants.

3.4 ROLE OF CULTURE

Q4. Explain the Role of Global Consumers Culture.

Ans : (Sep.-20, Dec.-19)

Culture should not be viewed as a challenge but rather as an opportunity that can be exploited. This requires, as has been shown in this chapter, an understanding of culture differences and their fundamental determinants. Differences can quite easily be dismissed as indicators of inferiority or viewed as approaches to be changed; however, the opposite may actually be the case. Best practice knows no one particular origin, nor should it acknowledge boundaries. The following rules serve as summary of how culture and its appreciation may serve as tool to secure success.

1) Embrace Local Culture

Many corporate credos include a promise to be the best possible corporate citizens in every community they operate in. For the past 10 years, the Walt Disney Company has

made it a priority to build its international business in television, movies, retail, and theme parks with the goal of half of their profits to come from overseas. Disney's theme park in Hong Kong, which opened in 2005, suffered a 30 percent drop in attendance in its second year, largely due to not appealing to mainland Chinese audiences. The first big opportunity to reverse the trend was a stroke of astrological fortune: the year 2008 was the Year of the Rat, allowing Disney to proclaim it the "Year of the Mouse." The Disneyland Chinese New Year campaign featured a logo with the mouse ears added on the top. Inside the park, dumplings and turnip cakes were featured on the menus. The parade down Main Street USA was joined by the "Rhythm of Life Procession," featuring a dragon dance and puppets of birds, flowers, and fish set to traditional Chinese music. At Disneyland Hong Kong, the feng shui master rotated the front gate, repositioned cash registers, and ordered boulders set in key locations to ensure the park's prosperity.

2) Build Relationships

Each country market has its own unique set of constituents who need to be identified and nurtured. Establishing and nurturing local ties at the various stages of the market-development cycle develops relationships that can be invaluable in expansion and countering political risk. The Hong Kong government has faced heavy public criticism for investing about HK\$ 13.35 billion in land, equity, and debt for the construction of the Disney parks, while Disney only committed HK\$ 3.5 billion. Hong Kong Disneyland, the smallest of Disney parks, has been criticized for having too few rides and attractions. Disney has said that the expansion will focus on "universally understood" stories, adding that many of the new attractions will be unique to the Hong Kong park. One new themed area, Grizzly Trail, is set in an American frontier gold-mining town and features a roller coaster patterned after a runaway mine train. Another, Mystic Point, emphasizes

supernatural and mysterious forces. The third, Toy Story Land, is based on the film series by Pixar animation studio.

Hong Kong Disneyland's long-awaited expansion comes as Disney moves forward with its plans to build a theme park in Shanghai province. The Hong Kong government and Disney have said they believe the proposed Shanghai development will further complement the Hong Kong park. Disney will be operating the theme park, which broke ground April 2011 and is expected to take five years to complete.

3) **Employ Locals In Order to Gain Cultural Knowledge**

Disney undertook major efforts to give its Hong Kong park a more Chinese character. Research was conducted in the homes of Chinese consumers, who were asked about their knowledge of the Disney brand and their lifestyles. As a result, for example, Disneyland ads now feature only one child (Chinese government rules limit most couples to just one child), two parents, and two grandparents (many households are extended ones) sharing branded Disney activities such as watching a movie or giving a plush version of the mouse as a gift.

4) **Help Employees Understand You**

Employing locals will give a marketer a valuable asset in market development (i.e., acculturation). However, these employees also need their own process of adjustment (i.e., "corporatization") in order to be effective. Disney has given more power to local managers to develop completely local approaches, to adapt U.S. franchises and make local versions of them, or to build interest in U.S. shows such as *Hannah Montana* and *Kim Possible*. It is also important to help employees understand the firm better. Chinese executives and staff benefit from visits to Burbank, California, and interaction with Disney executives from around the world to combine Disney and Chinese values.

5) **Adapt Products and Processes to Local Markets**

Nowhere is commitment to local markets as evident as in product offerings. The gods of wealth, longevity, and happiness have been added to the Hong Kong Disneyland gang. To support the marketing efforts of the theme park, Disney has expanded its TV, online, and film businesses in China. *The Secret of the Magic Gourd* was the first-ever movie made just for Chinese audiences. The movie also meant a departure from Disney's obsession with going it alone in that it joined local experts (including the state-run China Film Group) to produce the culturally customized product.

6) **Coordinate by Region**

The same processes are being replicated in the other emerging markets targeted by Disney. Local versions of High School Musical for India, Latin America, and Russia are part of Disney's \$100 million investment in movies outside of the United States by 2010. High School Musical's cast for the Indian version was chosen in an American Idol-style competition. To create interest, Disney aired a dubbed version of the American movie and launched "My School Rocks," a dance competition featuring High School Musical songs. A CD of the movie soundtrack with Hindi lyrics and Indian instruments has been successful due to the low cost at retail. The goal of this cross-pollination is to come up with regional programs and "Asianize" or even globalize a product more quickly. Joint endeavors build cross-border "esprit de corps," especially when managers may have their own markets' interest primarily at heart.

3.4.1 Elements of Culture

Q5. What are the Elements of Culture ?

Ans : (Sep.-20)

The important elements of culture are language, religion, values and attitudes, education, social organization, technology and material culture, law and politics, and aesthetics. (Carter, 2002)
Language: Language can be verbal and non-verbal.

Verbal means how the words are spoken (tone of voice) and non-verbal includes gestures, body position and eye contact. It is important to really understand how language is used by the people in your target market. Consider the following examples: When the Pepsi slogan "Come alive with the Pepsi Generation" was translated in Taiwanese, it came out as "Pepsi will bring your ancestors back from the dead" or the Kentucky Fried Chicken slogan "Finger-lickin' good" in Chinese, came out as "Eat your fingers off". These can irritate and frustrate the customer and therefore these misunderstandings should be avoided. It does not give the best impression of the company that has produced it.

1. Religion:

Many international companies ignore the influence of religion. Most cultures find in religion a reason for being. It is important to identify the difference between the shared beliefs, for example, in Islam, Buddhism, or Christianity. An example of the effect of religious beliefs on international marketing is the ban of pork products and alcoholic beverages in the Middle East. The international market manager must be aware of religious division in the countries of operation.

2. Values and attitudes:

Values and attitudes can affect reaction to a product or to its origins. For example, a firm using yellow flowers in its logo or on the packaging of a product was well accepted in the United States but was a disaster in Mexico, where a yellow flower symbolizes death or disrespect. (Kotler and Armstrong, 1999) An international company needs to understand the differences in values and attitudes within the country.

3. Education:

It is significant for international firms are to know about the educational system of a country. The level and nature of education can have a major impact on how receptive consumers are to foreign marketing activities.

4. Law and politics:

Certain issues in the political environment are significant. Some countries, such as Russia, have relatively unstable governments, whose policies may change dramatically if new leaders come to power by democratic or other means. Some countries have little tradition of democracy, and thus it may be difficult to implement. When a company is going into a foreign market it is also important to look at the ownership regulations, the employment law, health and safety system, financial law and patent protection.

3.5 INTERNATIONAL MARKETING RESEARCH

Q6. Explain about International Marketing Research ?

Ans :

International marketing managers operate in a highly risky and complex environment. If a company is to survive in the international marketplace, it is important that it searches for methods to reduce, as far as possible, the risk of making a wrong decision.

This is why marketing research is so fundamentally important to the international marketing process, for whilst it cannot help a manager reduce risk to the point of zero, it can assist him in making a proper decision based on knowledge and not on assumptions.

Since 1995 the volume of international marketing research has grown a lot. Multi-country marketing research is an area that is developing rapidly and taking an increasing strategic role.

Steps of International Marketing Research Process

The international marketing research process as well as domestic one is a series of separate steps. However, the international marketing research process has some peculiarities such as the national differences between countries arising out of political, legal, economic, social and cultural differences and, the comparability of research results due to these differences.

Step 1. Research Problem Definition.

Problem definition is the most critical part of the research process. Research problem definition involves specifying the information needed by management. Unless the problem is properly defined, the information produced by the research process is unlikely to have any value.

Step 2. Information Value Estimation.

Information has value only to the extent that it improves decisions. The value of information increases as

- (1) the cost of a wrong decision increases,
- (2) our level of knowledge as to the correct decision decreases, 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 3. Selection of the Data Collection Approach.

There are three basic data collection approaches in international marketing research: (1) secondary data, (2) survey data, and (3) experimental data. Secondary data were collected for other purpose than 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.

Step 4. Measurement Technique Selection.

Four basic measurement techniques are used in marketing research: (1) questionnaires, (2) attitude scales, (3) observation, and (4) depth interviews and projects 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.

Step 5. Sample Selection.

Most marketing studies involve a sample or subgroup of the total population relevant to the problem, rather than a census of the entire group. The population is generally specified as a part of the problem definition process.

Step 6. Selection of Methods of Analyses.

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.

Step 7. Evaluation of the Ethics of the Research.

It is essential that marketing researchers restrict their research activities to practices that are ethically sound. Ethically sound research considers the interests of the general public, the respondents, the client, and the research profession as well as those of the researcher.

Step 8. Estimation of Time and Financial Requirements.

Time refers to the time needed to complete the project. The financial requirement is the monetary representation of personnel time, computer time, and materials requirements. The time and finance requirements are not independent.

Step 9. Preparation of Research Proposal.

The research design process provides the researcher with a blueprint, or guide, for conducting and controlling the research project. This blueprint is written in the form of a research proposal. A written research proposal should precede any research project. The research proposal helps ensure that the decision maker and the researcher are still in agreement on the basic management problem, the information re-quired, and the research approach.

3.5.1 Opportunity Analysis**Q7. Write about Opportunity Analysis.**

Ans :

Foreign-market opportunity analysis is the most frequent objective of international marketing research (Czinkota and Ronkainen 2007). The importance of foreign market opportunity assessment has been well noticed by both marketing managers and scholars. However, a foreign market opportunity analysis model based on theory that goes beyond aggregate demand is still lacking.

- A) qualifying criteria for new opportunities
1. Accessibility: Assess entry barriers such as tariffs, non-tariff barriers, gov. and import regulations.
 2. Profitability: Assess factors at the Macro level that would make a market unprofitable - e.g. availability of currency, exchange regulations, gov. subsidies to local competition, price controls and substitute products.
 3. Market size: evaluate whether future investment is likely.
- B) Opportunity Identification and Analysis techniques
1. Demand pattern analysis comparing the pattern of demand in the country under study with the pattern of demand in an established market.
 2. Multiple factor indices - demand for a product correlates to demand for other products
 3. Analogy estimation - innovation in new market will defuse and develop in same manner as another market
 4. Macrosurvey technique - assess level of community development in host country to predict market potential.
 5. Risk evaluation
 6. The Knaepen Package - classifying countries into risk categories based on how likely they are to service its external debt.
 7. Business Enhancement Risk Index (BERI) - forecasts risks for 50 countries throughout the world and is updated 3 times a year.

3.5.2 Market Selection**Q8. Explain about Market Selection in International Marketing Research.**

Ans :

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

1. Limited coverage market targeting
2. Full coverage market targeting.
3. Additional considerations

1. Limited Coverage Market Targeting

When only one or few segments are selected as market targets it is called limited coverage market segmentation. This strategy requires fewer resources and therefore effective for small companies or in the introduction stage of a company trying to compete against the giants of the industry.

Limited coverage market targeting can take any to the following forms:

i) Single-Segment Concentration:

Company may select a single segment. Through concentrated marketing, the firm gains a strong knowledge of the segment's needs and achieves a strong market presence. Furthermore, the firm enjoys operating economies through specializing its production, distribution, and promotion. If it captures segment leadership, the firm can earn a high return on its investment.

ii) Selective Specialization:

Here the firm selects a number of segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each segment promises to be a money-maker. This multi-segment coverage strategy has the advantage of diversifying the firm's risk.

iii) Product Specialization:

Here the firm specializes in making a certain product that it sells to several segments.

An example would be a microscope manufacturer that sells microscopes to university laboratories, government laboratories, and commercial laboratories. The firm makes different microscopes for different customer groups but does not manufacture other instruments that laboratories might use. Through a product specialization strategy, the firm builds a strong reputation in the specific product area. The downside risk is that the product may be supplanted by an entirely new technology.

iv) Market Specialization:

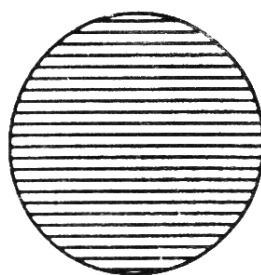
Here the firm concentrates on serving many needs of a particular customer group. An example would be a firm that sells an assortment of products only to university laboratories, including microscopes, oscilloscopes, Bunsen burners, and chemical flasks. The firm gains a strong reputation in serving this customer group and becomes a channel for further products that the customer groups could use. The downside risk is that the customer group may have its budgets cut

2. Full Market Coverage

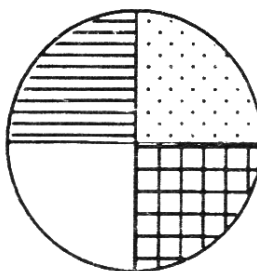
Here a firm attempts to serve all customer groups with all the products they might need. Only very large firms can undertake a full market coverage strategy. Examples include IBM (Computer Market), General Motors (Vehicle market), and Coca-Cola (drink market).

Large firms can cover the whole market in two broad ways:

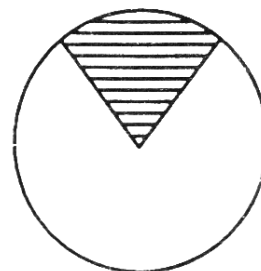
- i) In undifferentiated marketing, the firm ignores market-segment differences and goes after the whole market with one market offer. It focuses on a basic buyer need rather than on difference among buyers. It designs a product and a marketing program that will appeal to the broadest number of buyers.
- ii) In differentiated marketing, the firm operates in several market segments and designs different programs for each segment. General Motors does this when it says that it produces a car for every "purse, purpose and personality".
- iii) A third market-coverage strategy, concentrated marketing, is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few submarkets. Recycled Paper Products concentrates on the market for alternative greeting cards.



a) Undifferentiated
Marketing



b) Differentiated
Marketing



c) Marketing
Marketing

Figure

3. Additional Considerations

Four other considerations must be taken into account in evaluating and selecting segments: ethical choice of market targets, segment interrelationships and super segments, segment-by-segment invasion plans, and inter segment cooperation.

i) Ethical Choice of Market Targets:

Market targeting sometimes generates public controversy. The public is concerned when marketers take unfair advantage of vulnerable groups (such as children) or disadvantaged group (such as inner-city poor people) or promote potentially harmful products. The cereal industry has been heavily criticized for marketing efforts directed toward children. Critics worry that high-powered appeals presented through the mouths of lovable animated characters will overwhelm children's defenses and lead them to eat too much sugared cereal or poorly balanced breakfasts. Toy marketers have been similarly criticized. Mc Donald's and other chains have drawn criticism for pitching their high-fat, salt-laden fare to low-income inner-city residents.

ii) Segment Interrelationships and Super-Segments:

In selecting more than one segment to serve, the company should pay close attention to segment interrelationships on the cost, performance, and technology side. A company carrying a fixed cost (sales force, store outlets) can add products to absorb and share some costs. The sales force will sell additional products, and a fast food outlet will offer additional menu items. Economies of scope can be just as important as economies of scale.

Companies should try to operate in super segments rather than in isolated segments. A super segment is a set of segments sharing some exploitable similarity.

iii) Segment-by-Segment Invasion Plans:

A company would be wise to enter one segment at a time without revealing its total expansion plans. The competitors must not know to what segment(s) the firm will move next. Unfortunately, too many companies fail to develop a long-term invasion plan. Pepsi-Cola is an exception. In its attack on Coca-Cola, Pepsi first attacked Coca-Cola in the grocery market, then in the vending-machine market, then in the fast-food market, and so on. Toyota began by introducing small cars (i.e., Tercel, Corolla) then expanded into midsize cars (Camry, Cressida) and finally into luxury cars (Lexus).

iv) Mega-Marketing:

It is the strategic coordination of economic, psychological, political, and public-relations skills to gain the cooperation of a number of parties in order to enter or operate in a given market.

v) Inter-segment Cooperation:

The best way to manage segments is to appoint segment managers with sufficient authority and responsibility for building their segment's business. At the same time, segment managers should not be so segment-focused as to resist cooperation with other company personnel.

3.5.3 Assessing Market Size and Sales Potential

Q9. Explain about Assessing Market Size and Sales Potential.

Ans : (Imp.)

Assessment of international market size and sales potential

For most businesses, the concept of market sizing is readily understood but not easily accomplished. Many get stuck on establishing boundaries or defining the market before they even get to the data analysis and implications of their

research. Determining market size can answer strategic questions about levels of investments in the business and profitable growth targets. Market sizing can also serve as a quick understanding of the potential for a B2B market opportunity in terms of volume or value, and is therefore pertinent to business strategy and decision making.

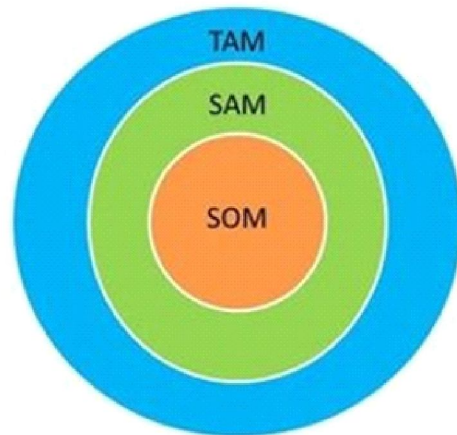
Steps in estimating market size

1. Defining the Market

Knowing the level of detail necessary to approach your strategic questions is the key to properly scoping your market sizing approach. Defining your target market should always be the first step in estimating market size, and it is critical that you do not stray from your determined market definition through the data collection process.

Market size can be viewed in terms of Total Available Market (TAM), Served Available Market (SAM), and Share of Market (SOM). Total Available Market refers to the combined revenue or unit volume in a specified market. Often a company or investor will require the market size or Total Available Market for a particular geographic area. If we take the example of food packaging, the Total Available Market can be calculated by adding sales of food packaging producers in a particular geographic region or market segment.

The Served Available Market refers to the percentage or size of TAM that a company can reasonably serve based on product, technology and geographic constraints. SAM typically will be less than TAM. Using the same example of food packaging, if the TAM for food packaging is \$200 BN, then the Served Available Market for companies making flexible packaging would be only a percentage of TAM. Lastly, Share of Market or SOM refers to the percentage of SAM that a particular company currently serves or plans to serve. Again, SOM should be less than SAM except in the case of a monopoly.



2. Determining Your Approach

There are two basic methodologies for determining market size: top-down and bottom-up. Your selected approach may be based on what market information is available. However, the best approach is to develop market sizing estimations using both methodologies in order to gain a higher confidence in your estimation.

The top-down methodology uses a broad market size figure and determines the percentage that the target market represents. For example, to determine the TAM for food packaging, you might start with retail sales of packaged food and multiply by an assumed packaging cost (e.g. 10% of the total retail food value is packaging cost). In general, a top-down approach is typically a quicker, more time efficient approach. It is great for validation or a quick assessment of market size but seldom will provide the detail necessary for a true opportunity analysis.

The bottom-up methodology builds the TAM by totalling the main variables of the target market. Using the same example of food packaging, a researcher might total the food packaging sales of packaging producers – all food packaging or by package type or by geography. This method is generally considered to be more accurate and takes considerably more time to complete. As a result, the bottom-up method is a more valid estimate because it is less likely to include non-addressable revenue or units.

3. Selecting Sources

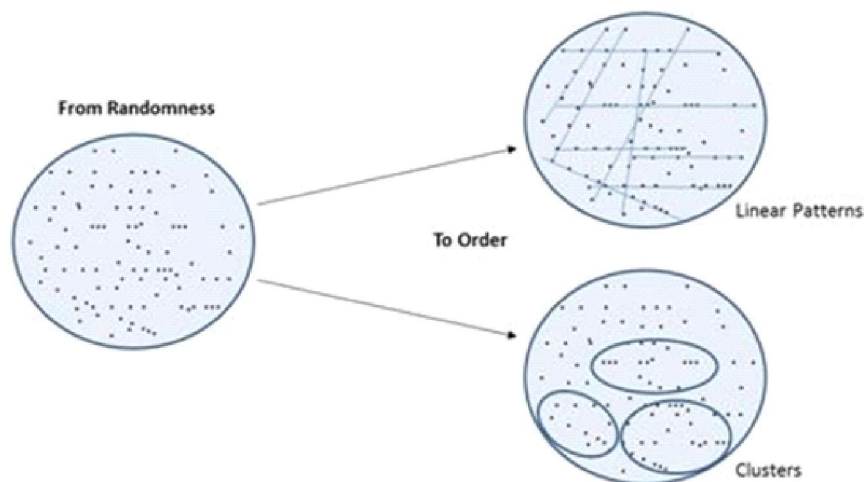
Your selected approach will dictate the necessary sources to estimate market size. Secondary research or desk research searches for existing data and is the most commonly used form of research in this type of exercise because it is quicker to obtain and therefore usually more cost effective. Through general web searching, a wealth of information can be found at little or no cost. Subscription-based or syndicated research is a great place to start, but there are also free sources that contain valuable information. Articles about companies or products in the target market will often quote data from these sources. You might also check whitepapers and product announcements for similar information. Publicly held companies are required to share information in analyst and investor reports. Quarterly and annual reports are typically available on these company websites as well as through the SEC filings. Also, trade associations will often conduct market research and aggregate industry data.

Primary research, also called field research, is often used in addition to secondary research. The primary research can take on many forms and can strengthen your understanding of the market, allowing you to make better informed assumptions. The most versatile form of primary research is in-depth telephone interviews that can be used to capture more sensitive information. If possible, on-site visits can be used to confirm or contradict market sizing estimations or determine key information on market trends, such as technology, market performance, relative competitive position or other information dealing with understanding scope and defining the target market.

4. Data Structuring Typology

To further develop your understanding of the market, it is important to gather trend information, which is typically in the form of qualitative data. This information can come through secondary research or comments from primary research. If we look at food packaging, it may be of interest to evaluate trends for specific food segments, such as dairy, meats/poultry/fish, or beverages. For example, look for trends in beef packaging that differ from chicken or pork. It may also be valuable to look for trends in packaging type (cans, cartons, trays, etc.) or fill technology (hot fill, aseptic, ESL, etc.).

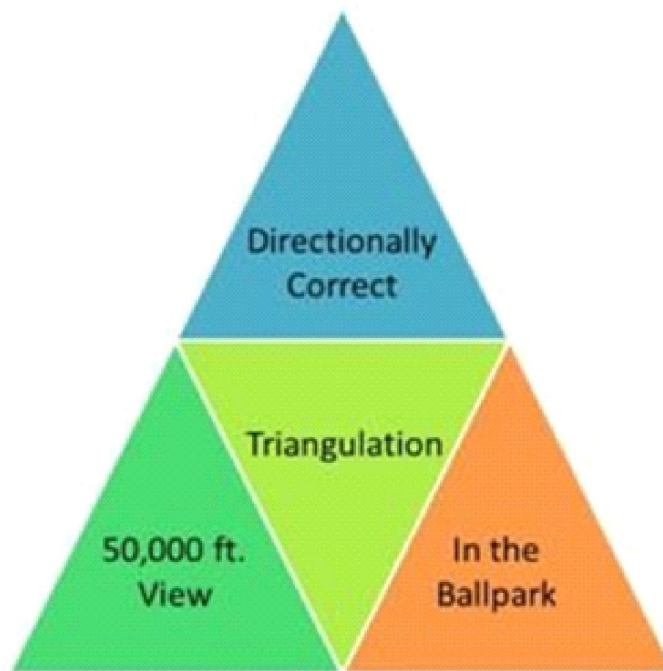
Once the trends information has been collected, you can start structuring data by group or theme. Typology is the strategy for qualitative data analysis to group findings into distinct categories in order to identify data themes.



This process allows the researcher to quickly consider the value of information by comparing with other information in the same “cluster” or “line.” Typology is also useful for creating a story line as the project moves into analysis stage and the development of conclusions.

5. Data Analysis

As mentioned above, it is often necessary to develop multiple estimates using different approaches or sources. This is called triangulation. When multiple sources or estimations triangulate, the confidence in a market estimate increases. If the approaches widely differ, additional research is required to reduce risk and is recommended to narrow the range of market sizing estimates.



Common pitfalls or mistakes often start early on by not properly defining the market or gathering data from non-reputable sources. The market definition should remain consistent throughout the data collection process and methodology should be based on market knowledge—not just demographics. Where possible, attempt to verify each significant finding through multiple published source materials or primary research. By confirming findings, you are able to leverage the value of various information sources and thus increase confidence in the final results.

Market Potential

Market potential is the entire size of the market for a product at a specific time. It represents the upper limits of the market for a product. Market potential is usually measured either by sales value or sales volume. For example, the market potential for ten speed bicycles may be worth \$5,000,000 in sales each year. On the other hand, the market potential for motorcycles may be 500,000 units each year, which is a measure of sales volume rather than sales value. Keep in mind that market potential is just a snapshot in time. It's a fluid number that changes with the economic environment. For example, rising and falling interest rates will affect the demand for products that are typically financed, like cars and houses.

Elements to determine market potential.

1) Market Size

The first and most important factor to consider while determining market potential is the market size of your product. Market size is the total market sales potential of all companies put together. So if i planned on launching a new soap or Shampoo, then all the different companies such as HUL and P&G are my competitors. And the combined sales of soaps, including branded and non branded products is my complete market size.

2) Market growth rate

The PC market as compared to the laptop market or the smart phone market is declining. So if you are a company which makes PC's, then you have to be aware that you are entering an declining market. Instead, if you have the potential, why not enter the Laptop market or the Smartphone market.

3) Profitability

Going back to the E-commerce example, many small businesses have a mixed feedback for E-commerce businesses. Some say that the market is huge and there is a lot of potential. But others say that they have suffered huge losses because of the amount of packaging and the transport costs involved for shipping across country. These are both perspectives and both of them are correct.

Determining and forecasting your profitability is important to understand the market potential. If the business is going to give low profitability, then the volumes need to be high (ex-fmcg products) or if the business is going to give low volumes, then the profit needs to be higher (ex – industrial goods).

4) Competition

You need to know and understand the competition in an industry to determine the market potential for the product you are going to launch. If the industry has high competition, the entry barriers are going to be high and at the same time, establishing

yourself will require deep pockets. You might have to lower the price of your products even though you are giving higher value. This requires that you have enough money to take hits till the time competition leaves the market.

This is exactly what happens when top brands enter industries which were dominated by Smaller players. Today, small retailers are suffering under the brunt of large multi national sellers. Nonetheless, this does not mean small businesses have stopped establishing themselves. They are using different strategies to attract customers to their businesses. One such strategy is good customer service, which is missing in large corporations.

5) Product and consumer type

Is your product a repeat buying product or one time sale only? In the above examples, Soap and shampoo is a repeat buying product. But once you buy a refrigerator, i doubt you will need another for the next 10 years. So in your whole lifetime, you will buy 8-10 refrigerators at the max. But in a year, you are likely to buy 40-50 soaps individually. That's 300-400 soaps per individual in their livelihood. Multiply that by a billion and you can understand the market po So how frequently is your product going to be bought again? Many toothpaste companies actively push the consumer to brush twice in a day. One of the reasons is that your teeth will be better. But another reason is that the toothpaste will be consumed faster and you will buy another toothpaste soon. Hence the push for brushing twice daily!!

Sales potential

Sales potential is the estimated market share that company expects to capture in a market in a stipulated time period after entering the market. Sales potential results are very important for a company in determining whether to enter a market or not depending on the estimated profitability from sales potential.

Sales potential and market potential are different things. Market potential is the total sales or total potential sales of all players in the industry in

the defined geographical area during a certain period of time. Sales Potential is a figure indicating the maximum or total sales from all prospective buyers of the product. Market potential is a marketing exercise which estimates the maximum potential a product can have. Sales potential is generally a percentage of the total market potential. In a way, market potential can be said to be the estimated market size for a product category and sales potential is the prospective market share.

3.6 GOVERNMENT POLICIES OF TARGET MARKETS

Q10. What are the Government Policies of Target Markets ?

Ans :

Governments intervene in markets to address inefficiency. In an optimally efficient market, resources are perfectly allocated to those that need them in the amounts they need. In inefficient markets that is not the case; some may have too much of a resource while others do not have enough. Inefficiency can take many different forms. The government tries to combat these inequities through regulation, taxation, and subsidies. Most governments have any combination of four different objectives when they intervene in the market.

1. Maximizing Social Welfare

In an unregulated inefficient market, cartels and other types of organizations can wield monopolistic power, raising entry costs and limiting the development of infrastructure. Without regulation, businesses can produce negative externalities without consequence. This all leads to diminished resources, stifled innovation, and minimized trade and its corresponding benefits. Government intervention through regulation can directly address these issues.

Another example of intervention to promote social welfare involves public goods. Certain depletable goods, like public parks, aren't owned by an individual. This means that no price is assigned to the use of that good and everyone can use it. As a result, it is very easy for these assets to be

depleted. Governments intervene to ensure those resources are not depleted.

2. Macro-Economic Factors

Governments also intervene to minimize the damage caused by naturally occurring economic events. Recessions and inflation are part of the natural business cycle but can have a devastating effect on citizens. In these cases, governments intervene through subsidies and manipulation of the money supply to minimize the harsh impact of economic forces on its constituents.

3. Socio-Economic Factors

Governments may also intervene in markets to promote general economic fairness. Government often try, through taxation and welfare programs, to reallocate financial resources from the wealthy to those that are most in need. Other examples of market intervention for socio-economic reasons include employment laws to protect certain segments of the population and the regulation of the manufacture of certain products to ensure the health and well-being of consumers.

4. Other Objectives

Governments can sometimes intervene in markets to promote other goals, such as national unity and advancement. Most people agree that governments should provide a military for the protection of its citizens, and this can be seen as a type of intervention. Growing a large and impressive military not only increases a country's security, but may also be a source of pride. Intervening in a way that promotes national unity and pride can be an extremely valuable goal for government officials.

5. Govt. policy on Selection of the Region

Selecting a region for setting up an enterprise is dependent on the following factors: Availability of raw materials. The availability of good quality raw materials in required quantity at close hand is very crucial for the success of a new enterprise. The region must have abundant supplies of atleast the chief

raw material required by the firm. Such a location helps to ensure continuity of production and reduces the transport costs. Few raw materials such as minerals, perishable food, cotton etc. play a vital role in influencing the location of the plant. For e.g, paper manufacturing plants require a regular supply of a large quantity of pure water and are, therefore, generally located near river banks. Supply of Labour.

The availability of the required grade of labour i.e. skilled, semi-skilled or unskilled is an important factor influencing the location of the industry. Besides, the cost and productivity of labour, attitude of trade unions and the state of industrial relations in a particular region are also important. This also explains concentration of certain industries in certain states. Proximity to the Product Market An industry should ideally be located close to the market for the product produced by the firm. This on one hand reduces the cost of transporting the finished product to the market.

On the other hand it ensures maximization of profits by selling the goods at a competitive price. Generally, in case of the industries having national and international markets, plants are spread over wide geographical areas to have close proximity to all markets. In case of regional demand, plants are located near to the immediate market. Availability of transport facilities A factory requires transport facilities both for getting its raw materials as well as for reaching its finished products to the market. Hence, location is to be chosen in such a way that its total transport cost is the lowest. Of the two elements of transport cost, which one will have a decisive influence on the decision of location will depend on the characteristics of the raw materials and the nature of the manufacturing process. If the factory requires bulky commodities like iron ore, limestone, etc., it should be situated nearer to the source of these raw material. But, if the manufacturing process is such that the raw materials lose a substantial part of its weight like in the case of the chemical and

pharmaceutical products, the factory should be located nearer to the market. Therefore, a region which provides adequate transport facilities attracts industrialists.

Arguments for Government Intervention

1. Greater Equality:

redistribute income and wealth to improve equality of opportunity and equality of outcome

2. Market Failure:

Markets fail to take into account externalities and are likely to under-produce public / merit goods. For example, governments can subsidise or provide goods with positive externalities.

3. Macroeconomic intervention:

Intervention to overcome prolonged recessions and reduce unemployment.

Arguments against Government Intervention

1. Governments liable to make the wrong decisions influence by political pressure groups, they spend on inefficient projects which lead to inefficient outcome.
2. Personal Freedom. Government intervention is taking away individuals decision on how to spend and act. Economic intervention, takes some personal freedom away.
3. Market is best at deciding how and when to produce.

Arguments for Government Intervention to improve equality

In a free market, there tends to be inequality in income, wealth and opportunity. Private charity tends to be partial. Government intervention is necessary to redistribute income within society.

Diminishing marginal returns to income. The law of diminishing returns states that as income increases, there is a diminishing marginal utility. If you have an income of £ 2 million a year. An increase in income to £ 2.5 million gives only a marginal increase in happiness/utility. For example, your third sports car gives only small increase in total utility.

However, if you are unemployed, and surviving on £50 a week. A 10% increase in income gives a substantial boost in living standards and quality of life. Therefore, redistributing income can lead to a net welfare gain for society, therefore income redistribution can be justified from a utilitarian perspective.

1. Fairness

In a free market, inequality can be created, not through ability and handwork, but privilege and monopoly power. Without government intervention, firms can exploit monopoly power to pay low wages to workers and charge high prices to consumers. Without government intervention, we are liable to see the growth of monopoly power. Government intervention can regulate monopolies and promote competition. Therefore government intervention can promote greater equality of income, which is perceived as fairer.

2. Inherited wealth

Often the argument is made that people should be able to keep the rewards of their hard work. But, if wealth and income and opportunity depend on being born in the right family, is that justified? A wealth tax can reduce the wealth of the richest and this revenue can be used to spend on education for those who are born in poor circumstances.

Rawls Social Contract. Rawls social contract stated that the ideal society is one where you would be happy to be born in any situation, not knowing where you would end up. Using this social contract, most people would not choose to be born in a free market because the rewards are concentrated in the hands of a small minority of the population. If people had no idea where they would be born, they would be more likely to choose a society with a degree of government intervention and redistribution.

Government Intervention to Overcome Market Failure

1. Public Goods:

In a free market, public goods such as law and order and national defence would not be provided because there is no fiscal incentive to provide goods with a free rider problem (you can enjoy without paying them). Therefore, to provide public goods like lighthouses, police, roads, e.t.c it is necessary for a government to pay for them and out of general taxation.

2. Merit Goods / Positive Externalities:

Goods like education and health care are not strictly public goods (though they are often referred to as public goods). In a free market, provision tends to be patchy and unequal. Universal education provided by the government ensures that, in theory, everyone has the opportunity to gain an education, which has a strong social benefit.

3. Negative Externalities:

The free market does not provide the most socially efficient outcome, if there are externalities in consumption and production. For example, a profit maximizing firm will ignore the external costs of pollution through burning coal. This leads to a decline in social welfare. By contrast other forms of energy production, like solar power, are environmentally friendly and have a positive externality. By taxing production which causes pollution costs and using the subsidy to encourage other forms of energy production, there is a net gain in social welfare.

4. Regulation of Monopoly Power:

In a free market, firms may gain monopoly power, this enables them to set higher prices for consumers. Government regulation of monopoly can lead to lower prices and greater economic efficiency.

3.7 SWOT ANALYSIS OF TARGET MARKETS

Q11. Discuss about SWOT Analysis of Target market.

Ans : (Imp.)

A SWOT analysis enables firms to identify factors which need to be taken into account when developing marketing and corporate strategy. SWOT is an acronym which stands for Strengths, Weaknesses, Opportunities and Threats.

Strengths and Weaknesses are internal factors which are controllable by the organization. Opportunities & threats are external factors which are uncontrollable by the organisation.

1. Strength Factors

Strengths are internal factors that will help the organisation be successful. They can include employees, procedures, business assets and products. Examples of internal factors that are a strength are:

- A strong brand name
- Market share
- Good reputation
- Expertise and skill

2. Weakness Factors

Weaknesses are internal factors which could stop or slow down organisation's growth and success. Just like strengths they can relate to employees, procedures, business assets and products. Examples of internal factors that are a weakness are:

- Low or no market share
- No brand loyalty
- Lack of employee experience
- Inefficient company processes and procedures

3. Opportunity Factors

Opportunities are factors outside the business which the firm may be able to use to help it grow the business. Examples of opportunities include

- A growing market.
- Increased consumer spending.
- Legal changes which make selling abroad (internationally) easier
- Changes in society such as an increase in birth rates

4. Threats Factors

Threats are factors outside the business which could make trading conditions more challenging for the firm. Examples of threats include

- Competitors
- Government policy such as a ban on some of the activities carried out by the firm
- Taxation rules which reduce the firm's or consumer income
- A change in consumer habits which makes the firm's products less appealing to the target market.

Finding Target Market Using a SWOT Analysis

Businesses are driven by markets, which are determined by customer needs, wants, or aspirations. A target market is the group of people who have an interest in the products or services of a company. Markets are determined by factors that are interrelated and include sex, age, professional needs, marital status, geographical location, education level, income, technological expertise etc.

Businesses should understand how their products or services benefit their potential customers. Conducting marketing research through focus groups and customer surveys with your target market is an excellent way to gain a better understanding of the drivers and motivations behind the buying behavior of your target market prospects. Marketing research commonly performed online, but can also be outsourced to market research companies to conduct a comprehensive study.

The Value of Market Research

A deep understanding of your target market will assist you in developing focused advertising tailored to the specific audiences (likely to purchase) that have an interest in the products and services being offered in the marketplace. By understanding their target market, businesses are able to connect with their audience even before communicating with them in a more personalized manner. With a keen understanding of a target market, companies can determine the likelihood customers will buy their products or services at various price points (called price elasticity).

Secondary marketing research data can be obtained from the media, libraries, journals or even observation. The more data a company has about the market, they can begin to identify specific profitable market segments. Many companies ignoring this very important part of marketing which essentially amounts to doing business 'blind folded' resulting in missed opportunities.

SWOT Analysis

A SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis helps to identify the advantages (S–O) and disadvantages (W–T) internal to your organization and the external environment. Developing a full awareness of your competitive situation can help with strategic planning, problem solving, and decision-making.

A SWOT analysis is used to:

- Identify and uncover problems in the business
- Explore alternatives for new initiatives to grow the business
- Identifying opportunities for success in context of threats and the competition
- Establish business priorities
- Adjust and refine business plans when goals are not being achieved

A SWOT analysis also offers a simple way of communicating major initiatives or programs to the organization. In addition, SWOT based reports are an excellent way to organize information gathered from studies, surveys, business metrics, and marketing research.

3.8 GLOBAL MARKET ENTRY MODES

Q12. Discuss about Global Market Entry Modes.

Ans :

There are a variety of ways in which a company can enter a foreign market. No one market entry strategy works for all international markets. Direct exporting may be the most appropriate strategy in one market while in another you may need to set up a joint venture and in another you may well license your manufacturing. There will be a number of factors that will influence your choice of strategy, including, but not limited to, tariff rates, the degree of adaptation of your product required, marketing and transportation costs. While these factors may well increase your costs it is expected the increase in sales will offset these costs. The following strategies are the main entry options open to you.

1. Direct Exporting

Direct exporting is selling directly into the market you have chosen using in the first instance your own resources. Many companies, once they have established a sales program turn to agents and/or distributors to represent them further in that market. Agents and distributors work closely with you in representing your interests. They become the face of your company and thus it is important that your choice of agents and distributors is handled in much the same way you would hire a key staff person.

2. Licensing

Licensing is a relatively sophisticated arrangement where a firm transfers the rights to the use of a product or service to another firm. It is a particularly useful strategy if the purchaser of the license has a relatively large market share in the market you want to enter. Licenses can be for marketing or production (licensing).

3. Franchising

Franchising is a typical North American process for rapid market expansion but it is

gaining traction in other parts of the world. Franchising works well for firms that have a repeatable business model (eg. food outlets) that can be easily transferred into other markets. Two caveats are required when considering using the franchise model. The first is that your business model should either be very unique or have strong brand recognition that can be utilized internationally and secondly you may be creating your future competition in your franchisee.

3. Partnering

Partnering is almost a necessity when entering foreign markets and in some parts of the world (e.g. Asia) it may be required. Partnering can take a variety of forms from a simple co-marketing arrangement to a sophisticated strategic alliance for manufacturing. Partnering is a particularly useful strategy in those markets where the culture, both business and social, is substantively different than your own as local partners bring local market knowledge, contacts and if chosen wisely customers.

4. Joint Ventures

Joint ventures are a particular form of partnership that involves the creation of a third independently managed company. It is the 1+1=3 process. Two companies agree to work together in a particular market, either geographic or product, and create a third company to undertake this. Risks and profits are normally shared equally. The best example of a joint venture is Sony/Ericsson Cell Phone.

5. Buying a Company

In some markets buying an existing local company may be the most appropriate entry strategy. This may be because the company has substantial market share, are a direct competitor to you or due to government regulations this is the only option for your firm to enter the market. It is certainly the most costly and determining the true value of a firm in a foreign market will require

substantial due diligence. On the plus side this entry strategy will immediately provide you the status of being a local company and you will receive the benefits of local market knowledge, an established customer base and be treated by the local government as a local firm.

6. Piggybacking

Piggybacking is a particularly unique way of entering the international arena. If you have a particularly interesting and unique product or service that you sell to large domestic firms that are currently involved in foreign markets you may want to approach them to see if your product or service can be included in their inventory for international markets. This reduces your risk and costs because you are essentially selling domestically and the larger firm is marketing your product or service for you internationally.

7. Turnkey Projects

Turnkey projects are particular to companies that provide services such as environmental consulting, architecture, construction and engineering. A turnkey project is where the facility is built from the ground up and turned over to the client ready to go – turn the key and the plant is operational. This is a very good way to enter foreign markets as the client is normally a government and often the project is being financed by an international financial agency such as the World Bank so the risk of not being paid is eliminated.

8. Greenfield Investments

Greenfield investments require the greatest involvement in international business. A greenfield investment is where you buy the land, build the facility and operate the business on an ongoing basis in a foreign market. It is certainly the most costly and holds the highest risk but some markets may require you to undertake the cost and risk due to government regulations, transportation costs, and the ability to access technology or skilled labour.

3.9 GLOBAL OF MARKETING STRATEGIES

Q13. Discuss about Global of Marketing Strategies.

Ans :

Marketing strategy is one of the most interesting, challenging and important elements in international business. Compared with art and science, marketing strategy is more about people finding ways to deliver exceptional value by fulfilling the needs and wants of customers, shareholders, business partners and society. It is inherently driven by people and is always changeable which explains why making marketing strategy is difficult and significant. Moreover, a perfect marketing strategy that is executed without any flaws can still fail. Additionally, sometimes businesses get success despite having a general strategy or execution because marketing is complicated and flexible and the nature or characteristics of marketing can make planning strategy very difficult and frustrating. Marketing strategy has been a great challenge for each enterprise. To some degree, the difficulty of making marketing strategy highlights the extraordinary success of those famous business, for instance, Coca-cola, Starbucks, Best buy, Apple, etc.

