

International Marketing

Course code: MGMT 2102

Credit hours: 3



**DEPARTMENT OF MANAGEMENT
COLLEGE OF BUSINESS AND
ECONOMICS ARBA MINCH UNIVERSITY
COLLEGE OF CONTINUING AND DISTANCE EDUCATION**

**WRITTEN BY:
GETASEW YAREGAL (MBA)**

**JANUARY, 2020
ARBA MINCH
ETHIOPIA**

CHAPTER ONE

OVERVIEW OF INTERNATIONAL MARKETING

Introduction

Dear student, welcome to the module of international marketing! In this introductory chapter of the module, you are about to learn the meaning and nature of international marketing, its scope, reasons why firms go international, stages of international marketing involvement, the concepts of international marketing, difference and similarities between domestic and international marketing and multinational corporations. Comprehend the essence of the chapter so that you will be in a better position to easily understand the contents of the upcoming chapters. Enjoy reading each section with curiosity.

Learning Objectives

After completing the study of this chapter, you are expected to:

- ⇒ Define international marketing
- ⇒ Know the scope of international marketing
- ⇒ Identify the reasons why firms engage in international marketing
- ⇒ Differentiate between domestic and international marketing
- ⇒ be acquainted with entry strategies of international marketing
- ⇒ be familiar with multinational corporations and their operations

1.1 Meaning and Nature of International Marketing

Dear learner, would you define international marketing using your knowledge of principles of marketing? You can use the space given below to write the definition using your own words

Terpstra and Sarathy (2000) asserted that international marketing consists of finding and satisfying global customer needs better than the competition, both domestic and international, and of coordinating marketing activities within the constraints of the global environment. The Table in the following page examines this definition in greater detail and breaks down the main components of international marketing into five objectives.

Table 1.1 International Marketing: The Essentials

Objective	Corresponding Action
♦ Finding global customer needs	-carrying out international marketing research and analyzing market segments; seeking to understand similarities and differences in customer groups across countries.
♦ Satisfying global customers	-adapting products, services and elements of the marketing mix to satisfy different customer needs across countries and regions -including in manufacturing and technology decisions the implications of costs and prices, development of global customer information databases and distribution channel logistics management
♦ Being better than competition	-assessing, monitoring and responding to global competition by offering better value, developing superior brand image and product positioning; broader product range, low prices, high quality, good performance, and superior distribution advertising and service. - recognizing that competition can include state owned enterprises, other multinationals, and domestic firms, with different goals such as market share over profits.
♦ Coordinating marketing activities	-coordinating and integrating marketing strategies and implementing them across countries, regions and the global market, which involves centralization, delegation, standardization, and local responsiveness.
♦ Recognizing the constraints of the global environment	-recognizing that the global environment includes: . Complex variation due to governmental, protectionist, and industrial policies . Cultural and economic differences . Marketing infrastructure differences . Financial constraints due to exchange rate variation and differences in inflation rate

*Adopted from Terpstra and Sarathy, (2000) **International Marketing**, south western publishing, p. 6*

Now let us have a brief look at each of the components of international marketing emphasized in the above definition.

- **Identifying Global Customer Need:** customer needs can be identified by carrying out international marketing research. Such research helps the firm understand

customer needs in different markets and whether they are different from those of the customers that it currently serves. Companies need to analyze market segments across countries in order to position their products appropriately for entry into international markets.

- **Satisfying Global Customers:** if needs differ across countries and regions, a company must consider how to adapt its products and the various elements of the marketing mix to best satisfy customers around the world. If prices must be lowered, the company must consider how to design a product to lower manufacturing costs and decide whether to manufacture the product in a particular country to achieve lower manufacturing costs. A well articulated distribution and logistics system is needed to make goods and services available at the point of sale in sufficient quantities. Firms also need to develop global customer database and information systems to understand and respond to customer needs and purchasing decisions.
- **Being Better Than Competition:** firms must contend with both domestic and global competitors. Global competitors could include large multinationals and state-owned enterprises that might not be profit oriented, as well as small local firms. Long term success comes in part from assessing, monitoring and responding to actions by global competitors, especially through understanding the competitive and comparative advantages enjoyed by competitors.
- **Coordinating Marketing Activities:** international marketing creates a new level of complexity because firms must coordinate their marketing activities across countries. This can involve staffing and allocating responsibilities across marketing units in different countries and deciding decisions to decentralize or to control from headquarters, whether to develop standardized campaigns and plans, and how much local responsiveness is appropriate.
- **Recognizing Constraints of the Global Environment:** as firms attempt to market in the international arena, they must cope with cultural and economic differences that exist in the marketing infrastructure, such as the structure and sophistication of the

distribution system, the financial constraints imposed by exchange rate changes and varying inflation rates, and the impact of government policies, especially protectionist and other policies that may unfairly benefit competitors and create difficulties in market entry.

Jain (2001) opines that the term international marketing refers to exchanges across national boundaries for the satisfaction of human needs and wants.

As to the definition coined by Philip Cateora and John M. Hess, “International marketing is the performance of business activities that direct the flow of a company’s goods and services to consumers or users in more than one nation.” This definition sounds similar to that of marketing you have seen in your principles of marketing module (Mgmt 341), for it meant to be, the only difference being that marketing task is carried out in more than one nation. This fact by itself adds many complexities to the marketing task.

As per the definition given by the American Marketing Association, “marketing is the process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges that satisfy individual and organizational objectives.” This definition can be extended to define international marketing as “The process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges that satisfy individual and organizational objectives, in more than one nation.” It means in international marketing, activities are undertaken in several countries and such activities should be coordinated across nations. Thus, international marketing is the coordinated marketing process undertaken in several countries.

1.2 Scope of International Marketing

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

In this regard, three issues can be addressed: marketing controllable, domestic uncontrollables and foreign uncontrollables. Let us see each of them below.

- 1. Marketing Controllables:** a successful manager constructs a marketing program designed for optimal adjustment to the uncertainty of the business climate. Assuming the necessary overall corporate resources, a marketing manager blends price, product, promotion, and channels of distribution activities to capitalize on anticipated demand. The controllable elements can be altered in the long run and usually in the short run, to adjust to changing market conditions, consumer tastes or corporate objectives.
- 2. Domestic Uncontrollables:** include elements that can have a direct effect on the success of a foreign venture and are out of the immediate control of the marketer such as political and legal forces, economic climate and competition. These elements will be discussed in greater detail in the second chapter.
- 3. Foreign Uncontrollables:** in addition to uncontrollable domestic elements, a significant source of uncertainty is the number of foreign uncontrollables. A business operating in its home country undoubtedly feels comfortable in forecasting the business climate and adjusting business decisions to these elements. The process of forecasting uncontrollable elements in an international marketing program, however, often involves substantial doses of cultural, political and economic shock.

Of all the events and trends affecting global business today, four stand out as the most dynamic, the ones that will influence the shape of international business beyond today's rough roads and far into the future:

- a) The rapid growth of world the world trade organization and regional free trade areas such as the North American free trade area and the European Union
- b) The trend toward the acceptance of the free market system among developing countries in Latin America, Asia, and eastern Europe
- c) The rapidly increasing impact of the internet and other global media on the dissolution of national borders and
- d) The mandate to properly manage the resources and global environment

Today most activities are global in scope. Technology, research, capital investment, production and marketing, distribution and communication networks all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic and physical environment and all businesses must be aware of the effects of these trends when managing a domestic company that exports or a multinational conglomerate. As one international expert noted, every American company is an international, at least to the extent that its business performance is conditioned in part by events that occur abroad. Even companies that do not operate in international arena are affected to some degree by the marketing related situations that occur in other parts of the globe.

It is less and less possible for a business to avoid the influence of the internationalization of the US economy, the globalization of the world's markets, and the growth of emerging markets. As competition for world markets intensifies, the number of companies operating solely in domestic markets will decrease. The challenge of international marketing is to develop strategic plans that are competitive in the intensifying global markets. For a growing number of companies, being international is no longer a luxury but a necessity for economic survival. These and other issues affecting the world economy, trade, markets and competition are some of the important points that will be discussed in this module.

A business operating in a number of foreign countries might find polar extremes in political stability, class structure, and economic climate- critical elements in business decisions. The more significant elements in the uncontrollable international environment include:

- ❖ Political/legal forces
- ❖ Economic forces
- ❖ Competitive forces
- ❖ Level of technology
- ❖ Structure of distribution
- ❖ Geography and infrastructure, and
- ❖ Cultural force

1.3 Why Firms Go International?

There is growing contraction of the world because of better communication and transportation facilities and the development of domestic economies and associated increase on purchasing power of the people. The current interest in international marketing and foreign trade can be explained in terms of changing structures and dynamic changes in demand characteristic of world markets. These factors are expected to persist and to have even greater impact in the future. Whether or not a company conducts international business, its competitors are likely to hail from all over the globe and challenge its position in its own home market.

Jain states that businesses go international due to the following major reasons among others.

- 1) **Market Saturation:** markets for a variety of goods in many countries are becoming saturated far faster than new markets are being found. Thus, companies in many industries must develop new markets to continue to operate successfully. International markets, especially those where market saturation is a distinct threat, provides an attractive alternative. To transform global challenges into new opportunities, smart companies seek markets across national borders.
- 2) **Foreign Competition:** many firms face fierce and intense competition from foreign manufacturers. In an effort to avoid competition, which may be intense in the domestic market, the firm may choose to go international.
- 3) **Product life cycle:** a product may be at the end of its life cycle in one market and not even introduced in another. The unwillingness of the firm to write off its productive assets may force it into international markets.
- 4) **Excess Capacity:** in an effort to minimize its fixed cost per unit, the firm may undertake foreign orders.
- 5) **Geographic Diversification:** this has to do with the strategy that a firm may adopt. Instead of extending its product line the firm may just choose to expand its market by going international.
- 6) **Increasing the Market Size:** in an effort to expand its operation a firm may choose to go international.

- 7) **Emergence of New Markets:** the world is changing fast, resulting in the emergence of new markets. In the next, China, Latin America, and the emerging market based economies in Eastern Europe promise new opportunities. Elsewhere in developing countries, momentum toward privatization (the transfer of business ownership from government to private citizens or institutions) and liberal policies are promising signs as well as. The emerging markets in developing countries can help many US Corporations counter the results of demographic changes in the western nations.
- 8) **Globalization of Markets:** technology has homogenized worldwide markets and hence companies should produce globally standardized products and market them in same way to people everywhere. All the principal barriers to the growth of such markets have weakened to some extent. Tariffs have been reduced by the world trade agreements, transportation costs have declined with the use of containerization and large capacity ships, many products have emerged that pack very high value into very small packages, consumer needs in the industrialized nations have become similar, and purchasing power in many countries has increased sharply. These developments can be a source of competitive advantage for companies that plan their strategies accordingly.
- 9) **Other Reasons:** varieties of other reasons make conducting business across national boundaries profitable and attractive.
- One is the possibility of achieving economies of scale. In industries where economies scale are feasible, a large market is essential, so if the home market is not large enough, entering foreign markets may be an attractive alternative.
 - Another reason for engaging in international business is it provides a safety net during business downturns. In many industries, labor constitutes a major proportion of costs.
 - Since labor cost is much lower in developing countries, companies in developed countries can expand their operations in such developing countries.
 - Some nations offer tax incentives to attract foreign businesses to their countries.

- Many companies find it more desirable to develop and/or test new products outside their home country in order to avoid exposure to competitors and keep new development information secret until the product is ready for commercialization.
- Finally, international presence provides expanded access to advances in technology, worldwide raw materials, and diverse international economic groups.

Quick Check Questions

1. What is international marketing all about? Now you can compare the definition you gave above with those provided by various authors as indicated and give a comprehensive definition of the phrase international marketing.
2. Identify the three elements that are associated with the scope of international marketing
3. How would you attempt to satisfy global customers' needs which differ across countries?
4. Describe any four reasons which justify why firms go international

1.4 Stages of International Marketing Involvement

Philip R. Cateora stresses that regardless of the means employed to gain entry into foreign markets, a company may, from a marketing viewpoint, make no marketing investment- that is, its marketing involvement may be limited to selling a product with little or no thought given to development of market control. Or a company may become totally involved and invest large sums of money and effort to capture and maintain a permanent, specific share of the market. In general, one of the five but overlapping stages can describe the international marketing involvement of a company. Although the stages of international marketing involvement are presented here in a linear order, a firm may begin its international involvement at any stage or be in more than one stage simultaneously. The stages are described below one by one:

- 1. No Direct Foreign Marketing:** a company at this stage does not actively cultivate customers outside national boundaries; however, this company's product may reach

foreign markets. Sales may be made to trading companies as well as other foreign customers who come directly to the firm. Or products reach foreign markets via domestic wholesalers or distributors who sell abroad on their own without explicit encouragement or even knowledge of the producer.

2. **Infrequent Foreign Marketing:** temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterized by their temporary nature; therefore, sales to foreign markets are made, as goods are available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is withdrawn. In this strategy there is little or no change in company organization or product lines.
3. **Regular Foreign Marketing:** at this level, the firm has permanent productive capacity devoted to the production of goods to be marketed on a continuous basis in foreign markets. A firm may employ foreign or domestic overseas middlemen or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus of operation and production is to serve domestic market needs. However, as overseas demand grows, production is allocated for foreign markets and products may be adapted to meet the needs of individual foreign markets. Profit expectations move from being seen as bonus to regular domestic profits to the position where the company becomes dependent on foreign sales and profits to meet its goals.
4. **International Marketing:** companies at this stage are fully committed and involved in international marketing activities. Such companies seek markets all over the world and sell products that are a result of planned production for markets in various countries. This generally entails not only the marketing but also the production of goods outside the home market. At this stage the firm becomes an international or multinational marketing firm.
5. **Global Marketing:** the most profound change at this level is the orientation of the company toward markets and its planning. At this stage, companies treat the world,

including their home market, as one market. In contrast to this multinational or international company that views the world as a series of country markets (including their home markets) with unique sets of market characteristics for which marketing strategies must be developed, a global company develops a strategy to reflect the existing commonalities of market needs among many countries to maximize returns through global standardization of its business activities- whenever it is cost effective and culturally possible. The entire operations, its organizational structure, sources of finance, production, marketing and so forth, take on a global perspective. International operations of businesses in global market reflects the heightened competitiveness brought about by the globalization of markets, interdependence of the world's economies, and the growing number of competing forms from developing and developed countries struggling for the world's market.

1.5 International Marketing Concepts

Firms can have ethnocentric, polycentric, regiocentric, or geocentric orientation. A firm adopting *ethnocentric orientation* considers that the product, marketing strategies and techniques applicable in the home market are equally applicable in the overseas markets as well. Foreign markets are looked upon merely as extension of the home market. A firm with *polycentric orientation* attempts to organize its international marketing activities on country by country basis. Each country is treated as a separate market entity and individual strategies are worked out accordingly. In *regiocentric approach*, the firm adopts a regional marketing policy covering a group of countries which have comparable market characteristics. Strategies are formulated on the basis of the entire region rather than individual countries and production and distribution facilities are created to serve the whole region with effective economy of operations and closer control and coordination. In *geocentric orientation*, a firm adopts a worldwide approach to marketing and its operation becomes truly global in character.

The differences in international orientation and approach to international markets that guide the international business activities of companies can also be described by one of three orientations: domestic marketing expansion concept, multi-domestic marketing concept, and global marketing concept. Differences in the complexities and

sophistications of a company's marketing activity depend on which orientation guides its operations.

- 1) Domestic Marketing Expansion Concept:** a domestic company seeking sales extension of its domestic products into foreign markets holds this orientation to international marketing. Here, the concern is merely to expand the market size. The same marketing mix is applied in home as well as foreign environment. No effort is made to adapt the marketing mix to the foreign environment.
- 2) Multidomestic Marketing Concept:** once a company recognizes the importance of differences in overseas markets and the importance of offshore business to the organization, its orientation toward international business may shift to a multidomestic market strategy. A company guided by this concept has a strong sense that country markets are very different and that market success requires an almost independent program for each country. Subsidiaries operate independently of one another in establishing marketing objectives and plans, and the domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adopted for each market without coordination with other country markets; advertising campaigns are localized, as are the pricing and distribution decisions.
- 3) Global Marketing Concept:** a company guided by this orientation or philosophy is generally referred to as a global company, its marketing activity is global marketing and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies of scale by developing a standardized product, of dependable quality, to be sold at a reasonable price to a global market, that is, the same country market set throughout the world. Important to the global marketing concept is the premise that world markets are being "driven toward a converging commonality" seeking in much the same way to satisfy their needs and desires. Thus, they constitute significant market segments with similar demands for the same product throughout the world. With this orientation, a company attempts to standardize as much of the company effort as is practical on a worldwide basis.

The global marketing concept views an entire set of country as a unit, identifying groups of prospective buyers with similar needs as a global market segment and developing marketing plan that strives for standardization wherever it is cost and culturally effective. Although the world has not become a homogenous market, there is strong evidence of identifiable groups of consumers across country borders with similar values, needs, and behavior patterns.

Quick Check Questions

- 1) What is a stage of international marketing involvement in which the primary focus of operation and production is to serve domestic market needs and as overseas demand grows, production is allocated for foreign markets and products may be adapted to meet the needs of individual foreign markets?
- 2) Describe the major international marketing concepts
- 3) Differentiate among ethnocentric, polycentric, regiocentric, or geocentric orientations

1.6 Why We Study International Marketing?

Jain contends that marketing is more significant both for doing business abroad and for analyzing the impact of international happenings on business at home, than other functions of a business, like manufacturing, finance, and research and development, because it responds to the local culture and to the business's multiple interrelationships with the local environment. Growing internationalization of businesses brings about changes in the positioning of competitors and the appropriate competitive strategies.

The only way to guarantee long term competitive success is to provide better value to customers. To this end, companies running their operation throughout the globe are supposed to respond to the changes that take place in various parts of the globe. Research shows that companies frequently fumble overseas because they fail to the peculiarities of the markets. Having knowledge of international marketing helps firms focus on the differences, instead of approaching the entire market with similar strategies. The study of international marketing is essential as the environment of

foreign markets is markedly different- with respect to the customers' tastes and presences, culture, background, and many others- from the home country.

1.7 Domestic versus International Marketing

The basic nature of marketing does not change when it extends beyond national boundaries, but international marketing, unlike domestic marketing, requires operating simultaneously in more than one kind of environment. Operations in different environment must be coordinated, and the experience gained in one country is used for making decisions in another country. The differences between domestic and global marketing arise entirely from the differences that exist in the national environment within which the marketing effort is directed and the differences that arise in the organization and program because of operations being conducted simultaneously in different markets.

Table 1.2 Domestic versus International Marketing

Decision variable	Domestic Marketing	International Marketing
Market Segment	Single market and sub markets	Multiple markets, multiple sub markets
Market Control	Easier as only a single market and sub market is served	More difficult as new variables like culture, religion, government policy and others enter the scale of decisions
Market Research	Awareness of domestic market is high, hence one can often do without market research	very important
Administration	As the control is over a single set up, administration is relatively easy	Multiple markets, multiple mix of marketing variables demand a new set up of administrative machinery
Product Mix	The decision is made solely on the basis of providing better service to increase revenue-stage of PLC may be ignored	Though the decision grounds are identical, market adaptability and acceptability become a question
Product Quality	May be placed anywhere on the BCG matrix of product and price	With the production function, product quality is normally high even if the technology is old
Product Design	As the product is designed for the market, question of adapting does not	Product has to be adapted to every market segment

	raise	
Product Development	Is required when the product reaches end of its life cycle or when it is withdrawn	May move to new markets where it may be in growth or introduction stage
Advertising	Single market, single message, question of adaptation limited to sub segments, media choice, known with certainty	Multiple market, multiple message depending on the emphasis demanded by each market message may be adapted to new markets or could be universal-complex media availability
Sales promotion	Nationality may be used to promote sales option known with certainty, hence choice is often mad in advance	Options may not be known, choice hence depends on market research

1.8 Entry Strategies of International Marketing

When a company makes the commitment to go international, it must choose an entry strategy. This decision should reflect an analysis of market potential, company capacities, and the degree of marketing involvement and commitment management is prepared to make. There are basically different strategies available for entry into a foreign market: exporting, contractual agreement, joint venture, strategic alliances, wholly owned subsidiary, assembly operations, and third country location are the major ones among others. Each of the entry modes is discussed below.

- a) **Exporting:** a company may minimize the risk of dealing internationally by exporting domestically manufactured products either by minimal response to inquires or by systematic development of demand in foreign markets. Exporting requires minimal capital and is easy to initiate. It is also a good means to gain international experience.
- b) **Contractual Agreements:** there are several types of contractual agreements which include patent licensing agreement, turnkey operations, co-production agreement, management contract and licensing.
 - **Patent Licensing Agreement:** is based on either a fixed fee or a royalty based agreement and includes managerial training.
 - **Turnkey operations:** is based on a fixed fee or cost plus arrangement and includes plant construction, personnel training, and initial production runs. It is usually associated with giant projects that are sold to government run companies. Large

scale plants requiring technology and large scale construction processes which are unavailable in local markets use this strategy. Such large scale projects include building steel mills, cement factories, fertilizer and chemical plants, and telecommunication facilities.

- **Co-production Agreement:** here plants are built and then paid for with part of the production runs
- **Management Contracts:** requires that a multinational corporation (MNC) provide key personnel to operate the foreign enterprise for a fee until local people acquire the ability to manage the business independently.
- **Franchising:** is a form of licensing in which the franchisor provides a standard package of products, systems, and management service, and the franchisee provides market knowledge, capital and personnel involvement in management. The combination of skills permits flexibility in dealing with local market conditions and yet provides the parent firm with a reasonable degree of control. This system provides an effective blending of skill centralization and operational decentralization and has become an increasingly important form of international marketing.
- **Licensing:** a variety of contractual agreements are encompassed in licensing, whereby an MNC marketer makes available intangible assets like patents, trade secrets, know how, trademarks and company name to foreign companies in return to royalties or other forms of payment. Transfer of these assets is usually accompanied by technical services to ensure proper use.

c) Joint Venture: represents a higher risk alternative than licensing because it requires various levels of direct investment. Joint venture are the next most common form of entry once the firm moves beyond the exporting stage to a more regular overseas involvement. Joint ventures provide a mutually beneficial opportunity for domestic and foreign businesses to join forces. For both parties, the ventures are a means to share both capital and risk and make use of each other's technical strength.

Joint ventures, however, are a mixed blessing, with their main problem stemming from one cause: there is more than one partner, and one of the partners must play the

key role to direct the business to success. Obviously, conflicts can arise in management process. Such businesses should be designed to complement each partner's shortcomings, not to exploit them. It takes much effort to make a joint venture successful. Hence, each partner must be prepared to expend the effort necessary to understand customers, competitors, and himself/herself. Widespread interest in joint ventures is related to:

- Seeking market opportunities: companies in mature industries find joint ventures a desirable entry mode for new overseas markets.
- Dealing with rising economic nationalism: often host governments are more receptive to or even require joint ventures.
- Preempting raw materials: countries with raw materials such as petroleum usually do not allow foreign firms to be active there other than through joint ventures.
- Sharing risk: a joint venture allows the risk to be shared with a partner, which can be especially important in politically sensitive areas.
- Developing an export base: joint venture with a local firm smoothes the entry into the entire region, such as entry into the European Union.
- Selling technology: selling technologies to developing countries through joint ventures becomes easier through joint ventures.

d) Strategic Alliance: firms particularly in high-tech industries have used this route for their mutual benefit. Strategic alliance involves mutual dependence and shared decision making between two or more separate firms. It differs from joint ventures in that it encompasses selected activities and often is formed for a specific period. Strategic goals pursued through strategic alliances are product exchange or supply alliances, learning alliances, and market positioning alliances.

Strategic alliances make sense for the following reasons:

- Their flexibility and informality promote efficiencies •

They provide access to new markets and technologies

- They allow the creation and termination of projects with minimum paperwork
- Multiple parties share risk and expenses
- Partners can retain their independent brand identification

- Partners possessing multiple skills can create major synergies
- Rival can often work harmoniously together
- Ventures can accommodate dozens of participants
- Antitrust laws can shelter cooperative research and development activities

e) Wholly Owned Subsidiary: MNCs may also establish themselves in overseas markets by direct investment in a manufacturing or assembly subsidiary. Because of the volatility of worldwide economic, social and political conditions, these wholly owned subsidiaries are the most risky form of overseas involvement. Companies adopt such strategies to capitalize on low cost labor, to avoid high import taxes, to reduce the high costs of transportation to market, to gain access to raw materials or as a means of gaining market entry.

f) Assembly Operations: under this set up, the manufacturer exports all or most of his products in knocked down condition to the overseas assembly, where the parts are assembled to form the complete products which then are marketed there. This strategy is adopted mainly to minimize the transportation cost as the parts in knocked down condition consume less space than they consume in assembled condition. It is also employed to minimize the risk of breakage, leakage and to transport the items in safe conditions.

g) Third Country Location: is sometimes used as an entry strategy when there is no commercial transaction between two countries because of political reasons. A firm in one of these countries which wants to enter to the other market operates from a third country base. The case of Ethiopia and Eritrea can be a good example in this regard. Ethiopian companies cannot directly undertake businesses in Eritrea or export their products due to the political conflict between the two countries.

h) The Internet: the internet is becoming increasingly important as a foreign market entry method. Initially, internet marketing focused on domestic sales. However, a surprisingly large number of companies started receiving orders from customers in other countries, resulting in the concept of international internet marketing. Nowadays, companies are actively designing internet catalogs targeting specific countries with

multilingual websites. Dell Computer Corporation expanded its strategy of selling computers over the internet to foreign sites as well.

Quick Check Questions

1. Differentiate between patent licensing agreements and turnkey operations
2. Distinguish between domestic and international marketing from the perspective of market research and administration
3. What is a wholly owned subsidiary and how it differs from strategic alliance?
4. Describe a third country location foreign market entry strategy

1.9 Summary of the Chapter

International marketing consists of finding and satisfying global customer needs better than the competition, both domestic and international, and of coordinating marketing activities within the constraints of the global environment. It can be defined as the performance of business activities in more than one nation. The scope of international marketing can be grasped with the understanding of domestic controllables, domestic uncontrollables and foreign uncontrollables. Today most business activities are global in scope. Technology, research, capital investment, production and marketing, distribution and communication networks all have global dimensions.

There are various reasons why firms go international. The major ones among the reasons are: to tap the market potential of the world's market, to diversify their operations and thereby reduce risk, to exploit their excess capacity, to extend the life cycle of aging product, to withstand competition, to get benefit from emerging markets, to cope up with globalization and due to other reasons.

Five different stages of foreign marketing involvement are discussed. Namely: no direct foreign marketing, infrequent foreign marketing, regular foreign marketing, international marketing and global marketing. Differences in the complexities and sophistication of a firm's marketing activity depend on which orientation guides its operations. To this end, firms can adopt ethnocentric, polycentric, regiocentric, or

geocentric orientations. The differences between domestic and global marketing arise entirely from the differences that exist in the national environment within which the marketing effort is directed and the differences that arise in the organization and program because of operations being conducted simultaneously in different markets.

There are basically seven different strategies available for entry into a foreign market: exporting, contractual agreement, joint venture, strategic alliance, wholly owned subsidiary, assembly operations and third country locations are discussed. Broadly speaking, these strategies can be seen in terms of their basis. Some of them are export based, others are contractual based and the remaining ones are investment based.

Self check Exercise 1

Part I- Multiple Choice Questions

Choose the correct answer among the alternatives given

- _____ 1) The major components of international marketing include
- A. coordinating marketing activities
 - B. satisfying customers
 - C. being better than competitors
 - D. recognizing the constraints of the global environment
 - E. all of the above
 - F. only B&C
- _____ 2) Which one of the following is not among marketing controllables?
- A. Product
 - B. Price
 - C. Economic climate and competition
 - D. Channels of distribution
 - E. None of the above
- _____ 3) Identify the one that cannot be a reason why firms go international
- A. Market saturation
 - B. Excess capacity

- C. Emergence of new markets
- D. Foreign competition
- E. None of the above

_____4) Firms go international

- A. Due to the possibility of achieving economies of scale
- B. To enjoy tax incentives offered by some nations to attract foreign investors
- C. To have a safety net during business downturns
- D. All of the above
- E. Only A&C

_____5) A stage of international marketing involvement in which a firm has permanent productive capacity devoted to the production of goods to be marketed on a continuous basis in foreign markets is referred to as A. Regular foreign marketing

- B. International marketing
- C. Global marketing
- D. no direct foreign marketing
- E. None of the above

_____6) Which one of the following is false regarding domestic marketing expansion concept?

- A. The concern is merely to expand the market size
- B. The same marketing mix is applied in home as well as foreign environment
- C. Subsidiaries operate independent of one another in establishing marketing objectives and plans
- D. No effort is made to adapt the marketing mix to the foreign environment
- E. None of the above

_____7) An entry strategy of international marketing which is based on a fixed fee or cost plus arrangement and includes plant construction, personnel training, and initial production runs is known as

- A. Patent licensing agreement
- B. Turnkey operations

- C. Management contracts
- D. Franchising
- E. Licensing

- _____ 8) The widespread interest of joint ventures can be attributed to
- A. Seeking market opportunities
 - B. Sharing risk
 - C. Dealing with rising economic nationalism
 - D. Preempting raw materials
 - E. All
 - F. All except C
- _____ 9) _____ is a contractual agreement whereby an MNC marketer makes available intangible assets like patents, trade secrets, know how, trade marks, and company name to foreign companies in return to royalties or other forms of payment is
- A. Licensing
 - B. Franchising
 - C. Joint venture
 - D. Strategic alliance
 - E. None
- _____ 10) Strategic alliances make sense for all the following reasons except_____
- A. they provide access to new markets and technologies
 - B. multiple parties share risk and expenses
 - C. their flexibility and informality promote efficiency
 - D. partners possessing multiple skills can create major synergies
 - E. None of the above
- _____ 11) Identify the right definition of international marketing among the following
- A. It refers to exchanges across national boundaries for the satisfaction of human needs and wants
 - B. It is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation

- C. It is the process of planning and executing the conception, pricing, promotion, and distribution of goods, services and idea to create exchanges that satisfy individual and organizational objectives in more than one nation
- D. All of the above
- E. Only A&B

_____12) Which one of the statements below is incorrect?

- A. In domestic marketing the question of adapting does not raise
- B. In international marketing the product has to be adapted to every market segment
- C. As awareness of domestic market is high, hence one can do business often without market research
- D. In international marketing, single message is designed to release through various means of promotion
- E. None of the above

Part II- True or False Questions

Write **True** if the statement is correct or **False** if it is incorrect

- _____1. A business operating in a number of countries is likely to face same political stability, class structure, and economic climate.
- _____2. Whether or not a company conducts international business, its competitors are likely to hail from all over the globe and challenge its position in its own home country.
- _____3. In infrequent foreign marketing stage of international marketing involvement, there is strong intention to maintain continuous market representation.
- _____4. Firms that adopt global marketing philosophy have a strong sense that country markets are very different and that market success requires almost independent program for each country.
- _____5. Exporting is one of the entry strategies of international marketing which requires minimal capital and is easy to initiate.
- _____6. Wholly owned subsidiaries are the most risky form of overseas involvement.

CHAPTER TWO

THE ENVIRONMENT OF INTERNATIONAL MARKETING

Introduction

Hello dear learner, as you may be cognizant from your Principles of Marketing Module (Mgmt 341); environment highly influences the marketing operation of firms in many aspects. For your surprise, the influence becomes even more significant when a firm goes international. Environment constitutes a major variable within which a business enterprise has to operate. Management of environment for international marketing necessitates breaking down environmental elements into manageable components. Accordingly, the environment is divided into four major components as economic environment, cultural environment, political environment and legal environment. These are the pillars of the chapter. We shall see each of the components in the subsequent sections. Have a nice study session!

Learning Objectives

Upon the completion of studying this chapter, you should be able to:

- ⇒ Recognize how environmental factors affect marketing operations of a global firm
- ⇒ Comprehend the economic environment of a global firm
- ⇒ Realize how culture influences the behavior of customers and how marketers respond to it
- ⇒ Understand the political environment along with the pressure it exerts on the operations of firms engaged in international marketing
- ⇒ Be acquainted with the legal environment of international marketing and recognize how it affects firm's performance

2.1 Overview

As coined by Cateora (1999), yesterday's competitive market battles were fought among Western Europe, Japan, and the United States; tomorrow's competitive battle will extend to Latin America, China, eastern Europe, Russia, India, Asia, and Africa as these emerging markets open to trade. More of the world's people, from the richest to

the poorest, will participate in the world's wealth through global trade. The emerging global economy in which we live brings us into worldwide competition with significant advantages for both marketers and consumers. Marketers benefit from new markets opening and smaller markets growing large enough to become viable business opportunities. Consumers benefit by being able to select from the widest range of goods produced anywhere in the world at the lowest prices. Bound together by satellite communication and global companies, consumers in every corner of the world are demanding an ever expanding variety of goods.

Cultural dimension is one of the important dimensions of international marketing environment. It influences all aspects of consumer behavior and is pervasive in all marketing activities like product design, packaging, pricing, promotion, distribution, communication, etc. Since the scope of marketing concept is to satisfy consumer needs, it is quite clear that the marketer must be fully familiar with the cultural dimensions of consumer in target markets and must understand their implications for specific marketing functions.

As to Terpstra, the political environment of the international marketing includes any national or international political factor that can affect its operations. A factor is political when it derives from the government sector. It comprises three dimensions: the host country environment, the international environment and the home country environment. Surveys revealed that dealing with problems in the political arena is the number one challenge facing international management functions. Managers are highly concerned with the political risk, that is, the probability of any government action adversely or favorably affecting their operation. At the top of the list of political conditions that concern foreign businesses is the stability or instability of prevailing government policies. Irrespective of which party might be elected, the concern of a multinational corporation is the continuity of the set of rules or code of conduct.

Since no single uniform international commercial law governing foreign business transactions exists, the international marketer must pay particular attention to the laws of each country within which it operates. Laws governing business activities within

and between countries are an integral part of the legal environment of international businesses.

2.2 Economic Environment

Marketing is an economic activity affected by the economic environment in which

it is conducted. International marketing has a twofold economic environment: the global/world economy and the economy of individual countries. All in all, the economic environment can be viewed from two different angles: the macro view and the micro view. From a macro view, people's wants and needs and the economic policy of a country establish market scope and economic outlook. A micro environmental view focuses on a firm's ability to compete within a market. Different countries provide varying market potential based on their population. However, potential does not guarantee a realizable opportunity for a given firm. Not only does the economic environment of a country, both from the macro and micro viewpoints, largely define the marketing opportunity, but economic environment of a firm's home country, to an extent, also influences marketing overseas.

In this section, an examination of the factors that compose macro and microeconomic environment will be made. Next, economic environment's impact on international marketing strategy shall be assessed. Finally, a framework for measuring economic potential and conducting opportunity analysis is furnished.

2.2.1 The Macro Environment

A country's economy is based on its sources of domestic livelihood and the allocation of those resources. Because not all of the world's economies operate at the same level of efficiency, it is necessary to form a clear idea of the economic situation of a particular host country in order to make good marketing decisions. Such economic perspectives of a country refer to its macroeconomic environment.

The most basic information to be considered is that which describes the nature of the population, because the people, of course, constitute the market. But population figure alone provides little information useful for marketing, since people must have adequate

income to become viable consumers. Population data along with per capita GNP and other relevant factors becomes crucial to make sound marketing decisions.

Structure of Consumption: Nation's overall patterns of consumption can be viewed not only on the basis of potential but also on the basis of structure. In other words, it is important not only to measure the volume of consumption among various nations, but to note the characteristics of that consumption, which reveals its structure. Particularly evident in this respect are differences in emphasis. Depending on economic factors, a country may have to emphasize producer goods over consumer goods. Also what are considered necessities in one economy may be luxurious in another. In addition, consumption in most advanced countries is characterized by a higher proportion of expenditures devoted to capital goods than consumption in developing countries, where substantially more is spent on consumer goods. The structural differences with regard to expenditures among nations can be explained by a theory propounded by the German statistician Engel. The law of consumption (Engel's law) states that poorer families and societies spend a greater proportion of their incomes on food than wealthy people.

Other Economic Indicators: population, income, and expenditures data provide basic insights into the economies of different nations. For a certain point in time, however, a variety of other aspects of economic environment may be pertinent in a given case. This economic information may be found in categories such as:

- Production indicators like the production of raw steel, automobiles, trucks, and electric power; crude oil refinery runs, coal production, paper based production, lumber production and trail freight traffic.
- Prices (like the price of gold, finishes steel, aluminum, wheat, cotton, industrial raw materials and foodstuffs).
- Finance (like corporate bond yield, prime commercial paper, value of local currency with reference to other currencies, money supply).
- Other indicators (such as index of industrial production, retail sales, installment credit debt, and wholesale and retail inventories).

Concept of Economic Advancement

Developing countries are becoming important markets as their economies advance. It would be desirable for a marketer to keep informed about countries slowly reaching the point where market potential will become worthwhile. GNP per capita, adjusted for purchasing power parity, may be relied on as a measure of the economic viability of a market. It provides a reasonable estimate of the market in cases where detailed analysis is not feasible.

Economic advancement is characterized by such factors as comparatively small allocation of labor force to agriculture, energy available in large amounts at low cost per unit; high level of GNP and income; high level of per capita consumption; relatively low rates of population growth; complex modern facilities for transportation, communication and exchange; a substantial amount of capital for investment; urbanization based on production as well as exchange; diversified manufacturing that accounts for an important share of the labor force; numerous tertiary occupations, specialization both physical and mental labor; surpluses of both goods and services; and a highly developed technology that includes ample media and methods for experiment.

2.2.2 The Micro Environment

Microeconomic environment refers to the environment surrounding a specific product or market rather than a country's overall economic environment. An examination of a microenvironment indicates whether a company can successfully enter a specific market. Essentially, then, the microeconomic environment concerns competition.

Source of Competition: Different competitors might aim to satisfy different types of demands: *existing, latent or incipient*. Existing demand refers to a product bought to satisfy a recognized need. Latent demand applies in a situation where a particular need has been recognized, but no products have been offered. Incipient demand describes a projected need that will emerge when customers become aware of it sometimes in the future. Competition can also be analyzed according to the characteristics of products: *breakthrough, competitive, and improved*. A breakthrough product is a unique innovation that is mainly technical in nature, such as the digital watch, and personal

computer. A competitive product is one of many brands currently available in the market and has no special advantage over the competing products. An improved product is not unique but is generally superior to many existing brands. The nature of competition that a company faces in entering an overseas market can be determined by relating the three types of products to the three types of demand. Upon examining the competition, a company should be able to ascertain which product or market it is most capable of pursuing.

Competitive advantage: the following questions could be raised to analyze the competition:

- ❖ Who is the competitor now and who will it be in the future?
- ❖ What are the key competitors' strategies, objectives and goals?
- ❖ How important is a specific market to the competitors and are they committed enough to continue to invest?
- ❖ What unique strengths do the competitors have?
- ❖ Do they have any weaknesses that make them vulnerable?
- ❖ What changes are likely in the competitors' future strategies?
- ❖ What are the implications of competitors' strategies on the market, the industry and one's own company?