A global marketing strategy that totally globalizes all marketing activities is not always achievable or desirable (differentiated globalization). In the early phases of development, global marketing strategies were assumed to be of one type only, offering the same marketing strategy across the globe. As marketers gained more experience, many other types of global marketing strategies became apparent. Some of those were much less complicated and exposed a smaller aspect of a marketing strategy to globalization. A more common approach is for a company to globalize its product strategy (product lines, product designs and brand names) and localize distribution and marketing communication.

1. Integrated Global Marketing Strategy

When a company pursues an integrated global marketing strategy, most elements of the marketing strategy have been globalized.

Globalization includes not only the product but also the communications strategy, pricing and distribution as well as such strategic elements as segmentation and positioning. Such a strategy may be advisable for companies that face completely globalized customers along the lines. It also assumes that the way a given industry works is highly similar everywhere, thus allowing a company to unfold its strategy along similar paths in country by country. One company that fits the description of an integrated global marketing strategy to a large degree is CocaCola. That company has achieved a coherent, consistent and integrated global marketing strategy that covers almost all elements of its marketing program from segmentation to positioning, branding, distribution, bottling, advertising and more.

Reality tells us that completely integrated global marketing strategies will continue to be the exception. However, there are many other types of partially globalized marketing strategies; each may be tailored to specific industry and competitive circumstances.

2 Global Product Category Strategy

Possibly the least integrated type of global marketing strategy is the global product category strategy. Leverage is gained from competing in the same category country after country and may come in the form of product technology or development costs. Selecting the form of global product category implies that the company while staying within that category will consider targeting different segments in each category or varying the product, advertising and branding according to local market requirements. Companies competing in the multi-domestic mode are frequently applying the global category strategy and leveraging knowledge across markets without pursuing standardization. That strategy works best if there are significant differences across markets and when few segments are present in market after market. Several traditional multinational players who had for decades pursued a multi-domestic marketing approach-tailoring marketing

strategies to local market conditions and assigning management to local management teams have been moving toward the global category strategy. Among them are Nestle, Unilever and Procter&Gamble, three large international consumer goods companies doing business in food and household goods.

3. Global Segment Strategy

A company that decides to target the same segment in many countries is following a global segment strategy. The company may develop an understanding of its customer base and leverage that experience around the world. In both consumer and industrial industries significant knowledge is accumulated when a company gains in-depth understanding of a niche or segment. A pure global segment strategy will even allow for different products, brands or advertising although some standardization is expected. The choices may consist of competing always in the upper or middle segment of a given consumer market or for a particular technical application in an industrial segment. Segment strategies are relatively new to global marketing.

4. Global Marketing Mix Element Strategies

These strategies pursue globalization along individual marketing mix elements such as pricing, distribution, place, promotion, communications or product. They are partially globalized strategies that allow a company that customize other aspects of its marketing strategy. Although various types of strategies may apply, the most important ones are global product strategies, global advertising strategies and global branding strategies. Typically companies globalize those marketing mix elements that are subject to particularly strong global logic forces. A company facing strong global purchasing logic may globalize its account management practices or its pricing strategy. Another firm facing strong global information logic will find it important to globalize its communications strategy.

5. Global Product Strategy

Pursuing a global product strategy implies that a company has largely globalized its product offering. Although the product may not need to be completely standardized worldwide, key aspects or modules may in fact be globalized. Global product strategies require that product use conditions, expected features and required product functions be largely identical so that few variations or changes are needed. Companies pursuing a global product strategy are interested in leveraging the fact that all investments for producing and developing a given product have already been made. Global strategies will yield more volume, which will make the original investment easier to justify.

6. Global Branding Strategies

Global branding strategies consist of using the same brand name or logo worldwide. Companies want to leverage the creation of such brand names across many markets, because the launching of new brands requires a considerable marketing investment. Global branding strategies tend to be advisable if the target customers travel across country borders and will be exposed to products elsewhere.

Global branding strategies also become important if target customers are exposed to advertising worldwide. This is often the case for industrial marketing customers who may read industry and trade journals from other countries. Increasingly, global branding has become important also for consumer products where cross-border advertising through international TV channels has become common. Even in some markets such as Eastern Europe, many consumers had become aware of brands offered in Western Europe before the liberalization of the economies in the early 1990s. Global branding allows a company to take advantage of such existing goodwill. Companies pursuing global branding strategies may include luxury product marketers who typically face a large fixed investment for the worldwide promotion of a product.

7. Global Advertising Strategy

Globalized advertising is generally associated with the use of the same brand name across the world. However, a company may want to use different brand names partly for historic purposes. Many global firms have made acquisitions in other countries resulting in a number of local brands. These local brands have their own distinctive market and a company may find it counterproductive to change those names. Instead, the company may want to leverage a certain theme or advertising approach that may have been developed as a result of some global customer research. Global advertising themes are most advisable when a firm may market to customers seeking similar benefits across the world. Once the purchasing reason has been determined as similar, a common theme may be created to address it.

8. Composite Global Marketing Strategy

The above descriptions of the various global marketing models give the distinct impression that companies might be using one or the other generic strategy exclusively. Reality shows, however, that few companies consistently adhere to only one single strategy. More often companies adopt several generic global strategies and run them in parallel. A company might for one part of its business follow a global brand strategy while at the same time running local brands in other parts. Many firms are a mixture of different approaches, thus the term composite.

9. Competitive Global Marketing Strategies

Two types of approaches emerge as of particular interest to us. First, there are a number of heated global marketing duels in which two firms compete with each other across the entire global chessboard. The second, game pits a global company versus a local company- a situation frequently faced in many markets.

One of the longest running battles in global competition is the fight for market dominance between CocaCola and PepsiCo, the world's largest soft drink companies.

Global firms are able to leverage their experience and market position in one market for the benefit of another. Consequently, the global firm is often a more potent competitor for a local company.

Although global firms have superior resources, they often become inflexible after several successful market entries and tend to stay with standard approaches when flexibility is called for. In general, the global firms strongest local competitors are those who watch global firms carefully and learn from their moves in other countries. With some global firms requiring several years before a product is introduced in all markets, local competitors in some markets can take advantage of such advance notice by building defenses or launching a preemptive attack on the same segment.

3.10 PROBLEMS / CHALLENGES OF INTER NATIONAL MARKETING RESEARCH
Q14. What are the Problems/ Challenges of Inter National Marketing Research ?

Ans : **(Imp.)**

Challenges in International marketing research. The challenges or problems experienced in overseas market research may be given as follows:

1. Multiplicity of markets:

Problems of numerous markets are always experienced in overseas market research. Research project covers a number of foreign markets. This ultimately augments the costs and problems involved in overseas market research.

2. Problems with secondary data:

Secondary data are not available in adequate volume. Further, the secondary data collected are unreliable. They suffer from lack of comparability of data.

3. Problems in collecting primary data:

Buyer behavior of customers varies from country to country. As people behave differently, collecting primary data from them is comparatively difficult.

4. Problems of communication:

Different countries have different languages. They create problems of translation and communication. Consumer market research is met with more communication problems than industrial market research, because of the fact that industrial market research focuses on technical factors alone. But consumer market research takes care of every pertinent detail related to market conditions.

5. The need for adaptation:

The same methodology and procedures of market research do not hold good invariably in all markets. The nature, type and volume of market research have to be changed, according to the conditions prevailing in overseas market research.

6. Inadequate responses:

Respondents hesitate to furnish correct information to the research. Their reluctance to furnish data and providing incorrect data occasionally make the results of the study misleading. Difficulty of the respondents to comprehend the problem prevents them from providing correct information. Useless responses are a wasteful exercise in the research process.

7. Infrastructure problems:

Problems in infrastructure hamper the research process. Lack of reliable postal service, non-availability of telephones and lack of commercial infrastructure are commonly experienced. The market researcher, with creativity and a deep insight about the technicalities of the research process, will be able to solve the problems of overseas market research.

Short Question and Answers

1. Global Customers.

Ans :

Globalization and technological advances have coincided with the diffusion of world culture, rising living standards, and enhanced opportunities for companies to market their brands around the world. In this contemporary environment, companies target various types of customers. Globalization stimulates interest in and facilitates the ability to acquire products and services from the broadest range of companies worldwide. It seems that wherever people live today, they encounter global brands Airbus, Coca-Cola, Madonna, McDonald's, Samsung, Siemens, Toyota, and countless others.

As highlighted in The International Market place 6.1, globalization, improving technologies, and other trends have led to the emergence of the "global consumer," who is relatively sophisticated, often more demanding, and comfortable with buying international brands.

In addition, recent trends have made possible the ability of companies to source needed inputs from the best suppliers worldwide. From alternators to zippers, purchasing managers scour the world to find the raw materials, parts, supplies, and services their firms need to fulfill their business needs. Likewise, governments count on multinational firms to supply them with the products and services they use to serve constituents and perform their administrative tasks. Growing consumerism and global sourcing in emerging markets has opened opportunities for firms to target billions of buyers world-wide who, only a few decades ago, were relatively inaccessible.

2. Industrial buyers.

Ans :

Industrial buyers are strongly influenced by globalization. Segmenting markets on a global scale is generally more feasible for industrial products than for retail goods. For example, industrial goods such as bulk metals, semiconductors, and pressure

valves require less differentiation to meet industrial buyer needs. Industrial buyers prefer using standardized inputs whenever possible to minimize costs. For example, while Swedish appliance manufacturer Electrolux might sell dozens of distinctive refrigerator models to retail consumers, the firm prefers to source only a limited variety of thermostats, compressors, and other parts to make refrigerators. Their approach helps minimize the costs of purchasing, inventory, manufacturing, and quality control. Chrysler, Honda, and other automakers emphasize modular architecture, where suppliers manufacture single component modules, which are then bolted into a car or truck body rolling down assembly lines. The modular approach minimizes the total cost of vehicle manufacturing.

3. International Marketing Research

Ans :

International marketing managers operate in a highly risky and complex environment. If a company is to survive in the international marketplace, it is important that it searches for methods to reduce, as far as possible, the risk of making a wrong decision.

This is why marketing research is so fundamentally important to the international marketing process, for whilst it cannot help a manager reduce risk to the point of zero, it can assist him in making a proper decision based on knowledge and not on assumptions.

Since 1995 the volume of international marketing research has grown a lot. Multi-country marketing research is an area that is developing rapidly and taking an increasing strategic role.

4. Arguments for Government Intervention.

Ans :

1. Greater Equality

redistribute income and wealth to improve equality of opportunity and equality of outcome

2. Market Failure

Markets fail to take into account externalities and are likely to under-produce public / merit goods. For example, governments can subsidise or provide goods with positive externalities.

3. Macroeconomic intervention

Intervention to overcome prolonged recessions and reduce unemployment.

5. SWOT Analysis of Target Market.

Ans :

A SWOT analysis enables firms to identify factors which need to be taken into account when developing marketing and corporate strategy. SWOT is an acronym which stands for Strengths, Weaknesses, Opportunities and Threats.

Strengths and Weaknesses are internal factors which are controllable by the organization. Opportunities & threats are external factors which are uncontrollable by the organisation.

1. Strength Factors

Strengths are internal factors that will help the organisation be successful. They can include employees, procedures, business assets and products. Examples of internal factors that are a strength are:

- A strong brand name
- Market share
- Good reputation
- Expertise and skill

2. Weakness Factors

Weaknesses are internal factors which could stop or slow down organisation's growth and success. Just like strengths they can relate to employees, procedures, business assets and products. Examples of internal factors that are a weakness are:

- Low or no market share
- No brand loyalty
- Lack of employee experience

- Inefficient company processes and procedures

3. Opportunity Factors

Opportunities are factors outside the business which the firm may be able to use to help it grow the business. Examples of opportunities include

- A growing market.
- Increased consumer spending.
- Legal changes which make selling abroad (internationally) easier
- Changes in society such as an increase in birth rates

4. Threats Factors

Threats are factors outside the business which could make trading conditions more challenging for the firm. Examples of threats include

- Competitors
- Government policy such as a ban on some of the activities carried out by the firm
- Taxation rules which reduce the firm's or consumer income
- A change in consumer habits which makes the firm's products less appealing to the target market.

UNIT IV

Global Marketing: Globalization Drivers – Market, Cost, Environmental, Competitive Factors, International Marketing Mix, Developing the Global Marketing Program, Segmentation of product & services, Marketing channels and Distribution Promotion Strategies, Pricing strategies – Factors influencing Pricing Decisions, Concept of International Product Life Cycle.

4.1 GLOBAL MARKETING

Q1. Discuss about Global Marketing.

Ans :

Global Marketing

Marketing of products is done regularly by companies locally. But since ages, foreign products have constantly been introduced in other markets and the sellers or modern-day term would be marketers have tweaked, changed or revamped their strategies in order to appeal and gain acceptance from local market.

Global marketing can be defined as “marketing on a worldwide scale, in different countries, reconciling or taking commercial advantage of global operational differences, similarities, and opportunities in order to meet global objectives”. Basically, when a firm sells the same products to the global market, then it is known as Global marketing. An example would be Samsung Galaxy S series, which is globally marketed and not customized as per the market it is being sold in.

Many multinationals have offices abroad in various countries they cater to. Currently, with the expansion of the internet, even small organizations can reach a global audience in a small amount of time and little investment.

The process of Global Marketing :

The global firm retains its reach, capability, knowledge, and staff and ensures that its vision is reached to different countries. For this, the firm has to conduct an in-depth survey of the target market, competition and know law of the land and policies associated with it. A major factor would be the religious and communal preferences of the target market.

The firm has to respect them and make necessary adjustments in their products or services while maintaining a homogenization in their offering. For this, they may have to tie up with local organizations or obtain extra permits and licenses from authorities. The pricing of the product may be done country specific and it needs to invest in research to know their customers, their likes, dislikes, ethnicity, and other factors before it can market.

Usually, global branding is integrated with global marketing at this level. The branding of the product may be changed in order to resonate with the audience. The branding communication, although modified, is kept in sync of vision and mission of the company so that a homogenous brand loyalty and brand recall is maintained throughout the customers.

Global Marketing Campaign :

It is already considered that if a company is marketing itself globally, means it has a base locally where the first stage of product launch, use, acceptance has happened and the company is expanding globally. In order to develop a global marketing campaign, the company should keep in mind that it should be unique but consistent worldwide while allowing tailoring and customizations to suit country-specific requirements. Following are the steps:

1) Market Knowledge :

Know thy market is the key to launch an effective Global campaign. Every region, the country will have different tastes, preferences, and dislikes and the company has to know it before launching itself. An in-depth market research (multiple if required) may have to be carried out to confirm the facts.

2) Drafting a Marketing plan :

Only changing the language may not serve the purpose of marketing. The adoption of local styles and if necessary changing the plan is of crucial importance. Identification of goals and then drafting the marketing plan accordingly.

3) Customization :

Now that an overall marketing plan is ready, the company may have to customize it as per the regions. This is differentiated from International Marketing by the ad campaign being the same but the means of propagation differ country wise. Not every company will use this approach but some may have to. Ex: Google Pixel Ads are same all over the world. On the other hand, One Plus has a global ad and country-specific ads too.

4) Local Communications :

The ads need to be localized and if needed modified region specific in that particular country to reach the audience. For ex: In countries like India there are more than 50 languages spoken and many companies design their ads in local languages to appeal to their customers. At times, mere translation may not be enough and the company may have to redesign the campaign entirely which will depend on the product or the service they are offering.

5) Permissions :

Approvals and permits of local governing bodies are equally important as not getting same may cause trouble with authorities which may result in permanent ban of products. Law of the land is always higher than company policy.

Advantages of Global Marketing:**1) Reach :**

With the free availability of the internet, the reach of business has grown multiple-folds. Companies like Alibaba and Amazon which operate in China have managed to reach worldwide only with the help of internet. Ease of reach helps in building brand image to a wide array of customers.

2) Lower Costs :

With a common messaging to be done across the globe, marketing budget reduces significantly which helps to maintain profit margins.

3) Global Feedback :

With uniform messaging throughout the world, the feedback received is equally important for companies and Global Marketing enables them to receive valuable feedback and adapt and change according to customer feedback.

4) Overcoming Time constraints :

Unlike traditional marketing, where the print requires days and weeks to approve and then distribute the end customer, in this case, the campaign reaches the customers within a few mouse clicks reducing the time to implement. Faster implementation of marketing campaigns means faster results and ultimately faster profits.

Disadvantages of Global Marketing:**1) Cultural barriers:**

This is a major hurdle in cross country marketing. Not every culture is suitable for the products of the company. Crossing these cultural barriers can be cumbersome and costly for the company and it may have to adopt certain specific rules for specific countries. Managing them globally can be challenging. For ex : McDonald's has customized its menu for Arabic countries without Pork while for India without beef. Burger King and KFC have followed a similar trend.

2) Limited Audience:

Not everyone will be wanting the product and they may not be the suitable target audience. In those cases, the company can cater to only a limited percentage losing out on the other chunk of customers. For ex: Most of the business persons in the US may be seen taking a coffee to work – mostly Starbucks. While Starbucks works well over there, the same may not be the case in African countries

where although there is a presence of Starbucks it has not been able to penetrate the usage limits like in the United States and other European countries.

3) Political and Legal Constraints:

President Trump launched the campaign Make America Great Again due to which a lot of international companies suffered and some had to shift their manufacturing plants back in the US. In such cases, huge costs are to be borne by the companies.

4) Inventory management:

Huge unused stocks may pile up with company skyrocketing inventory costs. This may happen due to over or underestimation of projections or misjudging the locality or hurrying in launching without proper market research.

4.2 GLOBALIZATION DRIVERS – MARKET, COST, ENVIRONMENT AND COMPETITIVE DRIVERS

Q2. Explain about Globalization Drivers.

Ans :

Drivers of Globalization

“Globalisation is not something we can hold off or turn off . . . it is the economic equivalent of a force of nature — like wind or water.”

Bill Clinton (American 42nd US president (1993-2001))

The first part of this research paper will define the major drivers of globalization and then introduce some of the basic and advanced theories of international trade and business.

With this foundations it will then try to integrate theories and drivers and compare them to the actual situation and discuss if they are appropriately describing what we are seeing today.

Drivers of Globalization

The media and almost every book on globalization and international business speak about different drivers of globalization and they can basically be separated into five different groups:

1) Technological drivers

Technology shaped and set the foundation for modern globalization. Innovations in the transportation technology revolutionized the industry. The most important developments among these are the commercial jet aircraft and the concept of containerisation in the late 1970s and 1980s. Inventions in the area of microprocessors and telecommunications enabled highly effective computing and communication at a low-cost level. Finally the rapid growth of the Internet is the latest technological driver that created global e-business and e-commerce.

2) Political drivers

Liberalized trading rules and deregulated markets lead to lowered tariffs and allowed foreign direct investments in almost all over the world. The institution of GATT (General Agreement on Tariffs and Trade) 1947 and the WTO (World Trade Organization) 1995 as well as the ongoing opening and privatization in Eastern Europe are only some examples of latest developments.

3) Market drivers

As domestic markets become more and more saturated, the opportunities for growth are limited and global expanding is a way most organizations choose to overcome this situation. Common customer needs and the opportunity to use global marketing channels and transfer marketing to some extent are also incentives to choose internationalization. (Ferrier, 2004)

4) Cost drivers

Sourcing efficiency and costs vary from country to country and global firms can take advantage of this fact. Other cost drivers to globalization are the opportunity to build global scale economies and the high product development costs nowadays. (Ferrier, 2004)

5) Competitive drivers

With the global market, global inter-firm competition increases and organizations are forced to “play” international. Strong interdependences among countries and high two-way trades and FDI actions also support this driver.

4.2.1 Factors Affecting the Globalisation.

Q3. What are the factors Affecting Globalisation?

Ans :

A variety of factors have contributed to the process of globalisation. Some of the most important globalisation drivers are outlined below.

1. Containerisation :

The costs of ocean shipping have come down, due to containerisation, bulk shipping, and other efficiencies. The lower unit cost of shipping products around the global economy helps to bring prices in the country of manufacture closer to those in export markets, and it makes markets more contestable globally

2. Technological change :

Rapid and sustained technological change has reduced the cost of transmitting and communicating information – sometimes known as “the death of distance” – a key factor behind trade in knowledge products using web technology

3. Economies of scale :

Many economists believe that there has been an increase in the minimum efficient scale (MES) associated with some industries. If the MES is rising, a domestic market may be regarded as too small to satisfy the selling needs of these industries. Many emerging countries have their own transnational corporations

4. Differences in tax systems:

The desire of businesses to benefit from lower unit labour costs and other favourable production factors abroad has encouraged countries to adjust their tax systems to attract foreign direct investment (FDI). Many countries have become engaged in tax competition between each other in a bid to win lucrative foreign investment projects.

5. Less protectionism:

Old forms of non-tariff protection such as import licensing and foreign exchange

controls have gradually been dismantled. Borders have opened and average import tariff levels have fallen.

That said, it is worth knowing that, in the last few years, there has been a rise in non-tariff barriers such as import quotas as countries have struggled to achieve real economic growth and as a response to persistent trade and current account deficits.

6. Growth Strategies of Transnational and Multinational Companies :

In their pursuit of revenue and profit growth, increasingly global businesses and brands have invested significantly in expanding internationally. This is particularly the case for businesses owning brands that have proved they have the potential to be successfully globally, particularly in faster-growing economies fuelled by growing numbers of middle class consumers.

4.3 INTERNATIONAL MARKETING MIX

Q4. Discuss about International Marketing Mix.

Ans :

(Imp.)

International Marketing Mix



1. **International Marketing Mix :** Product
Basic marketing concepts tell us that we will sell more of a product if we aim to meet the needs of our target market. In international markets this will involve taking into consideration a number of different factors including consumer's cultural backgrounds, religion, buying habits and levels of personal disposable income. In many circumstances a company will have to adapt their product and marketing mix strategy to meet local “needs and wants” that cannot be changed.

McDonalds is a global player however, their burgers are adapted to local needs. In India where a cow is a sacred animal their burgers contain chicken or fish instead of beef. In Mexico McDonalds burgers come with chilli sauce. Coca-cola is some parts of the world taste sweeter than in other places.

The arguments for standardisation state that the process of adapting the product to local markets does little more than add to the overall cost of producing the product and weakens the brand on the global scale. In today's global world, where consumers travel more, watch satellite television, communicate and shop internationally over the internet, the world is a smaller than it used to be. Because of this there is no need to adapt products to local markets. Brands such as MTV, Nike, Levis are all successful global brands where they have a standardised approach to their marketing mix, all these products are targeted at similar groups globally.

As you can see both strategies; using a standard product and an customised product can work just as well. The right approach for each organisation will depend on their product, strength of the brand and the foreign market that the marketing is aimed at.

2. International Marketing Mix : Promotion

As with international product decisions an organisation can either adapt or standardise their promotional strategy and message. Advertising messages in countries may have to be adapted because of language, political climate, cultural attitudes and religious practices. For example a promotional strategy in one country could cause offence in another. Every aspect of promotional detail will require research and planning one example is the use of colour; red is lucky in China and worn by brides in India, whilst white is worn by mourners in India and China and brides in the United Kingdom. Many organisation adapt promotion strategies to suit local markets as cultural backgrounds and practices affect what appeals to consumers.

The level of media development and availability will also need to be taken into account. Is commercial television well established in your host country? What is the level of television penetration? How much control does the government have over advertising on TV, radio and Internet? Is print media more popular than TV?

Before designing promotional activity for a foreign market it would be expedient to complete a PEST analysis so that you have a complete understanding of the factors operating in the foreign market you would like to enter.

3. International Marketing Mix:Price (Pricing)

Pricing on an international scale is a complex task. As well as taking into account traditional price considerations such as fixed and variable costs, competition and target groups (click here for further information about marketing mix pricing) an organisation needs to consider additional factor such as

- ▶ the cost of transport
- ▶ tariffs or import duties
- ▶ exchange rate fluctuations
- ▶ personal disposal incomes of the target market
- ▶ the currency they want to be paid in and
- ▶ the general economic situation of the country and how this will influence pricing.

The internet has created further challenges as customers can view global prices and purchase items from around the world. This has increased the level of competition and with it pricing pressures, as global competitors may have lower operating costs.

4. International Marketing Mix:Place

The Place element of the marketing mix is about distributing a product or service to the customer, at the right place and at the right time. Distribution in national markets such as the United Kingdom will probably involve goods being moved in a chain from the

manufacturer to wholesalers and onto retailers for consumers to buy from. In an overseas market there will be more parties involved because the goods need to be moved around a foreign market where business practices will be different to national markets. For example in Japan there are approximately five different types of wholesaler involved in the distribution chain. Businesses will need to investigate distribution chains for each country they would like to operate in. They will also need to investigate who they would like to sell their products and services to businesses, retailers, wholesaler or directly to consumers. The distribution strategy for each country a business operates in could be different due to profit margins and transportation costs.

4.4 DEVELOPING THE GLOBAL MARKETING PROGRAM

Q5. How to developing the global marketing program?

Ans :

(Imp.)

Selection of markets is the first stage in International marketing. No matter how much attempt is made, the firm will not succeed unless it is marketing the right product in the right export market. It costs lot of time and money to find out a suitable market for a product. No firm has unlimited resources. Proper selection of markets would avoid waste in time and effort. The time and care taken to select the product and the market for initial export venture can minimize the risks and make ultimate success quicker and more certain. One product may be more acceptable in some countries than in others. It would, therefore, be better to concentrate on a few fruitful markets than to spread too thinly. Market concentration can lead to better debt collection and cash flow and savings in administration.

Criteria for classifying world Markets

The basic problem that a firm has to solve in the initial stage of planning its international marketing strategy is to identify global marketing opportunities. To identify and shortlist markets which

offer or might offer in future opportunities that can be exploited by it, a classification scheme for segmenting the world markets is required. There are several bases of classification, principal among then are:

1. Classification Based on Demand

Classification on the basis of stages of demand: Keegan has produced a threefold classification of world marketers:

1. Existing markets
 2. Latent markets
 3. Incipient markets
1. In the existing markets, consumer needs are known and are already being serviced by some products. The market opportunities can be assessed by estimating the consumption rate and the share of imports in current consumption.
 2. Latent markets have potential customers but because no one has offered a product to fill the latent need there is no existing market.
 3. Incipient markets do not exist in the present, however conditions and trends can be identified that point towards the emergence of future needs and preferences for product and services that will create a potent market, which if supplied will become an existing market.

2. Classification on the basis of Stages of Development

The world markets can be divided into four distinct segments, viz., industrial economies, more developed developing countries, raw material exporting economies and subsistence economies. Industrial Economies: These countries lay more emphasis on research and development and devote their resources to production of more sophisticated products and will therefore like to import goods of simpler technology and simpler manufactures. These countries also have an acute shortage of labor and would, therefore tend to import intensive products like electronics and light engineering goods. They also tend to import spares and components and raw

materials to feed their industries and many decorative articles because of their affluence. They are very particular about preventing further pollution and, therefore they would like to import not only antipollution equipment but also articles whose production has been banned for risks of pollution. They are willing to provide technology to set up production and processing facilities in developing countries. They provide a large market as they have no import restriction.

(A) The 5 General Stages of International Market Development

Once a business outgrows its initial target markets, it must look for new areas in which to expand. If its local or national markets are small, too regulated or highly competitive, it may find that international markets are more attractive and have a higher profit potential. Entering the global marketplace can be rewarding, but the initiative must be guided by a well-defined marketing strategy.

1. Culture

The first stage of international market development is choosing the areas in which to market your products, exploring the social and cultural differences. If your company has not developed a foreign market previously, you may be more successful if you choose countries with some similarities to your home market. Begin by creating a presence for your brand and differentiating it from local products in a positive way. Your promotion and advertising have to fit in with local practices, customs, manners and standards.

2. Financial

An examination of the financial aspects of your market follows the successful development of a market presence. Once you are sure the new market will accept your product, you must look at pricing and the effects of international financial operations. Currency exchange rates, customs duties and local interest rates all play a role in your pricing and profitability in the new market. Your strategy should set targets for sales and buy corresponding futures for exchanging the

currency to dollars because you will be paid in local currency.

3. Legal

The legal stage of international market development includes setting up your foreign presence, and you may need to get local help to navigate the intricacies of local legislation. Your presence can vary from creating a website aimed at the specific local market and shipping from a local supplier or warehouse to a full-fledged local operation that does some manufacturing or assembly. Ensuring that you adhere to all local legislation is critical to avoiding problems.

4. Test Marketing

While a strategic approach helps with development of the market, the proof lies in generating sales. Test marketing allows you to try out alternative approaches without investing large amounts in strategies that may fail. Offer limited quantities of your product at various price points and with different promotional strategies to find out what methods are most effective. You must set your objectives - such as high sales, substantial profit, acquiring market share or building your brand - and evaluate the performance of the market testing against your goals.

5. Competitive Analysis

Although you may have international competitors, the key to success is examining the behavior of local companies and their history. Seek guidance on what worked in the local market in the past and what approaches were unsuccessful. If competitors from your home market have tried to enter this international market before, you can learn from their experiences.

(B) Stages of International Market Development

5 Stages of international market development Marketing is the process of building understanding and communication between the supplier and the customer. Sales takes this process one step further, and can be

characterized as the process of fulfilling the needs of customers with a satisfactory product or service, consummated by the exchange of money. One hasn't truly entered a market until a customer has paid money for the product or service being offered. Commercial transactions are the ultimate goal of international trade and, indeed, trade of any kind. The pattern of international market development often follows a series of stages:

Stages of International market development

Commercial transactions are the ultimate goal of international trade and, indeed, trade of any kind. The pattern of international market development often follows a series of stages:

Stage 1: Domestic-market establishment

The domestic market is often an appropriate place to test products and fine-tune performance before tackling the complexities of international trade. It can also give a good indication of performance. However, in some instances, this stage of the export process doesn't serve any purpose at all. This may be the case for a Canadian software company, for example, that has developed a product specifically for a foreign market. Because international-market development requires resources of time and money on the part of the exporter, it's important to ensure that a strong foundation has been built in the domestic market upon which to base future export-market-expansion activities, so that international activities do not compromise the company's core business.

Stage 2: Export research and planning

When companies begin trading abroad, they often target a country similar to their own in language, financial structures, legal and economic systems or culture. For example, Canadians entering the international marketplace usually address the U.S. market first.

Before venturing into an unfamiliar market, companies should prepare themselves properly. By analyzing how successful the proposed product or service may be in a potential market, the exporter can narrow the target markets down to three or four.

Such concentrated effort is preferable to the common and costly mistake of 'chasing orders around the world'. Another advantage to undertaking appropriate international-market-research and planning activities is that by creating a written document, potential problems and weaknesses can be identified more easily. This enables exporters to foresee potential challenges prior to making the investment of time and money that will be required for successful export-market development.

Stage 3: Initial export sales

When implementing an export plan, it's advisable to begin modestly by testing the market. A graduated strategy enables the novice exporter to acquire practical experience in a market without incurring unnecessary or unmanageable risk.

During this stage, the exporter should use initial shipments to become familiar with the mechanics of exporting (documentation, distribution channels, transportation and collections), to get to know the customer target group, to determine what product modifications may be necessary and to learn about regulations that might affect the business. This is also the stage at which to revise the initial plan.

Stage 4: Expansion of international sales

If initial sales have been good, planning for larger orders and expanded activity should follow. This stage is usually accompanied by intensified market research, more aggressive participation in international trade shows and other marketing activities and greater emphasis on strengthening networks and contacts in the target market.

By the time exporters have reached this stage, they 'all have already learned a great deal about the export market through prior experience, which will assist them in making appropriate adjustments to their strategy as they proceed with strengthening their position in the market.

Stage 5: Investment abroad

If sales are brisk, profits encouraging and opportunities promising, the company may choose to expand its presence in the target market. It can, for example, open a local office, tighten relations with local partners, buy an existing local company,

form a joint venture or invest in R&D or production facilities.

This final stage carries additional ramifications and responsibilities, beyond those of a company that is based elsewhere simply operating remotely in a foreign market. New issues come into play because the scope of a company's presence broadens when it takes on a permanent physical presence in the market.

4.5 SEGMENTATION OF PRODUCT & SERVICES

Q6. Explain about segmentation of product and services.

Ans :

International market segmentation is essentially the identification of subsets of buyers within a market who share similar needs and who demonstrate similar buyer behaviour. The World is made up from billions of buyers with their own sets of needs and behaviours. Segmentation aims to match groups of purchasers with the same set of needs and buyer behaviour. Such a group is known as a "segment".

The term market segmentation is used to refer to any division of the firm's total market for the purpose of differentiating prices, promotion strategies or products between buyers.

Definition of Market Segmentation

"Market segmentation is the process of dividing the total heterogeneous market for a product into several submarkets or segments in such a way that each of the segment tends to be homogeneous in all respects."

- William J. Stanton

"Market segmentation is a process of identifying groups of buyers with different desires or requirements."

- Philip Kotler

Market segmentation is useful in the following ways:

- (a) Market segmentation facilitates product differentiation by preparing appropriate marketing mixes for different segments.

- (b) It also helps in organising international distribution considering variations in buying characteristics.
- (c) It helps to prepare an effective advertising and sales promotion mix according to habits and lifestyles of customers.

Segmentation in marketing, is usually done at the customer level. However, in international marketing, it may sometimes be useful to see countries as segments. This allows the decision-maker to focus on common aspects of countries and avoid information overload. It should be noted that variations within some countries, such as Brazil, are very large and therefore, averages may not be meaningful. Country level segmentation may be done on sub-levels such as:

- (a) Geography based on the belief that neighbouring countries and countries with a particular type of climate or terrain tend to share similarities;
- (b) Demographics such as population growth, educational attainment, age distribution, income level.

Segmenting on income is tricky since the relative prices between countries may differ significantly (based, in part, on purchasing power parity measures that greatly affect the relative cost of imported and domestically produced products).

(A) Importance of International Market Segmentation

Segmentation is the cornerstone of marketing-almost all marketing efforts in some way relate to decisions on who to serve or how to position a product through different elements of marketing mix. For example, one's distribution strategy should consider where one's target market is most likely to buy the product, and a promotional strategy should consider the target's media habits and which kinds of messages will be most persuasive. Although it is often tempting, when observing large markets, to try to be "all things to all people", this is a dangerous strategy because the firm may lose its distinctive appeal to its chosen segments.

There are several advantages of segmentation :

(a) Increases Market Opportunities:

Market segmentation helps manufacturers to identify various segments in the heterogeneous market. This makes him more responsive to the needs of a particular group of consumers. It also helps him in identifying niches that may exist in a saturated market and thereby helps him in exploiting promising marketing opportunities.

(b) Helps in Foreign Market Decisions:

An individual marketer cannot serve all the markets of the world. Therefore, he has to select specific markets which he can serve well. Market segmentation helps a marketer in deciding which markets can appeal to his marketing mix, given the needs and requirements and purchasing power of consumers in different countries.

(c) Helps to Identify and Compare Market Opportunities:

Market segmentation studies the needs of each target group in the light of current competitive offerings and helps to determine the extent to which such needs can be satisfied by the marketer. Target groups with low levels of satisfaction from the present offerings may represent excellent market opportunity.

(d) Helps to Design a Product:

A market consists of consumers belonging to different socio-economic and cultural backgrounds. These factors greatly influence the consumption pattern of consumers. Market segmentation segregates consumers into different groups on the basis of these factors and helps to design a unique product for each segment.

(e) Helps to Fix Prices:

Market segmentation also helps in deciding appropriate pricing policy for each segment. Since different segments have different price perceptions and purchasing power, it is necessary to adopt different pricing strategies for different markets. For example, low priced goods can be designed for underdeveloped markets and vice versa.

(f) Assists in Deciding Distribution Strategies:

Market segmentation also assists in adopting suitable distribution strategies. Different market segments may require different distribution mix. For example, if a product is of very high quality and intended for the upper rich class then it must be distributed at prestigious outlets located at selective places.

(g) Helps in Deciding Appropriate Promotion Mix:

Since consumers differ widely in their perception, they need to be approached in different ways. Market segmentation segregates buyers into different categories and thereby helps in designing effective communication mix for each category of consumers. This reduces wastage due to wrong targeting.

(h) Helps to Forecast Marketing Budgets:

Some segments need more advertising and sales promotion efforts while some others need attractive packing and packaging. Therefore, marketing programme and budget requirements differ from segment-to-segment. Market segmentation helps in understanding these requirements and estimating budget for each segment.

(i) Ensures Optimum Utilisation of Resources:

By tailoring need-based marketing programmes for individual segments, a management can do a better marketing job and make more, efficient use of marketing resources. For example, a small firm can effectively use its limited resources in one or two segmented markets rather than unsuccessfully aiming at a wider market.

(j) Provides Better Services to Customers:

Market segmentation enables a company to concentrate its marketing efforts in a particular area, thereby providing better services to the target customers. It helps in better understanding of problems of consumers of different segments and quick resolution of the same. It also helps in developing a better rapport with the consumers.

(k) Increases Sales Volume:

Market segmentation helps to recognise multiple demand curves in a market and tailors a product for each one of them. If the respective preferences of buyers in different segments are accurately defined and if all segments are properly served, the sales volume is bound to be larger than when the same product is offered to all the buyers.

4.5.1 Bases of International Market Segmentation**Q7. What are the Bases of International Market Segmentation ?**

Ans : (Dec.-19)

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. Since the customers in the same segment have similar needs, they can be fulfilled well through a uniform marketing strategy. Similarly, differentiated marketing strategy can be adopted for segments with significant differences. Some of the bases for segmenting international market are:

(a) Geographic Segmentation

Geographic segmentation means grouping consumers into homogenous groups in terms of geographical similarities such as nations, states, regions and cities. Even geographical factors such as climate, density of population, topography, etc., can be considered for the subdivision of a market segment.

Geographically, the world market can be divided into different regions or countries. Generally, people in the same regions share more or less similar lifestyle and consumption pattern. Similarly, needs and requirements of people in the same country are more or less similar. Therefore, the size of each segment is large and only large companies can exploit such large markets. Small marketers can focus their attention on some large segment within a specific geographical area. For example, in India middle class constitutes the largest market segment.

(b) Demographic Segmentation

Demographic segmentation means grouping consumers into homogeneous groups in terms of demographic similarities such as - age, sex, family size, family life cycle, household composition, religion, race, nationality. Market for products such as - apparel, footwear, cosmetics, toiletries and ornaments is generally segmented on the basis of demographic variables. Some of the demographic variables are:

- **Age or Life Cycle Stage:** Age is probably one of the most widely used base for segmentation. Consumer wants and capacities change with age. Thus, composition of population is an important factor for segmentation in the world market. Country with more people in working age group is an attractive segment for market exploitation.
- **Sex:** It is quite evident that gender differences account for many variations in consumer perception and buying behaviour. For example, lipstick is meant for women while on the other hand shaving cream is only for men. Thus, while marketing products specially meant for a specific gender, their population in that market must be taken into account.
- **Income:** Consumer needs, preferences, habits, etc., differ in different income groups. For example, high-income group prefers quality and fashion oriented products while low-income group is more motivated by low price. Thus, foreign markets can also be grouped according to their income level. A high-priced good quality product can be produced for developed countries and *vine versa*.
- **Educational Level:** A market can also be segmented on the basis of the educational levels of consumers. Products such as - books, novels, encyclopaedias, educational CDs, etc., are purchased by educated class only. Thus, educational level in different markets should be used as a base for segmenting market while marketing such products.

- **Race and Religion:** There are hundreds of religions, communities, castes and subcastes in the world. These factors are very sensitive and do affect lifestyle and consumption pattern of people. International markets can also be segmented considering the variations in religious beliefs and customs of the people of different countries.

- **Size of Family:** Consumer goods market can also be segmented on the basis of the size of family. *For example*, pressure cookers and refrigerators are produced and sold in different sizes to suit the needs of the families of different size. Thus, large sized pressure cookers and refrigerators can be produced for markets where people still prefer to live in joint families and vice versa.

- **Economic Activities:** Foreign markets can also be grouped considering the economic activities of target consumers. Consumer goods market can also be segmented on the basis of economic activities such as - business, profession and employed persons. Professionals may be further subdivided into doctors, lawyers, accountants, etc.

(c) Psychographic Segmentation

People within the same demographic group can exhibit very different psychographic profiles. Psychographic segmentation means grouping the consumers into homogeneous groups in terms of psychographic similarities such as - social class, lifestyles and personality.

- **Social Class:** Social class has a strong influence on the lifestyle, values, interest and the behaviour of people. Broadly speaking, there are three social classes, viz., upper-class, middle-class and lower-class. The proportion of each of these classes in the total population must be considered while selecting markets abroad.
- **Lifestyle:** Lifestyle reflects the overall manner in which persons live and spend time and money. In spite of similar age and socio-economic status, people lead quite different lifestyles - some customers are conservative

while some others are lavish. Considering the lifestyle of customers in foreign markets, different classes of goods can be produced for different categories.

- **Personality:** Personality attempts to reflect such characteristics as dominance, aggressiveness, objectivity, achievement, motivation, etc., which may influence the buying decisions of consumers. Personality variables are closer to the reasons why people buy certain goods. Therefore, certain well known MNCs segment their markets on the basis of personality traits.

(d) Behavioural Segmentation

Many marketers believe that behaviouristic variables are the best starting points for segmenting a consumer goods market. In behaviouristic segmentation, buyers are divided into groups on the basis of their knowledge, attitudes, use or response to a product.

- **User Status:** International market can be segmented on the basis of user status as non-users, ex-users, potential users, first time users and regular users of a product.
- **Usage Rate:** International market can also be segmented on the basis of usage rate as light user, medium user and heavy user of a product. Such segmentation is also called volume segmentation.
- **Loyalty:** International brands are known all over the world. Such marketers capitalise on their brand image segment their market on the basis of brand loyalty of customers in different segments.
- **Attitudes:** Attitudes are difficult to identify and may be revealed in subtle ways. Five attitude classes have been identified among consumers, viz.: enthusiastic, positive, indifferent, negative and hostile, which can be used for segmenting markets.
- **Benefits Sought:** A market can also be segmented on the basis of benefits sought by consumers. For example, a watch can be bought by one segment as a timepiece, by another as a fashion while some other may buy as an item of ostentatious consumption.

(e) Using Multiple Segmentation Bases

Marketers rarely limit their segmentation analysis to only one or a few variables because there are a number of factors which affect demand for a product. Therefore, a multiple segmentation strategy is used to identify smaller and better-defined target groups in large heterogeneous global market.

4.5.2 Factors Influencing International Market Segmentation**Q8. What are the Factors Influencing International Market Segmentation ?**

Ans :

Factors Influencing International Market Segmentation:**1. Size, Objectives and Resources of the Company:**

The size of the company and the resources it has available will dictate to a great extent how it segments its market. For example, the Ford Motor Co. will want to sell to the world and so segment on a global scale whilst the local hairdresser will service a very small catchments area and segment accordingly. Resources of company also determine the extent of segmentation, as company having moderate resources will have limited segmentation whereas company having substantial resources will have broad segmentation.

2. Type of Product and Market:

Some companies have a simple product portfolio that lends itself to easy segmentation, for example, bread, potatoes, petrol, industrial cleaning products, whilst others have a more complex product mix making it much harder, for example, catering and hospitality services, financial services, fashion clothes in international market.

3. Competitive Structure of the Industry:

In the main the more competitive the market the more each organization will look toward differentiating their product so as to gain competitive advantage. The greater the selection on offer the more consumers will demand choice and the greater will be the need for tight segmentation. An example of

this might be the change that has happened with the traditional English pub. Competition and the need to attract more customers have led to the theme pub offering an ever greater choice of food and real ales. In the past a pub might have offered a choice of two different beers and a salad sandwich or a sausage roll. Now many pubs offer a choice of over 20 different beers and food as diverse as Italian, Thai, French and American to be eaten as a snack, at lunch time or as a full three or four course dinner, all at prices that match their targeted customer's expectations.