2.2.3 Economic Environment and Marketing Strategy

The overall macroeconomic environment of the host country as well as the microeconomic environment surrounding the product or market has a significant effect on marketing strategy. Thus, when the economy is booming, there will be plenty of jobs, consumers will be optimistic, and cash registers will ring often. In a booming economic situation, the international marketer will have more opportunity in the market place, although market place opportunities may attract new competitors. However, when an economy is down, unemployment may rise, interest rates may go up, sales could be more difficult to generate and the international marketer's decisions will take a different shape.

Although international marketers should be concerned with economic environment overseas, they should also be sensitive to economic perspectives of the home market,

just as the reverse is true for domestic markets. Indeed, firms react to changing domestic and international economic environment and can be expected to shift their relative emphasis in promoting domestic versus foreign trade.

Analysis of Economic Environment

Given the perspectives of macro and microeconomic environment, an opportunity analysis may be performed to determine if it is worthwhile to seek entry into a foreign country's market. Analysis of marketing opportunity centers on two sets of criteria and risk/reward criteria.

Cost-benefit criteria answer a series of questions that stress markets, competition, and the financial implications of doing business in a foreign country.

Markets: will people want our products? More importantly, will they want them enough to pay a price that will yield us a profit? Is the market large enough for the firm?

Competition: what kind of competition will we have to face, and will the rules apply equally to all? Concern about equal treatment within a market arises from the altered market place competition that exists in many countries because of host governments that own or subsidize competitors. In such cases, a foreign business usually is at a disadvantage even when it is pitted against inefficient local business. Financial examination: how many resources must be committed and what will they cost? What return may be expected and how long might it takes to recover the environments?

Risk/reward criteria analysis: emphasizes the overall constantly changing mix of situations in the social, political, and economic climates of a host country. In terms of economics, the macro economic characteristics of a nation will almost always affect the specific economics of business. The national economic objectives of the country, therefore, also figure in a firm's decision to explore entry there.

2.2.4 International Economic Institutions

1) GATT-WTO

Because each nation is sovereign in determining its own commercial policy, the danger is that arbitrary national actions will minimize international trade. This was the situation in 1930s when international trade was at low stage of development and each nation tried to maintain domestic employment while restricting imports that might help foreign rather than domestic employment. This experience led many trading nations to seek better solutions after World War II. One outcome of their efforts was the **General Agreement on Tariffs and Trade (GATT)**, now called the **World Trade Organization (WTO)**. Today, WTO more than ever the world's trading club, accounting for over 90 percent of the world trade. It has about 130 members, with more wanting to join. GATT-WTO has certainly contributed to the expansion of world trade.

Providing a framework for multilateral trade negotiations is a primary reason for WTO's existence, but there are other WTO principles that further trade expansion. One is the *principle of nondiscrimination*. Each contracting party must grant all others the same rate of import duty; that is, a tariff concession granted to one trading partner must be extended to all WTO members under the most favored nation clause. Another WTO principle is the *concept of consultation*. When trade disagreements arise, WTO provides a forum for consultation. In such an atmosphere, disagreeing members are more likely to compromise than to resort to arbitrary trading restricting actions. Apart from market access, there were issues of trade in services, agriculture, and textiles, intellectual property rights; and investment and capital flows.

Since GATT's inception, there have been eight "rounds" of intergovernmental tariff negotiations. The most recently completed was the Uruguay Round (1994), which built on the success of the Tokyo Round (1974) - the most comprehensive and far reaching round undertaken by GATT up to that time. The Tokyo round resulted in tariff cuts and set out new international rules for subsidies and countervailing

measures, antidumping, government procurement, technical barriers to trade (standards, customs valuation, and import licensing).

2) IBRD (International Bank for Reconstruction and Development)

It was conceived at the Bretton woods conference in July 1944 and began its operations in June 1946. It has its head quarters at Washington DC and is also known as „World Bank“. The bank's purpose is to provide funds and technical assistance to facilitate economic development of its poorer member countries. This organization is one of the world's largest sources of development assistance. It works in more than 100 developing economies with the primary focus of helping the poorest people and the poorest countries. Owned by member countries, IBRD links voting power to members' relative economic strength. The bank obtains its funds from capital paid in by member countries; sales of its own securities, sale of parts of its loan; repayments; and net earnings.

The bank furnishes a wide variety of technical assistance. It acts as executing agency for a number of pre-investment surveys financed by the UN (United Nations) development programme. The bank helps member countries to identify and prepare projects for the development of agriculture, education and water supply by drawing an expertise of the FAO (Food and Agriculture Organization), WHO (World Health Organization), UNIDO (United Nations Industrial Development Organization), and **UNESCO** (United Nations Educational, Scientific, and Cultural Organization) through its cooperative agreements with these organizations. World Bank is parent to the International Development Association (IDA); created for the purpose of giving „soft“ loans to the least developed countries, that is, long term loans at very low interest rates. Lending by these two groups supports all aspects of development including infrastructure, industrial, agricultural, educational, tourist, and population control projects.

3) IMF (International Monetary Fund)

It was conceived in July 1944 at the United Nations conference held at Bretton woods, New Hampshire, United States, when representatives from 45 governments agreed on a framework for economic cooperation designed to avoid a repetition of the disastrous

economic policies that had contributed to the great depression of the 1930s. Its headquarters is located in Washington DC with offices in Paris and Geneva. The objectives of the bank are to promote international monetary cooperation, the expansion of international trade and exchange rate stability; to assist in the removal of exchange restrictions and establishment of a multilateral system of payments; and to alleviate any serious disequilibrium in members' international balance of payments by making the financial resources of the fund available to them, usually subject to conditions to ensure the revolving nature of fund resources.

Whereas the IMF is concerned with the provision of short term liquidity, World Bank provides long term capital to aid economic development.

4) UNCTAD (United Nations Conference on Trade and Development):

As opined by Terpstra, although GATT-WTO has been an important force in world trade expansion, benefits have not been distributed equally. The less developed countries have been dissatisfied with trade arrangements because their share of world trade has been declining, and the prices of their raw material exports have compared unfavorably with the prices of their manufactured goods imports. Though many of these countries are members of WTO, they felt that GATT did more to further trade in goods industrialized nations than it did to promote their own primary products. It is true that tariff reduction has been far more important to manufactured goods than to primary products. The result of these countries' dissatisfaction was the formation of UNCTAD in 1964, which is a permanent organ of the United Nations General Assembly and counts over 160 member countries.

The goal of UNCTAD is to further the development of emerging nations- by trade as well as by other means. It seeks to improve the prices of primary goods exports through commodity agreements. If the commodity producing countries could get together to control supply, this would mean higher prices and higher returns. It also works to establish a tariff preference system favoring the export of manufactured goods from less developed countries. Since these countries have not been able to export commodities in a quantity sufficient to maintain their share of trade, they want to expand in the growth areas of world trade- industrial exports.

2.2.5 Some Useful Concepts Associated With the Economic Environment

- **Balance of payment:** a nation's balance of payments statement records all financial transactions between its residents and those of the rest of the world during a given period of time-usually one year. It presents an overall view of its international economic positions and is an important economic measure used by treasuries, central banks, and other government agencies whose responsibility is to maintain external and internal economic stability. A balance of payment represents the difference between receipts from foreign countries on one side and payments to them on the other.
- **Balance of Trade:** the relationship between merchandise imports and exports is referred to as the balance of merchandise trade or trade balance. If a country exports more goods than it imports, it has a favorable balance of trade; if it imports more goods than it exports, it has unfavorable balance of trade.
- **Quota:** is a specific unit or dollar limit applied to a particular type of good. It puts an absolute restriction on the quantity of a specific item that can be imported.
- **Tariffs:** is a tax imposed by a government on goods entering at its borders. Tariffs may be used as a revenue generating tax or to discourage the import of goods, or for both reasons. Tariffs are discussed under legal environment section in greater detail.
- **Trade Barriers:** to encourage development of domestic industry and protect existing industry, government may establish such barriers as tariffs, quotas, boycotts, monetary barriers, non tariff barriers and the like.
- **Boycotts:** is an absolute restriction against the purchase and import of certain goods from other countries. A public boycott can be formal or informal and may be government sponsored or sponsored by an industry.
- **Protectionism:** international businesses must face the reality that a world of tariff, quotas, and non tariff barriers designed to protect a country's markets from intrusion by foreign companies. Although the General agreement on tariffs and Trade (GATT) has been effective in reducing tariffs, countries still resort to measures of protectionism. Countries use legal barriers, exchange barriers, and psychological barriers to restrain entry of unwanted goods. Businesses work together to establish

private market barriers while the market structure it self may provide formidable barriers to imported goods.

- **Standards:** non tariff barriers of this category include standards to protect health, safety and product quality. The standards are sometimes used to in an excessively stringent or discriminating way to restrict trade, but the large volume of regulations in this category is a problem in it self.
- **Monetary Barriers:** there are three barriers to consider here.
 1. *Blocked Currency:* is used as a political weapon or as a response to difficult balance of payment situations. In effect, blockage cuts off all importing above a certain level. Blockage is accomplished by refusing to allow importers to exchange national currency for the sellers' currency.
 2. *The Differential Exchange Rate:* is a particularly indigenous method of controlling imports. It encourages the import of goods the government deems desirable and discourages import of goods the government does not want.
 3. *Government Approvals to Secure Foreign Exchange:* is often used by countries experiencing severe shortage of foreign exchange. Importers who want to buy a foreign good must apply for the exchange permit, that is, permission to exchange an amount of local currency for foreign currency. Exchange permit may stipulate the rate of exchange. Moreover, it may also stipulate that the amount to be exchanged must be deposited in a local bank for a set period prior to the transfer of goods.

? Quick Check Questions

- 1) International marketing has a twofold economic environment. Explain this statement
- 2) Describe the factors that characterize economic advancement
- 3) Differentiate among existing, latent or incipient demands
- 4) What is IBRD? What is its main purpose?
- 5) Define the following terms or phrases
 - IMF
 - UNCTAD

- Balance of trade
- Balance of payment
- Quotas
- Tariffs
- Boycotts
- Trade barriers

2.3 Cultural Environment

According to Jain, doing business across national boundaries requires interaction with people nurtured in different environments. Values that are important to one group of people may mean little to another. Cultural differences deeply affect marketing. Therefore, international marketers need to be as familiar as possible with the cultural traits of any country they want to do business with. More than any other functions of business, marketing perhaps is most susceptible to cultural errors, since marketing by definition requires contact with the people of the country concerned. Particularly all marketing decisions are culture bound.

Culture can be defined as the sum total of man's knowledge, beliefs, art, morals, laws, customs and any other capabilities and habits acquired by man as member of society. It is the distinctive way of life of a group of people, their complete design for living. It includes all learned behavior and values that are transmitted to an individual living within the society through shared experience. The concept of culture is broad and extremely complex. It includes virtually every aspect of a person's life and touches on virtually all human needs, both physical and psychological. It develops through recurrent social relationships that form patterns that are eventually internalized by members of the entire group. It is commonly agreed that a culture must have the following three characteristics:

- 1) It is learned, that is, people over time transmit the culture of their group from generation to generation
- 2) It is interrelated, that is, one part of the culture is deeply connected with another part such as religion with marriage, or business with social status

- 3) It is shared, that is, the doctrine of culture are accepted by most members of the group

When designing a product, the style, uses, and other related marketing activities must be made culturally acceptable. The items need to be acceptable to the present society if they are to be operative and meaningful. In fact, culture is pervasive in all marketing activities such as in pricing, promotion, channel of distribution, product, packaging, and styling. Hence, the marketers' efforts usually become part of the fabric of culture. The marketers' efforts are judged in a cultural context for acceptance, resistance, or rejection. How such efforts interact with the culture highly determines the degree of success or failure of the marketing effort. The manner in which people consume, the priority needs and wants they strive to satisfy and the manner in which they satisfy them are functions of their culture that temper, mold and dictate their style of living. Culture is the human made part of human environment.

Markets constantly change; they are not static but evolve, expand and contract in response to marketing effort, economic conditions, and other cultural influences. Markets and market behavior are part of a country's culture. One cannot truly understand how markets evolve or how they react to a marketer's effort without appreciating that markets are a result of culture. Marketers are constantly adjusting their efforts to cultural demands of tier market, but they also are acting as agents of change whenever the product or idea being marketed is innovative.

2.3.1 Elements of Culture

Since culture is such a vast concept, it is desirable to develop a field for cultural understanding. From the viewpoints of a marketer, one way of gaining cultural understanding is to examine the following cultural elements: material life, social interactions, language, aesthetics, religion and faith, pride and prejudice, and ethics. A foreign marketer may find such cultural scheme as a useful instrument in assessing the potential and details of a foreign market. Now let us have a brief overview of each of the elements of culture:

- a) **Material Life:** refers to what people do to derive their livelihood. The tools, knowledge, techniques, methods, and processes that a culture utilizes to produce goods and services, as well as their distribution and consumption, are all part of material life. Thus, two essential parts of material life are knowledge and economics. Material life reflects the standard of living and degree of technological advancement. The material life of any given society falls in on a continuum between traditional and industrialized poles. That position indicates a society's overall way of life and can be analyzed to determine opportunities for an international marketer.
- b) **Social Interactions:** social interactions establish the roles that people play in a society and their authority/ responsibility patterns. These roles and patterns are supported by society's institutional framework, which includes for example, education and marriage. Social roles are also established by culture. Behavioral also emerge from culture in the form of conventions, rituals, and practices on different occasions such as festivals, marriages, informal get-togethers and times of grief or religious celebrations. The educational system, the social settings, and customs and traditions prescribe roles and patterns for individuals and groups. With respect to marketing social interactions influence family decision making and buying behavior and define the scope of personal influence and opinion.
- c) **Language:** language as part of culture consists not only of the spoken word, but also symbolic communication of time, space, things, friendship, and agreements. Non verbal communication occurs through gestures, expressions and other body movements. Language differences can affect all sorts of business dealings, contracts, negotiations, advertisings, and labeling. It is through language that most of the marketing communication takes place. An international marketer should have a thorough understanding of the language of the market particularly the semantic differences and idiomatic tones which are essential characteristics of all languages of the world. When literal translations are made of brand names or advertising messages from one language to another by people who know the language but not the culture, serious mistakes may occur. For example, when the American car called „Nova“ was introduced to Puerto Rico, sales were poor until the company realized that the word

nova literally means in Spanish „doesn’t go“. Sales were better when the name was changed to „Caribe“. Similar mistakes of one kind or another regarding use of translated language in international marketing communication are fairly common mainly because of non familiarity with the semantic and idioms in their cultural contexts.

Symbolic communication poses some cross cultural dangers, too. Greetings vary from culture to culture, encompassing hand shake, hug, nose rub, kiss, and placing hands on praying position. Lack of awareness concerning a country’s accepted form of greeting can lead to awkward encounters and sometimes offended feelings.

- d) **Aesthetics:** include the art, music, folkways, and architecture endemic to a society. These aspects of a society convey its concept of beauty and modes of expression. For example, different colors have different meanings worldwide. In western societies, wedding gowns are usually white, but in Asia white symbolizes sorrow. The aesthetic values of a society shown in the design, styles, colors, expressions, symbols, movements, emotions, and postures valued and preferred in particular culture. These attributes have an impact on the design and promotion of different products. Moreover, an international marketer must understand nonverbal cultural differences to avoid communicating the wrong message.
- e) **Religion and faith:** religion influences a culture’s outlook on life, its meaning and concept. The religion practiced in a society influences the emphasis placed on material life, which in turn affects the attitudes toward owning and using goods or services. Religious traditions may even prohibit the use of certain goods and services altogether. For example, Hinduism prescribes vegetarianism, with special stress on abstinence from beef. Religion affects patterns of living in various other ways. It establishes authority relationships, an individual’s duties and responsibilities both in childhood and as an adult, and the sanctity of different acts such as hygiene. In general, organized religion and faith inevitably motivate people and their customs in numerous ways. The impact of religion is continuous and profound. Consequently,

international marketers must be sensitive to the religious principles of each host country.

- f) **Pride and prejudice:** even a culture most backward in the eyes of others may foster certain pride in its people about its traits and ways. Cultural pride and prejudice make many nations reject foreign ideas and imported products. But the reverse also occurs: a perception of greatness attributed to another culture may lead to the eager acceptance of things reflecting that culture. For example, the Japanese are proud of their culture and economic achievement and prefer to buy Japanese manufactures. Yet the words made in USA marked on a product communicate quality and sophistication to the Japanese as well as to people in many developing countries.
- g) **Ethics:** The concept of what is right or wrong is based on culture.

2.3.2 Cultural Change

Cateora contends that culture is dynamic in nature; it is a living process. But the fact that cultural change is constant seems paradoxical, because another important attribute of culture is that it is conservative and resists change. The dynamic character of culture is significant in assessing new markets even though changes face resistance. There are varieties of ways societies change. Such changes are results of societies seeking to solve the problems created by changes in its environment. One view is that culture is the accumulation of a series of the best solutions to problems faced in common by members of a given society. In other words, culture is the means used in adjusting to the environment and historical components of human existence.

Below discussion of some issues of culture including cultural borrowing, cultural similarities, resistance to change, planned and unplanned changes made.

a) Cultural Borrowing

Is a responsible effort to learn from others' cultural ways in the quest for better solutions to a society's particular problems. Thus, unique cultures the result, in part, of imitating a diversity of others. Culture is learned; societies pass on to succeeding generations solutions to problems, constantly building on and expanding the culture so that a wide range of behavior is possible. The point is that

although many behaviors are borrowed from other cultures, they are combined in a unique manner that becomes typical for a particular society. To the foreign marketer, this similar but different feature of culture has important meaning in gaining cultural empathy.

b) Similarities- an illusion

For the inexperienced marketer, the similar but different aspects of culture create illusions of similarity that usually do not exist. Several nationalities can speak the same language or have similar race and heritage, but it does not follow that similarities exist in other respects-that a product acceptable to one culture will be readily acceptable to the other, or that a promotional message that succeeds in one country will succeed in the other. Even though people start with a common idea or approach, as is the case among English speaking Americans and the British, cultural borrowing and assimilation to meet individual needs is translate over time into quite distinct cultures. A common language does not guarantee a similar interpretation of words or phrases.

Marketers must assess each country thoroughly in terms of the proposed product or services and never rely on the often used axiom that if it sells in one country, it will surely sell in another. As worldwide mass communication and increased economic and social interdependence of counties grow, similarities among countries will increase and common market behaviors, wants and needs will continue to develop. As this process occurs, the tendency will be to rely more on apparent similarities when they may not exist. A marketer should be wise to remember that a culture borrows and then adapts and customizes to its own needs and idiosyncrasies; thus, what may appear to be the same on the surface may be different in its cultural meaning. The scope of culture is broad. It covers every aspect of behavior within a society. The task of foreign marketers is to adjust marketing strategies and plans to the needs of the culture in which they plan to operate.

c) Resistance to change

A characteristic of human culture is that change occurs. That people's habits, tastes, styles, behavior and values are not constant but continually changing can be

verified. However, this gradual cultural growth does not occur without some resistance; new methods, ideas, and products are considered suspect before they are accepted, if ever. The degree of resistance to new patterns varies. In some situations new elements are accepted completely and rapidly; in others resistance is so strong that acceptance is never forthcoming.

Although cultures meet most newness with some resistance or rejection, that resistance can be overcome. Cultures are dynamic and changes occur when resistance slowly yields to acceptance as the basis of for resistance becomes unimportant or forgotten. Gradually there comes an awareness of the need for the change, or ideas once too complex become less so because of cultural gains in understating, or an idea is restructured in a less complex way and so on.

d) Planned and Unplanned Cultural Change

The first step in bringing about planned change in a society is to determine which cultural factors conflict with innovation, thus creating resistance to its acceptance. The next step is an effort to change those factors from obstacles into stimulants for change. The same deliberate approaches used by the social planner to gain acceptance for hybrid grains, better sanitation methods, improved farming techniques, or protein- rich diets among the peoples of underdeveloped societies can be adopted by marketers to achieve marketing goals.

Marketers have two options when introducing an innovation to a culture: they can wait, or they can cause change. The former requires hopeful waiting for eventual cultural changes that prove their innovations to be of value to the culture; the latter involves introducing an idea or product and deliberately setting about to overcome resistance and to cause change that accelerates the rate of acceptance. Obviously, not all marketing efforts require change to be accepted. In fact, much successful and highly competitive marketing is accomplished by a strategy of cultural congruence. Essentially this involves marketing products similar to ones already on the market in a manner as congruent as possible with existing cultural norms, thereby minimizing resistance. However, when marketing programs depend on cultural changes to be successful, a company may decide to leave acceptance to a

strategy of unplanned change-that is, introduce a product and hope for the best. Or a company may use a strategy of planned change-that is, deliberately set out to change those aspects of the culture offering resistance to predetermined marketing goals.

2.4 Political Environment

Cateora stresses that no company, domestic or international, large or small, can conduct business without considering the influence of the political environment within which it operates. One of the most undeniable realities of international business is that both host and home governments are integral partners. Government reacts to its environment by initiating and pursuing policies deemed necessary to solve the problems created by particular circumstances. A government controls and restricts a company's activities by encouraging and offering support or by discouraging and banning or restricting its activities depending on the pleasure of the government. International laws recognize the sovereign right of nations to grant or withhold permission to do business within its political boundaries and to control where its citizens conduct business. Thus, the political environment of countries is a critical concern for the international marketer.

2.4.1 Factors Related to Political Environment

The most relevant factors that need to be discussed regarding the political environment include the sovereignty of nations, stability of government policies, nationalism, and political risks.

- 1) The Sovereignty of Nations:** a sovereign country is independent and free from all external control, enjoys full legal equality with other states; governs its own territory; selects own political, economic, and social systems; and has the power to enter into agreements with other nations. Sovereignty refers to both the powers exercised by a country in relation to other countries and the supreme power exercised over its own members. It sets requirements for citizenship, defines geographical boundaries, and controls trade and the movement of people and goods across its borders. The ideal political climate for a multinational firm is a stable, friendly government.

Unfortunately, governments are not always friendly and stable, nor do friendly, stable governments remain so; changes in the attitudes and goals can cause stable and friendly situations to be risky.

2) Stability of Government Policies: the ideal political climate for a multinational firm is a stable, friendly government. Unfortunately, governments are not always stable and friendly governments remain so. Radical shifts in government philosophy when an opposing political party ascends to power, pressures from nationalist and self interest groups, weakened economic conditions, bias against foreign investment or conflicts between governments are all issues that can affect the stability of a government. Because foreign businesses are judged by standards as variables as there are nations, the stability and friendliness of the in each country must be assessed as an ongoing business practice. Governments might change or new political parties might be selected, but the concern of the multinational corporation is the continuity of the set of rules or code of behavior.

3) Nationalism: Economic and cultural nationalism, which exists to some degree within all countries, is another factor important in assessing business climate. Nationalism can best be described as an intense feeling of national pride and unity, an awakening of a nation's people to pride in their country. This pride can take an anti foreign business bias, and minor harassment and control of foreign investment are supported, if not applauded. Such feelings can be manifested in various ways including a call to "buy our country's product only", restrictions on imports, restrictive tariffs, and other barriers to trade.

4) Political and Economic Risks: risks can range from confiscation to many lesser but still significant government rules and regulations such as exchange controls, import restrictions, and price controls that directly impact the performance of business activities.

- ◆ **Confiscation:** the most severe political risk is confiscation, that is, the seizing of a company's assets without payment.

- ◆ **Expropriation:** requires some reimbursement for the government seized investment. The reimbursement does equate with the value of the assets which leads a firm whose property is expropriated to incur into loss.
- ◆ **Domestication:** occurs when host countries take steps to transfer foreign investments to national control and ownership through a series of government decrees. Government seek to domesticate foreign assets by mandating:
 - A transfer of ownership in part or totally to nationals
 - The promotion of a large number of nationals to higher levels of management
 - Greater decision making powers resting with nationals
 - A greater number of component products locally produced
 - Specific export regulations designed to dictate participation in world markets

The ultimate goal of domestication is to force foreign investors to share more of the ownership and management with nationals than was the case before domestication.

Even though expropriation and confiscation are warning as risk of doing business abroad, international companies are still confronted with a variety of economic risks that can occur with little warning. Restraints on business activity may be imposed under the banner of national security to protect an infant industry, to conserve scarce foreign exchange, to raise revenue, or to retaliate against unfair trade practices, among a score of other real or imagined reasons. These economic risks are important and recurring part of the political environment that few international companies can avoid.

- ◆ **Exchange Control:** stems from shortage of foreign exchange held by a country. When a country faces shortage of foreign exchange, controls may be levied over all movements of capital or selectively against the most politically vulnerable companies to conserve the supply of foreign exchange for the most essential uses. A recurrent problem for the foreign investor is getting profits and investments into the currency of the home country.

- ◆ **Local content law:** in addition to restricting imports of essential supplies to force local purchase, countries often require a portion of any product sold within the country to have local content, that is, to contain locally made parts.
- ◆ **Import restrictions:** selective restrictions on the import of raw materials, machines, and spare parts are fairly common strategies to force foreign industry to purchase more supplies within the host country and thereby create markets for the local industry.
- ◆ **Tax controls:** are classified as political risk when used as a means of controlling foreign investors. In such cases they are raised without warning and in violation of formal agreements.
- ◆ **Price controls:** essential products that command considerable public interest, such as pharmaceuticals, food, gasoline, and cars, are often subjected to price controls. They can also be used to force a foreign company to sell equity to local interests.

2.4.2 Management of Political Risk

Insecurity arising out of political risk, especially risk of loss of investment and information, in foreign lands can be minimized through proper management of political risk. Political risk management process can take place either before or after the investment is made.

- I. **Pre-investment planning:** here four options are available for an international marketer.
 - Avoidance: involves avoiding political risk by not undertaking any foreign investment. However, this may hinder a company from reaping huge benefits if the decision is based on insufficient data.
 - Insurance: although varying premiums are charged for different business activities, an international marketer can insure his political risk of expropriation.
 - Negotiating the Environment: refers to agreements drawn up between a company and the ruling government. The drawback of this strategy is that when new ruling party emerges, it may reject the agreement.

- Structuring the Environment: is a strategy pursued by most companies and involves diversification of investment so that it is concentrated in one country.

II. Post investment planning: political risks that arise after the investment has been made can be lessened through:

- **Planned Divestment:** refers to divestment of assets in foreign country over a fixed period of time so as to minimize the risk involved. This strategy involves recovery of the invested capital along with desired return over a fixed period of time after which the productive asset is sold to the local citizens.
- **Short term profit maximization:** involves sacrificing long term goals in favor of short term objectives. For example, a firm can cut costs and increase profit margins to recover the initial investment.
- **Developing local stakeholders:** is associated with encouraging local people to take part in various aspects of the business so that the government considers this and reduces the burden of a foreign company.
- **Adaptation:** is related to such issues as management contract which is discussed under strategies of foreign market entry, in chapter one.



Quick Check Questions

- 1) Define the following terms
 - Sovereignty
 - Political risk
 - Nationalism
 - Local content law
 - Confiscation
 - expropriation
 - Domestication
 - import restriction
- 2) Management of political risk can occur either before or after the investment is made. Describe those strategies that can be adopted to minimize political risk after making investment?
- 3) Why an international marketer is required to know the culture of a foreign country where it runs business?
- 4) What are the key elements of culture?

2.5 Legal Environment

Multinational enterprises in global exercise must cope with widely differing laws. An Ethiopian firm which does business in other countries has to consider not only the Ethiopian law wherever it runs business, but also must be responsive to the laws of the host country. Worldwide, different countries pursue legal systems of varied complexity and dimension. In some countries, laws provide only a broad guide and the interpretation is left to the courts. In other countries, laws spell out virtually every detail. A foreign firm, therefore, has to be careful in learning and heeding all local laws and regulations. From a marketing standpoint, an international firm should be especially careful in obeying laws pertaining to competition, price setting, distribution arrangements, product quality, personal selling and others. The firm has to comply with taxes, tariffs, licensing, and other areas related to business.

Terpstra claims that a firm must know the legal environment in each market because these laws constitute the rule of the game. At the same time, the firm must know the political environment as it determines how the laws are enforced and indicates the direction of new legislations.

2.5.1 International Legal Perspective

Two important aspects of international legal systems are pertinent to marketing: the philosophical bases of the laws and the jurisdiction of these laws.

Common Law versus Code Law: philosophically, two types of laws may be distinguished: common law and code law. Common law is based on precedents and practices established in the past and interpreted over time. Common law was first developed in England, and most of the countries that at one time or another formed a part of the British Empire follow this system. It is also practiced today in USA and Canada. Code law is based on detailed rules for all eventualities. Code law was developed by the Romans and is popularly practiced by a number of free world countries.

It is important for an international marketer to be familiar with the genesis of a country's law, for it frequently has far reaching effects on all kinds of decisions. For

example, the right to a property in a common law country would depend on the history of use of the property, that is, in the case of a trademark dispute which party actually used the trademark on its package and in its advertising campaign. According to code law, however, the right of property would be based on which party actually registered the trade mark. For example, if two companies say A&B, are claiming rights to a trademark, A registered the trademark but never used it. On the other hand, B has been using it all along in various commercial ways without ever bothering to register it. In a common law country, the trademark would belong to B Company; in a code law country, it would be the property of Company A.

A business incorporated in a particular country carries the burden of complying with the laws of both the incorporating nation and the host country. Problems can occur when laws of more than one country must be respected and these laws have conflicting values. If a contract contains a jurisdiction clause stipulating which country's legal system should be used to settle disputes, the matter can be settled accordingly; but in the absence of such a clause, legal and counter legal actions, presumably in different courts, perhaps in different countries, may follow.

Countries enact laws to control foreign business in their economies, and some of these laws are discriminatory against foreign goods and businesses. On the other hand, laws are sometimes designed to allow reciprocity with nations on good trading terms with the country. Extremely favorable laws may be passed to attract foreign investment. In general, the legal environment of a country for foreign commerce depends on that country's economic objectives and its obligations and position in relation to worldwide commerce. Laws that bear on entry into foreign markets take several forms, including tariffs, antidumping laws, export/import licensing, investment regulations, legal incentives and restrictive laws. Some of such laws are discussed below.

- **Tariffs:** a tariff is a tax that government levies on exports and imports. The tax on export is called export duty whereas the tax on imports is referred to as import duties. The purpose of export duty is to discourage selling overseas to maintain adequate supply at home. The import duty is levied for different reasons: to protect home

industry from being out priced by cheap imports, to gain a source of revenue for the government, and prevent the dilution of foreign exchange balances through consumer goods purchased by a few privileged people. In developing countries where new industries cannot compete with imports from the western world and resources are limited, the import duty serves as an important measure to promote economic development.

- **Antidumping Laws:** dumping is a type of pricing strategy for selling products in foreign markets below cost, or below the price charged to domestic customers. Dumping is practiced to capture a foreign market and to damage rival foreign national enterprises.
- **Export/Import Licensing:** many countries have laws on the books that require exporters and importers to obtain licenses before engaging in trade across national boundaries. Licensing helps ensure that certain goods are not exported at all, or at least not to certain countries. Import licensing is enforced to control the unnecessary purchase of goods from other countries. Such restraints save foreign exchange balances for other important purposes like the import of pharmaceuticals, chemicals, and machinery.
- **Foreign Investment Regulations:** are established to limit the influences of MNCs and to achieve a pattern of foreign investment that contributes most effectively to the realization of the host country's economic objectives. There are several areas of legislation concerned with foreign investment: administration of the investment process, screening criteria, ownership, finance, employment and training, technology transfer, investment incentives, and dispute settlement.

2.5.2 Jurisdiction in International Legal Disputes

Determining whose legal system has jurisdiction when a commercial dispute arises is a problem of international marketing. A frequent error is to assume that disputes between citizens of different nations are adjudicated under some supranational system of laws. Unfortunately, no judicial body exists to deal with legal commercial problems arising between citizens of different countries. Confusion probably stems from the existence of international courts such as the world court at The Hague and the

international court of justice, the principal judicial organ of the United Nations. These courts are operative in international disputes between sovereign nations of the world rather than between private citizens.

Legal disputes can arise in three situations: between governments, between a company and a government and between two companies. The world court can adjudicate disputes between governments whereas the other two situations must be handled in the courts of the country of one of the parties involved or through arbitration. Unless a commercial dispute involves a national issue between states, the international court of justice or any similar world court does not handle it. Because there is no international commercial law, the foreign marketer must look to the legal system of each country involved-the laws of the home country or the laws of the countries within which business is conducted, or both.

When international commercial disputes must be settled under the laws of one of the countries concerned, the paramount question in a dispute is: which law governs? Jurisdiction is generally determined in one of three ways:

1. on the basis of jurisdiction clauses included in contracts
2. on the basis of where a contract was entered into or
3. on the basis of where the provisions of the contract were performed

More clear-cut decisions can be made when the contract or legal document supporting a business transaction include a jurisdiction clause. A clause similar to the following establishes jurisdiction in the event of disagreements:

That the parties hereby agree that the agreement is made in Ethiopia, and any question regarding this agreement shall be governed by the law of the country-Ethiopia.

2.5.3 International Dispute Resolution

When things go wrong in a commercial transaction-the buyer refuses to pay, the product is of inferior quality, the shipment arrives late, or any one of the many problems that can arise- what alternative does the international marketer have? The first step in any dispute is to try to resolve the issue informally, but if that fails the foreign marketer must resort to more firm actions. Such actions can take many forms

of conciliation, arbitration, or as a last resort, litigation. Most international business people prefer a settlement through arbitration than by suing a foreign company.

a) Conciliation: most disputes that arise in commercial transactions are settled informally. When resolution is not forthcoming, however, conciliation can be an important first step in settling a dispute. Conciliation also known as mediation is a nonbinding agreement between parties to resolve disputes by asking a third party to mediate differences. The function of the mediator is to carefully listen each party and to explore, clarify, and discuss the various practical options and possibilities for a solution with the intent that the parties will agree on a solution. Unlike arbitration and litigation, conciliation sessions are private and all conferences between parties and the mediator are confidential; the statements made by the parties may not be disclosed or used as evidence in any subsequent litigation or arbitration.

b) Arbitration: if conciliation is not used or an agreement cannot be reached, the next step is arbitration. When all else fails, arbitration rather than litigation is the preferred method for resolving international commercial disputes. The usual arbitration procedure is for the parties involved to select a neutral/disinterested and informed party or parties as referee to determine the merits of the case and make a judgment that both parties agree to honor. Although informal arbitration is workable, most arbitration is conducted under the auspices of one of the more formal domestic and international arbitration groups organized specifically to facilitate the resolution of commercial disputes. These groups have formal rules for the process and experienced arbitrators to assist. In most countries, decisions reached in formal arbitration are enforced under the law.

A contract or other legal documents should include clauses specifying the use of arbitration to settle disputes. Unless a provision for arbitration of any disputes is incorporated as part of a contract, the likelihood of securing agreement for arbitration after a dispute arises is reduced. A typical arbitration clause is as follows:

Any controversy or claim arising out of or relating to this contract shall be determined by arbitration in accordance with the international arbitration rules of the American arbitration association.

It is suggested that that the number of arbitrators, the place of arbitration and the language be stated as well. Although an arbitration clause in a contract can avert problems, sometimes enforcing arbitration agreements can be difficult.

c) Litigation: lawsuits in public courts are avoided for many reasons. Most observers of lawsuits between citizens of different countries believe that almost all victories are spurious because the cost, frustrating delays, and extended aggravation that these cases produce are by far more oppressive than any matter of comparable size. The best advice is to seek a settlement, if possible, rather than sue. Other deterrents to litigation are the following:

- Fear of creating a poor image and damaging relations
- Fear of unfair treatment in foreign court
- Difficulty in collecting a judgment that may otherwise have been collected in a mutually agreed settlement through arbitration
- The relatively high cost and time required when bringing legal action
- Loss of confidentiality –unlike arbitration and conciliation proceedings that are confidential, litigation is public.

To summarize what is discussed above, one authority suggests that the settlement of every dispute should follow four steps:

1. First, try to appease the injured party, if this does not work
2. Conciliate
3. Arbitrate and finally
4. Litigate

The final step is typically taken only when all other methods fail. Actually, this advice is probably wise whether one is involved in an international dispute or a domestic one.

2.5.4 Protection of Intellectual Property Rights: A Special Problem

Companies spend millions of Birr establishing brand names or trademarks to symbolize quality and design a host of other product features meant to attract customers to buy their brands to the exclusion of all others. Millions more are spent on research to develop products, processes, design and formula that provide companies with advantages over their competitors. Such intellectual or industrial properties are among the more valuable assets a company may possess. Brand names such as Kodak, coca-coal, Gucci, processes such as xerography and computer software are invaluable. Normally, property rights can be legally protected to prevent other companies from infringing on such assets. Companies must, however, keep a constant vigil against piracy and counterfeiting. Below, piracy and counterfeiting are explained.

Counterfeiting and Piracy: counterfeit and pirated goods come from a wide range of industries such as apparel, automotives, parts, agricultural chemicals, pharmaceuticals, books, records, films and computer software. Although difficult to pinpoint, lost sales amount to about \$60 billion annually. That translates into more than a million lost jobs. Software and music are especially attractive targets for pirates because they are costly to develop but cheap to reproduce. Pirated CD music sales are estimated to exceed \$5 billion annually and are growing at 6 percent per year.

The piracy industry has grown so sophisticated that many counterfeit goods are almost impossible to distinguish from the original. Some items are often counterfeited and sold before the original ones arrive in legitimate stores. Copies are churned out in the same town where the originals are made. Although counterfeiting CDs, toys, and similar products costs companies billions of dollars in lost revenue and has the potential of damaging the product's brand image, the counterfeiting of pharmaceuticals can do serious physical harm.

Counterfeits range from copies that have the same efficacy as the original to those with few or no active ingredients, to those made of harmful substances. Counterfeiting and piracy of intellectual property constitutes outright theft, but the possibility of

legally losing the rights to intellectual property because of inadequate protections of property rights and/or a country's legal structure is another matter.

The failure to protect intellectual property rights adequately in the world marketplace can lead to the legal loss of rights in potentially profitable markets. Because patents, trademarks, and copyrights are valuable in all countries, some companies have found their assets appropriated and profitably exploited in foreign countries without license or reimbursement. Further, they often learn not only other firms are producing and selling their products or using their trademarks, but that the foreign companies are the rightful owners in the countries where they operate.

There have been many cases where companies have legally lost the rights to trademarks and have had to buy back these rights or pay royalties for their use. The problems of inadequate protective measures taken by the owners of valuable assets stem from a variety of cases. One of the more frequent errors is assuming that because the company has established rights in United States, they will be protected around the world or that rightful ownership can be established should the need arise. Many companies fail to take proper steps to legally protect their intellectual property. They fail to understand that some countries do not follow the common law principle that ownership is established by prior use or to realize that registration and legal ownership in one country does not necessarily mean ownership in another.

Quick Check Questions

1. Why a foreign firm has to be careful in learning and heeding all local laws and regulations of the countries where it does business?
2. Differentiate between Common Law and Code Law
3. Describe the three types of monetary barriers mentioned below.
 - Blocked currency
 - The differential exchange rate
 - Government approvals to secure foreign exchange
4. Distinguish between conciliation and arbitration

2.6 Summary of the Chapter

Management of international marketing environment necessitates breaking down environmental elements into manageable components- economic, cultural, political and legal.