4. Nature and Culture of International Market:

Nature and culture of international market also influences the segmentation decision. Segmentation strategies differ according to market such as segmentation strategies differ in competitive market from non-competitive market.

5. International Product Life Cycle Stage:

Lifecycle stage of a product also affects segmentation decisions. Because it decides whether the product launch is going to be sustained in international market or not.

6. Competitive Strategy of Firm :

Competitive strategy of a international firm also has an influence on segmentation. Organizations that choose to segment the consumers and focus on target markets are more successful in highly competitive environments.

4.5.3 Requirements for Effective International Segmentation**Q9. What are the Requirements for Effective International Segmentation ?**

Ans :

Segmentation is needed because substantial differences exist in response of market to a particular marketing strategy. A small firm can compete more effectively in specific market segments as it concentrates its resources on the target segment. International segmentations require the following to be effective:

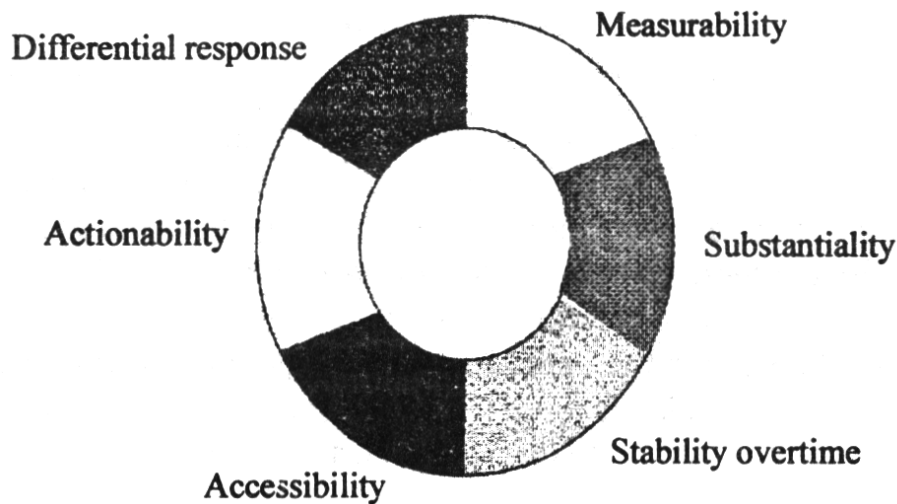


Fig.: Requirements for Effective International Segmentation

1. **Measurability:** Individual market segments should be easy to identify and measure, thus ensuring measurability. International market segments pose numerous challenges in this regard. First, in many developing countries, reliable population statistics, including market size and economic development data, are difficult to come by. Even if the International Monetary Fund and other development organizations' data are reliable and valid, international companies still run into difficulties when evaluating culture-related dimensions, such as product preferences, especially food products, and benefits sought. Collecting data on such variables also presents many challenges.
2. **Substantiality:** The segment should be large enough to warrant investment. Assuming that the segment can be measured, this step - determining substantiality- is relatively easy. Even if research determines that the local market segment is not large enough, it can be grouped together with an identical segment in another country and targeted jointly. Another dimension that must be evaluated is the segment's growth potential. Such data must be evaluated with surrogate statistics, such as economic development measures (i.e., as an increase in GDP per capita or income per capita), employment data, the level of foreign direct investment in the country, exports from the country, and trends in consumer spending.
3. **Stability Overtime:** In the past, stability of a segment overtime was a primary consideration mainly for developed countries. Today, however, stability overtime is an important consideration in a world environment where products are in different life-cycle stages and where preferences are continuously changing with the advent of the Internet and on-line ordering across borders from countries of all development levels. In a rapidly changing environment, it is important to constantly re-evaluate this segment.
4. **Accessibility:** The ability to communicate with the target market, determining the market's accessibility, is essential as well. Internationally, the differences in language in individual countries may pose obstacles, greatly increasing the cost of advertising and other promotion.
5. **Actionability:** The market should respond to the marketing strategies used; the segment should be actionable, assuming the company is targeting the market with the appropriate marketing mix.
6. **Differential Response:** The segments should be easy to distinguish from each other and should respond differently from other market segments to marketing strategies; they should have a noticeable differential response. If consumers all over the world are similar and/or have identical preferences - and this is hardly the case - there is no need for international target marketing.

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.

4.5.4 Benefits of Market Segmentation

Q10. Explain about Benefits of Market Segmentation.

Ans :

Benefits of Market Segmentation:

1. Adjustment of Product and Marketing Appeals :

Market segmentation presents an opportunity to understand the nature of the market. The seller can adjust his thrust to attract the maximum number of customers by various publicity media and appeals.

2. Better Position to Spot Marketing Opportunities :

The producer can make a fair estimate of the volume of his sale and the possibilities of furthering his sales. In the region where response of the customers is poor, the strategy of approach can be readjusted accordingly to push the sales on the basis of marketing research.

3. Allocation of Marketing Budget:

It is on the basis of market segmentation that marketing budget is adjusted for a particular region or locality. In the place where the sales opportunities are limited, it is no use allocating a huge budget there.

4. Fighting Competition Effectively:

The segmentation helps the producers to face the competition of competitors effectively by making a deep study of the products, policies and strategies of competitors in all the segments. This helps in adopting different policies, programmes and strategies for different markets based on rivals' strategies, policies and programmes.

5. Effective Marketing Programme:

It also helps the producer to adopt an effective marketing programme and serve the consumer better at comparatively low cost.

6. Evaluation of Marketing Activities:

Market segmentation helps the manufacturer to find out and compare the marketing potentialities of the products.

7. Increase in Sales Volume:

By segmenting the market, the producers can increase his sales volume.

8. Enabling Decisions:

Analysis of market segments enables decisions about intensity of marketing activities in particular segments.

9. Understanding and Meeting the Needs of Consumers:

It helps the marketer to fully understand the needs, behavior, habits, tastes and expectations of the consumers of different segments so that precise and clear decisions can be taken to harness marketing opportunities. It is possible to satisfy a variety of customer needs with a limited product range by using different forms, bundles, incentives and promotional activities.

10. Higher Profits:

It is required to earn higher profits. Often the companies find it difficult to increase prices for the whole market. But, it is possible to develop premium segments in which customers accept a higher price level. Such segments could be distinguished from the mass market by features like additional services, exclusive points of sale, product variations etc. and could be used to generate more revenues to make whole product line profitable.

11. Minimizing Aggregation Risk:

By dividing the market and designing specific marketing mix to each segment, segmentation reduces the risk of aggregation, which is defined as the risk of not being able to satisfy customer needs with one marketing mix to

all segments. For example, in case of highly mobile customers, who may not notice ads carefully, the use of personal selling is better marketing tool.

12. Specialized Marketing:

Marketing can be more specialized when there is segmentation as the elements of marketing mix are specially designed to suit the characteristics of particular segments.

13. Expansion of Market:

By segmenting the market, a company is able to create new markets for their products.

14. Targeted Marketing:

Targeted marketing plans for particular segments allow to individually approach customer groups that otherwise would look out for specialized niche players. By segmenting markets, organizations can create their own 'niche products' and thus attract additional customer groups.

15. Opportunities for Growth:

A segmentation strategy that is based on customer loyalty offers the chance to attract new customers with starter products and to move these customers on to premium products.

16. Benefits to the Consumers:

The segmentation benefits the customers as the company produces and supplies products that serve customers' interest and satisfy their needs and wants. Moreover when segmentation attains higher levels of sophistication and perfection, customers and companies can conveniently settle down with each other, as at such stage, they can safely rely on each others' discrimination.

17. Filling Gaps:

Segmentation can help in finding out the unfilled gaps in a market, which can then be satisfied through unique product or promotional offerings.

18. Stimulating Innovation:

It is necessary to communicate in a segment-specific way even if product features and brand identity are identical in all market

segments. Such a targeted communications allows stressing those criteria that are most relevant for each particular segment (e.g. price vs. reliability vs. prestige).

19. Higher Market Shares:

In contrast to an undifferentiated marketing strategy, segmentation supports the development of niche strategies. Thus, marketing activities can be targeted at highly attractive market segments in the beginning. Market leadership in selected segments improves the competitive position of the whole organization in its relationship with suppliers, channel partners and customers. It strengthens the brand and ensures profitability. On that basis, organizations have better chances to increase their market shares in the overall market.

20. Better Utilization of Marketing Resources:

More resources can be allocated to segments in which there are more possibilities of selling the products and fewer resources may be allocated to the segments in which there are fewer possibilities.

4.6 MARKETING CHANNELS AND DISTRIBUTION

Q11. Explain about Marketing Channels / Distribution Channel.

Ans :

Global Distribution

A worldwide computerized reservation network used as a single point of access for reserving airline seats, hotel rooms, rental cars, and other travel related items by travel agents, online reservation sites, and large corporations.

The premier global distribution systems are Amadeus, Galileo, Sabre, and Worldspan. They are owned and operated as joint ventures by major airlines, car rental companies, and hotel groups. Also called automated reservation system (ARS) or computerized reservation system (CRS).

Distribution Channel

Distribution channel includes a set of marketing institutions participating in the marketing activities involved in the movement or flow of goods or services from the primary producer to the ultimate consumer.

in the international market, two categories of marketing channels are involved:

- (a) Channels between the nations, and
- (b) Channels within the foreign markets.

Marketing channels, besides distribution, perform a number of functions for the marketers. Basically, they provide three types of utilities to the marketers:

- (a) **Time Utility:** Time utility means marketing channels make the products available to the consumers as and when required.
- (b) **Place Utility:** Place utility means they make the products available to the consumers at the location desired by them.
- (c) **Ownership Utility:** Ownership utility means they help in transfer of ownership or title of goods from the producer to the consumer.

Types of Distribution Channels in International Market

The nature of the channel system is affected by, among other things, the method of marketing.

(A) Direct Marketing

Direct marketing is a method of marketing goods directly to the foreign buyers by the manufacturer himself or through his agent situated in the foreign country. Such marketers are also known as manufacturer exporters or direct exporters. Even goods supplied on consignment basis are considered to be marketed directly.

Firms, having a very high turnover generally market their products directly to foreign buyers or middlemen. The degree of risk involved in direct marketing is high but so are the potential returns.

The organisational arrangements available to a direct marketer are :

- (a) An International marketing firm may sell its products by a domestic based marketing department or division. *For example:*
 - Built in export department.
 - Separate export department.
 - Export sales subsidiary.
 - Allied export selling company.
- (b) It may establish overseas sales branches or subsidiaries.
- (c) It may appoint a travelling salesman.
- (d) It may sell through distributors and agents based in foreign countries.

Advantages of Direct Marketing

The following are the advantages of direct exporting:

- (a) **First-hand Information:** Direct exporters get first-hand information about the needs and requirements of foreign markets and thereby can satisfy them effectively.
- (b) **Direct Control:** Direct exporters can exercise a direct control over export packaging, pricing, advertising, promotion, after-sales service and other marketing activities.
- (c) **Export Incentives:** Direct exporters get 100% benefit of incentives given by the government. In case of indirect exports, the benefit of incentives is shared by various marketing intermediaries.
- (d) **Reputation and Goodwill:** Direct exporters may become well known in the foreign markets by their own brand names. This promotes their goodwill and reputation at the international level.
- (e) **Profitability:** Direct exporters can earn comparatively higher profit as the profits enjoyed by intermediaries and commission charged by agents can be avoided by selling goods directly to foreign buyers.
- (f) **Higher Prices:** Direct exporters can charge higher prices in comparison to competitors as they are well aware of the market conditions and can fulfil the requirements of consumers effectively.

Disadvantages of Direct Marketing

The following are the disadvantages of direct marketing:

- (a) **High Degree of Risks:** Direct exporters are prone to more risks as they shoulder twin responsibility of manufacturing as well as marketing. They are also subject to the risks of domestic as well as overseas markets.
- (b) **Higher Investment:** The capital requirement of direct exporters is comparatively higher as the direct exporter shoulders numerous responsibilities of production, distribution and marketing.
- (c) **Lack of Specialisation:** Since a direct exporter looks after numerous activities of production, distribution, marketing, he cannot do justice to any one of them, creating chaotic situation in the organisation.
- (d) **Requires a Vast Knowledge:** A direct exporter requires a vast knowledge not only in production and marketing fields but also about social, cultural, economic and political situations prevailing in the foreign countries.
- (e) **Not Suitable for Small Manufacturers:** Small firms, especially SSIs and cottage industries, may find it difficult to export directly due to inadequate infrastructure and knowledge about the foreign markets.
- (f) **Diseconomies of Distribution:** Direct exporters may not be able to enjoy economies of large-scale distribution. Indirect exporters may combine several shipments together and can avail of economies of large-scale distribution.

(B) Indirect Marketing

In indirect marketing, the marketer utilises the services of various types of independent international marketing middlemen or cooperative organisations for marketing his products in foreign markets. Such marketers are known as indirect exporters. Broadly, three alternative channels are available for indirect marketing, viz.:

- (a) **Marketing Middlemen:** There are two types of middlemen, merchant and agent.

The basic distinction between the merchant and the agent is that the merchant takes the title of product he sells, while the agent does not. The following are some types of marketing middlemen available in the international market.

- **Export Merchant:** The domestic based export merchant procures goods from the local market and sells them abroad. When this type of middlemen is used as a marketing intermediary, the job of manufacturer is essentially reduced to domestic marketing.
- **Export Houses:** In India, there are a number of export houses and trading houses who export products procured from many small manufacturers. Some companies have established their own export marketing subsidiaries. For example, HMT International Ltd.
- **Trading Companies:** Trading companies are another type of market intermediaries. Unlike an export house, which concentrates only on exports, a trading company is active both in exports and imports. For example, Mitsubishi and Itochu companies of Japan.
- **Export Drop Shipper:** Export drop shipper is a special kind of export merchant. Such exporters pass on the responsibility of executing an export order to a domestic manufacturer. The manufacturer collects payment from the drop shipper who in turn is paid by the foreign buyer.
- **Agents or Brokers:** Unlike the merchant middlemen, the agents or brokers do not take the title of goods. Such agents simply operate under the incentive of commission or brokerage. In this case, the manufacturer assumes all the financial risks.
- (b) **Canalising Agencies:** Canalisation of import and export means import and export of commodities through specified government agencies such as State Trading Corporation of India (STC) and Minerals and Metals Trading Corporation (MMTC). The items specified in the canalised list can be marketed only through the specified canalising agency.

Items	Canalising Agency
Onion (all varieties) including Bangalore rose onions and Krishnapuram onions	Specified State Trading Enterprises (STEs) subject to the conditions laid down by DGFT.
Gum Karaya	Tribal Cooperative Marketing Federation of India Limited (TRIFED), New Delhi.
Preferential Quota Sugar to EU and the USA	Indian Sugar Exim Corporation Ltd. subject to quantitative ceiling notified by DGFT.
Iron ore other than those specified under free category	Minerals and Metals Trading Corporation (MMTC) Limited
Crude oil	Export through Indian Oil Corporation Ltd.

(c) **Cooperative Organisations:** The cooperative exporting organisations carry on exporting activities on behalf of several producers, and are partly under the administrative control of the manufacturers. There are two distinct types of cooperative organisations:

- **Piggyback Marketing:** Under Piggyback marketing, also known as mother-henning, a manufacturer uses its overseas distribution facilities to sell his own products as well as that of others.
- **Exporting Combinations:** An exporting combination is more or less a formal association of independent and competitive business firms which are organised for the purpose of export marketing for mutual benefit.

Advantages of Indirect Marketing :

The following are the advantages of indirect marketing :

- (a) **Less Risks:** Indirect exporters are prone to comparatively less risks as the risk of marketing gets transferred to export market intermediaries. At the same time, these intermediaries are specialised in their own field.
- (b) **Less Investment:** Since indirect exporters concentrate only on manufacturing or assembling of goods, they require a lesser amount of capital than the direct exporters.
- (c) **Specialisation:** Since indirect exporters concentrate only on manufacturing aspect, they can exercise their task with a greater degree of specialisation, leaving the responsibility of marketing of goods to the export marketing intermediaries.
- (d) **Availability of Imported Inputs:** Indirect exporters can import raw materials, components, spare parts, etc., for export production through intermediaries such as export houses, trading houses, etc.
- (e) **Technical Guidance:** The intermediaries, which undertake export of goods, provide technical guidance to local suppliers for promoting exports from the country. Generally, such guidance is provided free of cost or at negligible fees.
- (f) **Suitable for Small Firms:** It is not feasible for small firms, especially, SSts and cottage industries to export directly due to diseconomies of scale. Export market intermediaries assist such small firms by providing them with marketing infrastructure and knowledge about the foreign markets.

Disadvantages of Indirect Marketing :

The following are the disadvantages of indirect marketing :

- (a) **Second-hand Information:** Since indirect exporters are not in direct contact with the foreign consumers, they have to depend on marketing intermediaries for information regarding the overseas markets.
- (b) **Lack of Control:** Indirect exporters cannot exercise a direct control over marketing decisions such as packaging, pricing, advertising, sales promotion and after sales service due to their dependence on market intermediaries.
- (c) **Less or No Export Incentives:** In case of indirect exports, incentives given by the government get distributed among various marketing intermediaries. Hence, indirect exporters get less incentives or sometimes no incentives at all.
- (d) **Lower Prices:** In case of indirect exports, there are many intermediaries. Hence, the total revenue gets distributed among various intermediaries and the exporter cannot charge a high price.
- (e) **Excessive Dependence:** Due to lack of direct contact with foreign consumers, indirect exporters are totally dependent on market intermediaries for the information about foreign markets and receipt of export proceeds.
- (f) **Lower Sales Volume:** Export houses arrange goods required for exports from various sources and therefore, the contribution of individual exporters is very meagre.

4.6.1 Channels of the Distribution Structure

Q12. What are the Channels of the Distribution Structure ?

Ans : (Imp.)

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

and middlemen and between middlemen and customers.

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

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

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

(A) Import-Oriented Distribution Structure

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

This configuration affects the development of intermediaries and their functions. Distribution systems are local rather than national in scope, and the relationship between the importer and any middleman in the marketplace is considerably different from that found in a mass-marketing system. The idea of a channel as a chain of intermediaries performing specific activities and

each selling to a smaller unit beneath it until the chain reaches the ultimate consumer is not common in an import-oriented system.

(B) Japanese Distribution Structure

Distribution in Japan has long been considered the most effective nontariff barrier to the Japanese market. Even though the market is becoming more open as many traditional modes of operation are eroding in the face of competition from foreign marketers, it still serves as an excellent case study for the pervasive impact culture plays on economic institutions such as national distribution systems.

The Japanese distribution structure is different enough from its U.S. or European counterparts that it should be carefully studied by anyone contemplating entry. The Japanese system has four distinguishing features : (1) a structure dominated by many small middlemen dealing with many small retailers, (2) channel control by manufacturers, (3) a business philosophy shaped by a unique culture, and (4) laws that protect the foundation of the system the small retailer.

1. High Density of Middlemen.

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

2. Channel Control.

Manufacturers depend on wholesalers for a multitude of services to other members of the distribution network. Financing, physical distribution, warehousing, inventory, promotion, and payment collection are provided to other channel members by

wholesalers. The system works because wholesalers and all other middlemen downstream are tied to manufacturers by a set of practices and incentives designed to ensure strong marketing support for their products and to exclude rival competitors from the channel. Wholesalers typically act as agent middlemen and extend the manufacturer's control through the channel to the retail level.

Control is maintained through the following elements :

- (i) **Inventory financing.** Sales are made on consignment with credits extending for several months.
- (ii) **Cumulative rebates.** Rebates are given annually for any number of reasons, including quantity purchases, early payments, achieving sales targets, performing services, maintaining specific inventory levels, participating in sales promotions, remaining loyal to suppliers, maintaining manufacturer's price policies, cooperating, and contributing to overall success.
- (iii) **Merchandise returns.** All unsold merchandise may be returned to the manufacturer.
- (iv) **Promotional support.** Intermediaries receive a host of displays, advertising layouts, management education programs, in-store demonstrations, and other dealer aids that strengthen the relationship between the middleman and the manufacturer.

3. Business Philosophy.

Coupled with the close economic ties and dependency created by trade customs and the long structure of Japanese distribution channels is a relationship-oriented business philosophy that emphasizes loyalty, harmony, and friendship. The value system supports long-term dealer-supplier relationships that are difficult to change as long as each party perceives economic advantage. The traditional partner, the insider, generally has the advantage.

4. Large-Scale Retail Store Law and Its Successor.

Competition from large retail stores had been almost totally controlled by *Daitenho* the Large-Scale Retail Store Law (and its more recent incarnations). Designed to protect small retailers from large intruders into their markets, the law required that any store larger than 5,382 square feet (500 square meters) must have approval from the prefecture government to be “built, expanded, stay open later in the evening, or change the days of the month they must remain closed.”

Business people in Japan and the United States see the Japanese distribution system as a major nontariff barrier, and Japanese see it as a major roadblock to improvement of the Japanese standard of living. However, pressure from the United States and the Structural Impediments Initiative (SII) negotiations to pry open new markets for American companies has resulted in large cracks in the system. The most recent is the Large-Scale Retail Store Location Act of June 2000, which replaced the Large-Scale Retail Store Law.

4.6.2 Distribution Patterns in International Marketing Channels

Q13. Discuss about Distribution patterns in International Marketing Channels.

Ans :

Even though patterns of distribution are in a state of change and new patterns are developing, international marketers need a general awareness of the traditional distribution base. The “traditional” system will not change overnight and vestiges of it will remain for years to come. Nearly every international firm is forced by the structure of the market to use at least some middlemen in the distribution arrangement.

The following description should convey a sense of the variety of distribution patterns.

(A) General patterns

Generalizing about internal distribution channel patterns of various countries is almost as difficult as generalizing about behaviors patterns of people. Despite similarities, marketing channels are not the same throughout the world. Marketing methods taken for granted in the United States are rare in many countries.

➤ **Middlemen Services:-** The service attitudes of people in trade vary sharply at both the retail and whole sale levels from country to country .

➤ **Line Breadth:-** every nation has a distinct pattern relative to the breadth of line carried by wholesalers and retailers . The distribution system of some countries is characterized by middlemen who carry or can get everything in other every middlemen is a specialist dealing only in extremely narrow lines. Government regulation in some countries limit the breadth of line that can be carried by middlemen and licensing requirement to handle certain merchandise are not uncommon.

➤ **Costs and Margins :-** cost levels and middlemen margins vary widely from country to country depending on the level of competition , service offered, efficiencies for inefficiencies of scale and geographic and turnover factors related to market size , purchasing power , tradition and other basic determinants.

➤ **Channel Length:-** some correlation may be found between the stage of economic development and the length of marketing channels . In every country, channels are likely to be shorter for industrial goods and high priced consumer goods than for low priced products. In general , there is an inverse relationship between channel length and the size of the purchase . combinations wholesaler – retailer or semi wholesaler exist in many countries adding one or two link to the length of the distribution chain.

- **Nonexistent Channels** : one of the things companies discover about international channel of distribution patterns is that in many countries adequate market coverage through a simple channel of distribution is nearly impossible. In many instances , appropriate channels do not exist .
- **Blocked Channels** : International marketers may be blocked from using the channel of their choice. Blockage can result from competitors already established lines in the various channel or from trade associations or cartels having closed certain channels.
- **Stocking** :- the high cost of credit , the danger of loss through inflation , a lack of capital and other concerns cause foreign middlemen in many countries to limit inventories this often results in out of stock conditions and sales lost to competitors.
- **Power and Competition** :-distribution power tends to concentrate in countries where a few large wholesalers distribute to a mass of small middlemen . Large wholesalers generally finance middlemen downstream . The strong allegiances they command from their customers enables them to effectively block existing channels and force an outsiders to rely on less effective and more costly distribution.

(B) Retail Patterns

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

1. Size Patterns.

The extremes in size in retailing are similar to those that predominate in wholesaling. The retail structure and the problems it engenders cause real difficulties for the international marketing firm selling consumer goods. Large dominant retailers can be sold direct, but there is no adequate way to directly reach small retailers who, in the aggregate, handle a great volume of sales.

2. Direct Marketing.

Selling directly to the consumer through the mail, by telephone, or door-to-door is often the approach of choice in markets with insufficient or underdeveloped distribution systems. The approach, of course, also works well in the most affluent markets. Amway, operating in 42 foreign countries, has successfully expanded into Latin America and Asia with its method of direct marketing. Companies that enlist individuals to sell their products are proving to be especially popular in eastern Europe and other countries where many people are looking for ways to become entrepreneurs.

3. Resistance to Change.

Efforts to improve the efficiency of the distribution system, new types of middlemen, and other attempts to change traditional ways are typically viewed as threatening and are thus resisted. A classic example is restructuring of the film distribution business being caused by the fast-changing technologies of digitization and piracy. Laws abound that protect the entrenched in their positions.

4.6.3 Factors Influencing Channel Selection in the International Market

Q14. What are the Factors Influencing Channel Selection in the International Market ?

Ans :

A channel, which is effective in one country, may not be effective or available in another country. For example, direct marketing has become very popular in the US but it is not significant in many

other countries. Due to the complex nature of the international market, a number of intertwined factors affect channel selection in the international market. Generally, the following considerations are involved in the choice of channel(s) of distribution:

(a) Market Considerations:

Market considerations that affect the choice of distribution channels in the international market are the nature of market, market coverage and expanse, market segmentation, buying habits of consumers, geographical concentration of market, degree of competition and the average size of the orders.

(b) Product Considerations:

Some of the factors related to product that affect the selection of marketing channels in international market are unit value of the product, its nature in terms of size and shape, weight, perishability, technical specifications, product-line, susceptibility of different selling methods and degree of product standardisation.

(c) Company Considerations:

Company considerations that affect the selection of marketing channels are the objectives of the company, size of the company, its scale of production and operations, financial resources, desire to exercise control over the market, overall marketing policies, channel objectives and competence of marketing managers.

(d) Middlemen Considerations:

Middlemen considerations that affect selection of marketing channels in international market are availability of the desired channels, commission and brokerage, past experience of the middlemen, channels used by the competitors and the government policy regarding the use of overseas channels of distribution.

(e) General Considerations:

General considerations affecting channel selection in international market are economic situation in exporter and importer's

country, social and cultural factors, physical environment, the government rules and regulations and the degree of technological developments in the host country.

4.6.4 Levels of Distribution Channel in International Market

Q15. What are the Levels of Distribution Channel in International Market ?

Ans :

Channel level refers to the number of intermediaries involved in the distribution channel. The following are the channel levels:

(a) Zero-level Channel: It is also called direct marketing channel and is essentially characterised by the producer making a direct sale to the ultimate buyer. The three principal ways of direct selling are door-to-door selling, sale through mail order and through manufacturer owned stores.

(b) One-level Channel: It is characterised by one selling intermediary like the retailer or the agent.

(c) Two-level Channel: It contains two selling intermediaries, i.e., wholesaler/distributor and retailer.

(d) Three-level channel: It has three intermediaries, i.e., agents, wholesalers and retailers.

4.6.5 Factors affecting Choice of Channels

Q16. What are the Factors affecting Choice of Channels ?

Ans :

(Imp.)

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

1. Identify specific target markets within and across countries.
2. Specify marketing goals in terms of volume, market share, and profit margin requirements.

3. Specify financial and personnel commitments to the development of international distribution.
4. Identify control, length of channels, terms of sale, and channel ownership.

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

Key elements in distribution decisions include the functions performed by middlemen (and the effectiveness with which each is performed), the cost of their services, their availability, and the extent of control that the manufacturer can exert over middlemen activities.

Although the overall marketing strategy of the firm must embody the company's profit goals in the short and long run, channel strategy itself is considered to have six specific strategic goals. These goals can be characterized as the six Cs of channel strategy: cost, capital, control, coverage, character, and continuity. In forging the overall channel-of-distribution strategy, each of the six Cs must be considered in building an economical, effective distribution organization within the long-range channel policies of the company.

1. Cost

The two kinds of channel cost are (1) the capital or investment cost of developing the channel and (2) the continuing cost of maintaining it. The latter can be in the form of direct expenditure for the maintenance of the company's selling force or in the form of margins, markup, or commissions of various middlemen handling the goods. Marketing costs (a substantial part of which is channel cost) must be considered as the entire difference between the factory price of the goods and the price the customer ultimately pays for the merchandise. The costs of middlemen include transporting and storing the goods, breaking bulk, providing credit, and local advertising, sales representation, and negotiations.

2. Capital Requirements

The financial ramifications of a distribution policy are often overlooked. Critical elements are capital requirement and cash-flow patterns associated with using a particular type of middleman. Maximum investment is usually required when a company establishes its own internal channels, that is, its own sales force. Use of distributors or dealers may lessen the capital investment, but manufacturers often have to provide initial inventories on consignment, loans, floor plans, or other arrangements. Coca-Cola initially invested in China with majority partners that met most of the capital requirements.

3. Control

The more involved a company is with the distribution, the more control it exerts. A company's own sales force affords the most control, but often at a cost that is not practical. Each type of channel arrangement provides a different level of control; as channels grow longer, the ability to control price, volume, promotion, and type of outlets diminishes. If a company cannot sell directly to the end user or final retailer, an important selection criterion for middlemen should be the amount of control the marketer can maintain.

4. Coverage

Another major goal is full-market coverage to gain the optimum volume of sales obtainable in each market, secure a reasonable market share, and attain satisfactory market penetration. Coverage may be assessed by geographic segments, market segments, or both. Adequate market coverage may require changes in distribution systems from country to country or time to time. Coverage is difficult to extend both in highly developed areas and in sparse markets—the former because of heavy competition and the latter because of inadequate channels.

5. Character

The channel-of-distribution system selected must fit the character of the company and the markets in which it is doing business. Some obvious product requirements, often the first considered, relate to perishability or bulk of the product, complexity of sale, sales service required, and value of the product.

6. Continuity

Channels of distribution often pose longevity problems. Most agent middlemen firms tend to be small institutions. When one individual retires or moves out of a line of business, the company may find it has lost its distribution in that area. Wholesalers and especially retailers are not noted for their continuity in business either. Most middlemen have little loyalty to their vendors. They handle brands in good times when the line is making money, but quickly reject such products within a season or a year if they fail to produce during that period. Distributors and dealers are probably the most loyal middlemen, but even with them, manufacturers must attempt to build brand loyalty downstream in a channel lest middlemen shift allegiance to other companies or other inducements.

4.6.6 Locating, Selecting, and Motivating Channel Members

Q17. Discuss about Locating, Selecting, and Motivating Channel Members.

Ans :

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

Construction of the middleman network includes seeking out potential middlemen, selecting those who fit the company's requirements, and establishing working relationships with them. In international marketing, the channel-building process is hardly routine. The closer the company wants to get to the consumer in its channel contact, the larger the sales force required. If a company is

content with finding an exclusive importer or selling agent for a given country, channel building may not be too difficult; however, if it goes down to the level of subwholesaler or retailer, it is taking on a tremendous task and must have an internal staff capable of supporting such an effort.

(A) Locating Middlemen

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

The major problems are locating information to aid in the selection and choice of specific middlemen and discovering middlemen available to handle one's merchandise. Firms seeking overseas representation should compile a list of middlemen from such sources as the following: the U.S. Department of Commerce; commercially published directories; foreign consulates; chamber-of-commerce groups located abroad; other manufacturers producing similar but noncompetitive goods; middlemen associations; business publications; management consultants; carriers—particularly airlines; and Internet-based services such as Unibex, a global technology services provider. Unibex provides a platform for small-to-medium-sized companies and larger enterprises to collaborate in business-to-business commerce.

(B) Selecting Middlemen

Finding prospective middlemen is less a problem than determining which of them can perform satisfactorily. Low volume or low potential volume hampers most prospects, many are underfinanced, and some simply

cannot be trusted. In many cases, when a manufacturer is not well known abroad, the reputation of the middleman becomes the reputation of the manufacturer, so a poor choice at this point can be devastating.

1. **Screening.** The screening and selection process itself should include the following actions: an exploratory letter including product information and distributor requirements in the native language sent to each prospective middleman; a follow-up to the best respondents for specific information concerning lines handled, territory covered, size of firm, number of salespeople, and other background information; check of credit and references from other clients and customers of the prospective middleman; and, if possible, a personal check of the most promising firms. Obtaining financial information on prospective middlemen has become easier via such Internet companies as Unibex, which provides access to Dun & Bradstreet and other client information resources.
2. **The Agreement.** Once a potential middleman has been found and evaluated, the task of detailing the arrangements with that middleman begins. So far the company has been in a buying position; now it must shift into a selling and negotiating position to convince the middleman to handle the goods and accept a distribution agreement that is workable for the company. Agreements must spell out specific responsibilities of the manufacturer and the middleman, including an annual sales minimum. The sales minimum serves as a basis for evaluation of the distributor; failure to meet sales minimums may give the exporter the right of termination.

(C) Motivating Middlemen

The level of distribution and the importance of the individual middleman to the company determine the activities undertaken to keep

the middleman motivated. On all levels the middleman's motivation is clearly correlated with sales volume. Motivational techniques that can be employed to maintain middleman interest and support for the product may be grouped into five categories: financial rewards, psychological rewards, communications, company support, and corporate rapport.

Obviously, financial rewards must be adequate for any middleman to carry and promote a company's products. Margins or commissions must be set to meet the needs of the middleman and may vary according to the volume of sales and the level of services offered. Without a combination of adequate margin and adequate volume, a middleman cannot afford to give much attention to a product.

Being human, middlemen and their salespeople respond to psychological rewards and recognition of their efforts. A trip to the United States or to the parent company's home or regional office is a great honor. Publicity in company media and local newspapers also builds esteem and involvement among foreign middlemen.

In all instances, the company should maintain a continuing flow of communication in the form of letters, newsletters, and periodicals to all its middlemen. The more personal these are, the better. One study of exporters indicated that the more intense the contact between the manufacturer and the distributor, the better the performance from the distributor. More and better contact naturally leads to less conflict and a smoother working relationship.

Finally, considerable attention must be paid to the establishment of close rapport between the company and its middlemen. In addition to methods noted earlier, a company should be certain that the conflicts that arise are handled skillfully and diplomatically. Bear in mind that all over the world business is a personal and vital thing to the people involved.

4.6.7 The Internet for Distribution

Q18. Explain about The Internet for Distribution.

Ans :

The Internet is an important distribution method for multinational companies and a source of products for businesses and consumers. Indeed, a good argument can be made that the Internet has finally put the consumer in control of marketing and distribution globally. Computer hardware and software companies and book and music retailers were the early e-marketers to use this method of distribution and marketing. More recently there has been an expansion of other types of retailing and business-to-business (B2B) services into e-commerce. Technically, e-commerce is a form of direct selling; however, because of its newness and the unique issues associated with this form of distribution, it is important to differentiate it from other types of direct marketing.

E-commerce is used to market business-to-business services, consumer services, and consumer and industrial products via the World Wide Web. It involves the direct marketing from a manufacturer, retailer, service provider, or some other intermediary to a final user. Some examples of e-marketers that have an international presence are Dell Computer Corporation (www.dell.com), which generates nearly 50 percent of its total sales, an average of about \$69 million a day, online, and Cisco Systems which generates more than \$1 billion in sales annually.

Consequently, an e-vendor must be concerned with the following issues.

1. Culture

The preceding chapters on culture should not be overlooked when doing business over the Web. The Web site and the product must be culturally neutral or adapted to fit the uniqueness of a market, because culture does matter. In Japan, the pickiness of Japanese consumers about what they buy and their

reluctance to deal with merchants at a distance must be addressed when marketing on the Web. Even a Japanese-language site can offend Japanese sensibilities.

2. Adaptation

Ideally, a Web site should be translated into the languages of the target markets. This may not be financially feasible for some companies, but at least the most important pages of the site should be translated. Simple translation of important pages is only a stopgap, however. If companies are making a long-term commitment to sales in another country, Web pages should be designed (in all senses of the term—color, use features, etc.) for that market.

3. Local contact

Companies fully committed to foreign markets are creating virtual offices abroad; they buy server space and create mirror sites, whereby a company has a voice mail or fax contact point in key markets. Foreign customers are more likely to visit sites in their own country and in the local language. In Japan, where consumers seem particularly concerned about the ability to easily return goods, companies may have outlets where merchandise can be returned and picked up. These so-called click-and-mortar models have gained a large following.

4. Payment

The consumer should be able to use a credit card number—by e-mail (from a secure page on the Web site), by fax, or over the phone.

5. Delivery

For companies operating in the United States, surface postal delivery of small parcels is most cost effective but takes the longest time. For more rapid but more expensive deliveries.

6. Promotion

Although the Web is a means of promotion, if you are engaging in e-commerce you also need to advertise your presence and the products or services offered.

4.7 PROMOTION STRATEGIES

Q19. Discuss about Promoting Strategies in Global Marketing.

Ans : (Imp.)

Communications Decisions / Promotion Strategies

Communication is the fourth and final decision to be made about the global marketing programme. The role of communication in global marketing is similar to that in domestic operations: to communicate with customers so as to provide information that buyers need to make purchasing decisions. Although the communication mix carries information of interest to the customer, in the end it is designed to persuade the customer to buy a product - at the present time or in the future.

To communicate with and influence customers, several tools are available. Advertising is usually the most visible component of the promotion mix, but personal selling, exhibitions, sales promotions, publicity (public relations) and direct marketing (including the Internet) are also part of a viable international promotion mix.

One important strategic consideration is whether to standardize worldwide or to adapt the promotion mix to the environment of each country. Another consideration is the availability of media, which varies around the world.

Promotional Strategies in International Marketing

Promotion is a term taken from Latin *promovere*, which means moving from one end to another. In marketing, promotion means all those tools that help a marketer to make his product move from the factory to the customer and hence involves advertising, sales promotion, personal selling, and publicity etc. The marketing communications mix (also called the promotion mix) consists of five major tools that are as follows:

- (i) **Advertising:** Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
- (ii) **Direct Marketing:** Use of mail, telephone, and other non-personal contact tools to

communicate with or solicit a response from specific customers and prospects.

- (iii) **Sales Promotion:** Short-term incentives to encourage trial or purchase of a product or service.
- (iv) **Public Relations and Publicity:** A variety of programmes designed to promote and/or protect a company's image or its individual products.
- (v) **Personal Selling:** Face-to-face interaction with one or more prospective purchasers for the purpose of making sales.

I. Advertising

Advertising is one of the most visible forms of communication. Because of its wide use and its limitations as a one-way method of communication advertising in international markets is subject to a number of difficulties. Advertising is often the most important part of the communications mix for consumer goods, where there are a large number of small-volume customers who can be reached through mass media. For most business-to-business markets advertising is less important than the personal selling function.

The major decisions in advertising are shown in Figure. We will now discuss these different phases.

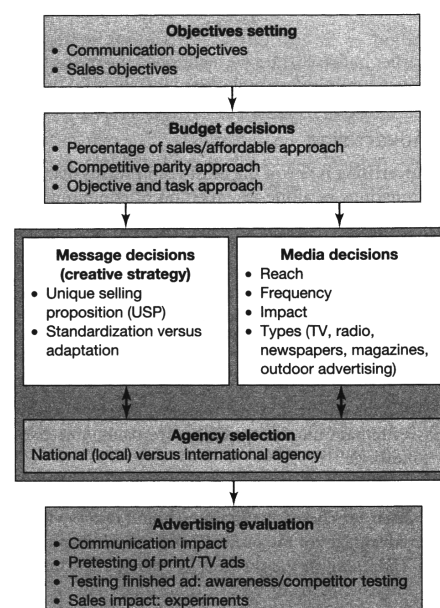


Fig. : The major international advertising decisions

(A) Objectives setting

Although advertising methods may vary from country to country the major advertising objectives remain the same. Major advertising objectives (and means) might include some of the following:

- **Increasing sales from existing customers** by encouraging them to increase the frequency of their purchases; maintaining brand loyalty via a strategy that reminds customers of the key advantages of the product; and stimulating impulse purchases.
- **Obtaining new customers** by increasing consumer awareness of the firm's products and improving the firm's corporate image among a new target customer group.

(B) Budget decisions

Controversial aspects of advertising include determining a proper method for deciding the size of the promotional budget and its allocation across markets and over time.

In theory the firm (in each of its markets) should continue to put more money into advertising, as an amount of money spent on advertising returns more than an amount of money spent on anything else. In practice it is not possible to set an optimum advertising budget. Therefore firms have developed more practical guidelines. The manager must also remember that the advertising budget cannot be regarded in isolation, but has to be seen as one element of the overall marketing mix.

1. Affordable approach/percentage of sales

These budgeting techniques link advertising expenditures directly to some measure of profits or, more commonly, to sales. The most popular of these methods is the percentage of sales method, whereby the firm automatically allocates a fixed percentage of sales to the advertising budget.

2. Competitive parity approach

Competitive parity approach involves estimating and duplicating the amounts spent on advertising by major rivals. Unfortunately,

determining the marketing expenditures of foreign-based competitors is far more difficult than monitoring home country businesses, whose financial accounts (if they are limited companies) are open to public inspection and whose promotional activities are obvious the moment they occur. Another danger in following the practice of competitors is that they are not necessarily right.

Furthermore, the method does not recognize that the firm is in different situations in different markets. If the firm is new to a market its relationships with customers are different from those of existing domestic companies. This should also be reflected in its promotion budget.

3. Objective and task approach

The weaknesses of the above approaches have led some firms to follow the objective and task approach, which begins by determining the advertising objectives and then ascertaining the tasks needed to attain these objectives. This approach also includes a cost/benefit analysis, relating objectives to the costs of achieving them. To use this method the firm must have good knowledge of the local market.

(C) Message decisions (creative strategy)

This concerns decisions about what unique selling proposition (USP) needs to be communicated, and what the communication is intended to achieve in terms of consumer behaviour in the country concerned. These decisions have important implications for the choice of advertising medium, since certain media can better accommodate specific creative requirements (use of colour, written description, high definition, demonstration of the product, etc.) than others.

Standardizing international advertising can lead to a number of advantages for the firm. For example, advertising costs will be reduced by centralizing the advertising campaign in the head office and transferring the same campaign from market to market, as opposed to running campaigns from different local offices.

However, executing an advertising campaign in multiple markets requires a balance between conveying the message and allowing for local nuances. The adaptation of global ideas can be achieved by various tactics, such as adopting a modular approach, adapting international symbols and using international advertising agencies.

(D) Media decisions

The selection of the media to be used for advertising campaigns needs to be done simultaneously with the development of the message theme. A key question in media selection is whether to use a mass or target approach. The mass media (television, radio and newsprint) are effective when a significant percentage of the general public are potential customers. This percentage varies considerably by country for most products, depending on, for example, the distribution of incomes in different countries.

The selection of the media to be used in a particular campaign typically starts with some idea of the target market's demographic and psychological characteristics, regional strengths of the product, seasonality of sales, and so on. The media selected should be the result of a careful fit of local advertising objectives, media attributes and target market characteristics. Furthermore, media selection can be based on the following criteria:

- **Reach.** This is the total number of people in a target market exposed to at least one advertisement in a given time period ('opportunity to see', or OTS).
- **Frequency.** This is the average number of times within a given time period that each potential customer is exposed to the same advertisement.
- **Impact.** This depends on compatibility between the medium used and the message. Penthouse magazine continues to attract advertisers for high-value-added consumer durables, such as cars, hi-fi equipment and clothes, which are geared primarily to a high income male segment.