International marketing has a twofold economic environment: the global/ world economy and the economy of individual countries. Generally, the economic environment can be viewed from two different angles-the macro view and the micro view. As not all of the world's economies operate at the same level of efficiency, it is crucial to form a clear idea of the economic situation of a particular host country in order to make good marketing decisions. Economic advancement is characterized by such factors as comparatively small allocations of labor force to agriculture, energy available at low cost per unit, high level of GNP and income; high level of per capita consumption, communication and exchange, a substantial amount of capital for investment, urbanization based on production as well as exchange, etc. with respect to the micro environment, source of competition, competitive advantage, and other issues need to be addressed. There are various international economic institutions which are worth understanding for an international marketer. The major ones include GATT/WTO, IBRD, IMF, and UNCTAD.

The cultural traits of a country have a profound effect on people's lifestyle and behavior patterns, and these are reflected in the market place. Culture is a complex term and its precise definition is difficult. Broadly defined, it refers to all learned behavior of all facets of life and living transmitted from generation to generation. Cultural differences among countries can be striking or subtle and should be keenly examined by the international marketer. The study of culture includes material life (the means and artifacts people use for their livelihood); social interactions between individuals and groups in formal and informal situations; language (spoken/written words, symbols, and physical expressions that people use to communicate); aesthetics (art, drama, music); religion and faith; pride and prejudice; and ethics. Cultural differences have impact on marketing decisions regarding product, price, distribution, and promotion.

No company can conduct business without considering the influence of the political environment within which it operates. The most relevant factors that should be assessed in light of the political environment include: the sovereignty of nations, stability of government policies, nationalism and political and economic risks. Multinational companies in global exercise must cope with widely differing laws. They have to comply with taxes, tariffs, licensing, antidumping laws, foreign investment regulations and other relevant elements of the legal environment. They should also be aware of jurisdiction in international legal disputes and recognize the international dispute resolution methods like conciliation, arbitration and litigation that can be utilized upon the occurrence of disputes in the course of conducting international marketing activities.

Self Check Exercise 2

Part I- Fill in the Blank Space

Fill the blank spaces in the following questions with appropriate words or phrases.

- 1) The main purpose of _____ is to provide funds and technical assistance to facilitate economic development of its poorer member countries.
- 2) _____ provides long term capital to aid economic development whereas IMF is concerned with the provision of short term liquidity.
- 3) _____ records all financial transactions between its residents and those of the rest of the world during a given period of time, usually one year.
- 4) _____ is an absolute restriction against the purchase and import of certain goods from other countries.
- 5) _____ include the art, music, folkways, and architecture endemic to a society and convey its concept of beauty and modes of expression.
- 6) _____ is concerned with the seizing of a company's assets without payment.
- 7) _____ can be best described as an intense feeling of national pride and unity, an awakening of a nation's people to pride in their country.
- 8) _____ is a type of pricing strategy for selling products in foreign markets below cost, or below the price charged to domestic customers.
- 9) _____ is based on precedents and practices established in the past and interpreted over time.

- 10) _____ occurs when host countries take steps to transfer foreign investments to national control and ownership through a series of government decrees.

Part II- Multiple Choice Questions

Choose the right answer among the alternatives given below

- _____1. Which one of the statements below is untrue?
- A) There is single uniform international commercial law governing foreign business transactions
 - B) Marketing is an economic activity affected by the economic environment in which it operates
 - C) Products considered as necessities in one economy can be luxuries in another
 - D) A&C
 - E) None of the above
- _____2. Each contracting party must grant all others the same rate of import duty, that is, a tariff concession granted to one trading partner must be extended to all WTO members under the most favored nation clause. This statement best describes
- A) Principle of consultation
 - B) Principle of non discrimination
 - C) Principle of discrimination
 - D) Principle of tariff
 - E) None of the above
- _____3. Which one of the following is false about UNCTAD?
- A) Its goal is to further the development of emerging nations through trade as well as other means
 - B) It seeks to improve the price of primary goods exports through commodity agreements
 - C) It works to establish a tariff presence system favoring the export of manufactured goods from less developed countries
 - D) It limits the benefits emerging nations can secure from export of their raw materials

E) None of the above

_____ 4. The relationship between merchandize imports and exports is referred to as

- A) balance of trade
- B) balance of payment
- C) quota
- D) tariff
- E) None of the above

_____ 5. A monetary barrier which is used to encourage the import of goods the government deems desirable and discourage import of those goods deemed undesirable by the government is

- A) Government approval to secure foreign exchange
- B) Blocked currency
- C) The differential exchange rate
- D) Unblocked currency
- E) Uniform exchange rate

_____ 6. Which one of following is right about the characteristics of culture?

- A) It is learned D) All of the above B) It is interrelated E) Only A&C
- C) It is shared

_____ 7. Which one of the following is not among political and economic risks?

- A) Confiscation D) Local content law B) Expropriation E) None of the above
- C) Domestication

_____ 8. Which one of the following is not among the options to manage political risk before making the investment?

- A) Avoidance
- B) Short term profit maximization
- C) Structuring the environment
- D) Insurance
- E) None of the above

CHAPTER THREE

DOCUMENTS OF IMPORT AND EXPORT TRADE

Introduction

Dear learner, hoping that you are enjoying reading what is presented in the first and second chapters; here you will be learning about documents that are essential in international marketing, particularly import and export. The chapter is organized into five sub sections. In the first section, the need to documents will be discussed. The second and third sub sections address principal documents required for import and export respectively. In the forth section of the chapter, some useful tips concerning how to conduct such businesses will be forwarded. Finally, in the fifth section of the chapter INCOTERMS will be discussed. Read each section carefully so as to comprehend its substance as the points to be discussed are of great benefit for those who intend either to expand their knowledge or to engage in such activities. Do not forget answering the quick check questions while reading different sections for they are designed to facilitate your self learning endeavor.

Learning Objectives:

After studying this chapter, you are expected to:

- ❖ Recognize the reasons why companies should produce various types of documents in their effort to undertake international market-import and export
- ❖ Identify the documents that are associated with export business
- ❖ Be familiar with those documents that are important to undertake import business
- ❖ Understand some useful issues related with import and export.
- ❖ Develop general understandings about the INCOTERMS which govern the actions of sellers and buyers engaged in international trade

3.1 The Need to Documents

As per the module written by Indria Gandhi National Open University (2007), documentation and procedures, though complex and cumbersome, are integral part of international marketing operations. Full knowledge and accurate compliance of

procedures and documentation formalities are as essential as looking into areas of marketing mix to ensure success in international marketing. Inadequate understanding of the various formalities on the part of the managers results in protracted correspondence, adversely affecting the business and cash flow due to delays in realization of export proceeds as also the various incentives.

The physical transfer of goods in international trade has traditionally been associated with a number of documents. Over the years, however, the number of documents and related procedures has multiplied making the international trade complex and cumbersome.

Need for documentation arises primarily because of certain peculiarities of international trade transactions. Unlike domestic trade, buyers and sellers are separated by long distances in overseas trade. This necessitates concluding a formal contract laying down duties and responsibilities of buyers and sellers respectively. Moreover, some intermediation becomes inevitable. No international trade transaction can be completed without the assistance of at least three intermediaries: a carrier, who undertakes to deliver the goods to the buyer on behalf of the seller, an insurance company that covers the risks arising out of hazards of long voyage, and finally a banker who collects the sale proceeds from the buyer and hands over the same to the exporter. Besides other intermediaries are freight forwarders, freight brokers, chambers of commerce, etc. Documentation and attendant formalities become necessary to ensure compliance of contract obligations of the concerned parties, i.e. the exporter, importer and intermediaries.

International trading also means relationship between the citizens of two independent sovereign states. International trade is state regulated everywhere.

3.2 Principal Export Documents

Dear learner, in this section you are going to learn about principal documents associated with the export business. Knowledge of such documents greatly benefits you upon your assignment to related tasks or to expand your knowledge of business in general. Managers concerned with export/import business should be well acquainted

with all the documents which are needed in light of exporting something. The major documents required are briefly explained below.

1) Commercial Invoice

This is among the basic documents that provides full details of the contents of the shipment and serves as seller's bill of goods and, therefore, sets out the terms of sale.

An exporter is required to prepare this complete document which must fully identify the overseas shipment and serves as a basis for the preparation of all other documents. Apart from the special requirements of the importer, form of invoice is similar to that used for domestic business. There is no standard form and it is left to the exporter to change the design, always ensuring that it will be convenient for use by foreign parties. In fact, the exporter should strictly follow the requirements of foreign laws which vary widely and are revised from time to time, it is important for an exporter to keep himself fully informed about such changes in government regulations of the importing countries.

The following check list of the items that make up a commercial invoice should always be kept in view though not all items are required for every transaction:

- Name and address of the shipper
- Invoice number and date
- Buyer's and seller's order number
- Name and address of the overseas customer (buyer)
- Name of the vessel and sailing date
- Terms of payment
- Insurance reference
- Customs and consular declaration
- Shipping marks and number on packages
- Quantities and description of commodities
- Net weight and gross weight
- Specification of packing
- Unit price and total value
- Terms of sale (FOB/CIF/FAS, etc)

2) Performa Invoice

Performa invoice is a preliminary, provisional, temporary invoice for an anticipated shipment which might or might not take place. Such invoices serve certain useful functions in that overseas buyer is then in a position to deal with certain requirements before placing the order. For example, obtaining an import license. Performa invoice, if made out can be supplied to the bank when a letter of credit is to be established by the

overseas buyer with the instruction that the LC (letter of credit) be opened in accordance with the invoice.

3)Packing List

Exporters are required to prepare an accurate packing list showing, item by item, the contents of the packages or cases so as to enable the receiver of the shipment to carry out a check. The packing list should give a description of the goods, number and marks on the packages, quantity per package, net and gross weight, measurement, etc. properly prepared, these packing lists ensure movement of goods and avoid unnecessary unpacking.

4)Marine Insurance Policy/Certificate

It is a document associated with transit of goods in trade, whereby the insurer undertakes to indemnify the assured against damage for loss of goods due to risks/hazards in transit, to the extent and in the manner mentioned in it. In a CIF contract of sale, the seller has to take the required insurance cover to protect his own as well as the buyers' interest in case of damage or loss of goods. The insurance policy must satisfy the conditions of the letter of credit/ sales contract, and must cover all risks specified therein, or which are considered to be normally associated with trade in a particular product.

5)Bill of Exchange

An exporter can send a bill of exchange for the value of the invoice of goods for export through the banking system for payment by an overseas buyer on presentation. A bill of exchange is legally defined as "unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain amount to or to the order of a specific person or to bearer." In other words, an exporter prepares a bill of exchange which is drawn on an overseas buyer or even on a third party as designated in the export contract for the sum agreed as settlement.

The bill is called a sight draft if it is made out payable at sight, i.e., on demand. If it is payable at a fixed or determinable future time, it is called a term draft as the buyer is receiving a period of credit known as the tenor of the bill. The buyer signifies an agreement to pay on the due date by writing an acceptance across the face of the bill. By using a bill of exchange with other shipping documents through the banking system, an exporter can ensure greater control of the goods because until the bill is paid or accepted by the overseas buyer the goods cannot be released. Conversely, the buyer does not have to pay or agree to pay by some agreed date until he receives delivery of the goods from the exporter.

For example, an Ethiopian exporter can pass a bill of exchange to its client bank. The Ethiopian bank forwards the bill to its overseas branch or to a corresponding bank in the overseas buyer's country. This bank, known as the collecting bank, presents the bill to whomever it is drawn upon, for immediate payment if it is sight draft, or for acceptance if it is a term draft.

6) Letter of Credit

It is a written undertaking by a bank, the issuing bank, to the seller, the beneficiary in accordance with the instructions of the buyer, the applicant, to effect payment up to a prescribed amount, within a prescribed time period against prescribed documents, provided these are correct and in order, i.e., they conform to the instructions of the applicant. It is one of the most commonly used methods of payment in international transactions. It is issued subject to the provisions of the "Uniform Customs and Practices for Documentary Credits" issued by the international chamber of commerce. It contains the rules governing the letter of credit transactions and the interpretation of various terms relating thereto and has been subscribed by almost all major trading countries of the world.

There are usually two banks involved in a documentary credit operation. The issuing bank is the bank of the buyer. The second bank, the advising bank, is usually a bank in a seller's country. The second bank can be simply an advising bank or it can also assume the more important role of a confirming bank. In either case, it undertakes the

transmission of the credit and by doing so implies the authenticity of the signature of the issuing bank. If the second bank is simply „advising the credit“ it will mention this fact when it forwards the credit to the seller. Such a bank is under no commitment to pay the seller. If the advising bank is also „confirming the credit“ it will state so. This means that the confirming bank regardless of any other consideration, must pay, accept, or negotiate without any option to the seller; provided all the documents are in order and the credit requirements are met.

A letter of credit contains essential details like:

- Seller's name,
- buyer's name,
- value,
- documents required,
- description of goods,
- shipment and negotiation dates,
- Part of shipment and destination, etc.

Letters of credit used in international transactions are of various types:

- a) *Revocable and Irrevocable Letter of Credit*: a revocable letter of credit is rather rare nowadays because it means that the terms of the credit can be cancelled by a foreign buyer without prior notice to the exporter. Most LCs are irrevocable which means that once buyer's conditions in the letter have been agreed by the exporter, they constitute a definite undertaking by the buyer's bank and cannot be revoked without the exporter's agreement.
- b) *Confirmed and Unconfirmed Letter of Credit*: a confirmed letter of credit carries the confirmation of another bank, generally, in the country of the exporter. Such confirmation, added at the request of the issuing bank, binds the confirming bank to negotiate the drafts drawn under the credit provided that the terms and conditions thereof are fulfilled.
- c) *Straight and Negotiation Credit*: a negotiation credit enables either a specifically nominated bank (or any bank if the words freely "negotiable by any bank" are used in credit) to check the documents and if they are in order, to pay them less the interest for the time it will take to obtain reimbursement from the issuing bank.

- d) *Transferable*: is one which can be transferred by the beneficiary named therein in favor of another party. A credit can be transferred only if it is expressly designated as transferable by the issuing bank.
- e) *Revolving Letter of Credit*: is one which revolves to its face value as soon as the bill negotiated under the credit is paid. Such credits are required when regular and continuous payments are required to be made to the exporter.
- f) *Red clause credits*: contain an authorization by the issuing bank to the advising or confirming bank to make advances to the beneficiary before presentation of documents. The purpose of these credits is to provide pre-shipment finance to the seller who might not otherwise be capable of raising the finance to produce the merchandise desired by the buyer.
- g) *Green clause credit*: is similar to red clause but advance is given only against a warehouse receipt given by the beneficiary.
- h) *Back to Back Letter of Credit*: a letter of credit issued on the strength of another letter of credit. It is in effect, an extension of the terms and conditions of the backing credit. Usually, the beneficiary under such credit is a supplier to the beneficiary of the backing credit.
- i) *Without recourse and with recourse*: a „without recourse to drawer“ letter of credit is one under which the negotiating bank cannot have a recourse against the exporter if the draft is subsequently not taken up or reimbursed by the issuing bank provided, of course, the negotiation is without recourse.
- j) *Sight and Usance*: documentary credit may provide for payment at sight or for acceptance of a usance bill of exchange by either issuing bank in a buyer's country or the correspondent bank in exporter's country.

Check lists for the seller after opening the documentary credit include:

General Points

- Does the documentary credit correspond with the contract, especially in connection with the following points:
 - Amount/ unit price
 - Period of validity/ time limit for shipment

- Terms of delivery
- Description and origin of the merchandize
- Is the documentary credit revocable, irrevocable/unconfirmed or confirmed?
- Is it transferable, if necessary
- If confirmed or confirmed by a bank abroad, how do you assess the
 - Credit risk
 - Conditions in the buying country(political and transfer risk)
 - Mailing risk (if credit is available abroad)?
- Are the names and addresses of the applicant and the beneficiary correct?
- Is the documentary credit subject to currently valid uniform customs and practices for documentary credits?
- Is there sufficient time available to complete attestation and authentication procedures?
- Are there declarations request in the documentary which cannot be made?
- Are documents stipulated which are contradictory to the terms of delivery?
- Does the document stipulate documents which need to be drawn up or countersigned by the buyer or the bank? In such a case, the utilization of the credit depends on a large extent on the goodwill of the buyer
- Can the required number of specified documents be furnished?

Deadlines and Shipment of Goods

- Can the shipment deadline be met?
- Are the terms regarding the place where the goods are to be taken into possession and the points of departure and arrival feasible?
- Are part shipment and trans-shipments prohibited contrary to the terms of contract?
- Can the prescribed marks and modes of transport be provided?
- Can the documents be presented in the desired form by the dates specified in the credit?

7) Certificate of origin

This document helps ensure whether the chamber of commerce located in the exporter's country is willing to attest or authenticate the statements required appear on the certificate of origin. It serves as evidence to show the actual country of origin (place of production or manufacturing) of the goods. It is signed by the exporter or chamber of commerce, as the regulations may require.

8) Bill of Lading

Of all documents, bill of lading is the most important and valuable document. Issued by the shipping company, a bill of lading is:

- A receipt/acknowledgement of cargo delivered for transportation
- A contract between the shipper and the carrier specifying their respective responsibilities and obligations
- A document of title to goods and provides interested parties including banks with title to the goods mentioned therein
- A collateral, that can be used for any advances made to the seller or to the buyer in the process of financing the shipment

Bills of lading are prepared by the shippers or printed forms supplied by the shipping company concerned and necessary particulars are entered therein the blank spaces provided for the purpose. A bill of lading shows the date of shipment, port of shipment, name of the carrying vessel, name of the consignor, consignee and notify party, port of discharge, number, contents and identification marks of packages and goods shipped, and the amount of freight „paid“ or to „pay“. Bills of lading are issued in sets of four. Three copies duly signed are delivered to the shipper, while the fourth copy is unsigned and retained by the shipper's master for his own use. Different copies are sent by different mails to reduce the risk involved by delay or loss in transit. Goods are released at the port of destination against one of the copies of the bill of lading presented first and other copies becoming void. Bills of lading may be issued either in negotiable or non negotiable form. A negotiable bill of lading is issued to the order of consignee, or endorsed either in blank by a shipper or endorsed to the order of named party.

Bill of lading can be of various types. The major ones are described below:

- Received for shipment B/L: is used by the shipping company when goods have been given into the custody of the shipping company but have not yet been placed on board of the ship.
- On board shipped B/L: it certifies that the goods have been received on board of the ship
- Clean B/L: it indicates a clean receipt. It implies that there was no defect in the apparent order and condition of the goods at the time of receipt or shipment of goods by the shipping company.
- Claused or dirty B/L: this one bears a clause of annotation which declares the defective condition of the goods. The clause may state “package number 20 broken” or “bale number 15 hook damaged.”

9) Shipment Advice

Depending upon the terms of sale on a specific stipulation in the contract and immediately after shipping the goods, the exporter has to inform the foreign buyer of the fact of shipment. This is usually done in the form of a „shipment advice“ giving invoice number, destination of goods, quantity, number of packages, marks and numbers, name of the carrier, bill of lading/ airway bill number and date, expected time of arrival of the carrier at the port of destination, etc. This enables the foreign buyer to arrange insurance coverage in respect of goods in transit and also for making advance arrangements for the clearance of the goods at the port of destination.

10) Air way bill/ air Consignment note

In air carriage, the transport document is known as the air way bill (AWB) or air consignment note. The AWB merely evidences the air carrier’s receipt of goods on the terms of the contract of carriage and does not represent the goods/ title of goods. The goods are delivered to the consignee (receiver) mentioned in the AWB. The consignee will have to identify himself as the party named in the AWB and the goods may be delivered to him without any hindrance, usually on payment of some charges (depending upon the terms of the trade). When the seller has made the contract with the

air carrier, the buyer can protect himself against the seller's rerouting of the goods by obtaining the shipper's copy of the AWB.

The air carrier may not accept instructions from any person other than the holder of such a copy of AWB, and if this duty is not observed, the air carrier will be liable to pay compensation for the loss incurred. Some of the important details contained in the AWB are the name of the consignee/consignor/ notify party, the flight number and date on which the goods will be airlifted, brief description of the goods and quantity, departure airport and the destination airport, freight amount and AWB number, terms on which carriage is undertaken, and signature of carrier/ its agent and shipper/agent.



● Quick Check Questions

- 1) Full knowledge and accurate compliance of procedures and documentation formalities are as essential as looking into areas of marketing mix to ensure success in international marketing. Why this is true?
- 2) What is a commercial invoice?
- 3) Briefly describe the following words or phrases
 - ◆ Packing list
 - ◆ Insurance certificate
 - ◆ Bill of exchange
 - ◆ Letter of credit
 - ◆ Certificate of origin
 - ◆ Bill of lading
 - ◆ Shipment advice
 - ◆ air way bill

3.3 Principal Import Documents

The documents required in case of exporting are also required to conduct import trade with certain variations. The only difference there is there might be minor differences among countries with regard to what document need to be fulfilled. Let us see what happens when an Ethiopian engages in import and export trade. When he acts as

exporter, he fulfils the documents requested by the buyer/customer situated somewhere else. When he acts as importer, he specifies the documents that should be presented by the seller. The laws of the country and the customs of trade in each country demand different procedures and documentary requirements for the import and export of the goods and services. In both cases, the documents to be presented are determined by taking into account what the laws of the country stipulate. Therefore, as stated in the legal environment section of chapter two, it is important to have sufficient knowledge about one's home country rules and regulations with respect to import and export trade.

3.4 Some Useful Tips

A common complaint made by bankers is that the documents submitted by exporters are often either incomplete or incorrect. This leads to delays, or even refusal of payments. To avoid these delays, it is necessary to be very careful about documentation, particularly in case of letter of credit. While exporting under letter of credit arrangements, immediately on receipt, read and reread the letter of credit very carefully and check the terms against the contract of sale. The following points need to be taken into account in relation to export and import trade that shall be undertaken through LC:

- ◆ Is the type of the letter of credit agreed upon? Irrevocable and confirmed or just revocable
- ◆ Has the LC the expiry date that is sufficiently far ahead for the goods to be shipped and the required documents obtained and presented in time?
- ◆ Can the terms and conditions be met and the required documents obtained exactly as called for?

If any amendments or extension is necessary the buyer should be asked immediately to instruct the issuing bank accordingly. A follow up should be made to see that the advice of amendment of the credit is received without delay. With regard to documentation under the LC it is necessary that all the documents are prepared with a

great care. It should be remembered LC is the bank's mandate to pay. The bank has no discretion.

Pertaining to the commercial invoice, it is crucial to ensure if the documents are properly signed, dated and all necessary information pertaining to goods in terms of payment is given. Description of goods must tally with what is given in the contract to avoid any confusion at the buyer's end. As to the bill of lading, the exporter should ensure that it is clean, on board of lading and should clearly evidence whether freight has been paid or not. Unless agreed clearly in advance, it should not be a charter party but on board bill of lading.

As to the insurance documents, exporters should ensure that the policy/certificate should clearly indicate the type and extent of coverage or risks as per contract. In relation to other documents like inspection certificate, certificate of origin and others, exporters ought to ensure that they are in conformity with laws in the importing countries.

3.5 INCOTERMS

International contract terms, or in short INCOTERMS, is a series of international sales terms that divides the transaction costs and responsibilities between buyer and seller. Export transactions necessarily involve movement of goods from one country to another. The basic task of an export contract is to allocate the risks and costs of export shipment between the exporter and importer. The allocation of risks and costs are done by taking into account the delivery point as a benchmark. Various types of contracts have, therefore, been developed with different delivery points. The international chamber of commerce has codified the contract terms commonly used in international trade and has also standardized their interpretation in their publication entitled Incoterms 2000. This codification has almost universally been accepted and majority of firms engaged in international trade use them nowadays. Incoterms make international trade easier and help traders in different countries understand one another. The following are among the best known Incoterms:

- 1) **Ex-Works:** is the simplest and basic shipment arrangement which places the minimum responsibility on the seller with greater responsibility on the buyer. As per this arrangement, goods are made available for pickup at seller's factory or warehouse and delivery is accomplished when the merchandise is released to the consignee's freight forwarder. The buyer is responsible for making arrangements with the forwarder for insurance, export clearance and handling all other paperwork.
- 2) **FOB (Free On Board):** means the shipper/seller uses his freight forwarder to move the merchandise to the port or designated point of origin. Though frequently used to describe inland movements of cargo, FOB specifically refers to ocean or inland waterway transportation of goods. Delivery is accomplished when the shipper/seller releases the goods to the buyer's forwarder. The buyer's responsibility for insurance and transportation begins at the same moment.
- 3) **FCA (Free Carrier):** here the seller is responsible for arranging transportation, but he/she is acting at the risk and the expense of the buyer. Wherein in FOB the freight forwarder is the choice of the buyer, in FCA the seller chooses and works with the freight forwarder or carrier. Delivery is accomplished at a predetermined port or destination point and the buyer is responsible for insurance.
- 4) **FAS (Free Alongside Ship):** in this arrangement the buyer bears all the transportation costs and the risk of loss of goods. It requires the shipper/seller to clear for export. Delivery is accomplished when the goods are turned over to the buyer's forwarder for insurance and transportation.
- 5) **CFR(Cost and Freight):** this term defines two distinct and separate responsibilities- one is dealing with the actual cost of merchandise "C", and the other „F" refers to the freight charges to a predetermined destination point. It is the shipper/seller's responsibility to get goods from their doors to the port of destination. Delivery is accomplished at this time. It is buyer's responsibility to cover insurance from the port of origin or port of shipment to buyer's door.

- 6) CIF (Cost Insurance and Freight):** this arrangement is similar to CFR but instead of the buyer insuring the goods for the maritime phase of the voyage, the shipper/seller will insure the merchandise. Here the seller usually chooses the forwarder. Delivery is accomplished at port of destination.
- 7) CPT (Carriage Paid To):** in CPT transaction the shipper/seller has the same obligations found in CIF, with the addition that the seller has to buy cargo insurance naming the buyer as the insured while the goods are in transit.
- 8) CIP (carriage and insurance paid to):** this term is primarily used for multimodal transport. Because it relies on the carrier's insurance, the shipper/seller is only required to purchase minimum coverage. When this particular agreement is in force, freight forwarders often act in effect as carriers. The buyer's insurance is effective when the goods are turned over to the forwarder.
- 9) DAF (Delivered at Frontier):** Here the seller's responsibility is to hire a forwarder to take goods to named frontier, which usually is a border crossing point and clear them for export. Delivery occurs at this time. The buyer's responsibility is to arrange with their forwarder for the pickup of the goods after they are cleared for export, carry them across the border, clear them for importation and effect delivery. In most cases the buyer's forwarder handles the task of accepting the goods at the border across the foreign ground.
- 10) DES (Delivered Ex Ship):** in this type of transaction, it is the seller's responsibility to get the goods to the port of destination or to engage the forwarder to move the cargo to the port of destination uncleared. Delivery occurs at this point. Any destination charges that occur after the ship is docked are the buyer's responsibility.

We can summarize the above Incoterms by grouping them into four categories, denoted by the first letter in the three letter abbreviation.

1. Under the E-term (EXW), the seller only makes the goods available to the buyer at the seller's own premises.

2. Under the F-terms (FCA, FAS, and FOB), the seller is called upon to deliver the goods to a carrier appointed by the buyer.
3. Under the C-terms (CFR, CIF, CPT and CIP), the seller has to contract for carriage, but without assuming the risk of loss or damage to the goods or additional costs due to events occurring after shipment or dispatch.
4. Under the D-terms (DAF, DES and others), the seller has to bear all costs and risks needed to bring the goods to the place of destination.



● Quick Check Questions

1. What should be considered in case of import documents?
2. Specify the points that need to be taken into account in light of export and import trade that shall be undertaken through LC.
3. Group the INCOTERMS into four categories so that they can be easily summarized.

3.6 Summary of the Chapter

Documentation and procedures, though complex and cumbersome, are integral part of international marketing operations. Full knowledge and accurate compliance of procedures and documentation formalities are as essential as looking into areas of marketing mix to ensure success in international marketing. Need for documentation arises primarily because of certain peculiarities of international trade transactions. Unlike domestic trade, buyers and sellers are separated by long distances in overseas trade.

The principal export and import documents include among others commercial invoice, Performa invoice, packing list, marine insurance policy/certificate, bill of exchange, letter of credit, certificate of origin, bill of lading, shipping advice and air way bill. All or some of these documents may be required during engagement in international transactions. Of course, depending on the trade rules and regulations of the country concerned, additional documents can also be requested to be fulfilled to close the deal.

A common complaint made by bankers is that the documents submitted by exporters are often either incomplete or incorrect. This leads to delays, or even refusal of payments. To avoid these delays, it is necessary to be very careful about documentation, particularly in case of letter of credit. The following points need to be taken into account in relation to export and import trade that shall be undertaken through LC:

- ◆ Is the type of the letter of credit agreed upon? Irrevocable and confirmed or just revocable
- ◆ Has the LC the expiry date that is sufficiently far ahead for the goods to be shipped and the required documents obtained and presented in time?
- ◆ Can the terms and conditions be met and the required documents obtained exactly as called for?

INCOTERMS (International Contract Terms) are a series of international sales terms that divide the transaction costs and responsibilities between buyer and seller. We can summarize INCOTERMS by grouping them into four categories, denoted by the first letter in the three letter abbreviation.

- ⇒ Under the E-term (EXW), the seller only makes the goods available to the buyer at the seller's own premises.
- ⇒ Under the F-terms (FCA, FAS, and FOB), the seller is called upon to deliver the goods to a carrier appointed by the buyer.
- ⇒ Under the C-terms (CFR, CIF, CPT and CIP), the seller has to contract for carriage, but without assuming the risk of loss or damage to the goods or additional costs due to events occurring after shipment or dispatch.
- ⇒ Under the D-terms (DAF, DES and others), the seller has to bear all costs and risks needed to bring the goods to the place of destination.

Self Check Exercise 3

Part I - Multiple Choice Questions

Choose the correct answer from the alternatives provided

1. Identify the correct statement among the following
 - A. full knowledge and accurate compliance of procedures and documentation formalities are essential for international marketer
 - B. unlike domestic trade, buyers and sellers are separated by long distance in overseas trade
 - C. International trading means relationships between citizens of two independent sovereign countries.
 - D. All of the above
 - E. Only A&C

2. Which one of the items mentioned below is not among the intermediaries involved in international transaction?
 - A. Carrier
 - B. Banker
 - C. Insurance company
 - D. Freight forwarders
 - E. None of the above

3. Sort out a false statement about commercial invoice among the alternatives given below
 - A. It provides full detail of the contents of the shipment and serves as seller's bill of goods
 - B. An importer is required to prepare it
 - C. It contains name and address of the shipper
 - D. It contains name and address of the customer/buyer
 - E. None of the above

4. packing list gives all the information indicated below except_____
- A. description of the goods
 - B. quantity per package
 - C. net and gross weight
 - D. terms of payment
 - E. None of the above
5. _____ is a type of letter of credit used in international trade whose terms can be cancelled by a foreign buyer without prior notice to the exporter.
- A. Irrevocable letter of credit
 - B. Revocable letter of credit
 - C. Confirmed letter of credit
 - D. Negotiation credit
 - E. Revolving letter of credit
6. One of the statements below is incorrect in light of bill of lading
- A. A collateral that can be used for any advances made to the seller or to the buyer in the process of financing the shipment
 - B. A receipt/acknowledgment of cargo delivered for transportation
 - C. A document of title to goods and provides interested parties with title to the goods mentioned therein
 - D. A contract between the shipper and the carrier specifying their respective responsibilities and obligations
 - E. None of the above
7. Under FCA (free carrier) agreement,
- A. Delivery is accomplished when the shipper/seller releases the goods to the buyer's forwarder.
 - B. The seller uses his freight forwarder to move the merchandise to the port or designated point of origin
 - C. The seller chooses and works with the freight forwarder or carrier
 - D. Delivery is made at predetermined port and the buyer is responsible for insurance

- E. C&D
 - F. None of the above
8. Under CIF(cost, insurance and freight) agreement,
- A. the seller insures the merchandize until maritime phase of the voyage
 - B. the buyer insures the merchandize until maritime phase of the voyage
 - C. the buyer usually chooses the forwarder
 - D. delivery is accomplished at port of distention
 - E. A&D
 - F. B&C
9. Under the E-terms (EXW),
- A. the seller only makes the gods available to the buyer at the seller's own premises
 - B. the seller is called upon to deliver the goods to a carrier appointed by the buyer
 - C. the seller has to bear all costs and risks needed to bring the goods to the place of destination
 - D. A&B
 - E. None of the above

Part II- True or False Questions

Say True if the statement is correct and False if it is incorrect

1. Commercial invoice shows name of the vessel, sailing date, insurance reference and buyer's and seller's order number.
2. Bill of exchange is legally defined as "unconditional order in writing" addressed by one person to another.
3. Red clause letter of credits are required when regular and continuous payments are required to be made to the exporter.
4. An air way bill (AWB) evidences the carrier's receipt of goods on the terms of the contract of carriage and represent the goods/ title of goods.

5. While exporting under letter of credit arrangements, immediately on receipt, reading and rereading it very carefully is and checking the terms against the contract of sale is crucial.
6. CIP (carriage and insurance paid to) relies on carrier's insurance and the buyer is required to purchase minimum coverage.

CHAPTER FOUR

COORDINATING INTERNATIONAL MARKETING

Introduction

Dear learner, in the preceding chapter you have studied about the documents that are essential to conduct import and export trade. You have also read about international contract terms/INCOTERMS that can be employed in the course of conducting international trade. In this chapter you will be learning about three essential aspects of international marketing: international market selection, international marketing research and planning and control. Each section is presented in such a way that it can be easily understood by the student. Go through the sections and attempt all the quick check questions just after completing the study of the section at hand. If you face any difficulty in answering such questions, refer to the specific areas the questions are concerned with. At the end of the chapter, there are self check questions. Answer them and cross check your answer with the answer provided at the end of the module. Have fine reading time!

Learning Objectives

Upon the completion of studying this chapter, you should be able to:

- ◆ Explain the importance of marketing research in the context of international marketing
- ◆ Identify the factors that influence international market selection
- ◆ Be familiar with the process of market selection
- ◆ Understand how international marketing research can be conducted
- ◆ Know the scope of international marketing research
- ◆ Recognize the techniques of international marketing research
- ◆ Comprehend how to frame international marketing plan
- ◆ Know the methods employed to control international marketing activities

4.1 The Rationale for Coordinating International Market

According to Jain, as multinational companies market their products in many countries which vary in many aspects, coordinating the activities undertaken in those areas is

crucial for the success of the company. A key problem of MNCs is how to tie the business activities of the subsidiaries together. There are different ways to integrate subsidiary operations, one of which is centralization. However, centralization has limits. For example, there are products that are relatively culture bound and require local adaptation. In such cases, tailoring of marketing programs to local conditions requires that authority be transferred to subsidiaries. When sufficient centralization is not feasible, there are three other methods for integrating corporate activities: acculturation, system transfer, and people transfer.

- ⇒ The process of subsidiary acculturation involves assimilating corporate management's criteria for decision making into subsidiary management thinking. Through this process, subsidiary managers can manage the company's overseas operations with relatively little interference from headquarters.
- ⇒ Systems transfer refers to the use of a uniform framework for marketing planning and budgeting. This can serve to educate managers toward a disciplined analysis of business, provide headquarters with comparable data from all subsidiaries, standardize the process of decision making throughout the organization, and facilitate communication between headquarters and subsidiaries and among subsidiaries in different countries.
- ⇒ People transfer refers to the establishment of personal contact across borders among headquarters and subsidiary personnel. It includes long term assignments of managers abroad and short term meetings between headquarters and subsidiary executives and among personnel from different foreign subsidiaries. People transfer can help to smooth out the differences of viewpoints that exist in a multinational organization.

4.2 International Marketing Research

4.2.1 Nature and Meaning of International Marketing Research

Dear student, define what marketing research is and try to state how it is different from other types of research. You may use the space given below to write your answer

Now you can compare and contrast your definition of marketing research with what is provided below.

As coined by Cateora (1999), information is key component in developing successful marketing strategies and avoiding major marketing mistakes. Information needs range from the general data required to assess market opportunities to specific market information for decisions about product, promotion, distribution and price. Sometimes the information can be bought from trusted research vendors or supplied by internal marketing research staff. As an enterprise broadens its operations to include international markets, the need for current and accurate information is magnified. While searching for opportunities globally, uncertainties arise due to four main factors: lack of knowledge of the existence of possible new market alternatives, the conditions internal and external to the firm will determine the consequences of a new alternative, what consequences these conditions when known may have for the firm, and how these consequences may be expressed in relevant terms of global fulfillment. Uncertainty also increases with the degree of foreignness of the place, the cost of information and the learning effect.

Marketing research is defined as the systematic gathering, recording and analyzing of data to provide information useful in marketing decision making. It can also be defined as the systematic study and evaluation of all factors bearing on any business operation relative to marketing of foreign goods and services.

Logically, marketing research begins before production starts- in fact, even before the factory is built or the plant is set up, and continues as long as the business remains in operation. Although marketing research is invaluable in the solution of business and marketing problems, it is by no means a substitute for sound business judgments based on knowledge, experience, or even intuition. It is an aid and a guide to the managerial decision making process. It eliminates or reduces guess work by providing facts and throwing light on the areas of enquiry.

The basic difference between domestic and international market research is the broader scope needed for foreign research. Otherwise, the research process is basically the same wherever it is applied. Generally, the tools and techniques in foreign and domestic marketing research remain more or less the same but the areas of its application are divergent, creating a variety of operational problems. Therefore, a multinational company should gather information regarding the specific country's cultural, political & legal, economic, and other relevant factors.

4.2.2 The Research Process

A marketing research study is always a compromise dictated by limits of time, cost, and the present state of the art. The researcher must strive for the most accurate and reliable information given the constraints. A key to successful research is a systematic and orderly approach to the collection and analysis of data. Generally, the following steps should be adopted while conducting a marketing research:

- 1) Define the research problem and establish research objectives
- 2) Determine the sources of information to fulfill the research objectives
- 3) Consider the costs and benefits of the research effort
- 4) Gather the relevant data from secondary and/ or primary sources
- 5) Analyze, interpret, and summarize the results
- 6) Effectively communicate the results to decision makers

1) Defining the Research Problems and Establishing Research Objectives

The research process begins with the definition of the research problem and the establishment of specific objectives. The major difficulty here is converting series of

often ambiguous business problems into tightly drawn and achievable research objectives. This step is more critical in foreign markets because an unfamiliar environment tends to cloud problem definition. As “*a problem well defined is a problem half solved*”, researchers should pay special attention to this step. The success of this initial step tremendously determines the success of the other steps as it is the foundation of the whole research work. Researchers often fail to anticipate the influence of the local culture on the problem or fail to identify the self reference criterion and so treat the problem definition as if it were in the researcher’s home environment. Some times questions which are more appropriate for home country are asked than those which fit to the foreign country. Other difficulties in foreign research stem from failure to establish problem limits broad enough to include all relevant variables.

2) Determine the Sources of Information to Fulfill the Research Objectives

After the problem has been defined, where the necessary information may be found and how to obtain it must be determined. Data sources can be either secondary or primary.

a) Secondary Sources: include those data gathered by somebody else other than the researcher. The principal sources of secondary data can be categorized as follows:

❖ **Government sources:** governments in all countries generate a wide variety of information and data that are useful and relevant to marketing. Information provided by governments cover wide areas like population, economy, policies, programs, institutions, rules and regulations. Such data are published in the form of reports, documents, journals, notifications, etc.