High reach is necessary when the firm enters a new market or introduces a new product so that information about, for example, the new product's availability is spread to the widest possible audience. A high level of frequency is appropriate when brand awareness already exists and the message is about informing the consumer that a campaign is under way. Sometimes a campaign should have both a high frequency and extensive reach, but limits on the advertising budget often create the need to trade off frequency against reach.

Media Types of Advertising

1. Television

Television is an expensive but commonly used medium in attempting to reach broad national markets. In most developed countries coverage is no problem. However, television is one of the most regulated of communications media. Many countries have prohibited the advertising of cigarettes and alcohol other than beer. In other countries (e.g. in Scandinavia) there are limits on the number of minutes that TV advertising is permitted. Some countries also prohibit commercial breaks in TV programmes.

2. Radio

Radio is a lower-cost broadcasting activity than television. Commercial radio started several decades before commercial television in many countries. Radio is often transmitted on a local basis and therefore national campaigns have to be built up on an area-by-area basis.

3. Newspapers (print)

In virtually all urban areas of the world the population has access to daily newspapers. In fact the problem for the advertiser is not having too few newspapers, but rather having too many of them. Most countries have one or more newspapers that can be said to have a truly national circulation. However, in many countries newspapers tend to be predominantly local or regional and, as such, serve as the primary medium for local advertisers. Attempting to use a series of local papers to reach a national market is considerably more complex and costly.

Many countries have English-language newspapers in addition to local-language newspapers. For example, the aim of the Asian Wall Street Journal is to supply economic information in English to influential Asian business people, politicians, top government officials and intellectuals.

4. Magazines (print)

In general, magazines have a narrower readership than newspapers. In most countries magazines serve to reach specific segments of the population. For technical and industrial products magazines can be quite effective. Technical business publications tend to be international in their coverage. These range from individual businesses (e.g. beverages, construction, textiles) to worldwide industrial magazines covering many industries.

Marketers of international products have the option of using international magazines that have regional editions (e.g. Newsweek, Time and Business Week). In the case of Reader's Digest, local-language editions are distributed.

5. Cinema

In countries where it is common to subsidize the cost of showing films by running advertising commercials prior to the feature film, cinema advertising has become an important medium. India, for example, has a relatively high level of cinema attendance per capita (few have television at home). Therefore cinema advertisements play a much greater role in India than in, for example, the United States.

Cinema advertising has other advantages, one of the most important being that it has a truly captive audience (no channel hopping!). The problem, of course, is that people know that commercials will be shown before the film. So they will not turn up until the main feature begins.

6. Outdoor advertising

Outdoor advertising includes posters/billboards, shop signs and transit advertising.

This medium shows the creative way in which space can be sold to customers. In the case of transit advertising, for example, a bus can be sold as an advertising medium. In Romania transit advertising is very effective. According to a survey by Mueller (1996), in Bucharest 91 per cent of all consumers surveyed said they remembered the content of transit advertisements, compared with 82 per cent who remembered the content of print adverts. The use of transit media is expanding rapidly in China as well. Outdoor posters/billboards can be used to develop the visual impact of advertising. France is a country associated with the effective use of poster/billboard advertising. In some countries legal restrictions limit the poster space available.

(E) Agency selection

Confronted with the many complex problems that international advertising involves, many businesses instinctively turn to an advertising agency for advice and practical assistance. Agencies employ or have instant access to expert copywriters, translators, photographers, film makers, package designers and media planners who are skilled and experienced in the inter-national field. Only the largest of big businesses can afford to carry such people in-house.

If the international marketer decides to outsource the international advertising functions they have a variety of options including the following:

- Use different national (local) agencies in the international markets where the firm is present.
- Use the services of a big international agency with domestic overseas offices.

The criteria relevant to the choice of a national or an international agency include the following:

- **Policy of the company:** Has the company got any realistic plans for a more standardized advertising approach?

➤ **Nature of the advertising to be undertaken.**

Corporate image advertising might be best under-taken by a single large multinational agency that operates throughout the world via its own subsidiaries. For niche marketing in specialist country sectors a local agency might be preferred.

➤ **Type of product.** The campaign for an item that is to be presented in a standardized format, using the same advertising layouts and messages in all countries, might be handled more conveniently by a single multinational agency.

(F) Advertising evaluation

Advertising evaluation and testing is the final stage in the advertising decision process. Testing advertising effectiveness is normally more difficult in international markets than in domestic markets. An important reason for this is the distance and communication gap between domestic and foreign markets. Thus it can be very difficult to transfer testing methods used in domestic ones to foreign ones. For example, the conditions for interviewing people can vary from country to country. Consequently, many firms try to use sales results as a measure of advertising effectiveness, but awareness testing is also relevant in many cases, e.g. is brand awareness of crucial importance during the early stages of a new product launch.

Testing the impact of advertising on sales is very difficult because it is difficult to isolate the advertising effect. One way to solve this problem is to use a kind of experiment, where the markets of the firm are grouped according to similar characteristics. In each group of countries, one or two are used as test markets. Independent variables to be tested against the sales (dependent variable) might include the amount of advertising, the media mix, the unique selling proposition and the frequency of placement.

II. Public relations

Word-of-mouth advertising is not only cheap, it is very effective. Public relations (PR) seeks

to enhance corporate image building and influence favourable media treatment. PR (or publicity) is the marketing communications function that carries out programmes designed to earn public understanding and acceptance. It should be viewed as an integral part of the global marketing effort.

PR activities involve both internal and external communication. Internal communication is important to create an appropriate corporate culture.

In a more market-oriented sense, the PR activity is directed towards an influential, though relatively small, target audience of editors and journalists who work for newspapers/magazines, or towards broad casting aimed at the firm's customers and stakeholders.

Since the target audience is small it is relatively inexpensive to reach.

Several methods can be used to gain PR. Such methods include the following:

- Contribution of prizes at different events.
- Sponsorship of events.
- Press releases of news about the firm's products, plant and personnel.
- Announcements of the firm's promotional campaigns.
- Lobbying (government).

The degree of control of the PR messages is quite different. Journalists can use PR material to craft an article of so many words, or an interview of so many seconds. How material is used will depend on the journalist and the desired story line. On occasions a thoroughly negative story can result from a press release that was designed to enhance the company image.

Hence PR activity includes anticipating criticism. Criticisms may range from general ones against all multinational corporations to more specific ones. They may also be based on a market: for example, doing business with prison factories in China.

III. Sales Promotion

Sales promotion is defined as those selling activities that do not fall directly into the advertising or personal selling category. Sales promotion also relates to so-called below-the-line activities such as point-of-sale displays and demonstrations, leaflets, free trials, contests and premiums such as 'two for the price of one'. Unlike media advertising, which is 'above the line' and earns a commission, below-the-line sales promotion does not. To an advertising agency 'above the line' means traditional media for which they are recognized by the media owners, entitling them to commission.

Objectives of the Sales Promotions

Sales promotion is a short-term effort directed primarily to the consumer and/or retailer, in order to achieve specific objectives:

- consumer product trial and/or immediate purchase;
- consumer introduction to the shop;
- encouraging retailers to use point-of-purchase displays for the product;
- encouraging shops to stock the product.

Types of Sales Promotions

In markets where the consumer is hard to reach because of media limitations the percentage of the total communication budget allocated to sales promotions is also relatively high. Here are some of the different types of sales promotion:

- **Price discounts.** These are very widely used. A variety of different price reduction techniques is available, such as cash-back deals.
- **Catalogues/brochures.** The buyer in a foreign market may be located at quite a distance from the closest sales office. In this situation a foreign catalogue can be very effective. It must be able to close the gap between buyer and seller in the way that the potential buyer is supplied with all the necessary information, from prices, sizes,

colours and quantities to packing, shipping time and acceptable form of payment. In addition to catalogues, brochures of various types are useful for salespersons, distributors and agents. Translations should be done in cooperation with overseas agents and/or distributors.

- **Coupons.** Coupons are a classic tool for FMCG brands, especially in the United States. A variety of coupon distribution methods exists: door-to-door, on pack, in newspapers. Coupons are not allowed in all European countries.

- **Samples.** A sample gives the potential foreign buyer an idea of the firm and quality of product that cannot be attained by even the best graphic picture. Samples may prevent misunderstandings over style, sizes, models and so on.

- **Gifts.** Most European countries have a limit on the value of the premium or gift given. Furthermore, in some countries it is illegal to offer premiums that are conditional on the purchase of another product. The United States does not allow alcoholic beer to be offered as a free sample.

- **Competitions.** This type of sales promotion needs to be communicated to the potential customers. This can be done on the pack, in stores via leaflets or through media advertising.

The success of sales promotion depends on local adaptation. Major constraints are imposed by local laws, which may not permit premiums or free gifts to be given. Some countries' laws control the amount of discount given at retail level; others require permits for all sales promotions. Since it is impossible to know the specific laws of each and every country, international marketers should consult local lawyers and authorities before launching a promotional campaign.

IV. Direct marketing

Direct marketing is the total of activities by which products and services are offered to market segments in one or more media for

informational purposes or to solicit a direct response from a present or prospective customer or contributor by mail, telephone or personal visit.

Direct marketing covers direct mail (marketing database), telephone selling and marketing via the Internet. A number of factors have encouraged the rapid expansion of the international direct marketing industry:

- developments in mailing technology, which have reduced the costs of distributing direct-mail literature;
- escalating costs of other forms of advertising and sales promotion;
- the increasing availability of good-quality lists of prospective customers;
- developments in information technology (especially database technology and desktop publishing) that enable smaller companies to produce high-quality direct marketing materials in-house;
- the increasing availability throughout the developed world of interactive television facilities, whereby consumers may order goods through a teletext system.

V. Personal Selling

Advertising is a one-way communication process that has relatively more 'noise', whereas personal selling is a two-way communication process with immediate feedback and relatively less 'noise'. Personal selling is an effective way to sell products, but it is expensive. It is used mainly to sell to distribution channel members and in business-to-business markets. However, personal selling is also used in some consumer markets - for example, for cars and for consumer durable products. In some countries labour costs are very low and here personal selling will be used to a greater extent than in high-cost countries.

International Sales Force Organization

In international markets firms often organise their sales forces similarly to their domestic structures, regardless of differences from one country to

another. This means that the sales force is organized by geography, product, customer.

A number of firms organize their international sales force along simple geographical territories within a given country or region. Firms that have broad product lines and large sales volume, and/or operate in large, developed markets may prefer more specialized organizations, such as product or customer assignment. The firm may also organize the sales force based upon other factors such as culture or languages spoken in the targeted foreign markets. For example, firms often divide Switzerland into different regions reflecting French, Italian and German language usage.

Type of International Sales Force

Management should consider three options when determining the most appropriate international sales force. The salespeople hired for sales positions could be expatriates, host country nationals or third country nationals. For example, a German working for a German company in the United States is an expatriate. The same German working for a US company in Germany is a host country national. They are a third country national if assigned to France.

- **Expatriate salespersons.** These are viewed favourably because they are already familiar with the firm's products, technology, history and policies. Thus the 'only' kind of preparation they would need is a knowledge of the foreign market. Yet this may be a great problem for the expatriate salesperson. Whereas some may enjoy the challenge and adjustment, other expatriate personnel find it difficult to come to terms with a new and unfamiliar business environment. The failure to understand a foreign culture and its customers will hinder the effectiveness of an expatriate sales force. The family of the expatriate may also face adaptation problems. However, very expensive items often require selling directly from the head office, which usually involves expatriates.
- **Host country nationals:** These are personnel who are based in their home country. As native personnel they have extensive market and cultural knowledge,

language skills and familiarity with local business traditions. Since the government and local community undoubtedly prefer that their own nationals be hired instead of outsiders, the firm can avoid charges of exploitation while gaining goodwill at the same time. Using local sales representatives also permits the firm to become active more quickly in a new market because the adjustment period is minimized.

- **Third country nationals:** These are employees transferred from one country to another. They tend to be born in one country, employed by a firm based in another country and working in a third country.

Expatriates and third country nationals are seldom used in sales capacities for long periods of time. They are used for three main reasons: to upgrade a subsidiary's selling performance, to fill management positions and to transfer sales policies, procedures and techniques. However, most companies use local nationals as their sales personnel. They are familiar with local business practices and can be managed accordingly.

4.8 PRICING STRATEGIES

Q20. Discuss about Pricing Strategies in Global Market.

Ans :

Setting the right price for a product can be the key to success or failure. Even when the international marketer produces the right product, promotes it correctly, and uses the proper distribution channel; the efforts fail if the product is not properly priced. Of all the tasks facing the international marketer, determining what price to charge is one of the most difficult and complicated decision specially when the company sells its products to customers in different countries.

Price is the exchange value of a product. It is one element of marketing mix that produces revenue; other elements incur costs. Price revolves around two elements-utility and value. Utility is the generic property of the product to satisfy a need or

want of the consumer. Value is the quantitative worth the consumer attaches to the product, for which he is willing to part with a certain quantum of money.

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. For example, Boeing sells its aeroplanes at about the same price everywhere, whether in the USA, Europe, or a third world country. However, most companies adjust their prices to reflect local market conditions and cost considerations.

Pricing Policies and Strategies

Pricing policies along with pricing strategies guide and provide a framework within which pricing decisions can be made with consistency and with the approval of the organization as a whole. Policies help to specify the role of pricing and its use in context of the Marketing Mix. Such frameworks are especially important in larger organizations where pricing decisions may be delegated to line managers or sales representatives. All such people need sufficient rules to maintain a consistent corporate image in front of the customers without being unduly restricted. Strategies are formed under the policy guidelines to achieve the predefined objectives. Let us discuss some of the pricing strategies that may be used for international markets.

(A) Skimming V/s Penetration Pricing

Two types of pricing strategies, skimming and penetration are especially useful for both domestic and international markets. The decision of which strategy to follow depends on the level of competition, innovativeness of the product, and market characteristics.

1. Price skimming

In this strategy, first the prices are set high to attract the least price sensitive market segments. It may appeal to people who want to be seen first with any new product regardless of the price, or to those who seek status and see high price as the mark of an exclusive product. The prices are gradually

reduced to skim the subsequent layers of income strata in the society. Intel is a prime user of this strategy. This chip manufacturer introduces new microprocessors at high rate for top of the line customers and as sales start slowing down it lowers down prices so that others may also start affording it. Skimming also allows the organization to establish a quality brand image.

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

2. Penetration pricing

A penetration pricing strategy is used to stimulate market growth and capture market share by deliberately offering products at low prices. Rather than setting a high initial price to skim off small but profitable market segments, some companies use penetration pricing. They set a low initial price in order to penetrate the market quickly and deeply, and to attract a large number of buyers quickly to win a large market share. The high sales volume may result in falling costs, allowing the company to cut its prices even further.

Penetration pricing is useful in elastic demand situations where price is a critical factor for the buyer. It is, however, a risky strategy because it could establish a poor-quality brand image. In case it does not work, it would be very difficult to raise the price. However, penetration pricing of a new product, particularly in a market where

product differentiation is difficult, reduces the attractiveness of market entry to competitors unless they can be sure that they can produce and market much more efficiently and on a tighter cost base.

(B) Full cost V/s Variable cost pricing– Firms that orient their price thinking around cost must determine whether to use variable cost or full cost in pricing their goods.

1. Variable cost pricing – In this the firm is concerned only with the marginal or incremental cost of producing goods to be sold in overseas markets. Such firms regard foreign sales as bonus sales and assume that any return over their variable cost makes a contribution to net profit. These firms may be able to price most competitively in foreign markets, but because they are selling products abroad at lower net prices than they are selling them in the domestic markets, they may be subjected to charges of dumping. Nevertheless, variable or marginal cost pricing is a practical approach to pricing when a company has high fixed costs and unused production capacity.

2. Full cost Pricing – The companies who follow full cost approach insist that no unit of a similar product is different from any other unit in terms of cost and that each unit bears its full share of total fixed and variable cost. This approach is suitable when a company has high variable costs relative to its fixed costs. In such cases, prices are often set on a cost plus basis, that is, total costs plus a profit margin.

(C) Standard worldwide Pricing V/s Dual pricing V/s Market differentiated pricing - Besides skimming and penetration, we have three other basic pricing strategies that may be used in the context of international operations. These are standard worldwide pricing, dual pricing, and market differentiated pricing. The first two are cost oriented while the last one is demand oriented. In *standard worldwide pricing*, we fix the same price for every country in the world. This method is based on average unit costs including the fixed, variable, and export related costs. This

method is easy to understand and use. In *dual pricing*, marketers set different prices for domestic and foreign markets. The export price is often based on marginal cost pricing. *Marketing differentiated pricing* strategy calls for setting different prices for different countries, based on demand.

4.8.1 Pricing Methods

Q21. Explain about Pricing Methods in Global Market.

Ans :

Let us discuss some of the pricing methods that may be used for international markets.

1. **Cost-based Pricing:** The emphasis in cost-based pricing methods is on the organization's production and marketing costs. Analysis of these costs leads to an attempt to set a price that generates a sufficient profit. Several approaches under this method are:
2. **Mark-up:** The most elementary pricing method is to add a standard mark-up to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup for profit. The mark-ups vary depending on the nature of products and markets. Usually, the higher the value of the product the larger the mark-up and vice-versa.
3. **Target Profit Pricing/ Rate of return pricing:**
In Target Profit Pricing, the firm determines the price that would yield its target rate of return on investment (ROI). This method is used by public utilities, which need to make a fair return on their investment.
4. **Demand-based Pricing:** Demand-based pricing looks outwards from the production line and focuses on customers and their responsiveness to different price levels. Demand-based pricing indicates that when demand is strong, the price goes up, and when it is weak, the price goes down. This can be seen in some service industries where demand fluctuates depending on time.

5. 'What the Traffic can bear' pricing:

In this the seller takes the maximum price that the customers are willing to pay for the product under the given circumstances. It is not a sophisticated method. It is used more by retail traders than by manufacturing firms. It brings high profits in the short-term but in the long run, it is not a safe concept. Chances of error in judgment are very high, but it can be used where monopoly/oligopoly conditions exist.

6. **Psychological Pricing:** Psychological pricing is very much a customer-based pricing method, relying as it does on the consumer's emotive responses, subjective assessments and feelings towards specific purchases. It is particularly applicable to products with a higher involvement focus i.e. those that appeal more to psychological than to practical motives for purchase.

7. **Prestige Pricing:** It is used by the consumer as a means of assessing quality. The high price attracts the status-conscious consumer, the discerning customer for whom price is no object.

Geographical Pricing

It helps the company in deciding how to price its products to different customers in different locations and countries. Geographical pricing tries to answer the following two important questions :

1. Should the company risk losing the business of more distant customers by charging them higher prices to cover the higher transportation and shipping costs?
2. Or should the company charge all customers the same prices regardless of location?

Five Basic Geographical Strategies may answer these questions :

1. **Free on board (FOB) pricing** – In this pricing strategy, goods are placed free on board a carrier and the customer pays the freight from the factory to the destination. This means factory price for all customers is

same but the total price varies according to the transportation cost. Naturally, the customers situated near to the factory have to pay less and distant customers have to pay more because of the higher transportation cost.

2. **Uniform delivered pricing** – It is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at average freight cost. The advantage of this method is that it is easy to administer and it lets the firm advertise its price nationally.
3. **Zone pricing** – It falls between FOB and uniform delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price.
4. **Basing point pricing** – In this pricing method, the seller selects a given city as a 'basing point' and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. Some companies set up multiple basing points to create more flexibility. They quote freight charges from the basing point city nearest to the customer.
5. **Freight absorption pricing** – The seller who is anxious to do business with a certain customer or geographical area might use freight absorption pricing. Using this strategy, the seller absorbs all or part of the actual freight charges in order to get the desired business. This pricing is useful for market penetration and to hold on to increasingly competitive markets.
6. **Competition-based Pricing**: There are two aspects of competition that influence an organization's pricing, structure of the market and the product's perceived value in the market. In other words, the more differentiated an organization's product is from the competition, the more autonomy the organization has in pricing it, because buyers come to value its unique benefits. Three policy methods are available to the firm under this method:

- ▶ **Premium Pricing**: It means pricing above the level adopted by competitors.
 - ▶ **Discount Pricing**: It means pricing below the level adopted by competitors.
 - ▶ **Parity Pricing/ going rate pricing**: It means matching competitors' pricing.
7. **Product-Line Oriented Pricing**: When a firm manufactures large variety of products that can be grouped into a few homogeneous product lines, a special possibility in pricing arises. As the products in a given product line are related to each other, sales of one influence the sales of others and also have interrelated costs of manufacturing and distribution. So, the aim of the firm is not to fix optimal price for each product independent of other products, but to get optimal sales of all the products in the line put together and optimum total profits from the line.
 8. **Loss leader pricing**: Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. This is called loss leader pricing. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers.
 9. **Transfer Pricing**: It is the pricing of goods and services in the intracorporate context. It is the pricing to members of the same corporate family. Increasingly, products are being assembled from materials and parts brought in from several different countries. When these materials and parts are secured from affiliates in different countries, transfer pricing has to be used.

Global Pricing Approaches

There are three global pricing approaches :

1. **Extension / Ethnocentric**: This strategy calls for same price all over the world and the importer absorbs freight & import duties. This approach has the advantage of extreme

simplicity because no information on competition or market conditions is required for implementation. Disadvantage of this approach is directly tied to its simplicity. Extension pricing does not respond to the competitive and market conditions of each national market and therefore, does not maximize the company's profit in each foreign market.

2. **Adaptation/Polycentric:** This approach permits subsidiary or affiliate managers to establish whatever price they feel is most desirable in their circumstances. Under such approach there is no control or fixed requirement that prices be coordinated from one country to next. Only constraint on this approach is in setting transfer prices within corporate system. There is also problem that under such a strategy, valuable knowledge & experience within the corporate system concerning effective pricing strategies is not applied to each local pricing problem.
3. **Invention/Geocentric:** Using this approach a company neither fixes a single price worldwide nor remains aloof from subsidiary pricing decisions but instead strikes an intermediate position. A company pursuing this approach works on the assumption that there are unique local market factors that should be recognized in arriving at a pricing decision. These factors include local costs income level, competition & the local marketing strategy.

4.8.2 Factors Influencing Pricing Decisions

Q22. What are the Factors Influencing Pricing Decisions ?

Ans : (Dec.-19)

Factors affecting international pricing decisions :

The marketers have to take into account several factors while fixing prices globally. Some of them are as follows :

1. Production cost

The manufacturer will not sell goods below the production cost. The production cost is

further divided into variable cost and total cost. Cost of production differs from country to country. Prices must cover production costs, hence, may vary from country to country.

If the manufacturer's price can be lowered, the effect is felt throughout the chain. One of the important reasons for manufacturing in a third world country is an attempt to reduce manufacturing costs. The impact can be profound if you consider that the hourly cost of skilled labour in India is less than \$2 an hour including benefits compared with \$10 in the USA.

2. Distribution cost

Distribution cost involves costs of taking products from factory to the place of consumers. Prices depend on channel length, marketing patterns, middlemen's margins and markups. The marketer also incur added expenses for warehousing and handling of small shipments, and may have to bear increased financing costs when dealing with underfinanced middlemen.

Exporting also incurs increased transportation costs when moving goods from one country to another. If the goods go over water, there are additional costs for insurance, packing, and handling not generally added to locally produced goods. Such costs add yet another burden because import tariffs in many countries are based on the landed cost that includes transportation, insurance, and shipping charges.

Shorter channels can keep prices under control. Designing a channel that has fewer middlemen may lower distribution costs by reducing or eliminating middlemen markup.

3. Taxes & Tariffs

The manufacturer & exporter will add the amount of taxes & tariffs to the prices to recoup them from the consumers. If taxes & tariffs are not taken back from the customers, the profits of manufacturer & exporter would decline.

A tariff, or duty, is a special form of taxation. Like other forms of taxes, a tariff may be levied for the purpose of protecting a market or for increasing government revenue. A tariff is a fee charged when goods are brought into a country from another country.

When tariffs account for a large part of price escalation, companies seek to lower the rate. Some products can be reclassified into a different, and lower, customs classification. Actually, how a product is classified is often a judgement call. The difference between an item being classified as jewelry or art means paying no tariff for art or more than 25% for jewelry.

4. Inflation

The effect of inflation on cost must be taken into account. In the countries with rapid inflation or exchange variation, the selling price must be related to the cost of goods sold and the cost of replacing the items. Marketers have to protect themselves against the inflation. When the payment is likely to be delayed for several months or is worked out on a long-term contract, inflationary factors must be figured into prices. Every exporter must try to charge inflation amount to prices.

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

5. Exchange rate fluctuations

The exporters face fluctuations in exchange rate of various currencies. If the currency rate is stable, the payment would be easy and problem free but the fluctuating atmosphere makes it difficult to decide how much money and at what time would be received by exporters.

At one time, world trade contracts could be easily written and payment was specified in a relatively stable currency. The US dollar was the standard and all transactions could be related to the dollar. Now that all major

currencies are floating freely relative to one another, no one is quite sure of the future value of any currency. Increasingly, companies are insisting that transactions be written in terms of vendor company's national currency, and forward hedging is becoming more common. If exchange rates are not carefully considered in long-term contracts, companies may lose 15-20%. The added cost incurred by exchange rate fluctuations on a day to day basis must be taken into account, especially where there is a significant time lapse between signing the order and delivery of the goods.

6. Demand & Supply

The demand and supply are instrumental to the determination of the prices. Demand and supply conditions set the prices in a country. If the demand is more and supply is less then the company can afford to charge higher prices otherwise not. Similarly demand potential and demand elasticities both play critical roles. Price elasticity is most pronounced in low income countries, where people pay close attention to prices. If prices are high, they buy less, and if prices are low, they buy more.

Prices of competing or substitute products create cross elasticities. If many local substitutes compete with a product of an international company and their prices vary, then their prices influence demand for it. Prices of complimentary products create complimentary elasticities. If, for example, the prices of auto tires and petrol are high in a particular country, a price cut by a multinational automaker may not result in the expected levels of sales increase. A cut in the prices of tires, petrol, and both, however, would have beneficial effects on automobile sales.

7. Competition

Competition is important factor to influence the pricing. The behaviour of competitors' puts severe constraints on the operating margins and ultimately the prices. More the number of competitors less price a company may be able to charge and vice versa.

Some price competition is indirect, meaning that price competition occurs between the product and its close substitutes. For example, many carmakers compete indirectly with public transport systems.

Non-price competition occurs in many markets. In developed countries, non-price competition takes on a promotional orientation with emphases on better advertising, improved design, and good service more than on price. In developing countries, non-price competition frequently takes the form of appeals of local pride and patriotism.

8. Free Trade Zones

Some countries have established free trade zones (FTZs) or free ports to facilitate international trade.

There are more than 300 of these facilities in operation throughout the world where imported goods can be stored or processed.

Price escalations resulting from the layers of taxes, duties, surcharges, freight charges, and so forth, can to some extent be controlled by utilizing FTZs. The benefits of free trade zones permit many of these added charges to be avoided, reduced, or deferred and the final price becomes competitive. One of the more important benefits of the FTZ in controlling prices is the exemption from duties on labour and overhead costs incurred in the FTZ in assessing the value of goods. By shipping unassembled goods to an FTZ in an importing country, a marketer can lower costs in a variety of ways :

- ▶ Tariffs may be lower because duties are typically assessed at a lower rate for unassembled goods in comparison to assembled goods.
- ▶ If labour costs are lower in the importing country, substantial savings may be realised in the final product cost.
- ▶ Ocean transportation rates are affected by weight and volume, thus, unassembled goods may qualify for lower freight rates.

If local content, such as packaging or component parts, can be used in the final assembly, there may be a further reduction of tariffs.

9. Leasing

An important manufacturing and selling technique to alleviate high prices and capital shortages for capital equipment in the leasing system. The concept of equipment leasing has become increasingly important as means of selling capital equipment in overseas markets. In fact, it is estimated that \$50 billion worth of equipment is on lease in Europe.

The system of leasing used by industrial exporters is similar to the typical lease contracts used in the domestic country. Terms of leases usually run one to five years, with payments made monthly or annually; included in the rental fee are servicing, repairs, and spare parts.

10. Countertrade

Many buyers pay for goods in cash while others would like to offer other items in lieu of the payment, a practice known as countertrade which takes several forms such as :

Barter

The direct exchange of goods, with no money and no third party involved. One of the largest barter deals to date involved Occidental Petroleum Corporation's agreement to ship super phosphoric acid to the former Soviet Union for ammonia, urea, and potash under a two year, \$20 billion deal. No money changed hands nor were any third parties involved. Obviously in a barter transaction, the seller must be able to dispose of the goods at a net price equal to expected selling price in a regular, for cash transaction. Further, during the negotiation stage of a barter deal, the seller must know the market and the price for the items offered in trade.

1. **Compensation deal:** The seller receives some percentage of the payment in cash and the rest in products. An advantage of a compensation deal over barter is the

immediate cash settlement of a portion of the bill; the remainder of the cash is generated after successful sale of the goods received. If the company has a use for the goods received, the process is relatively simple and uncomplicated.

2. **Buyback arrangement:** The seller sells a plant, equipment or technology to another country and agrees to accept as partial payment products manufactured with the supplied equipment.
3. **Counter purchase or Offset:** The seller receives full payment in cash but agrees to spend a substantial amount of the money in that country within a stated time period.
4. **Long range commitment:** A firm may be internationalised temporarily or permanently, and this decision affects its pricing behaviour. Some enter international markets on a short-term basis because they have surpluses that can be sold or excess capacities that can be utilised by expanding into these international markets. These firms generally price low in order to sell the maximum in minimum time. Once the surplus is depleted or domestic markets recover or expand sufficiently to absorb the excess capacity, the company withdraws from international markets.

Other firms have long term internationalisation commitments and continuously introduce new products. These companies, whenever possible set their international prices globally and at high levels. Of course, as their products move through the product life cycle, their international prices are scaled down gradually.

4.9 CONCEPT OF INTERNATIONAL PRODUCT LIFE CYCLE

Q23. Explain the Concept of International Product Life Cycle.

Ans :

Like human beings, products also have a life cycle. They are conceived at a prenatal stage and take birth at the introductory stage. They grow like human beings, reach a maturity stage and eventually decline in their acceptance at the market place, till eventually meeting their resting place in the annals of product history.

International products too pass through four different stages of yielding profits, gaining market shares, overcoming competition and, finally, succumbing to the competitive pressures or till the international marketing firms themselves decide to come out with a substitute or innovation. The product life cycle refers to the four different stages: introduction, growth, maturity and decline. Figure 11.4 draws a typical product life cycle.

1. Introduction Stage

The benefits of innovation, the new technology breakthrough the new' production systems and entering a virgin field can be taken advantage of at this stage. Generally, highly developed and industrialised countries will be introducing new inventions, green field projects as the costs of research and development in developing a new product will be very high. The firms will initially market these products in the country of origin and, after having obtained a sizeable adoption rate, will export them to developing countries. The international marketing firm can adopt either of the two following policies.

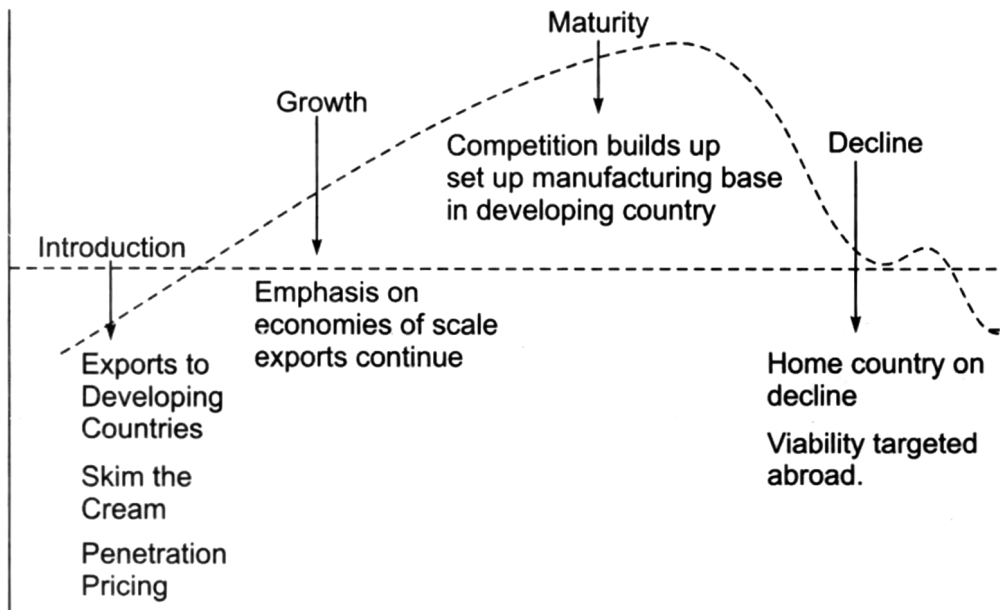


Fig. International Product Life Cycle

Skim the Cream

The price will be set fairly high, since there will not be much competition at the top end. The high price will attract consumers at the top of the demand curve. The high price may yield low volumes, but it will pay for the initial investments made on product development, new technology development and the huge expense incurred on R & D and innovative marketing.

International cell phones manufacturers like Nokia, Motorola and Siemens introduced their products in Indian market in early 1990s. They took advantage of technology advancement and adopted the policy of skimming the cream off the Indian markets at the introduction stage. Their products were priced very high for the Indian consumers.

Market Penetration Strategy

This could be adopted when the aim is to capture as much market share as possible before others wake up to the situation. Generally in a price sensitive market, where the customer is not willing to pay a higher price as the product cannot be distinguished from the other existing products, the low price benefit will attract the users of other products and will spell into large volumes, resulting in low production cost at the very initial stage.

When Coca Cola re-entered the Indian market in the early 1990s, and was then followed by Pepsi, it adopted the market penetration policy with a low price innovative pack of Rs. 5 per bottle, which enabled it to corner a sizeable slice from other indigenous soft drinks.

2. Growth Stage

The firm will face increasing competition here as the market wakes up to the rapid new product adoption. Price competition will increase at this stage. The products that are being hit and replaced due to massive adoption of a new product by their established customer base will react to the situation. They will take corrective actions with their market price and product mix strategies. The international marketing firm will continue exporting to developing countries. There will be more emphasis on developing economies of scale in the production process.

3. Maturity Stage

This is the longest stage in the product life cycle. The firm will notice the sales growth chart of its new product showing stagnating trends. The product profit realisations will be under tremendous strains due to increase in competition. The international marketing firm will fight the competition through other promotional mix like advertising, POP material and trade incentives at the maturity stage to keep the demand and price going.

The firm will set up manufacturing bases in developing countries or source out the major components to gain price advantage over the competition as the standards of competition will be quantified by now. We discussed Motorola above and how it adopted the 'skim the cream' strategy for the Indian market. At this stage of maturity, Motorola had moved its European software centre and chip plant to Krakow Poland. The automobile ancillary industry from Japan and United States have been actively setting up bases in India and China to enter into strategic alliances with the local manufactures to produce viable products at low cost.

These local manufacturers will sell their products to international marketing firms from the developed countries like the United States to create competition for the firms based in these highly industrialised economies. India is fast emerging as the back office of many international marketing firms for process outsourcing, as a major cost saving devise. The software industry is another example of moving manufacturing bases to the developing economies. Today, companies like Microsoft, Motorola, IBM, Cap Germany and Intel have all set up their process divisions in India and export back the software solutions to United States and other parts of Europe.

4. Decline Stage

The dynamic forces of growth and change in the marketplace take their toll on these products too, as they lose their market shares and customers' perceptions to new introductions. Consequently, their sales suffer and profitability and contributions from these products come down as the demand declines. The international marketing firms will try to extend declining product life cycle curve for a while by injecting fresh appeals and attractions to the product line. But it cannot be sustained for long. The firm will have a look at the possibility of continuing with the same product only in the developing countries' market and seek fresh innovations for the lead and developed economies.

Short Question and Answers

1. Global Marketing

Ans :

Marketing of products is done regularly by companies locally. But since ages, foreign products have constantly been introduced in other markets and the sellers or modern-day term would be marketers have tweaked, changed or revamped their strategies in order to appeal and gain acceptance from local market.

Global marketing can be defined as “marketing on a worldwide scale, in different countries, reconciling or taking commercial advantage of global operational differences, similarities, and opportunities in order to meet global objectives”. Basically, when a firm sells the same products to the global market, then it is known as Global marketing. An example would be Samsung Galaxy S series, which is globally marketed and not customized as per the market it is being sold in.

Many multinationals have offices abroad in various countries they cater to. Currently, with the expansion of the internet, even small organizations can reach a global audience in a small amount of time and little investment.

2. Explain about segmentation of product and services.

Ans :

International market segmentation is essentially the identification of subsets of buyers within a market who share similar needs and who demonstrate similar buyer behaviour. The World is made up from billions of buyers with their own sets of needs and behaviours. Segmentation aims to match groups of purchasers with the same set of needs and buyer behaviour. Such a group is known as a “segment”.

The term market segmentation is used to refer to any division of the firm's total market for the purpose of differentiating prices, promotion strategies or products between buyers.

Definition of Market Segmentation

“Market segmentation is the process of dividing the total heterogeneous market for a product into several submarkets or segments in such a way that each of the segment tends to be homogeneous in all respects.”

- William J. Stanton

“Market segmentation is a process of identifying groups of buyers with different desires or requirements.”

- Philip Kotler

3. Geographic Segmentation.

Ans :

Geographic segmentation means grouping consumers into homogenous groups in terms of geographical similarities such as nations, states, regions and cities. Even geographical factors such as climate, density of population, topography, etc., can be considered for the subdivision of a market segment.

Geographically, the world market can be divided into different regions or countries. Generally, people in the same regions share more or less similar lifestyle and consumption pattern. Similarly, needs and requirements of people in the same country are more or less similar. Therefore, the size of each segment is large and only large companies can exploit such large markets. Small marketers can focus their attention on some large segment within a specific geographical area. For example, in India middle class constitutes the largest market segment.

4. Global Distribution.

Ans :

A worldwide computerized reservation network used as a single point of access for reserving airline seats, hotel rooms, rental cars, and other travel related items by travel agents, online reservation sites, and large corporations.

The premier global distribution systems are Amadeus, Galileo, Sabre, and Worldspan. They are owned and operated as joint ventures by major airlines, car rental companies, and hotel groups. Also called automated reservation system (ARS) or computerized reservation system (CRS).

Distribution Channel

Distribution channel includes a set of marketing institutions participating in the marketing activities involved in the movement or flow of goods or services from the primary producer to the ultimate consumer.

In the international market, two categories of marketing channels are involved:

- (a) Channels between the nations, and
- (b) Channels within the foreign markets.

Marketing channels, besides distribution, perform a number of functions for the marketers. Basically, they provide three types of utilities to the marketers:

- (a) **Time Utility:** Time utility means marketing channels make the products available to the consumers as and when required.
- (b) **Place Utility:** Place utility means they make the products available to the consumers at the location desired by them.
- (c) **Ownership Utility:** Ownership utility means they help in transfer of ownership or title of goods from the producer to the consumer.

5. What are the Levels of Distribution Channel in International Market ?

Ans :

Channel level refers to the number of intermediaries involved in the distribution channel. The following are the channel levels:

- (a) **Zero-level Channel:** It is also called direct marketing channel and is essentially characterised by the producer making a direct sale to the ultimate buyer. The three principal ways of direct selling are door-to-door selling, sale through mail order and through manufacturer owned stores.

(b) **One-level Channel:** It is characterised by one selling intermediary like the retailer or the agent.

(c) **Two-level Channel:** It contains two selling intermediaries, i.e., wholesaler/distributor and retailer.

(d) **Three-level channel:** It has three intermediaries, i.e., agents, wholesalers and retailers.

6. Communications Decisions / Promotion Strategies

Ans :

Communication is the fourth and final decision to be made about the global marketing programme. The role of communication in global marketing is similar to that in domestic operations: to communicate with customers so as to provide information that buyers need to make purchasing decisions. Although the communication mix carries information of interest to the customer, in the end it is designed to persuade the customer to buy a product at the present time or in the future.

To communicate with and influence customers, several tools are available. Advertising is usually the most visible component of the promotion mix, but personal selling, exhibitions, sales promotions, publicity (public relations) and direct marketing (including the Internet) are also part of a viable international promotion mix.

One important strategic consideration is whether to standardize worldwide or to adapt the promotion mix to the environment of each country. Another consideration is the availability of media, which varies around the world.

7. Geographical Pricing.

Ans :

It helps the company in deciding how to price its products to different customers in different locations and countries. Geographical pricing tries to answer the following two important questions :

1. Should the company risk losing the business of more distant customers by charging them higher prices to cover the higher transportation and shipping costs?
2. Or should the company charge all customers the same prices regardless of location?

Five Basic Geographical Strategies may answer these questions :

1. **Free on board (FOB) pricing** – In this pricing strategy, goods are placed free on board a carrier and the customer pays the freight from the factory to the destination. This means factory price for all customers is same but the total price varies according to the transportation cost. Naturally, the customers situated near to the factory have to pay less and distant customers have to pay more because of the higher transportation cost.
2. **Uniform delivered pricing** – It is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at average freight cost. The advantage of this method is that it is easy to administer and it lets the firm advertise its price nationally.
3. **Zone pricing** – It falls between FOB and uniform delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price.

8. Global Pricing Approaches.

Ans :

There are three global pricing approaches :

1. **Extension / Ethnocentric:** This strategy calls for same price all over the world and the importer absorbs freight & import duties. This approach has the advantage of extreme simplicity because no information on competition or market conditions is required for implementation. Disadvantage of this approach is directly tied to its simplicity. Extension pricing does not respond to the competitive and market conditions of each national market and therefore, does not maximize the company's profit in each foreign market.
2. **Adaptation/Polycentric:** This approach permits subsidiary or affiliate managers to establish whatever price they feel is most desirable in their circumstances. Under such approach there is no control or fixed requirement that prices be coordinated from one country to next. Only constraint on this approach is in setting transfer prices within corporate system. There is also problem that under such a strategy, valuable knowledge & experience within the corporate system concerning effective pricing strategies is not applied to each local pricing problem.
3. **Invention/Geocentric:** Using this approach a company neither fixes a single price worldwide nor remains aloof from subsidiary pricing decisions but instead strikes an intermediate position. A company pursuing this approach works on the assumption that there are unique local market factors that should be recognized in arriving at a pricing decision. These factors include local costs income level, competition & the local marketing strategy.

9. Free Trade Zones.

Ans :

Some countries have established free trade zones (FTZs) or free ports to facilitate international trade.

There are more than 300 of these facilities in operation throughout the world where imported goods can be stored or processed.

Price escalations resulting from the layers of taxes, duties, surcharges, freight charges, and so forth, can to some extent be controlled by utilizing FTZs. The benefits of free trade zones permit many of these added charges to be avoided, reduced, or deferred and the final price becomes competitive.

One of the more important benefits of the FTZ in controlling prices is the exemption from duties on labour and overhead costs incurred in the FTZ in assessing the value of goods. By shipping unassembled goods to an FTZ in an importing country, a marketer can lower costs in a variety of ways :

- ▶ Tariffs may be lower because duties are typically assessed at a lower rate for unassembled goods in comparison to assembled goods.
- ▶ If labour costs are lower in the importing country, substantial savings may be realised in the final product cost.
- ▶ Ocean transportation rates are affected by weight and volume, thus, unassembled goods may qualify for lower freight rates.

If local content, such as packaging or component parts, can be used in the final assembly, there may be a further reduction of tariffs.

UNIT V

Implementing Global marketing strategies: Negotiation with customers and selection method – Cultural and International Negotiations, E-Marketing channels organization & controlling of the global marketing programme, Export Documentation, Export Procedures, Steps in processing an Export Order.

5.1 IMPLEMENTING GLOBAL MARKETING STRATEGIES

Q1. Explain about Implementing Global Marketing Strategies.

Ans : (Imp.)

Implementing a global strategy requires coordinating subsidiary activities across country locations. The assumption often made is that such coordination must be managed at headquarters. However, an alternate approach is decentralized-centralized responsibilities in which different subsidiaries within the multi-national are given worldwide mandates to manage specific products or product lines. This study identifies subsidiary characteristics that are associated with receiving a global mandate by examining foreign subsidiaries located in France, Germany, Japan, U.K., U.S., and Canada.

International Marketing Strategy

One of the most frequent motives for internationalization is the search for new markets (see Chapter 4). An international marketing strategy brings customer focus to the firm's international strategy. International marketing, in general, is concerned with identifying, measuring and pursuing market opportunities abroad. It implies "the application of marketing orientation and marketing techniques to international business" and alludes to the positioning of the MNC itself and its products and services in foreign markets.

The basic types of international marketing strategies can be classified according to the integration/responsiveness-framework

1. **International marketing strategy:** This type of marketing strategy can be considered an ethnocentric marketing strategy, and is characterized by the application of the marketing strategy of the home country to all foreign markets without adaptation to the local environment. It represents a standardized approach to marketing that is referred to as "transference", i.e., the marketing strategy that has been developed for the home market is transferred to (all) other markets.
2. **Global marketing strategy:** The global marketing strategy is associated with a firm's commitment to coordinate its marketing activities across national boundaries in order to satisfy global customer needs. Global marketing is associated with a standardised approach, i.e., a marketing strategy being applied in multiple markets at the same time) with the objective of achieving global efficiency and economies of scale.
3. **Multinational marketing strategy :** Multinational marketing strategies focus on the diversity of international marketing and imply a strong adaptation to the needs of each market. Thus, individual marketing programmes are developed for each individual market, with a multitude of diverse marketing programmes being applied simultaneously.
4. **Transnational marketing strategy :** The transnational marketing strategy implies the combination of global efficiency and multinational diversity with a strategy that

strives to satisfy the mantra “think globally, act locally”. This strategy is sometimes referred to as “globalisation”.

Challenges in Strategy Implementation

All too often, law firms dedicate substantial internal and external resources to a strategy development process, but ultimately, fail to move the firm in the direction identified or realize the benefits of their investment. Why is it that so many firms fail in strategy implementation? The most common reasons include:

1. **Insufficient partner buy-in:** In conducting strategic planning, firm leaders and partners involved in the process develop a strong understanding of the business imperative behind the chosen strategy and the need for change in order to achieve partner goals. However, partners removed from the process may struggle to identify with the goals and strategies outlined by firm leaders. These partners may not see a need for change, and without understanding the background and rationale for the chosen strategy, these partners may never buy-in to strategic plan and, as a result, will passively or actively interfere with the implementation process.
2. **Insufficient leadership attention:** Too often, law firm leaders view the strategy development process as a linear or finite initiative. After undergoing a resource intensive strategic planning process, the firm's Managing Partner and Executive Committee members may find themselves jumping back into billable work or immersing themselves in other firm matters, mistakenly believing that writing the plan was the majority of the work involved. Within weeks of finalizing the plan, strategies start to collect dust, partners lose interest, and eventually, months pass with little or no reference to the plan or real action from firm leaders to move forward with implementation.
3. **Ineffective leadership:** Leading strategy implementation requires a balancing act - the ability to work closely with partners in order to build cohesion and support for the firm's strategy, while maintaining the objectivity required in order to make difficult decisions. Strategy implementation frequently fails due to weak leadership, evidenced by firm leaders unable or unwilling to carry out the difficult decisions agreed upon in the plan. To compound the problem, partners within the firm often fail to hold leaders accountable for driving implementation, which ultimately leads to a loss of both the firm's investment in the strategy development process as well as the opportunities associated with establishing differentiation in the market and gaining a competitive advantage.
4. **Weak or inappropriate strategy:** During the course of strategic planning, the lack of a realistic and honest assessment of the firm will lead to the development of a weak, inappropriate or potentially unachievable strategy. A weak strategy may also result from overly aspirational or unrealistic firm leaders or partners who adopt an ill-fitting strategy with respect to the firm's current position or market competition. Without a viable strategy, firms struggle to take actions to effectively implement the plan identified.
5. **Resistance to change:** The difficulty of driving significant change in an industry rooted in autonomy and individual lawyer behaviors is not to be underestimated. More often than not, executing on strategy requires adopting a change in approach and new ways of doing things. In the context of law firms, this translates to convincing members of the firm, and in particular partners, that change is needed and that the chosen approach is the right one.

By developing an awareness of these hurdles and traps which lead to failure in implementation, firms can learn how to adapt their approach and develop tools to assist them in more successfully executing on their strategy.

Tools for Success in Strategy Implementation

As a first step in ensuring the successful implementation of the firm's strategy, firm leaders must take early and aggressive action to institutionalize the strategy within the firm. The Managing Partner, Chair, and other key leaders must demonstrate visible ownership of the firm's strategy, communicating clearly with partners about the details, value and importance of the strategy to the firm. Members of management should also seek input and support from key opinion leaders and rainmakers early-on and request their help in championing the strategy to other partners within the firm. Over time, such actions will assist in generating buy-in among partners, leading to greater overall support for the strategic plan and the changes inherent in its execution.

Having successfully sold the main tenets of a strategic plan to the partnership, firm leaders must then reorient themselves around the task at hand: strategy implementation. This is where the real work begins. To facilitate more effective execution, leaders should take the following critical actions:

1. **Implementation Support Structure :** To support effective implementation, firm leaders should ask the question: does the firm have the right leadership, governance and operational structure required to support effective implementation? Are the right people serving in the right places? Very often, firm leaders demonstrate the behavior of dynamic and influential visionaries. However, such leaders may lack an attention to detail and the organizational skills required to effectively drive day to day action. By assessing whether the firm has the right people in the right places, a law firm can better ensure that visionary firm leaders are appropriately supported by individuals who can get the daily actions of implementation done.
2. **Implementation Planning:** A fundamental and critical step in moving forward with strategy execution involves planning. Implementation planning entails developing a detailed outline of the specific actions and

sub-actions, responsibilities, deadlines, measurement tools, and follow-up required to achieve each of the firm's identified strategies. Implementation plans often take the form of detailed charts which map the course of action for firm leaders over a 24-36 month time period. Achieving a level of detail in these plans provides for a tangible and measurable guide by which both the firm and its leaders can assess progress in implementation over time.

3. **Alignment of Management Processes :** Successful implementation of a law firm's strategy also requires alignment of the firm's partner compensation system, performance management approach, and other related practice group and client team management structures and processes with the firm's chosen strategy. The most common (and perhaps critical) example of a structure necessitating alignment is that of partner compensation. Very often firms adopt strategic plans which require partner collaboration and teamwork in order to achieve success, yet fail to modify the partner compensation system to reward such activities. Failure to align management processes and structures with a newly adopted strategy frequently results in a stall out of implementation efforts, as members of the firm direct individual behaviors to align with the firm's historic rewards system, and not the newly stated strategy.
4. **Measurement, Follow up and Accountability :** A key component of success in implementation involves holding firm leaders and partners accountable for actively driving and supporting execution. Whether individuals are assigned discreet implementation activities (e.g. hire lateral IP partner) or asked to participate in ongoing efforts to support strategic initiatives (e.g. expand existing Energy clients), measurement and follow up is required. What actions have been taken to expand work for existing Energy clients, and how much new

business has been generated from these efforts? By following up and assessing progress in implementation at regular intervals (e.g. monthly or quarterly), firms can more effectively determine whether current implementation activities and assignments are working, or whether a different approach is needed. Such assessments are crucial in ensuring that action is taken and progress is made on strategy execution.

5. Incorporating Organizational Learning

: As an evolving and recurring process, effective strategy creation and implementation necessitates ongoing review of the firm's chosen direction. The strategic planning process entails periodically evaluating the firm's strategy in light of internal and external changes and incorporating lessons learned into the implementation plan. This key component of strategy implementation ensures that the firm's strategy remains dynamic and drives ongoing competitiveness in the market.

5.2 NEGOTIATION WITH CUSTOMERS AND SELECTION METHOD

Q2. Discuss about Negotiation with Customers and Selection Method.

Ans : (Imp.)

Once global marketing strategies have been formulated, once marketing research has been conducted to support those strategies, and once product/service, pricing, promotion, and place decisions have been made, then the focus of managers turns to implementation of the plans. In international business such plans are almost always implemented through face-to-face negotiations with business partners and customers from foreign countries. The sales of goods and services, the management of distribution channels, the contracting for marketing research and advertising services, licensing and franchise agreements, and strategic alliances all require managers from different cultures to sit and talk with one another to exchange ideas and express needs and preferences.

Executives must also negotiate with representatives of foreign governments who might approve a variety of their marketing actions or in fact be the actual ultimate customer for goods and services. In many countries governmental officials may also be joint venture partners, and in some cases vendors.

One authority on international joint ventures suggests that a crucial aspect of all international commercial relationships is the negotiation of the original agreement. The seeds of success or failure often are sown at the negotiation table, vis-a-vis (face-to-face), where not only are financial and legal details agreed to but, perhaps more important, the ambiance of cooperation is established. Indeed, the legal details and the structure of international business ventures are almost always modified over time, usually through negotiations. But the atmosphere of cooperation initially established face-to-face at the negotiation table persists or the venture fails.

Business negotiations between business partners from the same country can be difficult. The added complication of cross-cultural communication can turn an already daunting task into an impossible one. On the other hand, if cultural differences are taken into account, of ten times wonderful business agreements can be made that lead to long-term, profitable relationships across borders. The purpose of this final chapter is to help prepare managers for the challenges and opportunities of international business negotiations. To do this, we will discuss the dangers of stereotypes, the impact of culture on negotiation behavior, and the implications of cultural differences for managers and negotiators.

The Pervasive Impact of Culture on Negotiation Behavior

The primary purpose of this section is to demonstrate the extent of cultural differences in negotiation styles and how these differences can cause problems in international business negotiations.

Cultural differences cause four kinds of problems in international business negotiations, at the levels of :

1. Language

2. Nonverbal behaviors
3. Values
4. Thinking and decision-making processes

The order is important; the problems lower on the list are more serious because they are more subtle. For example, two negotiators would notice immediately if one were speaking Japanese and the other German. The solution to the problem may be as simple as hiring an interpreter or talking in a common third language, or it may be as difficult as learning a language. Regardless of the solution, the problem is obvious. Cultural differences in nonverbal behaviors, on the other hand, are almost always hidden below our awareness. That is to say, in a face-to-face negotiation participants nonverbally - and more subtly - give off and take in a great deal of information.

Some experts argue that this information is more important than verbal information. Almost all this signaling goes on below our levels of consciousness. When the nonverbal signals from foreign partners are different, negotiators are most likely to misinterpret them without even being conscious of the mistake. For example, when a French client consistently interrupts, Americans tend to feel uncomfortable without noticing exactly why. In this manner, interpersonal friction often colors business relationships, goes undetected, and, consequently, goes uncorrected. Differences in values and thinking and decision-making processes are hidden even deeper and therefore are even harder to cure.

1. Differences in Language and Nonverbal Behaviors

Americans are clearly near the bottom of the languages skills list, although Australians assert that Australians are even worse. It should be added, however, that American undergrads recently have begun to see the light and are flocking to language classes and study-abroad programs. Unfortunately, foreign language teaching re-sources in the United States are inadequate to satisfy the increasing demand.

The language advantages of the Japanese executive in the description of the *aisatsu* that opened the chapter were quite clear. However, the most common complaint heard

from American managers regards foreign clients and partners breaking into side conversations in their native languages.

2. Differences in Values

Four values objectivity, competitiveness, equality, and punctuality that are held strongly and deeply by most Americans seem to frequently cause misunderstandings and bad feelings in international business negotiations.

a) Objectivity. "Americans make decisions based upon the bottom line and on cold, hard facts." "Americans don't play favorites." "Economics and performance count, not people." "Business is business." Such statements well reflect American notions of the importance of objectivity.

b) Competitiveness and Equality. Simulated negotiations can be viewed as a kind of experimental economics wherein the values of each participating cultural group are roughly reflected in the economic outcomes. The simple simulation used in our research represented the essence of commercial negotiations it had both competitive and cooperative aspects. At least 40 business people from each culture played the same buyer-seller game, negotiating over the prices of three products. Depending on the agreement reached, the "negotiation pie" could be made larger through cooperation (as high as \$ 10,400 in joint profits) before it was divided between the buyer and seller.

c) Time. "Just make them wait." Everyone else in the world knows that no negotiation tactic is more useful' with Americans, because no one places more value on time, no one has less patience when things slow down, and no one looks at their wristwatches more than Americans do. The material on P-time versus M-time is quite pertinent here. Edward T. Hall in his seminal writing is best at explaining how the pas-sage of

time is viewed differently across cultures and how these differences most often hurt Americans.

3. Differences in Thinking and Decision-Making Processes

When faced with a complex negotiation task, most Westerners (notice the generalization here) divide the large task up into a series of smaller tasks. Issues such as prices, delivery, warranty, and service contracts may be settled one issue at a time, with the final agreement being the sum or the sequence of smaller agreements. In Asia, however, a different approach is more often taken wherein all the issues are discussed at once, in no apparent order, and concessions are made on all issues at the end of the discussion. The Western sequential approach and the Eastern holistic approach do not mix well.

Q3. What are the Implications for Managers and Negotiators ? and selection of negotiators?

Ans :

Considering all the potential problems in cross cultural negotiations, particularly when you mix managers from relationship-oriented cultures with those from information-oriented ones, it is a wonder that any international business gets done at all. Obviously, the economic imperatives of global trade make much of it happen despite the potential pitfalls. But an appreciation of cultural differences can lead to even better international commercial transactions it is not just business deals but highly profitable business relationships that are the real goal of international business negotiations.

Four steps to International Business Negotiations

- 1) selection of the appropriate negotiation team;
- 2) management of preliminaries, including training, preparations, and manipulation of negotiation settings;
- 3) management of the process of negotiations, that is, what happens at the negotiation table; and

- 4) appropriate follow-up procedures and practices. Each is discussed in this section.

1. Negotiation Teams

One reason for global business successes is the large numbers of skillful international negotiators. These are the managers who have lived in foreign countries and speak foreign languages.

The selection criteria for international marketing and sales personnel are applicable in selecting negotiators as well. Traits such as maturity, emotional stability, breadth of knowledge, optimism, flexibility, empathy, and stamina are all important, not only for marketing executives involved in international negotiations, but also for the technical experts who often accompany and support them. In studies conducted at Ford Motor Company and AT&T, three additional traits were found to be important predictors of negotiator success with international clients and partners: willingness to use team assistance, listening skill, and influence at headquarters.

2. Negotiation Preliminaries

Many companies in the United States provide employees with negotiations training. For example, through his training programs, Chester Karrass has taught more people (some 400,000) to negotiate than any other purveyor of the service - see his ads in almost all inflight magazines of domestic American air carriers. However, very few companies provide training for negotiations with managers from other countries.

Even more surprising is the lack of cultural content in the training of the government's diplomats. Instead, in most schools of diplomacy the curricula cover language skills, social and diplomatic skills, and knowledge specific to the diplomatic profession, including diplomatic history and international relations, law, economics, politics, international organizations, and foreign policies. Cultural differences in negotiation and communication styles are seldom considered.

Any experienced business negotiator will tell you that there is never enough time to get ready. Given the time constraints of international negotiations, preparations must be accomplished efficiently - the homework must be done before the bargaining begins.

We recommend the following checklist to ensure proper preparation and planning for international negotiations :

1. Assessment of the situation and the people
2. Facts to confirm during the negotiation
3. Agenda
4. Best alternative to a negotiated agreement (BATNA)
5. Concession strategies
6. Team assignments

Preparation and planning skill is at the top of almost everyone's list of negotiator traits, yet it seems many Americans are still planning strategies during over-ocean flights when they should be trying to rest. Quick wits are important in business negotiations, and arduous travel schedules and jet lag dull even the sharpest minds. Obviously, information about the other side's goals and preferences should be sought ahead of time. Also important are clear directions from headquarters and detailed information about market conditions.

At least seven aspects of the negotiation setting should be manipulated ahead of time if possible :

1. Location
2. Physical arrangements
3. Number of parties
4. Number of participants
5. Audiences (news media, competitors, fellow vendors, etc.)
6. Communications channels
7. Time limits

3. At the Negotiation Table

The most difficult aspect of international business negotiations is the actual conduct of the face-to-face meeting. Assuming that the best representatives have been chosen, and assuming those representatives are well prepared and that situational factors have been manipulated in one's favor, things can still go sour at the negotiation table.

Obviously, if these other preliminaries have not been managed properly, things will go wrong during the meetings. Even with great care and attention to preliminary details, managing the dynamics of the negotiation process is almost always the greatest challenge facing Americans seeking to do business in other countries.

Going into a business negotiation, most people have expectations about the "proper" or normal process of such a meeting. Based on these expectations, progress is measured and appropriate bargaining strategies are selected. That is, things may be done differently in the latter stages of a negotiation than they were in the earlier. Higher-risk strategies may be employed to conclude talks as in the final two minutes of a close soccer match. But all such decisions about strategy are made relative to perceptions of progress through an expected course of events.

Differences in the expectations held by parties from different cultures are one of the major difficulties in any international business negotiation. Before these differences are discussed, however, it is important to point out similarities. Everywhere around the world we have found that business negotiations proceed through four stages:

1. Nontask sounding
2. Task-related exchange of information
3. Persuasion
4. Concessions and agreement

1. Nontask sounding

The first stage, nontask sounding, includes all those activities that might be described as establishing a rapport or getting to know one another, but it does not include information related to the "business" of the meeting. The information exchanged in the second stage of business negotiations regards the parties' needs and preferences. The third stage, persuasion, involves the parties' attempts to modify one another's needs and preferences through the use of various persuasive tactics. The final stage of business negotiations involves the consummation of an agreement, which is often the summation of a series of concessions or smaller agreements.

2. Task-Related Information Exchange

Only when nontask sounding is complete and a trusting personal relationship is established should business be introduced. American executives are advised to let foreign counterparts decide when such substantive negotiations should begin, that is, to let them bring up business.

A task-related information exchange implies a two-way communication process. However, observations suggest that when Americans meet executives from some cultures across the negotiation table, the information flow is unidirectional. Japanese, Chinese, and Russian negotiators all appear to ask “thousands” of questions and to give little feedback. The barrage of questions severely tests American negotiators’ patience, and the lack of feedback causes them great anxiety. Both can add up to much longer stays in these countries, which means higher travel expenses.

3. Persuasion

In Japan, a clear separation does not exist between task-related information exchange and per-suasion. The two stages tend to blend together as each side defines and refines its needs and preferences. Much time is spent in the task-related exchange of information, leaving little to “argue” about during the per-suasion stage. Conversely, Americans tend to lay their cards on the table and hurry through the information exchange to persuasion. After all, the persuasion is the heart of the matter. Why hold a meeting unless some-one’s mind is to be changed? A key aspect of sales training in the United States is “handling objections.” So the goal in information exchange among Americans is to quickly get those objections out in the open so they can be handled.

4. Concessions and Agreement

Comments made previously about the importance of writing down concession-making strategies and understanding differences in decision

making styles - sequential versus holistic - are pertinent here. Americans often make concessions early, expecting foreign counterparts to reciprocate. However, in many cultures no concessions are made until the end of the negotiations. Americans often get frustrated and express anger when foreign clients and partners are simply following a different approach to concession making, one that can also work quite well when both sides understand what is going on.’

5. After Negotiations

Contracts between American firms are often longer than 100 pages and include carefully worded clauses regarding every aspect of the agreement. American lawyers go to great lengths to protect their companies against all circumstances, contingencies, and actions of the other party. The best contracts are written so tightly that the other party would not think of going to court to challenge any provision. The American adversarial system requires such contracts.

In most other countries, particularly the relationship-oriented ones, legal systems are not depended upon to settle disputes. Indeed, the term disputes does not reflect how a business relationship should work. Each side should be concerned about mutual benefits of the relationship and therefore should consider the interests of the other. Consequently, in places like Japan written contracts are very short - two to three pages-are purposely loosely written, and primarily contain comments on principles of the relationship. From the Japanese point of view, the American emphasis on tight contracts is tantamount to planning the divorce before the wedding.

In other relationship-oriented countries, such as China, contracts are more a description of what business partners view their respective responsibilities to be. For complicated business relationships they may be quite long and detailed. However, their purpose is different from the

American understanding. When circumstances change, then responsibilities must also be adjusted, despite the provisions of the signed contract. The notion of enforcing a contract in China makes little sense.

Informality being a way of life in the United States, even the largest contracts between companies are often sent through the mail for signature. In America, ceremony is considered a waste of time and money. But when a major agreement is reached with foreign companies, their executives may expect a formal signing ceremony involving CEOs of the respective companies. American companies are wise to accommodate such expectations.

Finally, follow-up communications are an important part of business negotiations with partners and clients from most foreign countries. Particularly in high-context cultures, where personal relationships are crucial, high-level executives must stay in touch with their counterparts. Letters, pictures, and mutual visits remain important long after contracts are signed. Indeed, warm relationships at the top often prove to be the best medicine for any problems that may arise in the future.

Selection of Negotiators

Selection of Negotiators refers to the criteria used to select members of the negotiating team. Achievement-based people evaluate and relate to others based on what they have accomplished; status-based people evaluate and relate to others based on who they are.

1) Abilities

People with an achievement-based view believe members of a negotiating team should be selected because they possess certain job-related skills or because they have expertise that will be useful during the course of the negotiations. Examples of relevant skills or expertise include education, technical or scientific knowledge, legal training, vocational achievement, negotiating experience, or language fluency.

2) Status

People with a status-based view believe members of a negotiating team should be selected because of who they are and whom they know. Examples of relevant characteristics include family background, influential connections, seniority, age, or gender. Negotiators from status-based cultures may be senior, high-ranking officials, who wield considerable influence in their organizations and who may also command great respect in the community at large.

5.3 CULTURAL AND INTERNATIONAL NEGOTIATIONS

Q4. Explain about Cultural and International Negotiations.

Ans :

(Dec.-19)

Culture and Negotiations

The specific theories which identify the impacts of culture on the international business negotiation process are synthesized and compared. Most of these studies have only focused on one aspect of the process. Table 1 presents a synthesis of these impacts specified in previous studies.

Cultural Values on International Business Negotiation Process

International Business Negotiation Process	Impact of Cultures
Goal	Thai, Chinese, and Japanese negotiators value long-term relationships. Western negotiators aim at signing a contract.
Protocol	The degree of formality in a negotiation can vary from culture to culture. Thais value etiquette and respectful manners. English and German negotiators are very formal and highly concerned with proper protocol.
Communication	Thais tend to speak softly and use almost no gestures, and prefer indirect language. Americans are direct and prefer a straightforward presentation with a minimum of game playing.
Time	Americans are sensitive to time. They view it as a limited resource that must not be wasted. Japanese regard time as long duration, spending time to learn counterparts. Thais have a very relaxed attitude to time and scheduling.
Risk propensity	Japanese prefer predictable situations, being strict to the rules. Thais are more flexible to the rules, and accepting changes.
Groups versus individuals	In decision making, a more collective culture places emphasis on group priority. An individual-oriented culture is more independent and assertive. Thai culture is group-oriented, but hierarchical; decisions are made by the top managers. Japanese negotiators rely on consensus.
Nature of agreements	Thais generally respect contracts, but personal commitment has more value. Germans are detail-oriented and prefer specific provisions.

5.4 E-MARKETING CHANNELS**Q5. Explain about e-marketing channels.***Ans :*

In the past few years there has been an explosion of online commercial activity enabled by the Internet or World Wide Web. This is generally referred to as electronic marketing (e-marketing), with a major component of e-marketing being electronic transactions taking place on Internet-based markets (electronic markets or e-markets).

The development of the Internet as a 'new' distribution channel will result in a shift of power from the manufacturers and the traditional retail channels to the consumers. This increasing consumer power can be explained in the following ways:

- ▶ **The search for convenience.** The Internet gives people a new tool to gather information and purchase more easily than do traditional channels.
- ▶ **The incorporation of the net into the purchase process.** Pre-purchase and post-sale use of the Internet is exploding, regardless of where the product is bought.
- ▶ **A shift in loyalties.** Consumers reward online merchants with higher repeat-purchase behaviour.

- **Future buying plans.** Survey results indicate an increasing consumer disposition to buy online.

Today's technology only scratches the surface of efficient comparison shopping and product search. The development of automated buying profiles, networked buying clubs and online auctions will bring greater price competition to the Internet. Merchants must be prepared to live up to 'We will match any price' marketing guarantees.

Competing on the Internet is different from the traditional industrial world. Competition no longer takes place in the physical marketplace, but in the market space (Rayport and Sviokla, 1996). This computer-mediated environment has profound implications for how business is transacted between buyer and seller. The nature of transaction is different in that it is based on information about the product or services rather than on its physical appearance or attributes.

The context of the transaction is different; instead of taking place in a physical world it occurs in a computer-mediated environment with the buyer conducting the transaction from a personal computer screen. Consequently, to be a player in many industries does not require a physical infrastructure such as buildings and machinery; a computer and communications platform are sufficient.

Like so many 'buzz words' in use today, e-marketing tends to mean different things to different people. For the purpose of introducing the subject, e-marketing is defined in this way :

The enablement of a business vision supported by advanced information technology to increase the effectiveness of the business relationships between trading partners.

Examples of e-marketing transactions are :

- An individual purchases a book on the Internet.
- A government employee reserves a hotel room over the Internet.
- A manufacturing plant orders electronic components from another plant within the company using the company's intranet.

Table below sums up the internet effects on the company's global marketing strategy.

Aspect of global marketing strategy	Internet effects on the global marketing strategy
<i>Global market participation</i>	Instant global reach No more one-by-one country rollouts – possible to make use of the shower approach to a much higher degree
<i>Global activity location</i>	Reduces need to have local physical presence in many downstream activities. Allows virtual networks that concentrate and pool expertise and resources from separate locations.
<i>Global products and services</i>	The Internet allows companies to be both global (offering some standardized products and digitized services) and local (offering local version of websites and products). Offer some personalized content (cocreation between marketer and customer)
<i>Global marketing communication</i>	Makes it easier to build global recognition. Need to offer multilanguage websites. Need to adapt style and content, not just language.
<i>Global competitive moves</i>	Easier to monitor competitors. Marketer can respond more quickly to competitor moves. Internet establishes global standards that may pre-empt competition.

Table : Internet effects on the Global Marketing strategy

Types of e-marketing

The impact of e-marketing on the economy extends far beyond the dollar value of e-marketing activity. Businesses use e-marketing to develop competitive advantages by providing more useful information, expanding choice, developing new services, streamlining purchasing processes and lowering costs. The Internet also imposes price discipline as customers have access to price and product information from many sources.

	Business	Consumer
Business	B2B ● EDI relation ● GM, Ford and DaimlerChrysler join forces in sourcing of autoparts in e-markets	B2C ● Dell ● amazon.com ● eToys ● Cdnnow
Consumer	C2B (reverse auctions) ● Priceline ● MobShop (formerly Accompany) ● LetsBuyIt	C2C (traditional auctions) ● eBay ● QXL

Table : Four different e-marketing markets

Exploring Buying Behaviour in E-marketing

This section deals with buying behaviour on the two main markets: the business-to-consumer (B2C) market and the business-to-business (B2B) market.

A) Segmenting and exploring consumer behaviour in the B2C market

Hofacker (1999) divides Internet users into two main segments :

1. **Hedonic surfers.** Hedonic surfers use a website by experiencing it in the same way they do movies and sports events. Often there is a strong non-verbal aspect to the hedonic experience - the images are quite important. Surfers are relatively un-focused and their browsing is spontaneous. The goal is escapist, to achieve immersion in the site, or at least a high degree of personal enjoyment either through arousal or pleasure or both. The idea is to gather interesting and exciting experiences from the Web.

A unique site works best for these surfers, one which is novel and interesting. They can be drawn into a website via links everywhere and ad banners on other sites.

2. **Utilitarian searchers.** In contrast to hedonic surfers, utilitarian searchers are on a mission and they have a work mentality. The utilitarian searcher uses the Web in a way that is instrumental and rational. Such a visitor is looking for some kind of specific information. A well-organised and searchable site works best for these seekers.

Figure provides an overview of the main differences between 'marketplace' and 'market space' in the consumer decision process. Of course, iteration exists between the different stages.

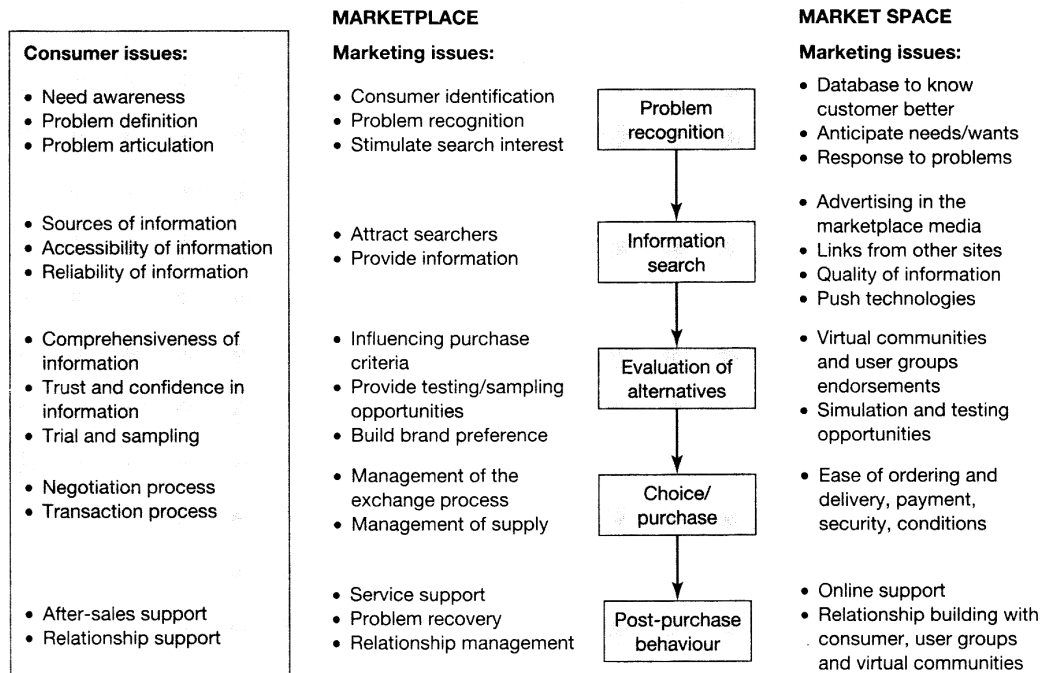


Fig. : Consumer purchasing decision process: the marketplace vs market space

Each of these stages is now examined in turn and compared in the context of the marketplace and the market space.

1) Problem Recognition

The first stage, consumer decision, triggers all subsequent activity. The consumer is compelled to fill the gap between the actual and the desired state. When problem awareness is reached problem recognition may be triggered by a number of external and internal factors.

In traditional markets, conventional marketing communications stimulate demand via conventional media, for example an advertisement on television. However, on the Internet the medium is new, and so new kinds of communications are required. In the traditional mass marketing approaches much of the audience will not be interested, and there is considerable wastage. But new information technologies fundamentally change that. Computer-mediated environments enable identification of individual consumer needs and wants, and subsequent design and delivery of individual and customized communications.

2) Information Search

The information gathered, be it from internal sources (e.g. memory) or external sources (e.g. discussions, brochures, sales promotions) provides the basis for this stage. The physical marketplace imposes limitations on information. Economic and access barriers constrain what can efficiently be known and consequently what can realistically be evaluated. On the Internet, however, intelligent shopping agents can scan the entire Web to find the data necessary for comparison. The relevant criteria can be presented and explained and can be ordered to suit individual needs.

The management of information is the primary role of the agent or broker in the marketplace. The intermediary function is here largely based on information provision and exchange. This is the effective function of travel agents, for instance. But, in the market space, when an airline sets up its

own website with interactive flight information and booking facilities, for example, then the traditional intermediary is bypassed in a classic case of disintermediation.

As channel disintermediation and re-intermediation become important, a match between information content and consumer requirements also becomes important. As individuals come to utilize the Internet for consumer purchases a situation of perfect information is almost attainable. However, it must be noted that consumers' sense of uncertainty can actually increase as they gain more information. Information 'overload' occurs when we learn more about the alternatives available to us, and the search becomes 'psychologically costly'.

3) Evaluation of Alternatives

In the marketplace word-of-mouth communication, the references of family, colleagues and friends, are a central influence at this stage. In the market space, new reference groups appear. The virtual community, consisting of discussion groups of interested parties, can have the power of the traditional reference groups, but with even greater quality and quantity of evaluative information. A simple version of a virtual community is Amazon.com's open book reviews, whereby a potential buyer can read book reviews by other website visitors.

4) Purchase Decision

This stage involves decisions on *where* and *how* to buy. *Where* to buy is a decision regarding the choice of seller. Competition on the Web is driven by sellers attempting to build more exciting and interesting sites than their competitors, attracting the right customers to those sites, and providing superior shopping experiences to induce purchase. *How* to buy concerns the nature of the transaction and contract. Many of the products and services currently available to individual consumers on the Internet are digital, e.g. software and upgrades, or easily physically transported, e.g. music CDs and books.

The future broadening of the base will require particular analysis of physical delivery issues. The actual delivery routines for such a service are probably more complex than the ordering, packing and payment routines. Whereas the order can be met within the one organization and under one roof, the logistics of physical delivery of relatively bulky but relatively low-value grocery orders is an entirely different proposition.

5) Post-purchase Behaviour

In this stage the actual sale should be perceived as a starting point rather than an end. How the customer takes delivery of the product, how the product is used, the degree and satisfaction, quality of the service dimensions, customer complaints and suggestions are all critical to understanding consumer behaviour. This, of course, applies both in the *marketplace* and in the *market space*.

The main difference between relationship development in the two types of markets is that the *market space* emphasises 'high-tech', and is characterized more by the power of information and communication technologies to satisfy customer needs and thereby continue business relationships. For the seller in the market space the big issue is to update the website continuously. Post-purchase activity involves consumers returning to the seller's site with queries, for *new* information, and to repurchase.

B) Exploring Business Behaviour in the B2B Market

Web information systems hold great potential to streamline and improve business-to-business transactions. Instead of regarding the Internet as a mere sales channel, companies also utilize emerging technologies to cut costs out of the supply chain by streamlining procurement processes and improving collaboration. In times of intense competition and increasingly open markets the ability to achieve efficiency improvements can become key to commercial success.

In the following we will look at how businesses make buying decisions and how they can be

supported by an e-marketing information system. The interorganizational transactions are analysed from a process-oriented perspective and four phases - information, negotiation, settlement, and after-sales and transaction analysis - are distinguished.

Participants in B2B

Transactions usually involve three categories of participants: buyers, sellers and intermediaries. Buyers and sellers are the active groups in terms of exchanging goods and services (sellers) for some form of compensation (buyer). Regarding the third group, intermediaries, are playing vital role in B2B markets.

The intermediaries are supposed to offer a variety of services to support and facilitate transactions. This includes financial institutions such as banks, credit card companies and insurance brokers; providers of shipping, logistics and warehousing services; and consultants, industry associations and market researchers offering advice, product data or market information. Providers of information technology to automate transactions or to help set up electronic marketplaces can be characterized as intermediaries as well.

In the case of business-to-business transactions, both buyers and sellers are business organizations, whereas business-to-consumer and consumer-to-consumer transactions involve end consumers or private households as buyers or sellers, respectively.

Q6. What are the Four Phases of the Buyer/Seller Transaction Process Model ?

Ans :

Phase 1: Information Search and Evaluation

In the information phase of a transaction both buyers and sellers reach out to the world in search of information. In the physical world (marketplace), buyers locate information sources such as product catalogues, use them to scan product listings, obtain offerings from prospective suppliers and gather additional information about products, vendor or transaction- specific requirements. Before a purchasing transaction can be performed internal approval frequently has to be obtained from upper-level management.

The information phase comprises both searching for a particular electronic catalogue or source of information and locating required information and commodities within the information repository. In this phase buyers and sellers are not yet focused on specific transaction partners. Information gathering and knowledge creation are the centre of attention, and information is the primary object of exchange between prospective transaction partners.

A variety of web-based information systems and other applications are available to provide support for the information phase of a transaction. Electronic catalogues, for example, feature comprehensive product descriptions and search tools, configuration support for complex purchases, workflow routing for approval processes, and access to additional information such as market research data and product review. Catalogues can be provided by suppliers, set up by the buyer or developed by a third party. They can be hosted on the supplier's web server, or be integrated into internal systems. Links to back-end systems provide access to human resources data, as they are required to manage purchasing authorization.

Phase 2: Negotiation

Of all transaction phases, the negotiation phase shows the broadest range of variations, from simple processes where price is the most important factor ('always-a-share'), to very complex arrangements where the buyer-seller relationship is regarded as a long-term strategic partnership ('lost-for-good'), according to Jackson (1985).

Negotiations are often perceived as processes where a small number of prospective customers and sellers (often only one participant on each side) bargain on product prices and other terms of a deal. The parties jointly identify possible solutions with the goal of reaching a consensus, usually in the form of a contract. Bargaining processes alter with decisions whether to accept or reject the offering, and with the outlining of counter-suggestions until a mutually satisfactory agreement is reached.

As prospective buyers and sellers start communicating directly with each other interaction is the centre of attention. In this phase influence is the primary object of exchange between the transaction partners. Not every transaction process

features such complex negotiations. In fact the negotiation phase is very often quite simple or even non-existent, such as in the case of retail buys and pre-negotiated contracts,

Negotiations can range from a single transaction to multiple-year contracts. The longer the time span that is covered, the more complex the structure of the bargaining process tends to be. In the following, we focus on complex forms of negotiations (be it for one transaction or a large number), but acknowledge the simpler forms as well.

Information systems support negotiations in a number of ways. They can provide transaction information and decision support by assessing the value of specific offerings, by identifying new bargaining options and by increasing the negotiation's productivity. Participants may improve their bargaining positions through additional online information, such as the volume of previous business, supplier performance or spending patterns.

Phase 3: Settlement of transaction + monitoring performance

Upon execution of the contract the objects of the transaction are exchanged according to the conditions previously stipulated. In addition, the settlement phase regularly includes some form of mutual performance monitoring. After the rather unstructured negotiation phase the process of executing a transaction can be relatively straightforward. It is formally initiated as soon as a purchase order is confirmed by the supplier.

The supplier ships the goods (often in collaboration with a third party, for example a local provider of logistic services), announces the shipment and sends out a corresponding invoice. On the buyer side, orders are tracked, items are received and payment is initiated after matching the invoice with the delivery. Naturally there are many variations of this standard scenario. Consider, for example, the differences between the shipment of physical goods and the online delivery of information goods.

In the settlement phase of a transaction activities and procedures are comparatively well

defined, as they are part of the contract. Thus attention centres on execution and efficiency. At this point the main objects of exchange are goods and services. Information technologies to support transaction settlement may include EDI systems on the Web and various tools to process orders internally and between transaction partners, facilitate order tracking and support payment processes.

Phase 4: After-sales analysis

After a transaction has taken place both sellers and buyers store the transaction data to provide after-sales support (seller), or to assess supplier performance and analyse internal buying patterns (buyer). On the buyer side the information flow is often split. While the purchase data is stored with central procurement, the end user keeps the product-related documentation.

In case of unexpected irregularities it is often the end user who contacts the supplier (e.g. to request a repair). Without proper access to the transaction file communication problems and delays can occur. Capturing, storing and managing data are vital at this point. Similar to the first phase (information), it is mainly information that is being exchanged between buyer and seller.

5.4.1 Developing Dynamic Global E-marketing

Q7. How to Developing Dynamic Global E-marketing ?

Ans :

Many commercial websites have moved from providing basic company and product information to becoming an integral part of product and service launch strategies. Yet many firms are realizing that even this more coordinated approach is not taking full advantage of the Internet environment.

Figure explores the development of a firm's web strategy from a low-level strategy with the same one-way communication to a fully integrated e-marketing strategy, where the customer feels that they are treated on a one-to-one interactive basis. The following discusses the three commitment levels in detail.

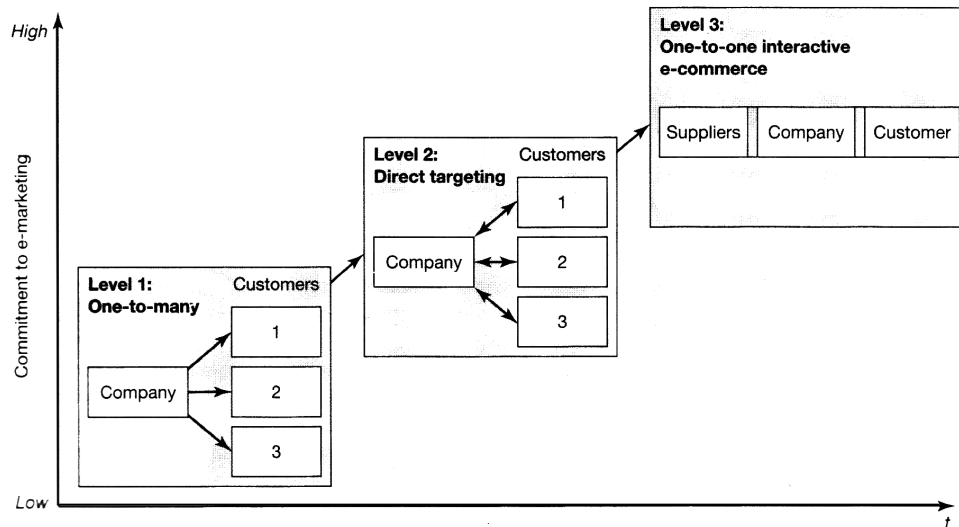


Fig. : Increasing commitment to e-marketing

Level 1: One-to-many broadcast

Companies use the Internet for something that could be considered little else than a formal presence. These companies feel that they have to be present on the Web, but do not follow any concrete marketing objectives with the establishment of their website.

The motivation of the management in establishing such a page is most probably mainly reactive: as competitors move on to the Web it is felt that a presence has become necessary. Often, however, management will doubt that few if any customers or prospects will ever care to go near the page. The only tangible benefit from the Web is seen in the ability to use the web-site in traditional marketing channels in order to project a 'high-tech' image, an image of a company that keeps abreast of the latest developments. Although such an internet 'strategy' will certainly not double the company's turnover it can nonetheless be an economically plausible move because investments are low.