❖ **Semi government sources:** includes such units charged with specific tasks such as monitoring of consumption trends, foreign trade, industrial development, income distribution, purchasing power of people, health, education, etc. These institutions usually carry out regular studies primarily to help and guide government policy making.

❖ **Private sources:** include research institutions, publishing houses, banking and financial institutions, chambers of commerce, trade associations and a host of

others similar organizations which collect, process and disseminate different kinds of information in their respective areas of concern which could be relevant to international marketing.

- ❖ **International sources:** international organizations within and outside the UN system publish a wealth of statistical data and information relating to markets. Some of such organizations are: Food and Agricultural Organization (FAO), International Labor Organization (ILO), United Nations Conference on Trade and Development (UNCTAD), UN Economic Commission, International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), International Trade Center (ITC) and others. Many developed countries have set up import promotion office to assist developing countries to export their goods to developed country markets. There are also Export Promotion Agencies meant to facilitate export in developing countries and hence can be consulted to obtain data.
- ❖ **Websites:** a great deal of information is available on the websites of the above organizations and others. Hence, websites can be a valuable source of information as they avoid the need to visit the organizations in person for the sake of securing information.
- ❖ **Books:** there are a large number of reference materials published by different authors and can give valuable information to the researcher.

A researcher has to be selective in choosing appropriate material for the research at hand, otherwise he/she might get lost in the wilderness of irrelevant data which he really does not want. It is therefore, important that the researcher evaluate the sources in terms of his particular need. The following criteria could be used for evaluating sources of secondary data.

- Coverage: is the source likely to cover the subjects of research comprehensively and precisely?
- Level: is the level of information too high, too low or just right for the purpose of research?
- Emphasis: does the material focus on the most relevant aspects of the subject?

- Timeliness: is the material up to date or outdated for the purpose of the research?
- Accuracy: how accurate and reliable the information is? Who collected it and for what purpose?
- Methodology: how were the data collected?

b) Primary Sources: primary data are those collected by the researcher for the purpose of the research at hand. Primary data presumably provide more relevant information because they are collected specifically for the purpose in mind. However, the collection of primary data is most of the time costly and time consuming. Thus, the underlying purpose must justify the effort. To this end, the researcher can use such techniques as interviews, questionnaires, focus group discussions, personal observations, etc.

The problems associated with primary data collection in a foreign country can be related to the social and cultural factors and the level of economic development. These problems can be grouped into three:

- 1. Sampling Problems:** a good piece of research should reflect the perspectives of the entire population. This is feasible, however, only when the sample is randomly drawn. Unfortunately, in many countries it is difficult to get completely representative information on the socioeconomic characteristics of the population. Such information is so incomplete that most samples in the end are biased.
- 2. Questionnaire Problems:** in many countries different languages are spoken in different areas. Thus, the questionnaire has to be in different languages for use within the same country. Translating a questionnaire from one language to another is difficult. During translation many points are entirely hidden, because many idioms, phrases, and statements mean different things in different culture.
- 3. Problem of non Response:** even if the interviewee is successfully reached, there is no guarantee that he or she will cooperate in furnishing the desired information. There are many reasons for non response.

- First, cultural habits in many countries virtually prohibit communication with a stranger, particularly for women.
- Second, in many societies such matters as preferences for hygienic products and food products are too personal to be shared with an outsider.
- Third, in many cases may be unwilling to share their true feelings with interviewers because they suspect the interviewers may be agents of the government, perhaps seeking information for imposition of additional taxes.
- Forth, middle class people are reluctant to accept their status and may make false claims in order to reflect the lifestyles of wealthier people.
- Fifth, many respondents, willing to cooperate, may be illiterate, so that even oral communication may be difficult.

3) Considering the Costs and Benefits of the Research Effort

As stated above, gathering primary data to conduct a research is by far more expensive than the cost the researcher would incur to collect secondary data. Therefore, it is essential to determine whether the benefit to be secured from primary data justifies the cost incurred to collect it. Otherwise, it is advisable to carry out the research work based on the available secondary data.

4) Gathering the Relevant Data from Secondary and/or Primary Sources

Gathering data involves appropriate planning of fieldwork for contacting respondents or other sources. Respondents can be contacted personally or through mail, or online, depending upon the nature of the research. It is highly crucial stage in conducting research as the overall quality of the final output depends on the quality of collected data among other things. If the data are to be collected from secondary sources, care should be taken while the collection is underway to ensure the data is reliable, timely, right method was employed during its collection. The characteristics of primary and secondary data are presented below to facilitate easy comparison and contrast of the two:

<i>Primary Data</i>	<i>Secondary Data</i>
• <i>From knowledgeable individuals</i> • <i>May be costly in time and travel</i>	• <i>May tend to be subjective</i> • <i>Must be pilot tested</i>

- Can be very specific to problems
- Cannot require disclosure of proprietary information
- From published sources or at the professional level collected by others
- Usually free or low cost
- Can be collected quickly
- May be biased or incomplete
- May be out of date at hand
- Requires careful analysis of limitations

The sort of information required to complete a marketing study may vary from firm to firm, but generally firms gather information in the following core areas:

- a) **Market Information:** market research is required for testing, entering or leaving a market and deals with market performance, market shares, and sales analysis and forecasting. Marketing performance research involves market measurements, either to compare a company's performance against specified standards or to project a possible future outcome. Market potential refers to the total market demand under optimal conditions, whereas market forecast shows the expected level of market demand under the given conditions. Market share refers to a company's proportion of total sales in an industry during a set time, usually a year. The market share held by competitors shape marketing strategy for a company. A higher market share gives a cost advantage over rivals of the firm with such high market share.
- b) **Product Information:** a company operating overseas must often decide which product lines it should add, drop, or revitalize. These decisions require a variety of information. A manager may also seek marketing research on an individual product as it passes through its life cycle, since different marketing programs must be developed for every stage. It is important to identify the stage the product is in so as to choose the appropriate marketing program.
- c) **Promotion Information:** is designed specifically for application in advertising and personal selling. Companies conduct this research in order to select appropriate advertising copy and make the best media selection. As applied to personal selling, promotion research is designed to solve problems encountered by the sales force operating in foreign country.

- d) Distribution Information:** distribution research consists of channel research and location research. Channel research provides information on the availability of channels and their relative desirability. Location research concerns decisions about warehousing, inventory and transportation.
- e) Price Information:** to set prices, information about the ability of consumers to pay, about dealers' reaction and about the effect of price on demand is necessary. Studies that measure the public perception of a product's quality in relation to price also help in making pricing decisions.
- f) Environment Information:** no matter which sort of international marketing study is designed, the researchers must take into account the foreign country's environment in all its aspects: legal, political, social, and attitudinal, as shown by both the buying habits of its consumers and the business practices of its enterprises.
- g) General Research Information:** in addition to the above specific categories of marketing research, general research is necessary on the following:
- ⇒ Community type conditions (for example, political happenings such as campaigns and elections; cultural events such as country fairs and special annual ethnic or religious celebrations, and national events such as sports, holidays, etc.)
 - ⇒ Business conditions (for example, business ethics and traditional associations)
 - ⇒ Life style and living conditions, that is, social and cultural customs and taboos.
 - ⇒ General economic conditions (foe example, the standard of living of various groups of people and the economic infrastructure- transportation, power supply, and communication).
 - ⇒ Industry information about government decisions affecting the industry
 - ⇒ Resource availability
 - ⇒ Current or potential competitors

5) Analyzing, Interpreting, and Summarizing the Results

The data collected through various methods in the above step are to be properly edited, analyzed and interpreted in the light of the research objectives initially set. It is important that analysis and interpretation is done in an objective manner in order to

avoid the possibility of bias or any kind of subjectivity. The collected data can be summarized of using such tools as descriptive analysis, charts, tables, graphs, other statistical tools to make the result easily understandable.

6) Communicating the Result to Decision Makers

The information collected, presented, summarized and analyzed should be prepared in the form of report so that those in charge of making decisions can make use of it. If a researcher successfully accomplishes all the above steps but fails to communicate the result to pertinent individuals, then all his/her efforts may become fruitless. Decision makers, often top executives, should be directly involved not only in problem definition and question formulation, but when the occasion warrants they should be involved in the field work and other tasks as well.

? Quick Check Questions

- 1) Why is coordinating international marketing important?
- 2) What is marketing research?
- 3) Describe the research process in terms of the steps that should be followed
- 4) State the problems associated with primary data collection in foreign countries

4.3 International Marketing Planning, Coordinating and Control

4.3.1 Developing an International Marketing Plan

According to Cateora (1999), planning is a systematized way of relating to the future. It is an attempt to manage the effects of external, uncontrollable factors on the firm's strengths, weaknesses, objectives, and goals to attain a desired end. Further, it is a commitment of resources to a country market to achieve specific goals. In other words, planning is the jobs of making things happen that may not otherwise occur. It involves where the organization would like to be and how to get there, which involves goal setting and strategy determination.

Terpstra (2000) states that planning consists of identifying systematic steps that will help the company formulate detailed actions to implement broad strategies. Planning is useful as it keeps planners from being shortsighted by forcing them to consider the future impact of each year's operating plan. Marketing plan encompasses three basic elements: 1) situations analysis-where are we? 2) Objectives- where do we want to go? 3) strategy and tactics-how can we best reach our goals?

Is there a difference between planning for a domestic company and for an international company? The principles of planning are not in themselves different, but the details of the operating environments of the multinational corporations, its organizational structure, and the task of controlling a multi country operation creates differences in the complexity and process of international planning. Planning allows for rapid growth of the international function, changing markets, increasing competition, and the ever changing challenges of different national markets. The plan must blend the changing parameters of foreign country environments with corporate objectives and capabilities to develop a sound, workable marketing program.

Planning relates to the formulation of goals and methods of accomplishing them, so it is both a process and a philosophy. Structurally, planning may be viewed as corporate, strategic, and/or tactical. International corporate planning is essentially long term, incorporating generalized goals for the enterprise as a whole. Strategic planning is conducted at the highest levels of management and deals with products, capital, and research, and long and short term goals of the company. Tactical planning, or market planning, pertains to specific actions and to the allocation of resources used to implement strategic planning goals in specific markets. Tactical plans are made at local level and address marketing and advertising questions. A major advantage to a multinational corporation involved in planning is the discipline imposed by the process. An international marketer who has gone through the planning process has a framework for analyzing marketing problems and opportunities and a basis for coordinating information from different country markets. The process of planning may be as important as the plan itself because it forces decision makers to examine all

factors that affect the success of a marketing program and involves those who will be responsible for its implementation.

4.3.2 The Planning Process

Whether a company is marketing in several countries or is entering a foreign market for the first time, planning is essential to success. The first time foreign marketer must decide what products to develop, in which markets, and with what level of resource commitment. For the company already committed, the key decisions involve allocating effort and resources among countries and product/s, deciding on new markets to develop or old ones to withdraw from and determining which products to develop or drop. The steps indicated below are usually followed in the planning process:

1. **Preliminary Analysis and Scanning; Matching Company/Country Needs:**

whether a company is new to international marketing or heavily involved, an evaluation of potential markets is the first step in the planning process. A critical first step in the international marketing process is deciding in which existing country market to make a market investment. A company's strengths and weaknesses, products, philosophies, and objectives must be matched with a country's constraining factors and market potential. In the first part of the planning process, countries are analyzed and screened to eliminate those that do not offer sufficient potential for further consideration.

Here, establishing screening criteria against which prospective countries can be evaluated is crucial. These criteria are ascertained by an analysis of company objectives, resources, and other corporate capabilities and limitations. It is important to determine the reasons for entering a foreign market and the returns expected from an investment. Once evaluation criteria are set, a complete analysis of the environment within which a company plans to operate is made. The environment consists of the uncontrollable elements discussed in the second chapter and includes home country and host country restraints, marketing objectives, and any other company limitations or strengths that exist at the beginning of each planning period. Although the

understanding of uncontrollable environment is important in domestic market planning, the task is more complex in foreign marketing because each country under consideration presents the foreign marketer with a different set of unfamiliar environmental constraints.

The results of step 1 provide the marketer with the basic information necessary to:

- Evaluate the potential of proposed country market
- Identify problems that would eliminate the country from further consideration
- Identify environmental elements which need further analysis
- Determine which part of the marketing mix can be standardized for global companies or which part of and how the marketing mix must be adapted to meet local market needs
- Develop and implement a marketing action plan

2. Adopting the Marketing Mix to Target Markets: when target markets are selected, the market mix must be evaluated in light of the data generated in step one. The primary goal of this step is to decide on a marketing mix adjusted to the cultural constraints imposed by the uncontrollable elements of the environment that effectively achieve corporate objectives and goals. This step may permit the marketer to determine the possibilities for standardization. By grouping all countries together and looking at similarities, market characteristics that can be standardized become evident. The answers to three major questions provided below are generated in this step:

- Which elements of the marketing can be standardized and where is standardization not currently possible?
- Which cultural/environmental adaptations are necessary for successful acceptance of the marketing mix?
- Will adaptation costs allow profitable market entry?

3. Developing the Marketing Plan: here a marketing plan is developed for the target market-whether a single country or a global market set. The marketing plan begins with a situation analysis and culminates in the selection of an entry mode and a

specific action program for the market. The specific plan establishes what is to be done, by whom, how it is to be done, and when. Budgets, sales, and expected profits are included here.

- 4. Implementation and Control:** a „go“ decision in step three triggers implementation of specific plans and anticipation of successful marketing. However, the planning process does not end at this point. All marketing plans require coordination and control during the period of implementation. Many businesses do not control marketing plans as thoroughly as they could even though continuous monitoring and control could increase their success. A global orientation facilitates the difficult but extremely important management tasks of coordinating and controlling the complexities of international marketing.

Although the model is presented as a series of sequential phases, the planning process is a dynamic, continuous set of interacting variables with information continuously building among phases. The phases outline a crucial path to be followed for effective systematic planning. Utilizing a planning process encourages the decision makers to consider all variables that affect the success of a company's plan. Furthermore, it provides the basis for viewing all country markets and their inter-relationships as an integrated global unit. As a company expands into more foreign markets with several products, it becomes more difficult to effectively manage all products across all markets. Marketing planning helps the marketer focus on all the variables to be considered for successful global marketing. With the information developed in the planning process and a country market selected, the decision regarding the entry mode can be made. The choice of mode of entry is one of the more critical decisions for the firm because the choice will define the firm's operations and affect all future decisions in that market.

4.3.3 Organizing for Global Marketing

An international marketing plan should optimize the resources committed to company objectives. The organizational plan includes the types of organizational arrangements to be used, and the scope and location of responsibility. Because organizations need to

reflect a wide range of company specific characteristics- such as size, the level of policy decisions, length of chain of command, staff support, source of natural and personal resources, degree of control, centralization and type or level of marketing involvement. All the planning in the world will be in vain unless the company is organized to implement these plans. Organizational structure determines who does what as well as who reports to whom. The basic issue for all organizational structure in global corporations revolves around centralizations versus decentralization. Hence let us have a brief look at the two.

Global corporations need strong coordination at headquarters to provide and supervise implementation of global strategy. Local subsidiary managers may have different opinions, however, and pull away from that strategy. Or local government pressures may require greater local responsiveness, even if it means diverging from global strategy. Thus, the major task for organizational structure is to mediate between the opposing needs for centralization and decentralization.

Research has suggested that in some industries where consumers around the world buy essentially the same product, as in consumer electronics, centralization and large scale manufacturing are the key to success. In industries in which national consumers have distinct product preferences and much product adaptation is necessary, as in branded packaged goods such as detergents, a large degree of national subsidiary autonomy is needed. Thus, there are industries in which scale economies demand centralized large scale manufacturing, yet monopolistic consumers have distinct product preferences. In such cases, both centralization and decentralization are needed.

4.3.3.1 Factors Affecting Organizational Structure

A MNC must choose an organizational structure that maximizes decentralization while still providing for the coordination of independent activities. The structure is mainly determined by the following factors:

- *Quality of Management:* the decentralization of authority to the local level can be limited when the quality of management varies from country to country

- *Diversity of Product Line:* most firms with a high degree of product diversity decentralize on a product basis, rather than on an area basis. Firms producing a few similar products will not decentralize on a product basis because of the high degree of interdependence among their products.
- *Size of Firm:* firms that derive substantial portion of business from foreign operations usually drop the international division structure in favor of a product or geographic structure, which facilitates growth.
- *Location of Subsidiaries and Their Characteristics:* a firm that emphasizes local and regional variations will lean toward the geographical structure because specific geographic variations must be specifically catered to. On the other hand, a company whose subsidiaries are similar to those of the home country is unlikely to favor geographic structure because a good degree of standardization can be used in promoting products.

4.3.3.2 Alternative Organizational Designs

A company can organize its international operations as a separate international division, with further subunits within the international division consisting of regional and subunits. Alternatively, it may prefer to create organizational units structured along products and lines of business. A third approach is to create functional units, with distinct global responsibilities for research, marketing, manufacturing, logistics, and other functions. Finally, a company may decide that proper planning and execution of tasks require cooperation between managers and foster such cooperation by resorting to a matrix organization, where responsibilities for achieving goals is jointly allocated to managers with country, functional, and product-line responsibilities. These four ways of organizing are discussed below one by one.

1. **The International Division:** creating a separate organizational unit to focus on international business and operations allows international expertise, personnel and vision to be concentrated in part of the company. It creates a unit with a sole focus on international business, one that would stand up for international operations and seek human and capital resources for this activity. Such an approach is more likely in companies with relatively limited international operations, where domestic concerns

predominate, and where product line complexity is limited. However, a separate international division faces several problems: it may receive a lesser share of resources than its markets warrant, may be perceived as less relevant to the future of the company, and may have less political influence to fight for top management attention and budget allocations.

2. **Structuring by Area/Geography:** when the company is structured by area, the primary basis for organization is by division for major regions of the world. Several factors favor a regional approach to organization. The growth of the regional groupings is one. As nations within a region integrate economically, it makes more sense to treat them as a unit. The proximity of countries provides one logical basis for organization. Certain kinds of expertise can be grouped within the region for the benefit of individual country operations. Communication is easy and there can be coordination of product and functional know-how in the region. The greater the international similarity of the firm's products, the greater the importance of area knowledge. In spite of its popularity, the regional organization has drawbacks. It ensures the best use of the firm's regional expertise, but it means less than optimal allocations of product and functional expertise. If each region needs its own staff of product and functional specialists, duplication and also inefficiency may result.
3. **Structuring by Product:** organizing by product line means that product groups have global responsibilities for marketing; thus, it is a global company approach by product division. Structuring by product lines is most common for companies with several unrelated product lines because their marketing task varies more by product line than by region. This structuring process has the merit of flexibility, in that a firm can add a new product division if it enters another business unrelated to its current lines. However, the product division approach has several potential problems. When the domestic market is more important to a product division, international opportunities are likely to be missed. Shortage of area knowledge is a common weakness of product-structured organizations. Each product division cannot afford to maintain its own complete international staff. Another problem here is the difficulty of achieving company wide coordination in international markets. If each product

division goes its own way, the firm's international development will encounter conflicts and inefficiencies.

4. **Structuring by Function:** a functional structure whereby top executives in marketing, finance, production, and so on, all have global responsibilities, is most suitable for firms with narrow, homogenous product lines, when product expertise is not a variable.
5. **The Matrix Organization:** allows two dimensions to have more or less equal weight in their organizational structure and decision making. Matrix organization has a dual rather than a single chain of command, that is, many managers have two bosses. Matrix also involves dual decision making and a chain of command that fosters conflict management and a balance of power. Product and market (geography) are the two receiving equal emphasis in matrix organization in international business.