The web representation is regarded as an additional tool to channel information on a firm's products or services to potential and existing customers. Companies following this strategy do consider the World Wide Web a useful tool, but perceive it more or less as no different from the traditional one-to-many marketing channels. The focus of such a web presence will therefore lie in the firm providing as much information as possible through the Web rather than establishing a dialogue with the customer. Consequently these companies will spend considerable time designing their website and ensuring the information is complete, accurate and kept up to date. The site will be easy to access, quick to load and easily found using search engines. Products or services may be displayed in great detail in this virtual showroom to enhance their visibility and exposure in the marketplace and thus increase purchase probability.

Level 2: Direct targeting

For the firms on this level the key difference between traditional marketing media and the new cyber marketing is the degree of interactivity. Communication is no longer based on businesses feeding information to customers. Rather, the customers play an active role not only in looking for information relevant to the specific product and service needs in their buying process, but also in communicating these needs to the company. Hence some degree of segmentation is possible. In some cases the customers can also buy standard products on the website. The interaction (feedback) is still not on the highest level, as the basic exchange of information takes place through e-mails.

The most fundamental capability of a website is the presentation of information about products, services, people, events or ideas. Websites with a strategic orientation emphasize both the gathering (feedback) and diffusion of information. It is possible to evaluate the extent to which an organization fulfils the informing function by examining the efforts to exchange information with key stakeholders. These stakeholders are customers, investors, suppliers, affiliates, employees, managers and community members. In addition to providing information on the company's vision, history, products and services, many websites include information on organizational structure, financials, recruiting, executive teams and customer surveys.

Level 3: One-to-one interactive e-marketing strategy

This is the final level, where we see a high degree of interaction between buyer and seller. Here the company is moving from providing company and product information to becoming an integral part of the whole vertical value chain from supplier to end consumer. This virtual integration works faster than Level 2 (direct targeting) by blurring traditional boundaries between suppliers, manufacturers and customers in the value chain. Dell Computers gained the position as a market leader in the personal computer industry by using this model.

A website that supports e-marketing can provide an important strategic asset for a business. A successful site has many benefits :

- ▶ It tightens relationships with existing customers and business partners.
- ▶ It offers new revenue-generating opportunities - through new channels as well as new business models.
- ▶ It offers opportunities to reduce costs by streamlining processes.
- ▶ It provides a competitive advantage.

Building a site can represent a significant investment in time and resources. A haphazard

approach often results in wasted money and lost opportunity. To be successful companies must integrate e-marketing into their overall business strategies and processes. They must understand the role of e-marketing in the context of other revenue-generating channels as well as re-engineering and cost-reduction initiatives.

5.4.2 Phases involved in Developing and Implementing e-marketing structure

Q8. What are the Phases involved in Developing and Implementing e-marketing structure ?

Ans :

The following phases are involved in developing and implementing a successful e-marketing strategy:

- 1. Identification of the process,** product or business area that is most applicable for an e-marketing initiative.
- 2. The company's e-marketing goods.** Questions that need to be answered include:
 - a) What portion of the business will e-marketing represent in 12 months, two years and five years?
 - b) What volume of business does the company expect over the next five years?
 - c) What level of return on investment does the company expect ?
 - d) How will return on investment be measured?
 - e) What cost savings can the company realize through e-marketing?
 - f) Will online sales reduce the sales volumes in existing channels? If so, what will be the impact on each channel?
- 3. Definition of 'internal' and 'external' actors.** Defining the audience or customer is one of the primary tasks because it determines how and when internal and external actors should be involved. This includes identifying internal audiences such as marketing, sales, channel sales, finance, IT

and other internal groups, as well as external customers, suppliers, vendors, resellers and other business partners. This element of the overall plan affects many other aspects of the e-marketing system, from site design to online marketing techniques.

4. **Evaluation of competitor strategies.** The company's traditional competitors may already have an e-marketing initiative. It is essential to identify what these competitors are doing. Are they aggressively pursuing an e-marketing strategy or are they taking a wait-and-see approach? Are they extending their existing offerings to the new channel or are they creating an entirely new business? Although current competitors are a threat, non-traditional competitors often represent the biggest competitive risk. These are the companies that find new ways to reconstruct traditional value chains into value webs - gaining a significant head-start over companies that simply move existing business processes to the Internet.
5. **Integration of e-marketing with existing distribution channels and partners.** E-marketing is one component of an overall business value chain. It integrates with existing business processes and systems, and should complement existing channels rather than compete with them.
6. **Putting the right internal competences/skills in place.** Moving into the electronic commerce area requires new skills, knowledge and expertise in the three areas of strategy, technology and creativity:
 - a) **Strategy.** Strategic planning must be approached in a totally different way because of the dynamic nature of the Internet. Therefore the time perspective of strategic plans in the 'physical' firms (e.g. five years) should normally be shortened to maybe one year in 'virtual' firms.
 - b) **Technology:** Internet technologies are rapidly evolving, and keeping pace with the nev. breakthroughs is difficult. Technological expertise involves in-depth

understanding of current hardware and software solutions, new technologies, site development, systems integration and security issues.

- c) **Creativity:** Creative skills involve more than just basic website design. This discipline encompasses the entire user experience - what users see, how they navigate, how the', obtain information and how they conduct transactions. It also encompasses the audience development activities that drive traffic to the site. Marketing and promotions techniques that are effective in traditional media do not always translate well into the online marketplace.

After considering these phases the company may go on to the phase with design and implementation of the desired e-marketing system.

Companies that conduct e-marketing are subject to the same laws, regulations and taxes that govern operations of all businesses. Companies operating on the Web face at least one complicating factor as they try to follow the laws. A company that uses the Web immediately becomes an international business, and as such the company can become subject to many more laws, more quickly, than it would if it had been a traditional bricks-and-mortar company tied to one specific physical location.

Furthermore, any country's legal issues are difficult to interpret and follow because of the newness of electronic commerce and the unsettled nature of the laws. Some of the legal issues (in different countries) on which companies might need to seek specific legal advice are: ownership of company's domains (URLs), advertising/marketing standards and taxation on e-marketing.

5.4.3 Factors Influencing Strategy Creation

Q9. What are the Factors Influencing Strategy Creation ?

Ans : (Imp.)

In the following we discuss some of the factors influencing the creation of a global e-marketing strategy.

1. Diversity of regulations

Online regulations such as privacy laws, taxes or commerce have a direct impact on online providers, and thus shape usage behaviour in a given country. The type of competition emerging in a given country or region depends on the type of regulatory framework. Strict European privacy guidelines prohibit the transfer of data across borders. In fact the transfer of any data requires the customer's permission. In Italy bank regulations require customers to open accounts in person, forcing online banking providers to establish an offline presence.

Furthermore, as the consumers may come from many different jurisdictions with different consumption tax regimes, the administration of tax is particularly complex in e-marketing. It is also more difficult to locate the place of consumption and the place of origin of the delivered good/service for tax purposes, particularly with regard to 'all digital' transactions such as the purchase of music files on the Internet using electronic cash (Frynas, 2002).

2. Infrastructure

Telecommunication and Internet infrastructures differ markedly from country to country. Perhaps two aspects are especially relevant to strategy formulation. First, installed international bandwidth sets limits on the speed at which information flows back and forth between a foreign website and a local buyer. One way a firm can react to these slow speeds is by redesigning its website to make downloading pages less time-consuming. The number of 'click-throughs' necessary to complete a purchase may also have to be reduced. Second, there are stunning differences between countries in terms of the proportions of users accessing the Web through a PC, their TV set or a mobile phone.

3. Geographical distance

The world may have shrunk as a result of globalization and the net, but distance is still an issue. It is hard to underestimate the need for smooth and cost-effective distribution

logistics when it comes to fulfilling international orders for tangible goods. The ability to deliver physical products on a timely basis is not the only challenge to online marketers, however. Processing and restocking product returns can be a nightmare, especially given widely different cross-national regulations and customer preferences on returns policies.

4. Language

The world would be very simple (though perhaps boring) if English were the only language. Too many an e-company has ignored the golden rule of marketing: that marketing activities should always take place in the language of the customer. Buyers like to purchase products and services in their own language, especially if the purchasing process requires understanding contractual clauses.

5. User demographics

Although online populations are growing rapidly throughout the world no one should assume that they are homogeneous. For instance, only 10 per cent of internet users in most Latin American countries are women, whereas women represent close to 50 per cent in the United States and Europe. Companies looking to sell, say, health care goods and services online will find it hard to grow sales in countries with few women web surfers, since it is women who make most of the family decisions on health care. Similarly, in some countries most internet users are located in the major metropolitan areas, which considerably simplifies distribution logistics.

6. Buyer behaviour

As if language were not enough of a complication, there are countless differences in tastes and preferences. These are especially pronounced in the case of 'cultural' goods, such as food, wine and entertainment. Even consumer durables are subject to tremendous cross-national variations in taste. Companies need to consider customer tastes and preferences when it comes to merchandise

selection and stocking. Portals with online stores are now offering different selections and special discounts in each country.

7. Payment systems

Payment methods and customs vary widely from country to country, but an increasing number of transactions in e-marketing are paid by credit cards. It seems that consumers and companies may have to accept the reality of multiple currencies on the Internet and try to leverage it as a price discrimination tool. They should also keep an eye on currency fluctuations, since the time lag between order and payment exposes them to exchange rate risk.

5.4.4 Development of a Global Portal Strategy

Q10. Explain about Development of a Global Portal Strategy.

Ans :

An international expansion strategy triggers a number of questions that the internet portal needs to address. The decisions at the early stage include which markets or regions to enter first, whether or not to use local partners, what functions of the portal architecture to offer on international sites, what to host in the home base and abroad, and how to develop local content, commerce and connectivity. Robles (2002) found that the Internet firms' global portal strategy develops through different stages.

Stage 1: Translation of content (from home base)

The first stage of internationalization implies the translation of content and other relevant information to the language of the visitor. At this early stage of internationalization traffic to the portal and information thereon is given to international visitors from home- based operations.

Stage 2: Presence in international markets

At the second stage the portal establishes a presence in international markets in a variety of ways. Portals moved first to countries with large online populations through joint ventures and partnerships with local media companies or telecommunications

firms. The local site at this stage was a copy of the home-based portal. The portal transferred the basic functionality (technology) of the site while keeping some of the most advanced back-end systems at home and also providing host services for the new venture while it took off. The local partner contributed with marketing, promotion and customer service, local network and connectivity, billing, securing local content, and recruiting local commerce partners.

Stage 3: Extensive localization

At the third stage extensive localization and local development of services and tools took place. Alliances with local firms to provide local language search engines, local directories and more local content were central at this stage. An important effort at this stage was to increase the depth of local commerce. As part of the localization, portals leveraged the information captured from visitors to fine-tune the local interface. This decentralized approach resulted in a variety of interfaces, sites and connectivity platforms in national markets, but kept a uniform template for all. At this stage innovation and upgrading of services took place on the home site. Some, but not all, of these innovations were transferred to international sites.

Stage 4: A common global platform

As international expansion gains momentum internet firms may reconsider the diversity of local strategies, by attempting to consolidate and introduce efficiencies. The pressure for consistency and universal architecture stems from the challenge of rivals, whether global or local portals. Most firms realize that only one or two viable global portals will remain so in the long run. Several strategies emerge at this stage. The most common approach is to develop a common global platform and a distributed architecture that make sense on grounds of efficiency.

Under this strategy the portal firm seeks global partnerships with content, commerce and infrastructure providers. Another strategy is to focus on a region, seeking to dominate a particular geography. The regional strategy allows firms to become highly focused on a given community by aggregating commerce and media to a target segment, based on culture and language.

5.4.5 International Mobile Marketing

Q11. Explain about International Mobile Marketing.

Ans :

Rapidly developing technology capabilities and mobile device adoptions have increasingly led to the expectations of a mobile marketing revolution, similar to the first wave of e-commerce experienced in the late 1990s (Mort and Drennan, 2005). In most countries the number of mobile phone owners has increased rapidly, especially among young people.

For example, in UK the penetration of mobile phones in the age group 15-35 years is around 95 per cent (Jenkins, 2006). The value of mobile communication is high and rising, for a number of reasons. Mobile has the benefit of easy interaction, as well as opportunities to personalize the message, both of which increase relevance. It is possible to reach individual people on the move - no other media can do that.

M-marketing should be considered within the context of m-commerce. Emerging from recent developments in communications technology, m-business represents 'mobile' business and refers to the new communications and information delivery model created when telecommunications and the Internet converge. M-marketing combines the power and speed of the Internet with the geographic freedom of mobile telephony in terms of receiving and transmitting data and, importantly, the ability to conduct transactions.

The emerging capacity to communicate with any individual, from any place, over any network, and to any device, regardless of time or geographical location, provides enormous potential for marketers. For this reason the impact on marketing strategies for direct marketers needs to be addressed.

Thus m-marketing is the use of wireless technology to provide convenient, personalized and location-based information for a commercial purpose to consumers and businesses. Consequently a transaction in m-marketing involves a unique combination of time, location and personalization of the service. At the same time m-marketing has two important limitations:

1. **Form factor.** The physical form of mobile devices invokes very different user experiences from those of a desktop. Manufacturers will have to develop larger screens for PDAs, convenient keyboards for two-way pagers, or voice recognition for mobile phones.
2. **Bandwidth.** There are still several constraints for transmitting audio and video over mobile devices. However applications, not bandwidth, will drive m-commerce growth. Many applications requiring large bandwidth are not necessary for mobile commerce.

Figure below shows how the three characteristics of m-marketing are inter linked and dependent on each other.

Each country/market has its own marketing mix.

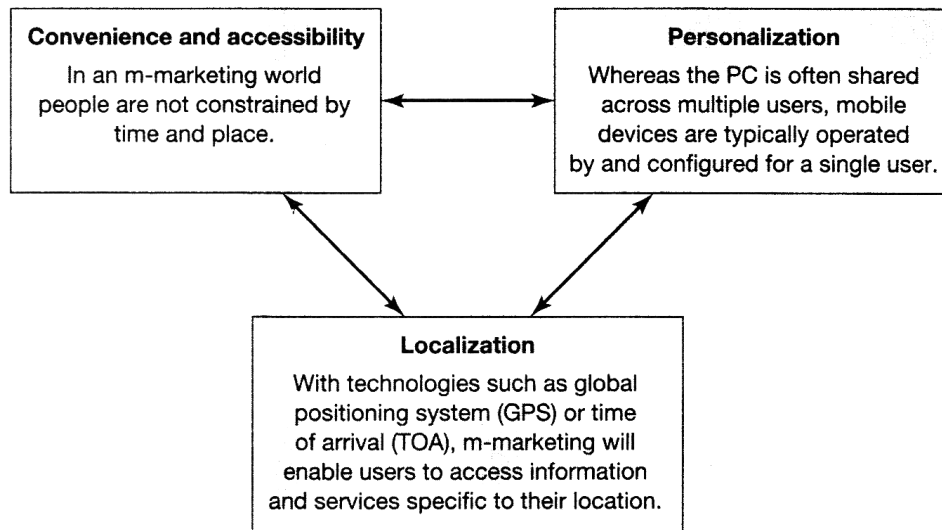


Fig. : The three unique characteristics of m-marketing

5.4.6 Distinction between e-marketing and m-marketing

Q12. What is the Distinction between e-marketing and m-marketing ?

Ans :

A key distinction between e-marketing and m-marketing lies in the different enabling technologies. Most notably, the facilitative mode for traditional e-marketing, the PC, is a relatively large and cumbersome device that is probably deskbound and equipped with a web browser through standard connectivity. Even when configured as a laptop it is not easy to move.

M-marketing is faced with the challenge of developing capabilities in a much more diverse technical context, albeit within the single framework of mobility. Mobile devices currently vary in terms of the network to which they are connected - the 'European' standard or the North American standard.

Rapidly emerging innovations will deliver the possibility of smart phones able to use product bar codes to access product-related information and phones able to act as e-wallets, as either a prepaid card for small purchases or a fully functioning credit/debit card unit.

Benefits of m-marketing

The introduction of m-marketing should bring a series of benefits to consumers, merchants and telecommunication companies. As with all technologies, many benefits will arise in the future that are not yet even imagined. Some benefits that are apparent now, however, include the following.

A) For consumers

- **Comparison shopping:** Consumers can access on demand, at the point of purchase, the best prices in the marketplace. This can be done now without mobility, with services such as pricescan.com.
- **Bridge the gap between bricks and clicks:** Services permitting users to examine merchandise in a store and still shop electronically for the best price.

- **Opt-in searches:** Customers may receive alerts from merchants when products they are looking for become available.
- **Travel:** Ability to change and monitor scheduled travel any time, any place.

B) For Merchants

- **Impulse buying:** Consumers may buy discounted products from a web page promotion or a mobile alert, increasing their willingness to buy as they are right near or even inside the store, and thus increasing merchants' sales.
- **Drive traffic:** Companies will guide their customers to where it is easier to carry out the transaction, to either online or offline stores, due to the time-sensitive, location-based and personalized characteristics of the mobile device.
- **Education of consumers:** Companies will send information to customers about product benefits or new products.
- **Perishable products:** This is especially important for products that do not retain their value when unused, such as service-based products. For example, the use of an aeroplane seat, that, when unused, generates no revenue and is lost value. This will enable companies to better manage inventory.
- **Drive efficiency:** Companies will save time with their clients. Because information is readily available on the mobile device they will not have to talk about the benefits of the different products or about prices.
- **Target market:** Companies will be better able to target their products and promotions to those in a given geographic area at a specific time.

The Players in the Mobile Value Chain

Wireless internet access promises great potential for all the players in the value chain, but

the key to a rapid take-up, and faster revenues, is finding a way to provide services to as wide a customer base as possible.

Figure below highlights the players in the value chain in the mobile commerce market.

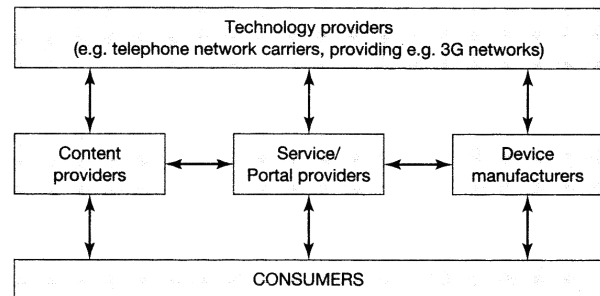


Fig. : The interaction of the main actors in the mobile value chain

1) Technology Providers

The way the world views mobile communications is expected to change in the coming years. All the power of the World Wide Web is expected to be available, at high speeds, for those who are on the move. High-speed web connections, always-on systems and a concentration on data rather than voice are the major changes that are anticipated.

These developments will be achieved via telephone network carriers (with 3G protocols). The first generation (1G) protocols included analogue cell phones. Second generation (2G) protocols included digital systems used by several mobile devices. The third generation (3G) will allow users to enjoy the broadband experience with mobility.

2) Content Providers

Content is a strong determinant of the benefit users get out of applications. Content providers are, for example, weather channels, news companies, banks and travel bureaus. Content providers such as Amazon.com, Barnes and Noble, eBay and many others are deploying wireless front-end access in their e-marketing engines. Though their offerings are still rudimentary, features include single-click buying, auction alerts, and some

interesting bonuses such as the ability to listen to music clips over the phone.

Brand names that are associated with trustworthy and reliable fulfillment will translate effectively in the wireless domain.

3) Service Providers / Portals

Service providers are players that bundle together access, content and the device, presenting the consumer with a simplified purchase and subscription decision, and a packaged mobile data experience.

Portals are companies that aggregate different types of content and distribute them to the user in a single site, making for simplified search, navigation and information resource management. The benefit of the portal for the user is that all one needs is in one place; the benefit of the portal for the content owner is that it provides another channel to the end user.

4) Device Manufacturers

Two important groups of device manufacturers are starting to play an active role in the wireless internet market. The first group includes mobile manufacturers such as Nokia, Motorola and Ericsson and the second includes PDA manufacturers such as Palm, Handspring and Microsoft.

Cellular phone and PDA manufacturers are both fighting for leadership in m-commerce. It is unclear which kind of device will eventually win, or whether a hybrid between the PDA and cell phone will emerge. As hardware costs decrease devices will most likely continue to specialize, with each device optimized for its required task. There is of course a limit to the number of devices consumers will carry with them.

Despite growth estimations many players in the mobile manufacturing industry (e.g. Ericsson) have recently decided to outsource the business. Increasing competition in the mobile market, together with a slowdown in the growth of the industry (the actual current figure is smaller than previous estimates), has triggered many mobile makers to redefine their core business.

5.4.7 Types of E-marketing Channels

Q13. Discuss about Types of E-marketing Channels.

Ans : (Imp.)

E-marketing, an abbreviation of electronic marketing, is one part of the e-business. Those strategies and activities of e-marketing such as market research, product development, advertising, and selling, etc. are transferred to a digital environment. Moreover, the activities like introducing a company and its products, communicating with customers, promoting, and pricing goods or services are also conducted over the Internet or through the digital tools to achieve its marketing objectives.

Many people regard e-marketing similar to Internet marketing. In addition, Internet marketing is similar to online marketing, web marketing, and digital marketing because in general they have many things in common. So, e-marketing can be considered to be similar to other terms. Nevertheless, e-marketing has a broader meaning than Internet marketing because it "includes not only those digital media such as web, e-mail and wireless media but also management of digital customer data and electronic customer relationship management systems.

Internet Marketing Channels

➤ Display Advertising

- The process of placing ads on third-party websites with the goal of creating branding awareness and/or generating traffic.

Examples: Banner ads, video ads, interactive ads, overlays, interstitial, etc.

➤ Email Marketing

- The process of collecting email addresses from potential leads and marketing to them via email messages
- Examples: Email newsletters, brand building emails, conversion-focused emails, etc.

➤ Pay-Per-Click Advertising (PPC)

- The process of bidding for placement at search engines (major or niche) to earn

- visibility and traffic when relevant queries are performed
- o Examples: Google Adwords, Yahoo! Search Marketing, Business.com Advertising, etc.
- **Online Public Relations**
 - o The process of generating media from primarily online outlets in order to earn branding and traffic
 - o Examples: PRNewswire, PRWeb, Internet media focused PR agency work, etc.
- **Search Engine Optimization (SEO)**
 - o The process of earning rankings in the “organic” results of the major search engines (Google, Yahoo!, Bing)
 - o Examples: Keyword research, on-page optimization, link building, etc.
- **Affiliate Marketing**
 - o The process of incentivizing other sites to push your product in exchange for a share of the revenue they drive
 - o Examples: Commission Junction, in-house affiliate programs, etc.
- **Social Media Marketing (SMM)**
 - o The process of leveraging social media platforms (small and large) to earn visibility and traffic
 - o Examples: Facebook Group pages, Twitter marketing, pushing content on Digg, etc.
- **Viral Content Campaigns**
 - o The process of generating creative content that will help spread your branding/marketing message and earn traffic
 - o Examples: Linkbait production, viral videos, guerrilla marketing, etc.

- **Conversion Rate Optimization (CRO)**
 - o The process of improving the path from landing to conversion to get more leads/signups/customers
 - o Examples: Split & multivariate testing, click-through-rate improvements, purchase-process simplification, etc.

5.5 CONTROLLING OF THE GLOBAL MARKETING PROGRAMME

Q14. Write about Controlling of the Global Marketing Programme.

Ans :

The study intra-organizational relationships as part of the firm’s attempt to optimize its competitive response in areas most critical to its business. As market conditions change, and companies evolve from purely domestic entities to multinationals, their organizational structure, coordination and control systems must also change.

5.5.1 Organization of Global Marketing Activities/ Types of Organisational Structure

Q15. Discuss about Organization of Global Marketing Activities/ types of Organisational Structure.

Ans :

The way in which a global marketing organization is structured is an important determinant of its ability to exploit effectively and efficiently the opportunities available to it. It also determines the capacity for responding to problems and challenges.

Companies operating internationally must decide whether the organization should be structured along functions, products, geographical areas or combinations of the three (matrix). The evolutionary nature of organizational changes is shown in Figure below. The following stages discuss the different organizational structures.

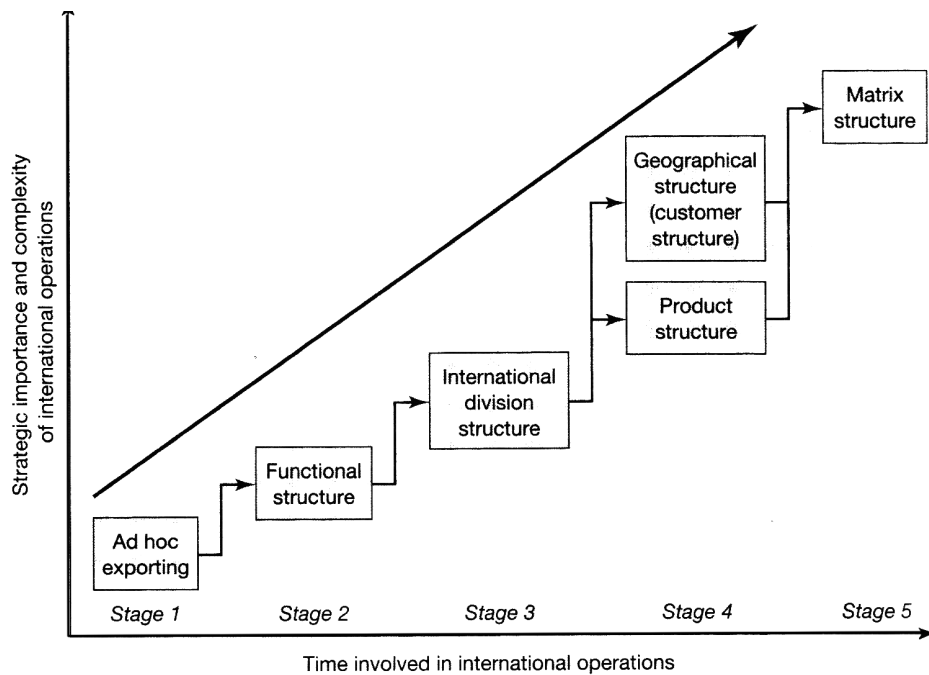


Fig. : Structural evolution of international operations

A) Functional structure

Of all the approaches, the functional structure is the simplest. Here management is primarily concerned with the functional efficiency of the company.

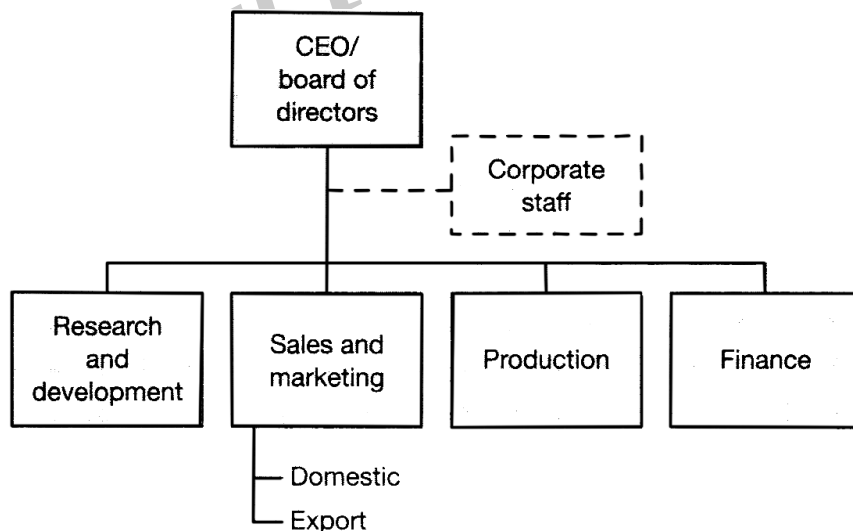


Fig.: Examples of the functional structure

Many companies begin their international business activities as a result of having received enquiries from abroad. The company, being new to international business, has no international specialist and typically has few products and few markets. In this early stage of international involvement the domestic marketing

department may have the responsibility for global marketing activities. But as the international involvement intensifies an export or international department may become part of the organizational structure.

The export department may be a subdepartment of the sales and marketing department or may have equal ranking with the other functional departments. This choice will depend on the importance assigned to the export activities of the firm. Because the export department is the first real step in internationalizing the organizational structure it should be a fully fledged marketing organization and not merely a sales organization. The functional export department design is particularly suitable for SMEs, as well as larger companies, that are manufacturing standardized products and are in the early stages of developing international business, having low product and area diversities.

B) International divisional structure

As international sales grow, at some point an international divisional structure may emerge. This division becomes directly responsible for the development and implementation of the overall international strategy. The international division incorporates international expertise, information flows about foreign market opportunities, and authority over international activities. However, manufacturing and other related functions remain with the domestic divisions in order to take advantage of economies of scale.

International divisions best serve firms with new products that do not vary significantly in terms of their environmental sensitivity, and whose international sales and profits are still quite insignificant compared with those of the domestic divisions.

C) Product divisional structure

A typical product divisional structure is presented in Figure below.

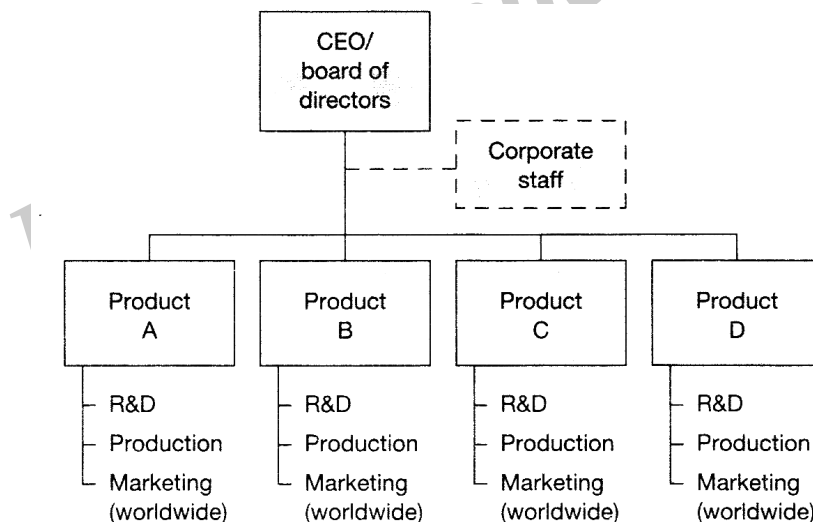


Fig.: Examples of the product structure

In general, the product structure is more suitable for companies with more experience in international business and marketing, and with diversified product lines and extensive R&D activities. The product division structure is most appropriate under conditions where the products have potential for worldwide standardization. One of the major benefits of the approach is improved cost efficiency through centralization of manufacturing facilities for each product line. This is crucial in industries in which competitive position is determined by world market share, that in turn is often determined by the degree to which manufacturing is rationalized (utilization of economies of scale). The main disadvantages of this type of structure are as follows:

- It duplicates functional resources: you will find R&D, production, marketing, sales force management, etc. in each product division.
- It underutilizes sales and distribution facilities (subsidiaries) abroad. In the 'product structure' there is a tendency that marketing of products is taken care of, centrally from the homebase ('Marketing (worldwide)'). Therefore there is less need for the facilities in the local sales subsidiary.
- The product divisions tend to develop a total independence of each other in world markets. For example, a global product division structure may end up with several subsidiaries in the same foreign country reporting to different product divisions, with no one at headquarters responsible for the overall corporate presence in that country.

D) Geographical structure

If market conditions with respect to product acceptance and operating conditions vary considerably across world markets, then the geographical structure is the one to choose. This structure is especially useful for companies that have a homogeneous range of products (similar technologies and common end-use markets), but at the same time need fast and efficient worldwide distribution. Typically, the world is divided into regions (divisions), as shown in Figure.

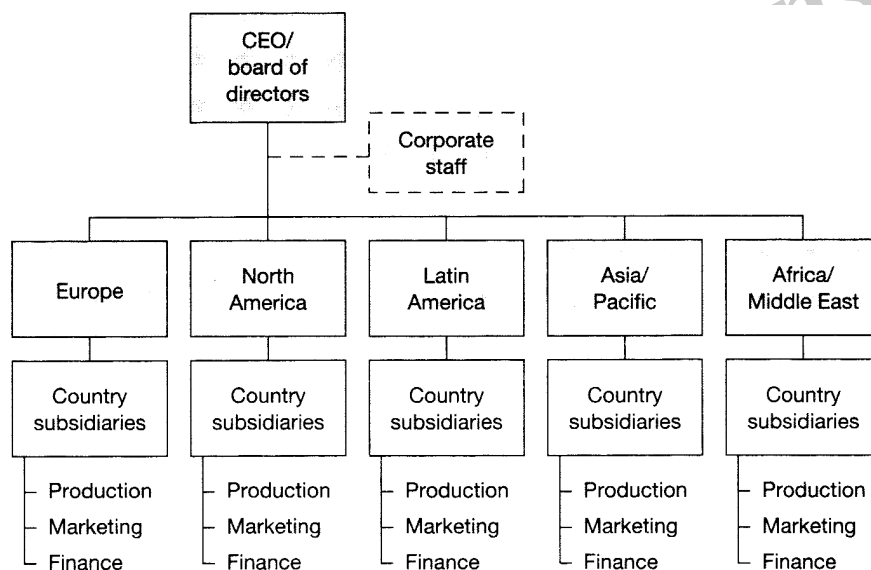


Fig.: Examples of the geographical structure

Many food, beverage, car and pharmaceutical companies use this type of structure. Its main advantage is its ability to respond easily and quickly to the environmental and market demands of a regional or national area through minor modifications in product design, pricing, market communication and packaging. Therefore the structure encourages adaptive global marketing programmes. Moreover, economies of scale can be achieved within regions. Another reason for the popularity of this structure is its tendency to create area autonomy. However, this may also complicate the tasks of coordinating product variations and transferring new product ideas and marketing techniques from one country to another.

Hence the geographical structure ensures the best use of the firm's regional expertise, but it means a less than optimal allocation of product and functional expertise. If each region needs its own staff of product and functional specialists, duplication and also inefficiency may be the result.

E) Matrix structure

The product structure tends to offer better opportunities to rationalize production across countries, thus gaining production cost efficiencies. On the other hand, the geographical structure is more responsive to local market trends and needs, and allows for more coordination in a whole region.

Some global companies need both capabilities, so they have adopted a more complex structure: the matrix structure. The international matrix structure consists of two organizational structures intersecting with each other. As a consequence there are dual reporting relationships. These two structures can be a combination of the general forms already discussed. For example, the matrix structure might consist of product divisions intersecting with functional departments, or geographical areas intersecting with global divisions. The two intersecting structures will largely be a function of what the organization sees as the two dominant aspects of its environment.

The typical international matrix structure is the two-dimensional structure that emphasises product and geography. Generally, each product division has worldwide responsibilities for its own business, and each geographical or area division is responsible for the foreign operations in its region. If national organizations (subsidiaries) are involved they are responsible for operations at the country level.

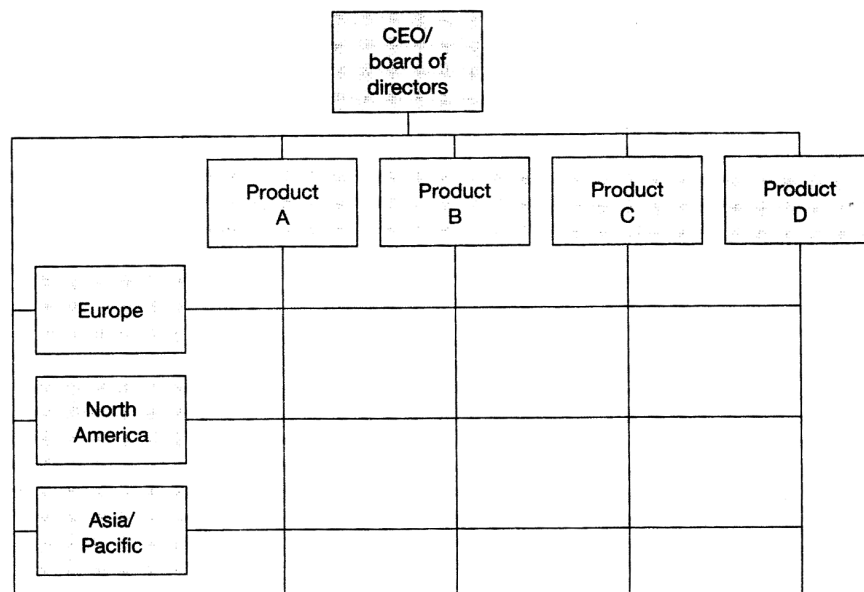


Fig. : Examples of Matrix Structure

Because the two dimensions of product and geography overlap at the affiliate level, both enter into local decision-making and planning processes. It is assumed that area and product managers will defend different positions. This will lead to tensions and creative conflict. Area managers will tend to favour responsiveness to local environmental factors, and product managers will defend positions favouring cost efficiencies and global competitiveness. The matrix structure deliberately creates a dual focus to ensure that conflicts between product and geographical area concerns are identified and then analysed objectively.

The structure is useful for companies that are both product diversified and geographically spread. By combining a product management approach with a market-oriented approach one can meet the needs both of markets and of products.

5.5.2 The Global Account Management (GAM) Organization

Q16. Explain about the Global Account Management (GAM) Organization.

Ans :

Global Account Management (GAM) can be understood as a relationship-oriented marketing management approach focusing on dealing with the needs of an important global customer (= account) in the business-to-business market.

GAM can be defined as an organizational form (a person or a team) in a global supplier organization used to coordinate and manage worldwide activities, by servicing an important customer centrally from headquarters.

A global account is a customer that is of strategic importance to the achievement of the supplier's corporate objectives, pursues integrated and coordinated strategies on a worldwide basis and demands a globally integrated product/service offering.

A global account manager is the person in the selling company who represents that company's capabilities to the buying company, the buying company's needs to the selling company, and brings the two together.

The importance of GAM strategies will grow in future because of the consolidation (M&As and global strategic alliances) which take place in most industries. This development means that big multinational customers are getting even bigger and more powerful with increasing buying power. The following discusses what the supplier can do about this development.

Successful GAM often requires an understanding of the logic of both product and service management. Moreover, excellent operational level capabilities are useless if strategic level management is inferior, and vice versa - the GAM approach combines strategic and operational level marketing management.

The starting point for the following is the firm that wishes to implement GAM. Afterwards the development of GAM is regarded in a dyadic perspective.

Implementation of GAM

The firm that wants to implement successful GAM with suitable global accounts may go through the following four steps.

1. identifying the selling firm's global accounts;
2. analysing the global accounts;
3. selecting suitable strategies for the global accounts;
4. developing operational level capabilities to build, grow and maintain profitable and long-lasting relationships with global accounts.

1. Identifying the selling firm's global accounts

This means answering the following question: Which existing or potential accounts are of strategic importance to us now and in the future?

The following criteria can be used to determine strategically important customers:

- sales volume;
- age of the relationship;
- the selling firm's share of customers' purchase: the new relationship marketing (RM) paradigm measures success in terms of long-term gains in its share of its customers' business, unlike mass marketing that counts wins or losses in terms of market share increases that may well be temporary.
- profitability of the customer to seller;
- use of strategic resources: extent of executive/management commitment.

There is a positive relation (correlation) between the criteria and the likelihood of customers' being identified as global accounts (strategic customers).

2. Analysing global accounts

This includes activities such as analysing the following:

- **The basic characteristics of a global account:** Includes assessing the relevant economic and activity aspects of their internal and external environment. This, for example, includes the account's internal value chain inputs, markets, suppliers, products and economic situation.
- **The relationship history:** Involves assessing the relevant economic and activity aspects of the relationship history. This includes volume of sales, profitability, global account's objectives, buying behaviour (the account's decision-making process), information exchange, special needs, buying frequency and complaints. Among the above-mentioned aspects, knowing/estimating relationship value plays a particularly important role. The revenues from each global account (customer lifetime value) should exceed the costs of establishing and maintaining the relationship within a certain time span.
- **The level and development of commitment to the relationship:** The account's present and anticipated commitment to the relationship is important, since the extent of the business with the account depends on that.
- **Goal congruence of the parties:** Goal congruence, or commonality of interests between buyer and seller, greatly affects their cooperation both at the strategic and operational levels. Common interests and relationship value together determine whether two companies can be partners, friends or rivals that aims it sights lower than the sort of partnership relationship an account is looking for risks losing long-term share of that account's business.
- **Switching costs:** It is useful to estimate both the global account's and the selling company's switching costs in the event

that the relationship dissolves. Switching costs are the costs of replacing an existing partner with another. These may be very different for the two parties and thus affect the power position in the relationship. Switching costs are also called trans-action costs and are affected by irretrievable investments in the relationship, the adaptations made and the bonds that have developed. High switching costs may prevent a relationship from ending even though the global account's accumulated satisfaction with the selling company may be non-existent or negative.

3. **Selecting suitable strategies for the global accounts**

This depends greatly on the power positions of the seller and the global account. The power structure within different accounts may vary significantly. Thus the selling company may typically not freely select the strategy - there is often only one strategic alternative to be chosen if there is a desire to retain the account.

Maybe the selling firm might prefer to avoid very powerful accounts. Sometimes the selling firm realizes that accounts, which are less attractive today, may become attractive in future. Thus, in the case of certain accounts, the objective of the strategy may be merely to keep the relationship alive for future opportunities.

4. **Developing operational level capabilities**

This refers to customization and development of capabilities related to the following :

- a) **Product/service development and performance.** Joint R&D projects are typical between a selling company and a global account in industrial and high-tech markets. In addition, information technology (IT) applied in just-in-time production and distribution channels increases the possibilities of customizing the offering in consumer markets as well.

New products developed in a partnership are not automatically more successful than those developed in-house. However, R&D projects may bring other kinds of long-term benefits, such as access to account organization and learning. Improving capabilities for providing services to global accounts is extremely important, because even when the core product is a tangible good it is often the related services that differentiate the selling company from its competitors and provide competitive advantage.

- b) Organizational structure.** The selling company's organizational ability to meet the global account's needs can be developed, for example, by adjusting the organizational structure to correspond to the global account's global and local needs and by increasing the number of interfaces between the selling company and the account, and thus also the number of interacting persons. Organizational capabilities can also be developed by organizing teams, consisting of people with the necessary competences and authorities, to take care of global accounts.
- c) Individuals (human resources).** A company's capabilities related to individuals can be developed by selecting the right people as global account managers and for global account teams, and by developing their skills. The global account manager's responsibilities are often complex and varied, and therefore require a large number of skills and qualifications, which should be taken into account in the selection and development of global account managers.
- d) Information exchange.** Information exchange between the selling company and a global account is particularly important in GAM. An important relationship-specific task is to search, filter, judge and store information about the organizations, strategies, goals, potentials and problems of the partners. However, this mainly depends on the mutual trust and attitudes of the parties, and on the technical arrangements. A global account's trust is something that the selling company has to earn over time by its performance, whereas the technical side can be developed, for example with IT.
- e) Company and individual level benefits.** Successful long-term GAM in a business-to-business context always requires the ability to offer both company and individual level benefits to global accounts.

5.5.3 Controlling the Global Marketing Programme

Q17. Explain about Controlling the Global Marketing Programme.

Ans :

The final, but often neglected stage of international market planning, is the control process. Not only is control important to evaluate how we have performed, but it completes the circle of planning by providing the feedback necessary for the start of the next planning cycle.

Figure illustrates the connection between the marketing plan, the marketing budget and the control system.

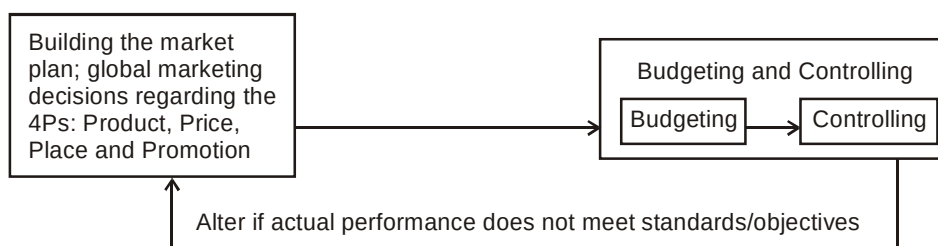


Fig. : The firm's budget and control system

After building the global marketing plan, its quantification appears in the form of budgets. The budget is the basis for the design of the marketing control system that may give the necessary feedback for a possible reformulation of the global marketing plan. The marketing budgets should represent a projection of actions and expected results, and they should be capable of accurate monitoring and controlling. Indeed, measuring performance against budget is the main (regular) management review process, which may cause the feed back in Figure.

The purpose of a marketing budget is to pull all the revenues and costs involved in marketing together into one comprehensive document. It is a managerial tool that balances what needs to be spent against what can be afforded and helps make choices about priorities. It is then used in monitoring the performance in practice. The marketing budget is usually the most powerful tool with which you think through the relationship between desired results and available means. Its starting point should be the marketing strategies and plans that have already been formulated in the marketing plan itself. In practice, the strategies and plans will run in parallel and will interact.

Unfortunately, however, 'control' is often viewed by the people of an organization as being negative. If individuals fear that the control process will be used not only to judge their performance, but as a basis for punishing them, then it will be feared and reviled.

The evaluation and control of global marketing probably represents one of the weakest areas of marketing practice in many companies. Even the organizations that are otherwise strong in their strategic marketing planning have poor control and evaluation procedures for their global marketing. There are a number of possible reasons for this: primarily, there is no such thing as a 'standard' system of control for marketing.

The function of the organizational structure is to provide a framework in which objectives can be met. However, a set of instruments and processes is needed to influence the behaviour and performance of organization members to meet the goals. The critical issue is the same as with

organizational structures: what is the ideal amount of control? On the one hand, headquarters needs information to ensure that international activities contribute maximum benefit to the overall organization. On the other hand, controls should not be construed as a code of law.

Design of a Control System

In designing a control system management must consider the costs of establishing and maintaining it and trade them off against the benefits to be gained. Any control system will require investment in a management structure and in systems designs.

The design of the control system can be divided into two groups dependent on the objective of control :

1. output control (typically based on financial measures);
2. behavioural controls (typically based on non-financial measures).

1. Output control may consist of expenditure control, which involves regular monitoring of expenditure figures, comparison of these with budget targets, and taking decisions to cut or increase expenditure where any variance is believed to be harmful. Measures of output are accumulated at regular intervals and typically forwarded from the foreign subsidiary to head-quarters, where they are evaluated and criticized based on comparison to the plan or budget.

2. Behavioural controls require the exercise of influence over behaviour. This influence can be achieved, for example, by providing sales manuals to subsidiary personnel or by fitting new employees into the corporate culture. Behavioural controls often require an extensive socialisation process, and informal, personal interaction is central to the process. Substantial resources must be spent to train the individual to share the corporate culture: that is, 'the way things are done at the company'.

5.5.4 Global Marketing Control System

Q18. Explain about Global Marketing Control System.

Ans :

We will now develop a global marketing control system based primarily on output controls. Marketing control is an essential element of the marketing planning process because it provides a review of how well marketing objectives have been achieved. A framework for controlling marketing activities is given in Figure.

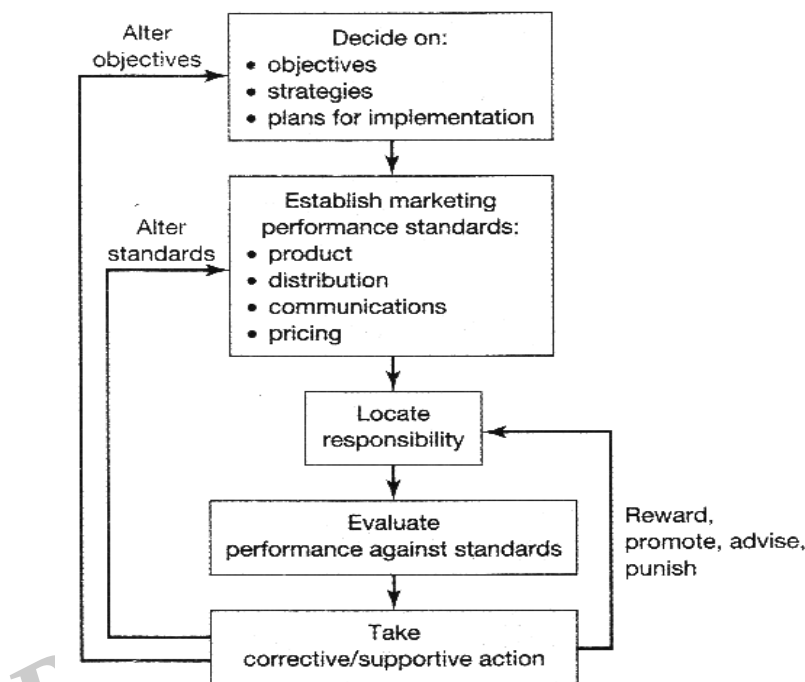


Fig. : The marketing control system

1. The marketing control system begins with the company setting some marketing activities in motion (plans for implementation). This may be the result of certain objectives and strategies, each of which must be achieved within a given budget. Hence budgetary control is essential.
2. The next step in the control process is to establish specific performance standards that will need to be achieved for each area of activity if overall and sub-objectives are to be achieved.
3. The next step is to locate responsibility. In some cases responsibility ultimately falls on one person (e.g. the brand manager); in others it is shared (e.g. the sales manager and sales force). It is important to consider this issue, since corrective or supportive action may need to focus on those responsible for the success of marketing activity.

In order to be successful the people involved and affected by the control process should be consulted in both the design and implementation stages of marketing control. Above all they will need to be convinced that the purpose of control is to improve their own levels of success and that of the company. Subordinates need to be involved in setting and agreeing their own standards of performance, preferably through a system of management by objectives.

4. Performance is then evaluated against these standards, which relies on an efficient information system. A judgement has to be made about the degree of success and failure achieved and what corrective or supportive action is to be taken. This can take various forms:
 - Failure that is attributed to the poor performance of individuals may result in the giving of advice regarding future attitudes and actions, training and/or punishment (e.g. criticism, lower pay, demotion, termination of employment). Success, on the other hand, should be rewarded with praise, promotion and/or higher pay.
 - Failure that is attributed to unrealistic marketing objectives and performance may cause management to lower objectives or lower marketing standards. Success that is thought to reflect unambitious objectives and standards may cause them to be raised in the next period.
5. Many firms assume that corrective action needs to be taken only when results are less than those required or when budgets and costs are being exceeded. In fact both 'negative' (under-achievement) and 'positive' (over achievement) deviations may require corrective action. For example, failure to spend the amount budgeted for, say, sales force expenses may indicate that the initial sum allocated was excessive and needs to be reassessed, and/or that the sales force is not as 'active' as it might be.

It is also necessary to determine such things as the frequency of measurement (e.g. daily, weekly, monthly or annually). More frequent and more detailed measurement usually means more cost. We need to be careful to ensure that the costs of measurement and the control process itself do not exceed the value of such measurements and do not overly interfere with the activities of those being measured.

The impact of the environment must also be taken into account when designing a control system:

- The control system should measure only dimensions over which the organization has control. Rewards or sanctions make little sense if they are based on dimensions that may be relevant for overall corporate performance, but over which no influence can be exerted (e.g. price controls). Neglecting the factor of individual performance capability would send the wrong signals and severely impair the motivation of personnel.
- Control systems should harmonize with local regulations and customs. In some cases, however, corporate behavioural controls have to be exercised against local customs even though overall operations may be affected negatively. This type of situation occurs, for example, when a subsidiary operates in markets where unauthorized facilitating payments are a common business practice.

Feed forward Control

Much of the information provided by the firm's marketing control system is feedback on what has been accomplished in both financial (profits) and non-financial (customer satisfaction, market share) terms. As such, the control process is remedial in its outlook. It can be argued that control systems should be forward looking and preventive, and that the control process should start at the same time as the planning process. Such a form of control is **feed forward control**.

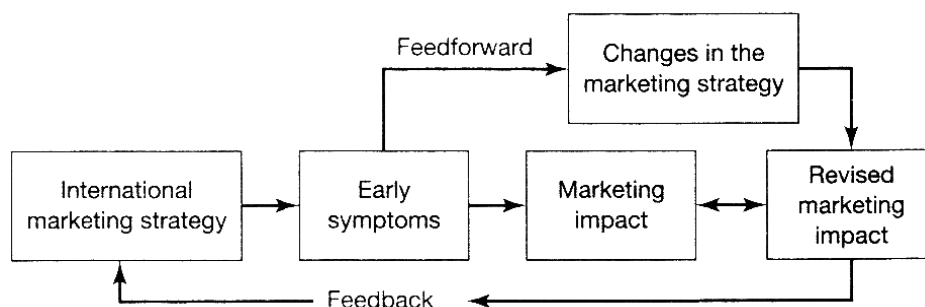


Fig. Adjustment of global marketing strategy

Feedforward control would continuously evaluate plans, monitoring the environment to detect changes that would call for revising objectives and strategies. Feedforward control monitors variables other than performance; variables that may change before performance itself changes. The result is that deviations can be controlled before their full impact has been felt. Such a system is proactive in that it anticipates environmental change, whereas after-the-fact and steering control systems are more reactive in that they deal with changes after they occur.

Feedforward control focuses on information that is prognostic: it tries to discover problems waiting to occur. Formal processes of feedforward control can be incorporated into the business marketer's total control programme to enhance its effectiveness considerably. Utilization of a feed-forward approach would help ensure that planning and control are treated as concurrent activities.

5.5.5 Key Areas for Control in Marketing

Q19. What are the key areas of control in marketing ?

Ans :

Kotler (1997) distinguishes four types of marketing control, each involving different approaches, different purposes and a different allocation of responsibilities. These are shown in Table. Here we will focus on annual plan control and profit control, since they are the most obvious areas of concern to firms with limited resources (e.g. SMEs).

Type of control	Prime responsibility	Purpose of control	Examples of techniques/approaches
Strategic control	Top management Middle management	To examine if planned results are being achieved	Marketing effectiveness ratings Marketing audit
Efficiency control	Line and staff management Marketing controller	To examine ways of improving the efficiency of marketing	Sales force efficiency Advertising efficiency Distribution efficiency
Annual plan control	Top management Middle management	To examine if planned results are being achieved	Sales analysis Market share analysis Marketing expenses to sales ratio Customer tracking
Profit control (budget control)	Marketing controller	To examine where the company is making and losing money	Profitability by e.g. product, customer group or trade channel

Table : Types of marketing control

1. Annual plan control

The purpose of annual plan control is to determine the extent to which marketing efforts over the year have been successful. This control will centre on measuring and evaluating sales in relation to sales goals, market share analysis and expense analysis.

Sales performance is a key element in annual plan control. Sales control consists of a hierarchy of standards on different organizational control levels. These are interlinked, as shown in Figure.

We can see from the diagram that any variances in achieving sales targets at the corporate level are the result of variances in the performance of individual salespeople at the operational level. At every level of sales control variances must be studied with a view to determining their causes. In general, variances may be due to a combination of variances in volume and/or price.

2. Profit control

In addition to the previously discussed control elements, all international marketers must be concerned to control their profit. The budgetary period is normally one year because budgets are tied to the accounting systems of the company. In the following section we will further explore how global marketing budgets are developed, the starting point being the GAM organization and the country-based structure of the company.

5.5.6 The Process of Developing the Global Marketing Plan

Q20. Explain about the Process of Developing the Global Marketing Plan.

Ans :

The purpose of the marketing plan is to create sustain-able competitive advantages in the global marketplace. Generally, firms go through some kind of mental process in developing global marketing plans. In SMEs this process is normally informal; in larger organizations it is often more systematized.

Basically 'global marketing' consists of finding and satisfying global customer needs better than the competition, and of coordinating marketing activities within the constraints of the global environment. The form of the firm's response to global market opportunities depends greatly on the management's assumptions or beliefs, both conscious and unconscious, about the nature of doing business around the world. This worldview of a firm's business activities can be described as the EPRG framework

- **Ethnocentric:** the home country is superior and the needs of the home country are most

relevant. Essentially headquarters extends ways of doing business to its foreign affiliates. Controls are highly centralized and the organization and technology implemented in foreign locations will essentially be the same as in the home country.

- **Polycentric (multidomestic):** each country is unique and therefore should be targeted in a different way. The polycentric enterprise recognizes that there are different conditions of production and marketing in different locations and tries to adapt to those different conditions in order to maximize profits in each location. The control with affiliates is highly decentralized and communication between headquarters and affiliates is limited.
- **Regiocentric:** the world consists of regions (e.g. Europe, Asia, the Middle East). The firm tries to integrate and coordinate its marketing programme within regions, but not across them.
- **Geocentric (global):** the world is getting smaller and smaller. The firm may offer global product concepts but with local adaptation ('think global, act local').

The regio and geocentric firm (in contrast to the ethnocentric and polycentric) seeks to organize and integrate production and marketing on a regional or global scale. Each international unit is an essential part of the overall multinational network, and communications and controls between headquarters and affiliates are less top-down than in the case of the ethnocentric firm.

5.6 EXPORT PROCEDURES AND DOCUMENTATION

Q21. Discuss about Export Procedures and Documentation.

Ans :

Introduction

Since World War II one of the most significant economic development is the increasing internationalization of business. The business dealings have been escalated on a global scale during the

last three decades. Some of the leading companies across the world have turned their attention to international business in order to take a competitive edge in today's era of commercialization. The today's global activities can be described as the Second Industrial Revolution. The today's market provides the products of different kinds which is as per the needs and requirements of the customers and at the particular destination where he requires it.

Export Marketing

Export marketing, though it has certain distinct characteristics, is similar to domestic marketing in terms of certain technical attributes. Marketing can be conceived as an internal part of two processes, viz. technical and social. International marketing and domestic marketing are identical, so far as technical process is concerned. It includes non human factors such as product, price, cost, brands, etc. The basic principles regarding these variables are of universal applicability. But the social aspects of marketing is unique in any given stratum, because it involves human elements, namely, the behaviour pattern of customers and the given characteristics of a society, such as consumers attitude, values, etc. It is obvious that marketing, to the extent, it is visualized as a social process, will be different from domestic marketing.

Export marketing can, be defined as "marketing activities carried on across national boundaries." The Export marketing is different from domestic marketing both in the way of exchange and needs and requirements of international buyers. Therefore the knowledge of, and the ability to perceive basic pattern in consumer behaviour in different environments is particularly vital element in the makeup of the international marketing. The role of Export marketing manager becomes very important in this context. To work successfully in an international environment, the marketing manager must have the ability to seek to understand the environment and way of thinking regarding the consumers, competitors, suppliers or employees in the new country. There must be at least three major dimensions to the skills of the International marketing.

Competence in marketing, with a sound grasp of marketing concepts, tools and techniques.

Ability to perceive patterns of consumer behaviour in different countries and the ability to evaluate the essential differences and similarities between markets.

Management skill to organize, plan, co-ordinate and control an operation of considerable greater complexity particularly in its human relationships—than that involved in the home market. The skills involved in marketing have been aptly summed up by J.B. Mckitterick of the General Electronic Company as, "the principal task of the marketing function in a management team wedded to the marketing concept is not so much to be skillful in making the customer do what suits the interests of the business as to be skillful, in conceiving and then making the business do what suits the interests of the customer." Therefore it is apparent that the job of International marketing involves an additional dimensions and requires a unique combination of skills.

Entry Strategies

A multinational company can enter into foreign market by following ways :

1. **Exporting:** Export trade is a best way to enter in the foreign market. By this way companies are exporting domestically manufactured products to the foreign countries. They are minimizing the risks involved in the International marketing. They are responding to the inquiries and also creating demand for their product by participating in the International trade exhibitions and others. It is evident that many U.S. brand firms are doing their export business on the basis of their pattern.
2. **Contractual Agreements:** There can be many contractual agreements, on the basis of which a firm can do its business activities in the foreign marketing. There agreement can be classified as under in brief.
3. **Patent Licensing:** It is based on the royalty basis or it can also be based on a fixed fee basis. The managerial training is also included in it.
4. **Management Contracts:** This system is widely used in middle-east. The multinational

corporations provide skilled personnel to their companies to operate on the basis of fixed fee basis. They provide this expertise to their countries until their local people do not get ability to handle the business independently.

5. **Licensing:** Licensing is a variable alternative to some contractual agreements. It encompasses variety of contractual agreement, such as patents, technical know-how, trade mark to foreign companies in return for royalties or other fee.
6. **Joint Ventures:** It requires various levels of direct investments. Many U.S. based firms joined hand with other companies of East countries as joint venture to accomplish the mutual objectives of the enterprises. Joint venture provide an alternative to domestic as well as foreign companies to share risk, and to join forces. The venture is aimed at making best use of each other's technical and other strengths. An example of a joint venture is General Motors Corporation having partnership with Egypt based Nasan Company to establish a plant for assembling trucks and engines. It can be said that joint ventures are a wave of the future.
7. **Manufacturing:** A multinational company can also establish itself in the foreign marketing by direct investments or through its subsidiaries. A firm interested in entering the international marketing must evaluate the risk and commitment involved. It is suggested that MNCs should not start its manufacturing activities in the overseas market until or unless they are not sure with the risk involved in the investments.

5.6.1 Types of Export Documentation

Q22. Explain about types of documents.

Ans :

Documentation is very important to move merchandise as well as cargo to the international marketing. It adds additional cost to the total cost of goods sold. In most of the cases the marketers find it more practical to leave the physical distribution of goods to the technically specialist

agency. For example many multinational like IBM is having its business activities in many countries across the world market. The company takes help of the specialized agencies for the distribution of its products throughout the world market. It is for the international direct marketers to make it certain that their channel of distribution is convenient for their customers.

For example in the European Union the transportation of the products has become very easy and more efficient. Further the steps at international borders in those countries are limited to checking on legal matters only. It may be to check the illegal immigrations and drug trafficking. Even in some of the countries of European Union, people are free to move within the Union states without showing passports.

Further the different nations in the world market are also working towards automated custom's and minimum or paperless custom procedure in the international market, as to facilitate the frequent cargo movements. The customs co-operation council has also approved a system, which will facilitate the custom administration to work towards electronic data interchange. The main body in this regard is a United Nations supported group called by the name of Electronic Data Interchange for Administration, Commerce and Transport (EDIFACT). The use of latest electronic trading technology will improve the speed and efficiency of world trade and data significantly.

In Export market, a company is to insert the proper identification number to its products so as to fill out the required formalities of documentation. If a product is made of several materials, it should be classified with that material which represents its main characteristics.

There are many types of documentation in the export market.

But generally, it can be classified on the basis of two main categories :

1. Shipping Documents

The shipping documents are prepared to move the shipments. They are prepared as to fill up the customs requirements and also to allow the cargo to be loaded, shipped and finally unloaded.

All the requirements for shipping, loading and unloading are to be fulfilled and mentioned upon. There are many types of shipping documents. There can be explained as under:

Export License

An export license is a permission which allow an exporter to export its merchandise. It is needed for all kind of exports. In the United States, there are two types of export license procedure: (i) General License, (ii) validated license.

- i) **General License:** A general license is a permit for which no application is required. It is a permit for which no document or any kind of other authorization is granted. It is general kind of permission of export of certain commodities or some kind of other technical data, without applying for a license document. It allows the export of all those kinds of goods published in an authorizations list and also covers the export of those commodities not under restriction or control. Those products which meet the specific parameters can be shipped by putting General License symbol on the shipper's export declaration.
- ii) **Validated Export License:** It is a formal authorization document, for which an exporter may apply if he fails to qualify for a general license. The United States require this type of licensing for the strategic commodities and for the technical significance. Under such systems of foreign policy controls the restriction are placed on export to certain countries. Further in certain circumstances of short-supply controls, the licenses are given on to keep an eye to prevent the depletion of strategic and scarce resources of the country. The most of the products are exported and shipped under individual validated export license. It authorizes an individual sale of certain commodity to the certain buyers in the certain country, while the Special License permits the sale of a certain rank of products to certain

buyers in the certain countries. It is carried out if the exporters satisfy that they have introduced a strict control process.

Further the technical data is also subject to the export control process. The technical information or data can be used in the production, designing, or reconstruction etc. The export of such types of information requires a validated export license. It is pertinent to mention here that the technical data can be exported under one of the two technical data general licenses.

As far as export controls are concerned it can be co-ordinated at the international level frequently. In United States most of the export controls are multilateral controls. They are maintained with the co-operation with other countries.

B) Shipper's Export Declaration Form

The shipper's export declaration form is to be filed for all shipments. It should be deposited with an exporting carrier. The shipper's export declaration form is a multipurpose document. Generally it serves the following purposes :

- ▶ It serves as an export control document.
- ▶ It is helpful to administer the requirements of the Export Administration Act.
- ▶ It assist the Bureau of Census by providing statistical information on export shipments.

C) Packing List

A packing list is a document which contains all the detail about the merchandise. The packing list consists of following information :

- ▶ Types and total number of units,
- ▶ The contents of the merchandise,
- ▶ Weight and measurement of each unit.
- ▶ Markup and numbers.

A packing list is helpful to serve following purposes :

- ▶ It is helpful in custom clearance,

- ▶ It is helpful to keep track of inventory of goods.
- ▶ It assists in tracing the lost goods.
- ▶ It assists in insurance claim by determining the content of lost pieces.
- ▶ It is helpful in estimating shipping cost prior to the export.

D) The Shipper's Letter of Instructions

This is a form provided by the shipper to the freight forwarder. It contains all those pertinent information and instruction regarding the shipment and also about its handling. The shipper may authorize the forwarder to issue all necessary documents on behalf of him and to put his signatures accordingly.

1. **Receipt:** It is a proof of delivery (POD) for the merchandise received at the dock or warehouse. This document is required for shipments on the parts of united States, Gulf Coasts, etc.
2. **Collection Documents:** An exporter is to provide with a number of documents to the buyer as to satisfy him that the shipment has been made as per the agreed terms and conditions. The seller can make the request for the payments accordingly, as per the agreed terms and conditions. On the other hand the buyer do need all these documents to satisfy the rules and regulation of his home country.
3. **Invoices:** Invoices are used for the collection of payments. Generally there are two types of invoices used for this purpose:
4. **Proforma Invoice:** It is an Invoice which is provided by the supplier prior to the shipment of merchandise. The proforma invoice is provided by the seller for the following purposes :
 - ▶ To inform the buyers for the kinds of goods to be dispatched.
 - ▶ To inform the buyers about the quantity of the goods dispatched. It includes

important specifications like weight, size, etc.

- ▶ To inform the buyers about the value of the goods to be sent. It may help the buyers to make the arrangements for the payments at the earliest.
- ▶ The proforma invoice is required for the buyers, in order to obtain import license.
- ▶ The proforma invoice is also required to open letter of credit.

5. **Commercial Invoice:** It is an important document of export business, which provides a list of shipped goods and a detail of other charges. It provides a complete description of the goods dispatched. It can also be said to be a complete record of business transactions between buyers and sellers. The following types of description are included in the commercial invoice.

1. quantity of the merchandise,
2. price charged for the goods sent,
4. shipping terms,
3. payment terms.

Further it is pertinent that the commercial invoice should provide the complete breakdown of all the charges. It is required to clear the goods through customs. Therefore the breakdown of the charges, related to inland transportation, loading charges, freight and insurance charges and others should be provided. The commercial invoice must include all other necessary information required by the importer's country government. The necessary information required by the exporter's country should also be satisfied.

6. **Foreign Custom Invoice:** It is an invoice which is required by the custom authorities in certain countries. Some time the custom authorities may not recognize the commercial invoice for their requirement purposes. Therefore a special format invoice is required

in lieu of the commercial invoice. The information provided on such types of invoices are similar as in case of the commercial invoice. It may also contain the certification with regards to the value and origin of the shipment.

7. **Consular Invoice:** Many countries notably requires legalized documents. In addition to the commercial invoice, these countries require consular invoice. It is a descriptive document prepared by the exporter in the language of buyer's country on an officially prescribed form supplied by the buyer's country government. The main and basic purpose behind such invoice is to monitor merchandise and the flow of the capital. It must have seal, signature and an official stamp affixed on it. The Consulate General takes this responsibility to fulfill all the requirement, who represent on behalf of the government of the importing country. The Consulate General is to verify all the contents of the invoice. He is to certify the authenticity and correctness of the detail of the contents, which should includes the following contents:

- ▶ Detail about the total value of invoice
- ▶ Detail about the quantity of the invoice.
- ▶ Detail about the nature and other contents of the invoice.

Generally a certain fee is charged for this sort of services. The consulate may take his own time for approving the legalized documents and to return the same. Therefore, it is for an exporter to allow sufficient time for the processing of said invoice. It is pertinent to mention here that a consul invoice is a legalized document and any error noted in the later stage require a special consideration. No correction of any kind can be made by the exporters at this stage. Because a consular invoice is a certified document and such type of correction are considered forgery, for which a severe penalty can be imposed. The information contained in the consular invoice are generally same as per the commercial

invoice. The difference in both may be of specific information required by the consulate. Therefore it is the best way to talk directly with consulate regarding those specific requirements. The reference manuals like Bureaus of National Affairs (BNA) can also be consulted for this.

8. **Certification Of Origin** A certificate of origin is a document, which is prepared by exporter. It identifies that the particular merchandise is originated in a particular country. It is also an important and necessary document for tariff and control purposes. It is also helpful to prevent unusual import of goods from prohibited countries. The forms of certificate of origin can vary. It may be on shipper's own letterhead to a countersigned certificate by the Chamber of Commerce. In certain circumstances such forms should be legalized by the resident consul of an importing country. The Form can be provided and recommended for this purpose by the United Nation.

9. **Inspection Certificate:** This certificate is generally prepared by an independent firm or agency, which is other than the exporter. An inspection certificate is a document, which certify the quality or quantity of goods being shipped. It also certifies that the merchandise was in a good conditions prior to its shipment. Many foreign buyers require a shipper's affidavit or a certificate of an independent inspecting agency, which also certify the quality and quantity of goods strictly as per the order. It also ensure and certify that the goods has been shipped as per the agreed terms and conditions.

10. **Special Purpose Documents:** The buyer can request for the special purpose documents as in the case of an inspection certificate. The special purpose documents may includes the following:
 - ▶ Certificate of weight.
 - ▶ Certificate of measurement.

- Certificate of analysis as to ensure quality and others.

The certificate of weight and measurement is provided by an independent agency. It ensure that weight and measurement of the merchandise is as per the contract. Further the certificate of analysis contains the report of an expert on the findings of the composition of merchandize shipped. It also ensures that the goods are shipped as per the contract made by an exporter.

11. **Insurance Certificate:** An Insurance certificate provide full coverage for the entire shipment. It also describes the transactions and other coverages in brief. Generally a certificate of insurance is issued as an open coverage policy. It provide the coverage to insure all kinds of shipments. It also protects the merchandise from any kind of damage in transportation. The marine insurance policy uses to cover every modes of transportation.
12. **Air Way Bill:** Basically it is a bill of lading issued by an air carriers for shipping the merchandize through air way. This is not a negotiable instrument or document. Therefore the merchandize is released to the designated consignee even without having a way bill.
13. **Bill Of Lading:** A bill of lading is a document, usually prepared by the shipper on its form issued to record transactions related to the shipment. The bill of lading serves the following purposes:
14. **A Document of Title:** It is a document which certify the ownership of a merchandise. It also permit the importer to claim the goods as per description.
15. **A Receipt of Goods:** A bill of lading serves the purpose of receipt of goods dispatched. It is also a proof of the freight of carrier's possession. A receipt of goods is issued by the carrier to the shipper for merchandise handed over to the carrier's care for transportation.
16. **A Contract of Carriage:** A bill of lading establishes the contractual terms between

shipper and the carrier. It also defines the terms and conditions under which the goods are to be dispatched. The responsibility for the delivery of merchandise is also defined by a contract of carriage.

Further a bill of lading can be issued for the following modes of transportations :

- Inland modes of transportation.
- Ocean modes of transportation.
- Air Transport.

17. **Distribution Channels and Logistics:** Distribution is one of the most important component of marketing. The distribution of products is a necessary as well as costly activity. There are certain difficulties in moving products to the overseas market. The congestion at the port, lack of efficient equipments for material handling can come a long delay to reach the product to the ultimate customer. Therefore a multinational company must make an arrangements for transportation and it must pay attention to how the product is packed for shipping. An attempt has been made in this chapter to examine the various issues related to the process of distributing a product to the overseas market. The major transportation modes has been compared.

5.6.2 Modes of Transportation

Q23. Explain about Modes of Transportation.

Ans :

The mode of Transportations is a very important factor, which influences international marketing mix. Generally there are three basic modes of transportations used. These are air transport, water transport and land transport (railways and truck etc.). The air transport and water transports are used generally for exporting products to overseas market. It is useful when boundaries are not connected and buyer is located at considerable distance. On the other hand, whenever the countries are connected by land, it is useful to go for railways or highways to move merchandise from one location to another.

For example from the United States to Canada. Another example may be of European market, where railway is considered to be an important mode of transportation, because of availability of a modern efficient and quick railway system. The mode of transportation depends upon the following factors :

1. Market location,
2. Speed consideration,
3. Cost consideration.

1. Market Location

The land transport, such as railways or highway (truck) are used to serve contiguous markets. On the other hand air transportation or water ways are preferred to move merchandise in between the continents.

2. Speed Consideration

Speed is another consideration for selecting mode of transportation in international business. The air transport channel of distribution is preferred if the speed is an essential consideration for distributing the merchandise. If the delivery of the goods is promised quickly or the goods are urgently required, the air transport is preferred. For perishable products, air transport preferably a direct flight is selected, because it is helpful to reduce wastage and theft. On the other hand if the speed is not a consideration other modes like road transport or water transport may be preferred.

3. Cost Consideration

Cost is another factor, which is considered while selecting mode of transportation for international market. Generally the cost is directly linked with speed of delivery. If the goods are required quickly, it will cost more. If the goods are to be delivered through sea transport, it will increase the cost of packaging in comparison to air transport.

Finally a business firm must understand that no mode of transportation is ideal always. Each channel of distribution do have its own limitations and features as well. Therefore the selection of mode of transportation depends upon the needs and requirements of the customers and it tends to vary accordingly. The different types of mode of transportation can be explained as under:

a. Land Transport: Land transportation is an important mean of delivering the goods, whether it is domestic or an overseas shipment. Land transportation is also used in moving goods to and from an airport or at seaport. The railways and trucks are used in land transportation mode. If the quantum of merchandise is large and distance is also quite long, the railway mode of transportation can be an economical mode of delivery. Generally it is suitable in Japan and in Europe, because of efficient and developed infrastructure of railways in these countries. On the other hand trucks may be used to take merchandise to and from railway station. If the countries do have joint boundaries, truck or train may be a practical solution. The laws of both countries should be liberal in this regard. The road transport may be advisable in those countries, where the situation is common. The less developed economies tends to rely on road transport.

b. Air Transport : It is one of the most fast growing mode of transportation and is confined to expensive products. The air transport mode of delivery is quite costly but there are many advantages associated with delivering goods through air transport. The following are the main advantages of selecting air transport channel of delivery.

The air modes of transportation are helpful to speed up delivery and minimize the time in transit.

- ▶ It is helpful to get flexibility in delivery schedules.
- ▶ It enables to deliver perishable products in their original form.
- ▶ It is helpful to respond to the urgent needs and requirements.
- ▶ It is helpful to control inventory and other hidden costs.
- ▶ It is helpful to minimize packaging costs and insurance costs.

- It is helpful to control damages in transit.

Traditionally it was presumed that air cargo should be confined to high value products. One reason for that determination was that transport cost is a small proportion to such products value. Another reason was that the amount of capital tied up with these products while in transit is high and should be released as soon as possible. Further the air freight rates are usefully quoted per unit of weight, whereas the sea freight rates are usually quoted per unit of weight or volume whichever is higher. The air freight is considered quite competitive for low density goods as ladies shoes, men's shoes, computers, colour T.V. sets, refrigerators, towels, etc.

- c. **Water Transport:** It is one of the most practical and efficient means of transportation for bulk shipping in international business. It is considered to be one of the dominant form of international mode of transportation. Its main advantage is its low cost for transportation. Whenever it is to deliver bulk merchandise like industrial raw materials, petroleum and agriculture products to long distances, the water transport mode is always advisable. The quotation for ocean shipping can be obtained from the shipping company. The rates are quoted on the basis of weight and measurements. The goods are weighed and measured. The rates are quoted on the basis of that method which yields a higher freight charge.

The shipping company can be classified on the following categories :

- **Conference Lines:** Whenever the ocean carriers join hand to establish uniform and common rules freight and other terms and conditions for shipping, it is termed as a conference line. Each member in the association charges uniform rates. The dual rate system has also been adopted by the steamship conference as to accommodate contract

exporters. A contract exporter agree to ship all or large portion of its cargo on regular basis at lower rates as compared to non contractual shipper.

- **An Independent Line:** It operates and quotes freight rates independently with out using dual-rate system. It accepts bookings from the shippers. However, they may lower their rates, when they are to compete with conference line for non-contractual shippers. Generally they use to provide only limited services and do not offer any specific advantages for contact shippers. The reasons behinds may be of not having any significant price advantage with them.
- **Tramp Vessel:** It does not have a predetermined schedule to operate on a regular route. They operate mainly whenever they get bulk cargo. Sometime certain laws of country restrict a shipper to mandatory use of a particular vessel as to protect country's interest.

In general the rates of United States Conference lines are higher in comparison to the line of other countries. It is because of the subsidies and other support provided by their government.

5.7 STEPS IN PROCESSING AN EXPORT ORDER

Q24. What are the Steps in Processing an Export Order ?

Ans : (Imp.)

India's Foreign Trade i.e. Exports and Imports are regulated by Foreign Trade Policy notified by Central government in exercise of powers conferred by section 5 of foreign trade (Development and Regulation) Act 1992. Presently Foreign Trade Policy 2015-20 is effective from 1st April, 2015. As per FTD & R act, export is defined as an act of taking out of India any goods by land, sea or air and with proper transaction of money.

Starting Exports Steps :

Export in itself is a very wide concept and lot of preparations is required by an exporter before starting an export business. To start export business, the following steps may be followed:

- 1) **Establishing an Organisation.** To start the export business, first a sole Proprietary concern/ Partnership firm/Company has to be set up as per procedure with an attractive name and logo.
- 2) **Opening a Bank Account.** A current account with a Bank authorized to deal in Foreign Exchange should be opened.
- 3) **Obtaining Permanent Account Number (PAN).** It is necessary for every exporter and importer to obtain a PAN from the Income Tax Department. (To apply PAN Card Click Here)
- 4) **Obtaining Importer-Exporter Code (IEC) Number.** An IEC is a 10 digit number which is mandatory for undertaking export/import. Application for obtaining IEC Number can be submitted to Regional authority of DGFT in form ANF 2A along with the documents listed therein.

Applicants can also apply for e-IEC on the DGFT website (<http://dgft.gov.in/>). Only one IEC can be obtained against a single PAN.
- 5) **Registration cum membership certificate (RCMC).** For availing authorization to import/ export or any other benefit or concession under FTP 2015-20, as also to avail the services/ guidance, exporters are required to obtain RCMC granted by the concerned Export Promotion Councils/ FIEO/Commodity Boards/ Authorities.
- 6) **Selection of product.** All items are freely exportable except few items appearing in prohibited/ restricted list.

After studying the trends of export of different products from India proper selection of the product(s) to be exported may be made.

- 7) **Selection of Markets.** An overseas market should be selected after research covering market size, competition, quality requirements, payment terms etc. Exporters can also evaluate the markets based on the export benefits available for few countries under the FTP. Export promotion agencies, Indian Missions abroad, colleagues, friends, and relatives might be helpful in gathering information.
- 8) **Finding Buyers.** Participation in trade fairs, buyer seller meets, exhibitions, B2B portals, web browsing are an effective tool to find buyers. EPC's, Indian Missions abroad, overseas chambers of commerce can also be helpful. Creating multilingual Website with product catalogue, price, payment terms and other related information would also help.
- 9) **Sampling.** Providing customized samples as per the demands of Foreign buyers help in getting export orders. As per FTP 2015-2020, exports of bonafide trade and technical samples of freely exportable items shall be allowed without any limit.
- 10) **Pricing/Costing.** Product pricing is crucial in getting buyers' attention and promoting sales in view of international competition. The price should be worked out taking into consideration all expenses from sampling to realization of export proceeds on the basis of terms of sale i.e. Free on Board (FOB), Cost, Insurance & Freight (CIF), Cost & Freight(C&F), etc. Goal of establishing export costing should be to sell maximum quantity at competitive price with maximum profit margin. Preparing an export costing sheet for every export product is advisable.
- 11) **Negotiation with Buyers.** After determining the buyer's interest in the product, future prospects and continuity in business, demand for giving reasonable allowance/discount in price may be considered.
- 12) **Covering Risks through ECGC.** International trade involves payment risks

due to buyer/ Country insolvency. These risks can be covered by an appropriate Policy from Export Credit Guarantee Corporation Ltd (ECGC). Where the buyer is placing order without making advance payment or opening letter of Credit, it is advisable to procure credit limit on the foreign buyer from ECGC to protect against risk of non-payment.(To know more about ECGC [Click Here](#))

Processing an Export Order

- i. **Confirmation of order** : On receiving an export order, it should be examined carefully in respect of items, specification, payment conditions, packaging, delivery schedule, etc. and then the order should be confirmed. Accordingly, the exporter may enter into a formal contract with the overseas buyer.
- ii. **Procurement of Goods** : After confirmation of the export order, immediate steps may be taken for procurement/manufacture of the goods meant for export. It should be remembered that the order has been obtained with much efforts and competition so the procurement should also be strictly as per buyer's requirement.
- iii. **Quality Control** : In today's competitive era, it is important to be strict quality conscious about the export goods. Some products like food and agriculture, fishery, certain chemicals, etc. are subject to compulsory pre-shipment inspection. Foreign buyers may also lay down their own standards/specifications and insist upon inspection by their own nominated agencies. Maintaining high quality is necessary to sustain in export business.
- iv. **Finance** : Exporters are eligible to obtain pre-shipment and post-shipment finance from Commercial Banks at concessional interest rates to complete the export transaction. Packing Credit advance in pre-shipment stage is granted to new exporters against lodgment of L/C or confirmed order for 180 days to meet working capital requirements for purchase of raw material/

finished goods, labour expenses, packing, transporting, etc. Normally Banks give 75% to 90% advances of the value of the order keeping the balance as margin. Banks adjust the packing credit advance from the proceeds of export bills negotiated, purchased or discounted.

Post Shipment finance is given to exporters normally upto 90% of the Invoice value for normal transit period and in cases of usance export bills upto notional due date. The maximum period for post-shipment advances is 180 days from the date of shipment. Advances granted by Banks are adjusted by realization of the sale proceeds of the export bills. In case export bill becomes overdue Banks will charge commercial lending rate of interest.

- v. **Labeling, Packaging, Packing and Marking** : The export goods should be labeled, packaged and packed strictly as per the buyer's specific instructions. Good packaging delivers and presents the goods in top condition and in attractive way. Similarly, good packing helps easy handling, maximum loading, reducing shipping costs and to ensuring safety and standard of the cargo. Marking such as address, package number, port and place of destination, weight, handling instructions, etc. provides identification and information of cargo packed.
- vi. **Insurance** : Marine insurance policy covers risks of loss or damage to the goods during the while the goods are in transit. Generally in CIF contract the exporters arrange the insurance whereas for C&F and FOB contract the buyers obtain insurance policy.
- vii. **Delivery** : It is important feature of export and the exporter must adhere the delivery schedule. Planning should be there to let nothing stand in the way of fast and efficient delivery.
- viii. **Customs Procedures** : It is necessary to obtain PAN based Business Identification

Number (BIN) from the Customs prior to filing of shipping bill for clearance of export good and open a current account in the designated bank for crediting of any drawback amount and the same has to be registered on the system.

In case of Non-EDI, the shipping bills or bills of export are required to be filled in the format as prescribed in the Shipping Bill and Bill of Export (Form) regulations, 1991. An exporter need to apply different forms of shipping bill/ bill of export for export of duty free goods, export of dutiable goods and export under drawback etc.

ix. Customs House Agents : Exporters may avail services of Customs House Agents licensed by the Commissioner of Customs. They are professionals and facilitate work connected with clearance of cargo from Customs.

x. Documentation : FTP 2015-2020 describe the following mandatory documents for import and export.

- ▶ Bill of Lading/ Airway bill
- ▶ Commercial invoice cum packing list
- ▶ Shipping bill/ bill of export/ bill of entry (for imports)

(Other documents like certificate of origin, inspection certificate etc may be required as per the case.)

xi. Submission of documents to Bank : After shipment, it is obligatory to present the documents to the Bank within 21 days for onward dispatch to the foreign Bank for arranging payment. Documents should be drawn under Collection/Purchase/Negotiation under L/C as the case may be, along with the following documents :

- ▶ Bill of Exchange
- ▶ Letter of Credit (if shipment is under L/C)

- ▶ Invoice
- ▶ Packing List
- ▶ Airway Bill/Bill of Lading
- ▶ Declaration under Foreign Exchange
- ▶ Certificate of Origin/GSP
- ▶ Inspection Certificate, wherever necessary
- ▶ Any other document as required in the L/C or by the buyer or statutorily.

xii. Realization of Export Proceeds : As per FTP 2015-2020, all export contracts and invoices shall be denominated either in freely convertible currency of Indian rupees, but export proceeds should be realized in freely convertible currency except for export to Iran.

Export proceeds should be realized in 9 months.

Short Question and Answers

1. International Marketing Strategy

Ans :

One of the most frequent motives for internationalization is the search for new markets (see Chapter 4). An international marketing strategy brings customer focus to the firm's international strategy. International marketing, in general, is concerned with identifying, measuring and pursuing market opportunities abroad. It implies "the application of marketing orientation and marketing techniques to international business" and alludes to the positioning of the MNC itself and its products and services in foreign markets.

The basic types of international marketing strategies can be classified according to the integration/responsiveness-framework

1. **International marketing strategy:** This type of marketing strategy can be considered an ethnocentric marketing strategy, and is characterized by the application of the marketing strategy of the home country to all foreign markets without adaptation to the local environment. It represents a standardized approach to marketing that is referred to as "transference", i.e., the marketing strategy that has been developed for the home market is transferred to (all) other markets.
2. **Global marketing strategy:** The global marketing strategy is associated with a firm's commitment to coordinate its marketing activities across national boundaries in order to satisfy global customer needs. Global marketing is associated with a standardised approach, i.e., a marketing strategy being applied in multiple markets at the same time) with the objective of achieving global efficiency and economies of scale.
3. **Multinational marketing strategy :** Multinational marketing strategies focus on the diversity of international marketing and imply a strong adaptation to the needs of each

market. Thus, individual marketing programmes are developed for each individual market, with a multitude of diverse marketing programmes being applied simultaneously.

4. **Transnational marketing strategy :** The transnational marketing strategy implies the combination of global efficiency and multinational diversity with a strategy that strives to satisfy the mantra "think globally, act locally". This strategy is sometimes referred to as "globalisation".

2. Selection of Negotiators

Ans :

Selection of Negotiators refers to the criteria used to select members of the negotiating team. Achievement-based people evaluate and relate to others based on what they have accomplished; status-based people evaluate and relate to others based on who they are.

1) Abilities

People with an achievement-based view believe members of a negotiating team should be selected because they possess certain job-related skills or because they have expertise that will be useful during the course of the negotiations. Examples of relevant skills or expertise include education, technical or scientific knowledge, legal training, vocational achievement, negotiating experience, or language fluency.

2) Status

People with a status-based view believe members of a negotiating team should be selected because of who they are and whom they know. Examples of relevant characteristics include family background, influential connections, seniority, age, or gender. Negotiators from status-based cultures may be senior, high-ranking officials, who wield considerable influence in their

organizations and who may also command great respect in the community at large.

3. Participants in B2B

Ans :

Transactions usually involve three categories of participants: buyers, sellers and intermediaries. Buyers and sellers are the active groups in terms of exchanging goods and services (sellers) for some form of compensation (buyer). Regarding the third group, intermediaries, are playing vital role in B2B markets.

The intermediaries are supposed to offer a variety of services to support and facilitate transactions. This includes financial institutions such as banks, credit card companies and insurance brokers; providers of shipping, logistics and warehousing services; and consultants, industry associations and market researchers offering advice, product data or market information. Providers of information technology to automate transactions or to help set up electronic marketplaces can be characterized as intermediaries as well.

In the case of business-to-business transactions, both buyers and sellers are business organizations, whereas business-to-consumer and consumer-to-consumer transactions involve end consumers or private households as buyers or sellers, respectively.

4. Development of a Global Portal Strategy

Ans :

An international expansion strategy triggers a number of questions that the internet portal needs to address. The decisions at the early stage include which markets or regions to enter first, whether or not to use local partners, what functions of the portal architecture to offer on international sites, what to host in the home base and abroad, and how to develop local content, commerce and connectivity. Robles (2002) found that the Internet firms' global portal strategy develops through different stages.

Stage 1: Translation of content (from home base)

The first stage of internationalization implies the translation of content and other relevant information to the language of the visitor. At this

early stage of internationalization traffic to the portal and information thereon is given to international visitors from home-based operations.

Stage 2: Presence in international markets

At the second stage the portal establishes a presence in international markets in a variety of ways. Portals moved first to countries with large online populations through joint ventures and partnerships with local media companies or telecommunications firms. The local site at this stage was a copy of the home-based portal. The portal transferred the basic functionality (technology) of the site while keeping some of the most advanced back-end systems at home and also providing host services for the new venture while it took off. The local partner contributed with marketing, promotion and customer service, local network and connectivity, billing, securing local content, and recruiting local commerce partners.

Stage 3: Extensive localization

At the third stage extensive localization and local development of services and tools took place. Alliances with local firms to provide local language search engines, local directories and more local content were central at this stage. An important effort at this stage was to increase the depth of local commerce. As part of the localization, portals leveraged the information captured from visitors to fine-tune the local interface. This decentralized approach resulted in a variety of interfaces, sites and connectivity platforms in national markets, but kept a uniform template for all. At this stage innovation and upgrading of services took place on the home site. Some, but not all, of these innovations were transferred to international sites.

Stage 4: A common global platform

As international expansion gains momentum internet firms may reconsider the diversity of local strategies, by attempting to consolidate and introduce efficiencies. The pressure for consistency and universal architecture stems from the challenge of rivals, whether global or local portals. Most firms realize that only one or two viable global portals will remain so in the long run. Several strategies emerge at this stage. The most common approach

is to develop a common global platform and a distributed architecture that make sense on grounds of efficiency.

Under this strategy the portal firm seeks global partnerships with content, commerce and infrastructure providers. Another strategy is to focus on a region, seeking to dominate a particular geography. The regional strategy allows firms to become highly focused on a given community by aggregating commerce and media to a target segment, based on culture and language.

5. Benefits of m-marketing

Ans :

The introduction of m-marketing should bring a series of benefits to consumers, merchants and telecommunication companies. As with all technologies, many benefits will arise in the future that are not yet even imagined. Some benefits that are apparent now, however, include the following :

A) For consumers

- **Comparison shopping:** Consumers can access on demand, at the point of purchase, the best prices in the marketplace. This can be done now without mobility, with services such as pricescan.com.
- **Bridge the gap between bricks and clicks:** Services permitting users to examine merchandise in a store and still shop electronically for the best price.
- **Opt-in searches:** Customers may receive alerts from merchants when products they are looking for become available.
- **Travel:** Ability to change and monitor scheduled travel any time, any place.

B) For Merchants

- **Impulse buying:** Consumers may buy discounted products from a web page promotion or a mobile alert, increasing their willingness to buy as they are right near or even inside the store, and thus increasing merchants' sales.

- **Drive traffic:** Companies will guide their customers to where it is easier to carry out the transaction, to either online or offline stores, due to the time-sensitive, location-based and personalized characteristics of the mobile device.
- **Education of consumers:** Companies will send information to customers about product benefits or new products.
- **Perishable products:** This is especially important for products that do not retain their value when unused, such as service-based products. For example, the use of an aeroplane seat, that, when unused, generates no revenue and is lost value. This will enable companies to better manage inventory.
- **Drive efficiency:** Companies will save time with their clients. Because information is readily available on the mobile device they will not have to talk about the benefits of the different products or about prices.
- **Target market:** Companies will be better able to target their products and promotions to those in a given geographic area at a specific time.

6. Internet Marketing Channels

Ans :

➤ Display Advertising

- o The process of placing ads on third-party websites with the goal of creating branding awareness and/or generating traffic.

Examples: Banner ads, video ads, interactive ads, overlays, interstitial, etc.

➤ Email Marketing

- o The process of collecting email addresses from potential leads and marketing to them via email messages
- o Examples: Email newsletters, brand building emails, conversion-focused emails, etc.

➤ **Pay-Per-Click Advertising (PPC)**

- o The process of bidding for placement at search engines (major or niche) to earn visibility and traffic when relevant queries are performed
- o Examples: Google Adwords, Yahoo! Search Marketing, Business.com Advertising, etc.

7. Design of a Control System

Ans :

In designing a control system management must consider the costs of establishing and maintaining it and trade them off against the benefits to be gained. Any control system will require investment in a management structure and in systems designs.

The design of the control system can be divided into two groups dependent on the objective of control :

1. output control (typically based on financial measures);
2. behavioural controls (typically based on non-financial measures).

1. Output control may consist of expenditure control, which involves regular monitoring of expenditure figures, comparison of these with budget targets, and taking decisions to cut or increase expenditure where any variance is believed to be harmful. Measures of output are accumulated at regular intervals and typically forwarded from the foreign subsidiary to head-quarters, where they are evaluated and criticized based on comparison to the plan or budget.

2. Behavioural controls require the exercise of influence over behaviour. This influence can be achieved, for example, by providing sales manuals to subsidiary personnel or by fitting new employees into the corporate culture. Behavioural controls often require an extensive socialisation process, and informal, personal interaction is central

to the process. Substantial resources must be spent to train the individual to share the corporate culture: that is, 'the way things are done at the company'.

8. Process of Developing the Global Marketing Plan.

Ans :

The purpose of the marketing plan is to create sustain-able competitive advantages in the global marketplace. Generally, firms go through some kind of mental process in developing global marketing plans. In SMEs this process is normally informal; in larger organizations it is often more systematized.

Basically 'global marketing' consists of finding and satisfying global customer needs better than the competition, and of coordinating marketing activities within the constraints of the global environment. The form of the firm's response to global market opportunities depends greatly on the management's assumptions or beliefs, both conscious and unconscious, about the nature of doing business around the world. This worldview of a firm's business activities can be described as the EPRG framework

- ▶ **Ethnocentric:** the home country is superior and the needs of the home country are most relevant. Essentially headquarters extends ways of doing business to its foreign affiliates. Controls are highly centralized and the organization and technology implemented in foreign locations will essentially be the same as in the home country.
- ▶ **Polycentric (multidomestic):** each country is unique and therefore should be targeted in a different way. The polycentric enterprise recognizes that there are different conditions of production and marketing in different locations and tries to adapt to those different conditions in order to maximize profits in each location. The control with affiliates is highly decentralized and communication between headquarters and affiliates is limited.
- ▶ **Regiocentric:** the world consists of regions (e.g. Europe, Asia, the Middle East). The firm tries to integrate and coordinate its marketing

programme within regions, but not across them.

- **Geocentric (global):** the world is getting smaller and smaller. The firm may offer global product concepts but with local adaptation ('think global, act local').

9. Export Marketing

Ans :

Export marketing, though it has certain distinct characteristics, is similar to domestic marketing in terms of certain technical attributes. Marketing can be conceived as an internal part of two processes, viz. technical and social. International marketing and domestic marketing are identical, so far as technical process is concerned. It includes non human factors such as product, price, cost, brands, etc. The basic principles regarding these variables are of universal applicability. But the social aspects of marketing is unique in any given stratum, because it involves human elements, namely, the behaviour pattern of customers and the given characteristics of a society, such as consumers attitude, values, etc. It is obvious that marketing, to the extent, it is visualized as a social process, will be different from domestic marketing.

Export marketing can, be defined as "marketing activities carried on across national boundaries." The Export marketing is different from domestic marketing both in the way of exchange and needs and requirements of international buyers. Therefore the knowledge of, and the ability to perceive basic pattern in consumer behaviour in different environments is particularly vital element in the makeup of the international marketing. The role of Export marketing manager becomes very important in this context. To work successfully in an international environment, the marketing manager must have the ability to seek to understand the environment and way of thinking regarding the consumers, competitors, suppliers or employees in the new country. There must be at least three major dimensions to the skills of the International marketing.

10. Export License

Ans :

An export license is a permission which allow an exporter to export its merchandise. It is needed for all kind of exports. In the United States, there are two types of export license procedure: (i) General License, (ii) validated license.

i) **General License:** A general license is a permit for which no application is required. It is a permit for which no document or any kind of other authorization is granted. It is general kind of permission of export of certain commodities or some kind of other technical data, without applying for a license document. It allows the export of all those kinds of goods published in an authorizations list and also covers the export of those commodities not under restriction or control. Those products which meet the specific parameters can be shipped by putting General License symbol on the shipper's export declaration.

ii) **Validated Export License:** It is a formal authorization document, for which an exporter may apply if he fails to qualify for a general license. The United States require this type of licensing for the strategic commodities and for the technical significance. Under such systems of foreign policy controls the restriction are placed on export to certain countries. Further in certain circumstances of short-supply controls, the licenses are given on to keep an eye to prevent the depletion of strategic and scarce resources of the country.

The most of the products are exported and shipped under individual validated export license. It authorizes an individual sale of certain commodity to the certain buyers in the certain country, while the Special License permits the sale of a certain rank of products to certain buyers in the certain countries. It is carried out if the exporters satisfy that they have introduced a strict control process.

11. Processing an Export Order

Ans :

- i. Confirmation of order :** On receiving an export order, it should be examined carefully in respect of items, specification, payment conditions, packaging, delivery schedule, etc. and then the order should be confirmed. Accordingly, the exporter may enter into a formal contract with the overseas buyer.
- ii. Procurement of Goods :** After confirmation of the export order, immediate steps may be taken for procurement/manufacture of the goods meant for export. It should be remembered that the order has been obtained with much efforts and competition so the procurement should also be strictly as per buyer's requirement.
- iii. Quality Control :** In today's competitive era, it is important to be strict quality conscious about the export goods. Some products like food and agriculture, fishery, certain chemicals, etc. are subject to compulsory pre-shipment inspection. Foreign buyers may also lay down their own standards/specifications and insist upon inspection by their own nominated agencies. Maintaining high quality is necessary to sustain in export business.
- iv. Finance :** Exporters are eligible to obtain pre-shipment and post-shipment finance from Commercial Banks at concessional interest rates to complete the export transaction. Packing Credit advance in pre-shipment stage is granted to new exporters against lodgment of L/C or confirmed order for 180 days to meet working capital requirements for purchase of raw material/finished goods, labour expenses, packing, transporting, etc. Normally Banks give 75% to 90% advances of the value of the order keeping the balance as margin. Banks adjust the packing credit advance from the proceeds of export bills negotiated, purchased or discounted.

Internal Assessment (Mid Examinations)

The pattern of Mid Exams or Continuous Internal Evaluation (CIE) prescribed by the JNTU-H as per the Regulations 2019 (R19) for all the semesters is as follows,

- There would be two Mid Exams or Continuous Internal Evaluation (CIE) for each semester,
 - The **Ist Mid Term Examinations** would be conducted during the Middle of the Semester.
 - The **IInd Mid Term Examinations** during the last week of instructions.
- The Mid Exam I and II would have the same pattern of question paper which would carry **25 Marks** each and the time duration for conducting each Mid exam would be 120 min.
- The pattern of Mid Exam Question Paper would consist of two parts i.e., **Part-A** and **Part-B**.
 - **Part-A** consist of 5 compulsory questions each carries 2 marks (i.e $5 \times 2 = 10$ marks).
 - **Part-B** consist of 5 questions out of which 3 questions should be answered, each question carries 5 marks (i.e $5 \times 3 = 15$ marks).
- The average of the two Mid exams will be added with the 75 marks of External end examination which equals to 100 marks (i.e $25 + 75 = 100$).

UNIT - I

Part - A

1. International marketing. (Refer Unit-I, SQA-1)
2. Counter Trade. (Refer Unit-I, SQA-2)
3. Definition of Domestic Marketing. (Refer Unit-I, SQA-4)
4. Definition of International Marketing. (Refer Unit-I, SQA-5)
5. Multinational or International marketing Company. (Refer Unit-I, SQA-6)

Part - B

1. Discuss about environment and sustainability. (Refer Unit-I, Q.No. 2)
2. Explain the scope of international marketing. (Refer Unit-I, Q.No. 3)
3. What are the features, opportunities and challenges in International Marketing ? (Refer Unit-I, Q.No. 5)
4. What is the comparison of domestic with international marketing ? (Refer Unit-I, Q.No. 6)
5. What is internationalization and, Explain the concept of Internationalization. (Refer Unit-I, Q.No. 9)
6. What are the reasons and strategies of Internationalization ? (Refer Unit-I, Q.No. 10)

UNIT - II**Part - A**

1. Global Environment Drivers (Refer Unit-II, SQA-1)
2. Political Environments (Refer Unit-II, SQA-2)
3. International trade (Refer Unit-II, SQA-5)
4. Tariff Barriers (Refer Unit-II, SQA-6)
5. International Trade Agreements (Refer Unit-II, SQA-9)
6. Types of Trading Agreements (Refer Unit-II, SQA-10)

Part - B

1. Discuss about WTO and Globalization. (Refer Unit-II, Q.No. 2)
2. What are the types of global environment ? (Refer Unit-II, Q.No. 3)
3. Explain about International Social Environments. (Refer Unit-II, Q.No. 6)
4. Discuss about technological environment. (Refer Unit-II, Q.No. 8)
5. What are the Barriers of International Trade ? (Refer Unit-II, Q.No. 11)
6. Explain about eliminating trade barriers on environmental goods and services. (Refer Unit-II, Q.No. 13)

UNIT - III**Part - A**

1. Global Customers. (Refer Unit-III, SQA-1)
2. Industrial buyers. (Refer Unit-III, SQA-2)
3. International Marketing Research (Refer Unit-III, SQA-3)
4. Arguments for Government Intervention. (Refer Unit-III, SQA-4)

Part - B

1. Explain about Drivers of Global Consumers. (Refer Unit-III, Q.No. 2)
2. Explain about International Marketing Research ? (Refer Unit-III, Q.No. 6)
3. Explain about Market Selection in International Marketing Research. (Refer Unit-III, Q.No. 8)
4. What are the Government Policies of Target Markets ? (Refer Unit-III, Q.No. 10)
5. Discuss about Global Market Entry Modes. (Refer Unit-III, Q.No. 12)

UNIT - IV**Part - A**

1. Global Marketing (Refer Unit-IV, SQA-1)
2. Global Distribution. (Refer Unit-IV, SQA-4)
3. Communications Decisions / Promotion Strategies (Refer Unit-IV, SQA-6)
4. Geographical Pricing. (Refer Unit-IV, SQA-7)
5. Free Trade Zones. (Refer Unit-IV, SQA-9)

Part - B

1. What are the factors Affecting Globalisation? (Refer Unit-IV, Q.No. 3)
2. How to developing the global marketing program? (Refer Unit-IV, Q.No. 5)
3. What are the Bases of International Market Segmentation ? (Refer Unit-IV, Q.No. 7)
4. Explain about Benefits of Market Segmentation. (Refer Unit-IV, Q.No. 10)
5. Explain about Marketing Channels /Distribution Channel. (Refer Unit-IV, Q.No. 11)
6. Explain about Pricing Methods in Global Market. (Refer Unit-IV, Q.No. 21)
7. Explain the Concept of International Product Life Cycle. (Refer Unit-IV, Q.No. 23)

UNIT - V**Part - A**

1. International Marketing Strategy (Refer Unit-V, SQA-1)
2. Participants in B2B (Refer Unit-V, SQA-3)
3. Internet Marketing Channels (Refer Unit-V, SQA-6)
4. Export Marketing (Refer Unit-V, SQA-9)
5. Export License (Refer Unit-V, SQA-10)

Part - B

1. Discuss about Negotiation with Customers and Selection Method. (Refer Unit-V, Q.No. 2)
2. What are the Implications for Managers and Negotiators ? and selection of negotiators? (Refer Unit-V, Q.No. 3)
3. Explain about Cultural and International Negotiations. (Refer Unit-V, Q.No. 4)
4. Explain about e-marketing channels. (Refer Unit-V, Q.No. 5)
5. What are the Phases involved in Developing and Implementing e-marketing structure ? (Refer Unit-V, Q.No. 8)
6. What are the Factors Influencing Strategy Creation ? (Refer Unit-V, Q.No. 9)
7. What is the Distinction between e-marketing and m-marketing ? (Refer Unit-V, Q.No. 12)
8. Explain about the Global Account Management (GAM) Organization. (Refer Unit-V, Q.No. 16)

INTERNATIONAL MARKETING

Time : 2 Hours]

[Max. Marks : 75

Answer any five questions

All questions carry equal marks

- - -

1. (a) What are the unique challenges of international marketing ? (Unit-I, Q.No. 5)
(b) What is law of comparative advantage? What is its significance to international marketing”

Ans :

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. For example, if, using machinery, a worker in one country can produce both shoes and shirts at 6 per hour, and a worker in a country with less machinery can produce either 2 shoes or 4 shirts in an hour, each country can gain from trade because their internal trade-offs between shoes and shirts are different. The less-efficient country has a comparative advantage in shirts, so it finds it more efficient to produce shirts and trade them to the more-efficient country for shoes. The net benefits to each country are called the gains from trade.

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.
3. Labour theory of value: Labour is the only factor of production. In other words, the cost of production of the commodities is measured by the labour time involved in producing them.
4. Absence of transportation costs.
5. Labour 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 the same throughout because of perfect mobility of labour but as between nations wages may differ because 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 the same irrespective of the level of production.
7. There is full employment of labour i.e. to produce more of one commodity labour will have to be diverted from the other commodity. Also, the total labour is constant.
8. Technology remains unchanged.

Criticism of Ricardo's Law of Comparative Advantage

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

- (i) Labour is the only factor of production or
- (ii) Labour is used in the same fixed proportion in the production of all commodities.
- (iii) Labour is homogeneous.

2. (a) What is piggybacking in export management? how does it serve as a stepping stone for full-fledged export?

Ans :

In piggyback marketing two companies form an alliance. Thus, they both help each other to promote certain products which are complementary to each other but not competitive in nature. For example, a car company can promote another tire company. In such a situation, the products are complementary because cars need wheels, but they are not competitive in any way. It is not likely that someone will buy tires and start making a car of his own.

Advantages

1. **Easy International Entry :** First of all, it must be noted that there are two parties involved whenever we talk of piggyback marketing. One company relies on the other for their services. What now happens is that if you enter into a deal with an international company, it gives you an upper edge. This is the chance for you to enter into international markets and establish your name and reputation there.

What usually happens is that no one enters into such a deal until and unless you are exceptional. This is because neither of the parties would wish to ruin their impression amongst the masses. The moment an international company agrees to your offer, it goes to show that you are on par with them and they appreciate your products. This can be huge for you.

2. **Online Marketing :** You must be well aware that the world is going digital. The cyber fever is catching on and almost everyone we know is relying on the internet for either social networking or getting information on search engines. The world wide web has now become a vital aspect when it comes to marketing.

This is because since everyone is hooked on social media for entertainment or just to spend time, you get a chance to reach out to them through such sites and applications. One of the most common ways of social media marketing is to post advertisements. While scrolling the web, you must have often come across Google ads.

3. **Reach the Target Audience :** It often happens that you employ all the marketing tricks and gimmicks and yet fail to get the attention that you desire for. This is because you have been unable to reach the target customers. Thus, piggyback marketing helps you reach them.

If you are wondering how then keep reading. In piggyback marketing, you tie up with another firm who is in a related field as you. Though they are not your competitors, you two essentially serve in the same line. Thus, if you sell cartoon printed bedsheets, you can tie up with a company who sells beds for children. That is how you will be able to reach out to the target audience and they will be able to identify you as well as recognize you

4. **Increase Sales :** The aim of all marketing gimmicks is to improve sales and increase profits. You make the profit only after you are able to successfully sell your products. Thus, piggyback marketing is one of the best ways to achieve this. This is so because you get the opportunity to take the help of another company.
-
- (b) What is the difference between global marketing and international marketing? (Unit-I, Q.No. 6)
3. (a) Explain the role of governments as drivers of global marketing. (Unit-III, Q.No. 3)
- (b) What has been the role of WTO in promoting international trade? (Unit-II, Q.No. 2)
4. (a) What is the importance of culture in international marketing? (Unit-III, Q.No. 4)
- (b) What are the challenges of marketing to governments in general? (Unit-III, Q.No. 10)
5. (a) "The increased technological content makes the product less susceptible to cultural influences". Comment briefly on the statement. (Unit-III, Q.No. 5)
- (b) Evaluate "joint venture" as a market entry strategy.

Ans :

Creating a third company with another partner is often the preferred market entry method, especially in emerging markets. A joint venture means that the company can take advantage of the partner's infrastructure, local knowledge and reputation. It allows for closer control of the business compared to licensing and can allow for rapid expansion. One challenge is to ensure that both companies' strategic goals are in alignment. A joint venture enables the risks and costs – as well as the rewards – of the business to be shared. It can be the only method of entry in some markets.

-
6. (a) What is multiple channel strategy in international marketing?

Ans :

Multi-channel refers to the use of several media channels for spreading marketing messages. This can include email, social media, print, mobile, display ads, television, and more. Leveraging multiple channels allows brands to interact with their customers across multiple touchpoints for a more comprehensive campaign.

Multichannel marketing combines various platforms to amplify your campaign's frequency and reach, creating more effective messaging. One channel is often not enough for a robust marketing campaign since audiences tend to frequent many different channels. Although multi-channel marketing is more effective than single-channel strategies, marketers should consider extending to even more sophisticated strategies such as cross-channel marketing.

-
- (b) What is the importance of communicating "locally" for a global marketer?

Ans :

- (i) **Raised knowledge about your brand:** If your business not only has ads on social media platforms but also commercials that air all around the world (tailored from country to country) there is an increased chance of gaining a global customer base.
- (ii) **Lesser costs, more savings:** By establishing a brand in other global markets, a business can acquire more consumers and get them familiarized with the brand to a point where the marketing does itself (recommendations, social media posts, etc.). Plus, by taking advantage of social media, businesses use less money for promotions.

- (iii) **Reach a wider target audience:** Being on top of the American market is nothing to sneeze at, but thanks to modern innovations (the internet) it is easier than ever before to connect with the foreign market to increase a businesses' customer base.
- (iv) **Gain the upper hand on your competitors:** Everyone knows that McDonald's is a dominant global powerhouse compared to Whataburger due to its reach in the global market, especially in China.
- (v) **Gain relationships across borders:** Not only can a business form a relationship or even partnerships within their native countries (i.e. Coca-Cola and McDonald's), but they can also establish alliances with foreign corporations to sharpen their edge within the global market.
- (vi) **Helps form relationship outside of the "political arena":** Certain might not be able to link up in their native countries due to conflicts of interests, however, in another country, those constraints might not be there.
- (vii) **Reveals the advantages of e-Marketing vs traditional marketing:** In the age of social media posts and images with the use of social media, e-Marketing is king.
- (viii) **Influence and scope:** The more global impact that a company has the more cultural influence and power that they have, which also increases the sizes of their operations.

7. (a) What is transfer pricing? Explain the problems of transfer pricing in international marketing?

Ans :

Transfer pricing involves what one subsidiary will charge another for products or components supplied for use in another country. Firms will often try to charge high prices to subsidiaries in countries with high taxes so that the income earned there will be minimized.

Transactions may include the trade of supplies or labor between departments. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities.

Therefore, when divisions are required to transact with each other, a transfer price is used to determine costs. Transfer prices tend not to differ much from the price in the market because one of the entities in such a transaction will lose out: they will either be buying for more than the prevailing market price or selling below the market price, and this will affect their performance.

(b) What are the challenges of developing global products?

Ans :

(i) Social Challenges:

Products are developed to meet a specific need or want. Just because we have a need or want in the U.S., doesn't mean that need or want is universal. Different countries are at different stages of economic development, and the need or want we have might not have developed in enough other countries to create a viable target market. Other countries have different cultures and different food preferences, grooming habits, living quarters, recreational opportunities, lifestyles and clothes. English speakers might be few. Brand names may not translate appropriately. Countries may have no interest in a particular good or service that is selling well in America.

(ii) Technical Challenges

American companies have done a good job of standardizing technology, but so have other countries, and those standards don't always match. Standard electrical voltage differs from country to country,

so products must be designed to run on different voltages, and they need different plugs to fit different receptacles. Local water pressure might be different. Lettering on dials, knobs, levers or buttons might need to be in different languages. Some use Fahrenheit systems to measure temperature while others use Celsius. Some use metric measurements, while some use other measurement systems. Raw materials readily available in America might not be available in other countries. Phone, radio, television and ISP signals might be totally different from country to country.

(iii) Distribution Challenges

In America, if you can get Wal-Mart and Target to carry your product, you have instant national distribution. Most other countries don't have that type of national distribution available to them. You have to work with dozens of regional chains, distributors and independent stores. Many countries, such as India, have large outlying areas that are served by thousands of small mom-and-pop stores or retail trucks. It can be a real challenge to get your product from the import docks to a place where a customer can buy it.

(iv) Promotional Challenges

In America, we have a variety of effective methods to promote a product and communicate with our customers. We can use television, radio, direct mail, magazines, social media, billboards, telemarketing and product placement in movies. Many other countries just don't have these promotional methods, certainly not to the extent we have here. You may have to use a grass roots approach, which is much harder. In addition, there may be cultural limitations. Our promotions tend to have a sexual orientation. The beautiful model as spokesperson, shot in revealing swimwear or with plunging neckline might be taboo in many companies. You may find you have to use methods with which you have no experience. You might have to completely redo packaging or promotional materials at considerable expense.

8. (a) How do you distinguish negotiation from bargaining?

Ans :

Bargaining is only related to price. Negotiation is not used in connection with the price alone. This term can also be applied in legal situations where two parties want to come to an agreement.

Usually, bargaining is often done in an informal situation whereas negotiation can be used as a description for situations other than just price and basically for legal scenarios. Moreover, bargaining which mostly includes verbal communication; negotiation involves a lot of written records as well.

(b) What are the advantages of E-marketing with special reference to international marketing?

Ans :

(i) Less Risky

The good thing about using e-marketing is that it doesn't involve too much risk. The online and social media marketing campaigns are much cheaper compared to TV, billboards, and newspaper advertisements. The e-marketing initiation and operational cost of online retail stores are very low compared to the establishment of physical stores. When you add all of these factors, it makes e-marketing less risky than traditional marketing.

(ii) Cost Reduction by Automation

E-marketing also provides the option of automating various processes of your business. For instance, you can send the customers orders directly to the third-party suppliers and ask them to send the order directly to the customers. Here automation is allowing you to save inventory cost, logistic

cost, inventory management cost, rental cost, and product delivery costs.

(iii) Fast Response

Speed and fast response is the key to the success and widespread usage of e-marketing. It allows you to reply to your audience instantly regardless of the distance. It's because of the fast response; the world has become a global village. The speed and fast interaction is the main reason behind the technological growth and development in the past few decades. If people were using the conventional modes of communication like newspapers, books, and face-to-face interaction, then we wouldn't be able to see the current technology.

(iv) Easy Data Collection & Evaluation

When it comes to data collection to monitor the performance of your business, there's no better alternative than e-marketing tools. Consider if you have to collect through conventional and traditional way, then it would months and plethora of monetary resources. But you can do it within a day online. Whether it's data collection, evaluation, monitoring the performance of your business, or checking the analytics of your business; it's only possible through an e-marketing approach.

Rahul Publications

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD**MBA IV Semester Examination****December - 2019****R17****INTERNATIONAL MARKETING**

Time : 3 Hours]

[Max. Marks : 75

Note : The question paper contains two parts A and B

Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit. Each question carries 10 marks and may have a, b, c as sub-questions.

PART - A (5 × 5 = Marks = 25)

1. (a) Explain the concept of global orientation.

Ans :

Global orientation is defined as a means of operating by which a company acts as if all the company's markets in a company's scope of operations were approachable as a single global market, with the company standardizing the marketing mix where culturally feasible and cost effective. In short global orientation is marketing on one basis instead of a different basis for each different market sector. In order to obtain global orientation a global brand mission, the same quality in all sectors of the business, superb market sensing and most importantly brand infatuation is required.

- (b) What are the various types of the trade barriers imposed against imports?

Ans :

Trade barriers are government policies which place restrictions on international trade. Trade barriers can either make trade more difficult and expensive (tariff barriers) or prevent trade completely

Examples

- (i) **Tariff Barriers:** These are taxes on certain imports. They raise the price of imported goods making imports less competitive.
- (ii) **Non-Tariff Barriers:** These involve rules and regulations which make trade more difficult. For example, if foreign companies have to adhere to complex manufacturing laws it can be difficult to trade.
- (iii) **Quotas:** A limit placed on the number of imports
- (iv) **Voluntary Export Restraint (VER):** Similar to quotas, this is where countries agree to limit the number of imports. This was used by the US for imports of Japanese cars.
- (v) **Subsidies:** A domestic subsidy from government can give the local firm a competitive advantage.
- (vi) **Embargo:** A complete ban on imports from a certain country. E.g. US embargo with Cuba.

- (c) Why should a foreign marketer be concerned with the study of culture? (Unit-III, Q.No. 4)

- (d) Explain the popularity of joint ventures.

Ans :

A joint venture is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity.

In a joint venture, each of the participants is responsible for profits, losses, and costs associated with it. However, the venture is its own entity, separate from the participants' other business interests

- (e) How do differences in values and thinking processes affect international negotiations?

(Unit-IV, Q.No. 4)

PART - B (5 × 10 = Marks = 50)

2. Examine the various reasons for the development of global markets.

Ans :

(i) Increase sales and profitability

Going global can provide new sources of revenue, yield greater returns on investments and secure long-term success for a business. The Internet makes it even easier to reach out to the world for business.

(ii) Enter new markets

Have you saturated your local, core market? Then look beyond your region and consider a market overseas. Be sure to pick one that offers opportunity. You want a market where it's easy to enter, whose buyers desire your product or service. For example, is there a market for your products or services in Ireland? If so, get a jump on your competitors and get there before they do. This is called first-mover advantage.

(iii) Create jobs

As you grow your business globally, you must support the additional workload. Hiring people is the solution and we know that the strength of our country lies in its ability to create jobs that help people live and prosper.

(iv) Offset slow growth in your home market

Are you selling kale in your home market and only so many customers will buy it? Or are you selling specialized software and there's been a sudden decrease in demand for it? A way to overcome low growth in your home market is to look at overseas markets. Protect your company by exporting, using the Internet, licensing or franchising your products.

OR

3. Discuss how the level of technology, political and legal issues affect international environment. (Unit-II, Q.No. 4, 7, 8)
4. Explain the various types of counter trade and the problems faced by marketers in countertrade.

Ans :

Countertrade is a reciprocal form of international trade in which goods or services are exchanged for other goods or services rather than for hard currency. This type of international trade is more common in developing countries with limited foreign exchange or credit facilities. Countertrade can be classified into three broad categories:

(i) Barter

Bartering is the oldest countertrade arrangement. It is the direct exchange of goods and services with an equivalent value but with no cash settlement. The bartering transaction is referred to as a trade. For example, a bag of nuts might be exchanged for coffee beans or meat.

(ii) Counter purchase

Under a counter purchase arrangement, the exporter sells goods or services to an importer and agrees to also purchase other goods from the importer within a specified period. Unlike bartering, exporters entering into a counter purchase arrangement must use a trading firm to sell the goods they purchase and will not use the goods themselves.

(iii) Offset

In an offset arrangement, the seller assists in marketing products manufactured by the buying country or allows part of the exported product's assembly to be carried out by manufacturers in the buying country. This practice is common in aerospace, defense and certain infrastructure industries. Offsetting is also more common for larger, more expensive items. An offset arrangement may also be referred to as industrial participation or industrial cooperation.

OR

5. Discuss the importance of culture to international marketers. (Unit-III, Q.No. 4)
6. Describe the various phases in international market segmentation. (Unit-IV, Q.No. 7)

OR

7. Discuss the various problems of collecting primary data in foreign countries.

Ans :

Most problems in collecting primary data in international marketing research stem from cultural differences among countries and range from the inability of respondents to communicate their opinions to inadequacies in questionnaire translation.

- (i) **Ability to communicate opinions:** The ability to express attitudes and opinions about a product or concept depends on the respondent's ability to recognize the usefulness and value of such a product or concept. It is difficult for a person to formulate needs, attitudes, and opinions about goods whose use may not be understood, that are not in common use within the community, or that have never been available
- (ii) **Willingness to Respond:** Cultural differences offer the best explanation for the unwillingness or the inability of many to respond to research surveys. The role of the male, the suitability of personal gender based inquiries and other gender related issues can affect willingness to respond.

8. Explain the various factors influencing pricing decision in international markets. (Unit-IV, Q.No. 22)

OR

9. Discuss the growing importance of e-commerce as a distribution alternative.

Ans :

E-commerce is the top sales catalyst today for many distributors. E-commerce is not a new business strategy, but it is playing a big role in today's distribution operations.

- (i) **Increasing people productivity:** Being more productive boils down to keeping labor costs under control
- (ii) **Integrating seamlessly:** The last thing a distributor needs is to get bogged down with too many databases. Eliminating multiple databases should be high priority to distributors. Maintaining multiple databases is an expensive, error-prone, time-wasting headache. It's cost-prohibitive and difficult. Distributors need to integrate their back office system with their e-commerce system so they're not maintaining a customer database and a product database on their e-commerce system in addition to a customer database and a product database in their back office system.
- (iii) **Providing access:** Key business and customer information needs to be accessible. Your customer business data needs to be shared throughout the company with the people who need that data. Customer relationship management (CRM) software is the ideal portal for capturing, analyzing and viewing customer data. It provides real-time, visible and accurate customer data.
- (iv) **Use third-party of fourth-party logistic providers:** 3PLs or 4PLs are a big factor in e-commerce, and you should be considering them for e-commerce fulfillment. To the customer, it appears that the product came from the distributor, but it was actually fulfilled and shipped by a 3PL or 4PL. While the 3PL or 4PL may handle all the parts, the distributor still handles the back-office details.

10. What are the various types of import restrictions imposed by foreign countries?

Ans :

Non-tariff barriers are trade barriers that restrict the import or export of goods through means other than tariffs. The World Trade Organization (WTO) identifies various non-tariff barriers to trade, including import licensing, pre-shipment inspections, rules of origin, custom delays, and other mechanisms that prevent or restrict trade.

- (i) **Protectionist barriers:** Protectionist barriers are designed to protect certain sectors of domestic industries at the expense of other countries. The restrictions make it difficult for other countries to compete favorably with locally produced goods and services. The barriers may take the form of licensing requirements, allocation of quotas, antidumping duties, import deposits, etc.
- (ii) **Assistive policies:** Although assistive policies are designed to protect domestic companies and enterprises, they do not directly restrict trade with other countries, but they implement actions that can impede free trade with other countries. Examples of assistive barriers include custom procedures, packaging and labeling requirements, technical standards and norms, sanitary standards, etc.
- (iii) **Non-protectionist policies:** Non-protectionist policies are not designed to directly restrict the import or export of goods and services, but the overall outcomes may lead to free trade restrictions. The policies are primarily designed to protect the health and safety of people and animals while maintaining the integrity of the environment.

OR

11. Discuss the problems that are usually encountered in international business negotiations ?

Ans :

(i) **Overcoming Culture Shock**

Culture shock occurs when we do not have the familiar signposts of how to conduct ourselves. These signposts involve both our professional and personal lives, and often guide us in activities that we normally take for granted. In international business negotiations, these might include how to shake hands; what forms of address to use; to whom your comments should be addressed;

(ii) **Dealing with International Virtual and Remote Teams**

Negotiations within your own organization can sometimes be the toughest. In today's global business environment, your international negotiations may be taking place with people within your own organization who are spread around the world. It is hard enough for people to work well together in the same building, but there are additional challenges when they're in different global locations.

(iii) **Challenges of International Teams**

There are four main challenges in dealing with international virtual and remote teams:

- (a) The team is located away from you.
- (b) The people with whom you are dealing are in different time zones.
- (c) The teams are from different cultures.
- (d) Communication is seldom face to face; most communication is by telephone or e-mail.

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A II - Year IV - Semester Examination

R19

MODEL PAPER - I

INTERNATIONAL MARKETING

Time : 3 Hours]

[Max. Marks : 75

PART - A (5 × 5 = 25 Marks)

(Short Answer Questions)

ANSWERS

- | | |
|-------------------------------------|-------------------|
| 1. (a) International marketing. | (Unit-I, SQA-1) |
| (b) International Trade Agreements | (Unit-II, SQA-9) |
| (c) SWOT Analysis of Target Market. | (Unit-III, SQA-5) |
| (d) Global Marketing | (Unit-IV, SQA-1) |
| (e) Participants in B2B | (Unit-V, SQA-3) |

PART - B (5 × 10 = 50 Marks)

(Essay Type Questions)

- | | |
|--|--------------------|
| 2. Explain the scope of international marketing. | (Unit-I, Q.No. 3) |
| (OR) | |
| 3. Explain the role /importance of world trade. | (Unit-I, Q.No.4) |
| 4. Discuss about WTO and Globalization. | (Unit-II, Q.No.2) |
| (OR) | |
| 5. What are the types of global environment ? | (Unit-II, Q.No.3) |
| 6. Explain about Drivers of Global Consumers. | (Unit-III, Q.No.2) |
| (OR) | |
| 7. What are the Factors Influences of the Global Consumer ? | (Unit-III, Q.No.3) |
| 8. Explain about Globalization Drivers. | (Unit-IV, Q.No. 2) |
| (OR) | |
| 9. Discuss about International Marketing Mix. | (Unit-IV, Q.No. 4) |
| 10. Discuss about Negotiation with Customers and Selection Method. | (Unit-V, Q.No.2) |
| (OR) | |
| 11. Explain about Cultural and International Negotiations. | (Unit-V, Q.No.4) |

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD**M.B.A II - Year IV - Semester Examination****R19****MODEL PAPER - II****INTERNATIONAL MARKETING**

Time : 3 Hours]

[Max. Marks : 75

PART - A (5 × 5 = 25 Marks)**(Short Answer Questions)****ANSWERS**

1. (a) Role of WTO in International Business. **(Unit-I, SQA-3)**
- (b) Non-Tariff Barriers **(Unit-II, SQA-7)**
- (c) Global Customers **(Unit-III, SQA-1)**
- (d) What are the Levels of Distribution Channel in International Market ? **(Unit-IV, SQA-5)**
- (e) Process an Export Order **(Unit-V, SQA-11)**

PART - B (5 × 10 = 50 Marks)**(Essay Type Questions)**

2. What are the features, opportunities and challenges in International Marketing ? **(Unit-I, Q.No. 5)**
(OR)
3. What is the comparison of domestic with international marketing ? **(Unit-I, Q.No.6)**
4. What is exim policy ? and explain its policies. **(Unit-II, Q.No.9)**
(OR)
5. Explain the concept of international trade and its barriers. **(Unit-II, Q.No.10)**
6. Explain about International Marketing Research ? **(Unit-III, Q.No.6)**
(OR)
7. Explain about Assessing Market Size and Sales Potential. **(Unit-III, Q.No.9)**
8. How to developing the global marketing program? **(Unit-IV, Q.No.5)**
(OR)
9. Explain about segmentation of product and services. **(Unit-IV, Q.No. 6)**
10. Explain about e-marketing channels. **(Unit-V, Q.No. 5)**
(OR)
11. Explain about International Mobile Marketing. **(Unit-V, Q.No.11)**

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD**M.B.A II - Year IV - Semester Examination****R19****MODEL PAPER - III****INTERNATIONAL MARKETING**

Time : 3 Hours]

[Max. Marks : 75

PART - A (5 × 5 = 25 Marks)**(Short Answer Questions)****ANSWERS**

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|---|--------------------------|
| 1. (a) Internationalisation : Strategies. | (Unit-I, SQA-8) |
| (b) Types of trading agreements | (Unit-II, SQA-10) |
| (c) International Marketing Research | (Unit-III, SQA-3) |
| (d) Global Distribution | (Unit-IV, SQA-4) |
| (e) Design of Control System | (Unit-V, SQA-7) |

PART - B (5 × 10 = 50 Marks)**(Essay Type Questions)**

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|---|----------------------------|
| 2. What are the stages of International Marketing ? | (Unit-I, Q.No. 7) |
| (OR) | |
| 3. What are the motivating factors of international marketing ? | (Unit-I, Q.No.8) |
| 4. What are the Barriers of International Trade ? | (Unit-II, Q.No.11) |
| (OR) | |
| 5. Discuss about international trade agreements. | (Unit-II, Q.No.15) |
| 6. What are the Government Policies of Target Markets ? | (Unit-III, Q.No.10) |
| (OR) | |
| 7. Discuss about SWOT Analysis of Target market. | (Unit-III, Q.No.11) |
| 8. Explain about Marketing Channels /Distribution Channel. | (Unit-IV, Q.No. 11) |
| (OR) | |
| 9. What are the Factors affecting Choice of Channels ? | (Unit-IV, Q.No.16) |
| 10. Discuss about Organization of Global Marketing Activities/ types of Organisational Structure. | (Unit-V, Q.No. 15) |
| (OR) | |
| 11. Discuss about Export Procedures and Documentation. | (Unit-V, Q.No.21) |