? Quick Check Questions

1. Describe international marketing planning
2. Is there any difference between planning for a domestic company and for an international company?
3. One of the steps of planning process is adopting the marketing mix to target markets. What is meant by adopting marketing mix to target markets?
4. Identify the factors that affect the organizational structure of a multi national company(MNC)
5. discuss the alternative organizational designs a MNC can adopt one by one

4.4. Controlling International Marketing

Jain (2001) contends that every company must have a performance evaluation and control system to measure different operations. This need is particularly acute in the management of distant, hard to access operations in different national markets. Controls are defined as checkpoints used to verify performance progress by comparison with some standard. Often the standard is established by top management

in the planning process. The control and analysis process becomes more difficult as a corporation's size increases, lengthening the distance between top management and marketing operations. In a changing environment, information must come swiftly to ensure quick action. This timing factor has led to tighter control of foreign subsidiaries by multinational corporations.

Broadly speaking, performance evaluation measures can be categorized as either financial or non financial techniques.

a) Financial Measures of Performance: a number of financial measures of performance are used by MNCs. Some of the most popular measures are income or profit contribution, cash flow, and performance relative to a budget. All agree that no single measure of performance is adequate by itself. Hence, corporations rely on a combination of different measures to assess the performances of their operations, both domestic and overseas.

- ⇒ **Budgets as Indicators of Performance:** firms use budgets to compare forecasts of the unit's results with actual results. The variance between the two is then analyzed to evaluate performance and to determine areas in need of improvement.
- ⇒ **Income or Profit Contribution:** net income of a foreign operation is a logical and readily available index of performance. However, it can be an inaccurate measure because profits can be manipulated, especially in the short run. Profit contribution is a better measure of managerial success than net income. Profit contribution is unit operating revenues less all expenses directly traceable to the unit, and this figure is more likely to include items under the manager's control.
- ⇒ **Return on Investment (ROI):** this is frequently used because it is believed that the ultimate test of performance is the relationship of profit to invested capital. It is computed by dividing the net income by the net assets.
- ⇒ **Cash flow:** depreciation plus net income (after tax) equals cash flow. Benefits of the cash flow approach as a measure of profitability and performance are its

familiarity to executives as a method and its compatibility with a capital budgeting framework.

- b) Non Financial Measures:** a wide range of non financial aspects, some quantifiable, some not, ultimately affect profits; although they may not show up in short term profit statements. To be effective, these non financial measures should be defined as clear and precise objectives with definite times of completion. Management should develop a checklist of meaningful measures that it intends to use to rate the relative performance of affiliates. From marketing point of view, one of the most important non financial measures is market penetration. For many products, particularly for consumer products, many companies use market penetration as a yardstick to measure how well business is doing in a given market.

Evaluation of promotional effort must be basically qualitative, since it is difficult to establish a valid relationship between sales performance and advertising and promotion expenses. Further, the suitability of promotional effort to the local market is more often the prime factor in evaluating effectiveness. Suitability of the product to the market may also have a significant effect on the marketing effort. Consumer preference evaluation, as well as social and cultural acceptance of the product, is especially important in areas where these factors may differ considerably from home country norms. Development of new products is closely linked to product suitability, as the subsidiary must make recommendations from field experience as to product development trends in the market. Frequency and quality of new product suggestions from the field subsidiaries to the parent research & development department is also used as a measure of performance.

To sum up, the following points need to be considered in international marketing control:

- ◆ International control can seldom be as complete as that of domestic operations, the tools used, therefore, need to be reasonable and realistic.
- ◆ The cost of control system must be commensurate with the benefits accruing from it.

- ◆ In order to be effective in meeting the challenges posed by rapidly changing, heterogeneous market places, the control system must be sensitive and fast so that the organization retains the flexibility to react to environmental opportunities and challenges
- ◆ The control system may need variation according to the needs posed by different subsidiaries. Though this sounds a simple theoretical principle, most multinationals tend to adopt a standardized system regardless of the type of country and location in which the system operates.
- ◆ The control system in international market needs to be streamlined enough so that the corporate headquarters is not flooded with masses, data; rather only key variables are simply presented to alert the organization to variations from the planned performance.

? Quick Check Questions

- 1) Discuss the non financial measures that can be used while controlling international marketing
- 2) What are the crucial points that need to be considered in intentional marketing control? List down them one by one.

4.5 Chapter Summary

A key problem of MNCs is how to tie the business activities of the subsidiaries together. There are different ways to integrate subsidiary operations, one of which is centralization. When sufficient centralization is not feasible, other methods that can be used for integrating corporate activities are acculturation, system transfer and people transfer.

Information is key component in developing successful marketing strategies and avoiding major marketing mistakes. Information needs range from the general data required to assess market opportunities to specific market information for decisions about product, promotion, distribution and price. Marketing research is defined as the

systematic gathering, recording and analyzing of data to provide information useful in marketing decision making. The basic difference between domestic and international market research is the broader scope needed for foreign research otherwise, the research process is basically the same wherever it is applied.

The basic objective of marketing research function is providing management with information for more accurate decision making. The objective is the same for domestic and international marketing. In foreign marketing research, however, achieving that objective presents some problems not encountered on the domestic market. Customer attitudes about providing information to a researcher are culturally conditioned. Foreign market information surveys must be carefully designed to elicit the desired data and at the same time not to offend the respondent's sense of privacy. Besides cultural and managerial constraints involved in gathering information for primary data, many foreign markets have inadequate and/or unrealistic bases of secondary information.

International marketing planning consists of identifying systematic steps that will help the company formulate detailed actions to implement broad strategies. It generally encompasses three basic elements: situational analysis-where are we? Objectives-where do we want to go? Strategy and tactics-how can we best reach our goals? Whether a company is marketing in several countries or is entering a foreign market for the first time, planning is essential to success. Organizations need to reflect a wide range of company specific characteristics- such as size, the level of policy decisions, length of chain of command, staff support, source of natural and personal resources, degree of control, centralization and type or level of marketing involvement. All the planning in the world will be in vain unless the company is organized to implement these plans.

Every company must have a performance evaluation and control system to measure different operations. This need is particularly acute in the management of distant, hard to access operations in different national markets. Controls are defined as checkpoints used to verify performance progress by comparison with some standard. Often the standard is established by top management in the planning process. Broadly,

performance evaluation measures can be categorized as either financial or non financial techniques.

Self Check Exercise 4

Part I- Matching

Choose the appropriate word or phrase from section A that agrees with what is given in section B

Section A

- | | |
|--------------------------------------|-------------------------------------|
| A. acculturation | I. financial measures of |
| B. system transfer | performance |
| C. marketing research | J. the international division |
| D. the beginning process of research | K. structuring by product |
| E. primary source of data | L. structuring by area/geography |
| F. secondary data | M. determine sources of information |
| G. marketing plan | N. non financial measure |
| H. diversity of product line | O. implementation |

Section B

- _____1. The systematic study and evaluation of all factors bearing on any business operation relative to marketing of foreign goods and services
- _____2. The definition of research problems and the establishment of specific business objectives
- _____3. Assimilating corporate management's criteria for decision making into subsidiary management thinking
- _____4. Data gathered by somebody else other than the researcher
- _____5. The use of a uniform framework for marketing planning and budgeting
- _____6. A systematized way of relating to the future

- _____7. creating a separate organizational unit to focus on international business and operations allows international expertise, personnel and vision to be concentrated in part of the company
- _____8. One of the factors affecting organizational structure
- _____9. Presumably they provide more relevant information because they are collected specifically for the purpose of in mind with respect to the research underway.
- _____10. Some of the most popular such measures are income or profit contribution, cash flow, and performance relative to budget.

Part II- Multiple Choice Questions

Choose the appropriate answer among the alternatives given

- _____1) Which one of the statements below is untrue?
 - A. Marketing research begins before production begins
 - B. Marketing research continues as long as the business remains in operation
 - C. Marketing research can be a substitute for sound business judgments based on knowledge experience or intuition
 - D. Domestic research is broader in scope than that of foreign/ international research.
 - E. A&B
 - F. C&D
- _____2) Differentiate a statement that is erroneous among the following
 - A. The research process begins with the definition of research problem and establishment of specific objectives
 - B. "A problem well defined is a problem half solved."
 - C. The success of one step of a research highly determines the success of the subsequent steps
 - D. It is not essential to consider the influence of local culture on the problem of the research
 - E. None of the above
- _____3) Which one of the following is not a private source of secondary data?
 - A. Research institutions

- B. International labor organization (ILO)
- C. Banking and financial institutions
- D. Publishing houses
- E. Trade associations

- _____4) The criteria that can be used to evaluate sources of secondary data include
- A. Timeliness, that is, whether the material is up to date or out dated
 - B. Accuracy, that is, whether the source is accurate and reliable or not
 - C. Methodology
 - D. Coverage, that is, as to the source covers the subjects of research comprehensively and precisely or not
 - E. All of the above
- _____5) Primary data can be characterized by all the following except_____
- A. May be obtained from knowledgeable individuals
 - B. Can be out dated
 - C. May be costly to gather
 - D. Tends to be subjective
 - E. Can be very specific to problems
- _____6) Which one of the following is false in light of marketing plan?
- A. It keeps planners from being shortsighted by forcing them to consider the future impact of each year's operating plan
 - B. It a commitment of resources to a county market to achieve specific goals
 - C. It is the job of making things happen that may not happen otherwise
 - D. It involves where the organization would like to be and how to get there
 - E. None of the above
- _____7) An organizational structure in which top executives in marketing, finance and production have global responsiveness is
- A. Matrix organization
 - B. Structuring by function
 - C. Structuring by product

- D. Structuring by area/geography
- E. None of the above

_____8) Identify the incorrect statement among the following

- A. In matrix organizations there are two bosses for employees
- B. Matrix organizations fosters conflict
- C. Matrix organizations is a combination of product and functional departments
- D. In geographic/ aerial organization communication is easy
- E. None of the above

CHAPTER FIVE

INTERNATIONAL MARKETING DECISIONS

Introduction

Hello dear learner, welcome to the fifth chapter of the module! This part mainly focuses on decisions that are made by international marketers with regard to the four p's of marketing, usually referred to as the marketing mix, - product, price, promotion and place/distribution. These four pillars of marketing will be discussed in light of international marketing so as to equip you with the knowledge of how to make decisions towards them. You have learned these marketing mixes in your principles of marketing module, but here the international aspect will be emphasized. Read each section of the chapter with the aim of grasping its gist, so that you can expand your knowledge of marketing to international level.

Learning Objectives

After finalizing the study of this chapter, you are expected to:

- ◆ be familiar with product policy and planning that is pursued by international marketers
- ◆ describe the factors that influence branding, labeling and packaging planning
- ◆ identify the pricing strategies adopted in light of international marketing
- ◆ know how promotion can be executed with respect to international marketing
- ◆ differentiate which promotional mix is more applicable to global marketing
- ◆ distinguish the channels of distribution that are more useful to avail the product to international customers
- ◆ Understand how to deal with international middlemen/marketing intermediaries so as to distribute a firm's products in different parts of the globe where the target customers can be reached.

5.1 Product Policy and Planning

5.1.1 Introduction

One of the fundamental decisions for successful international marketing relates to product policy and planning. It can be argued that product decisions are probably the most crucial as the product is the very essence of marketing planning. Errors in product decisions can include the imposition of a global standardized product where it is inapplicable and the attempt to sell the products into a country without cognizance of cultural adaptation needs. An international marketer has the option of exporting the home market product to foreign markets, adapting the home market product to meet the needs of the foreign customers more closely, or developing new products to meet the specific needs of the customers in foreign markets. The selection process needs a careful analysis of the foreign market needs, appraisal of the market opportunity and detailed product planning. Decisions regarding the product, price, promotion, and distribution channels are the key decisions made in light of the elements of the marketing mix. Many product decisions lie between the two extremes, i.e. whether to sell globally standardized or adapted products.



How would you define a product? You may use the space given below to write the answer.

Put simply, a product is a bundle of utilities/benefits. To be more precise, a product can be defined as a collection of physical, service, and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is combination of physical attributes, like size, and shape, and subjective attributes like image or quality. A customer purchases both dimensions. It is increasingly important that the product fulfills the image which the producer is willing to project. A product's physical properties are characterized the same throughout the globe. They can be convenience,

shopping, or durables or non durables. However, one can classify products according to their degree of potential for global marketing:

- Local products- those seen as only suitable to one single market
- International products- are seen as having extension potential into other markets
- Multinational products-products adapted to the perceived unique characteristics of national markets
- Global products- products designed to meet global segments

5.1.2 International Product Life Cycle

International product life cycle discusses the consumption pattern of the product in many countries. This concept explains that the product passes through several stages of the life cycle. The product is innovated in a country to satisfy consumer needs and the country to exploit its technological breakthroughs, starts marketing the product in foreign country. Gradually, foreign country also starts production and becomes efficient in producing those commodities. As a result, the innovator country loses its export market and finds the import of that product advantageous. In this way, the innovator country becomes the importer of the product it innovated originally. Below the stages of international product life cycle are described one by one.

Terpstra and Sarathy have identified four phases in the international product life cycle as described below:

- 1. Export Strengths is Evidenced by Innovator Country:** usually products are developed by firms that have technological know how and sufficient capital to invest on the research and development activities. The need of adaptation and modification also forces the production activities to be located near the market to respond quickly to the changes. After meeting the demands of home country, the manufacturer starts exploring foreign markets and exporting to them. This phase exhibits the introduction and growth stage of the product life cycle.
- 2. Foreign production starts:** the importing firms realize the demand potential of the product in the home market and they also become familiar to producing the product. The growing demand of the products attracts the attention of many firms and hence

the firms start production in their country and gradually begin exporting to other countries where there is high demand. This reveals the maturity stage of product life cycle, where the production activity starts shifting from innovating country to other countries.

3. **Foreign Production Becomes Competitive in Export Market:** here firms start producing the product in their home country by exploiting cheap labor. They can expertise in manufacturing the item. Then, they become more efficient in producing the goods due to low cost of production. Gradually, they start exporting the goods to other countries. The export from these countries replaces the export base of innovating country, whose export has been already declining. This exhibits the declining stage of product life cycle for the innovator country. In this stage, the product gets widely disseminated and other countries start initiating the product. At this phase, the product begins becoming standardized.
4. **Import Competition Begins:** the producers in importing country gain sufficient experience in producing and marketing the products. They attain economies of scale and gradually become more efficient than the innovator country. Here, the innovator finds the import from newly emerged countries advantageous. Hence, the innovator country finally becomes the importer of the product it originated initially. Here, the product becomes completely standardized.

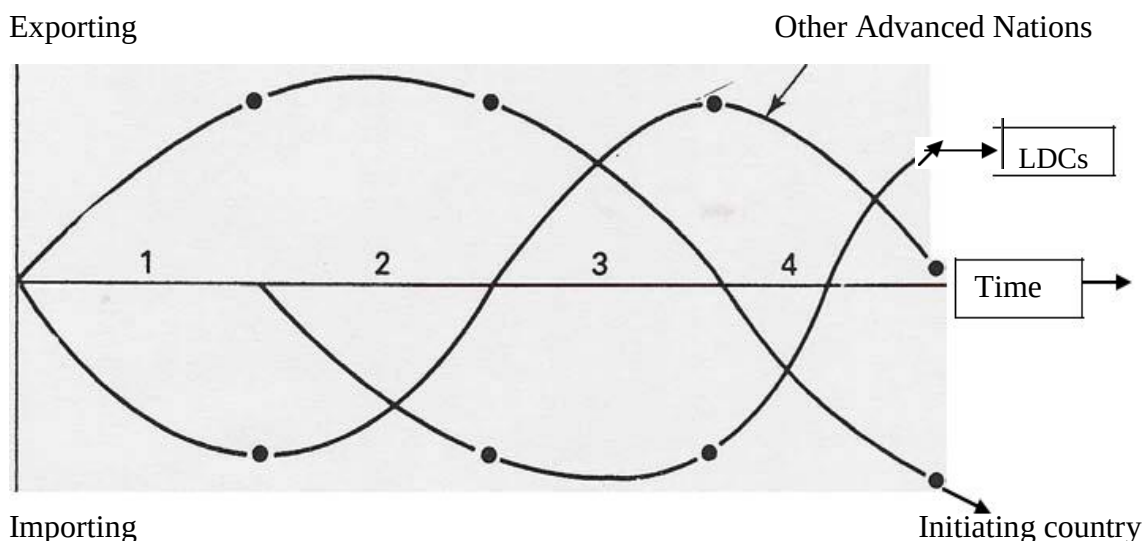


Figure 5.1 International Product Life Cycles (IPLC)

To sum up, the theory of IPLC reveals that advanced countries play the innovative role in new product development. Later for reasons of competitive advantage or factor endowments and costs, such a product moves to other developed countries or middle income countries and ultimately gets produced and exported by less developed countries.

5.1.3 Standardization versus Adaptation

Product standardization means that a product originally designed for a local market is exported to other countries with virtually no change, except perhaps for the translation of words and other cosmetic changes. There are advantages and disadvantages to both standardization and individualization. The strength of standardization in the production and distribution of products and services is its *simplicity* and *cost*. It is an easy process for executives to understand and implement, and it is also cost-effective. If cost is the only factor being considered, then standardization is clearly a logical choice because economies of scale can operate to reduce production costs. Yet minimizing production costs does not necessarily mean that profit increases will follow. Simplicity is not always beneficial, and costs are often confused with profits.

Cost reductions do not automatically lead to profit improvements, and in fact the reverse may apply. By trying to control production costs through standardization, the product involved may become unsuitable for alternative markets. The result may be that demand abroad will decline, which leads to profit reduction. In some situations, cost control can be achieved but at the expense of overall profit. It is, therefore, prudent to remember that cost should not be overemphasized. The main marketing goal is to maximize profit, and production-cost reductions should be considered as a secondary objective. The two objectives are not, always convergent.

When appropriate, standardization is a good approach. For example when a consistent company or product image is needed, product uniformity is required. Some products by their very nature are not or cannot be easily modified. Musical recordings and works of art are examples of products that are difficult to differentiate, as are books and motion pictures. When this is the case, the product must rise and fall according to

its own merit. Whether such products will be successful in diverse markets is not easy to predict. Firms that do well in the United States may do poorly in Japan.

With regard to high-technology products, both users and manufacturers may find it desirable to reduce confusion and promote compatibility by introducing industry specifications that make standardization possible. A condition that may support the production and distribution of standardized products exists when certain products can be associated with particular cultural universals. That is, when consumers from different countries share similar need characteristics and therefore want essentially identical products. Watches are used to keep time around the world and thus can be standardized. The diamond is another example.

Jain states that although standardization offers benefits, too much attachment to standardization can be counterproductive. Marketing environment varies from country to country, so a standard product originally conceived and developed in one country may not really match the conditions in each and every market. In other words, standardization can lead to substantial opportunity loss. A multinational company that intends to launch a new product into a foreign market should consider the nature of its product, its organizational capabilities, and the level of adaptation required to accommodate cultural differences between home and host country. This firm also should analyze factors such as market structures, competitors' strategic orientations, and host government demands. The successful companies realize one simple truth: *all consumers are not alike*.

To conclude, an international marketer should be flexible, i.e. it should be ready to shift its orientation as soon as the situation mandates. When standardization seems to be workable, the firm ought to adopt it otherwise, adaptation may be pursued. To this end, the table given below may be referred to identify the factors that favor standardization and adaptation and the corresponding decisions can be made based on the knowledge gained thereof.

Table 5.1 Factors Favoring Product Standardization versus Adaptation

Standardization	Adaptation
-High cost of adaptation	-differences in technical standards
-Primarily industrial products	-primarily consumers and personal use products
-Convergence & similar tastes in diverse country markets	-variations in consumer needs
-Predominant use in urban environments	- variations in conditions of use
-Marketing to predominantly similar countries	-variations in ability to buy/ income differences
-Centralized management of international operations when mode of entry is mainly exports	- fragmentation, with independent national subsidiaries
-Strong country of origin image and effect	-strong cultural differences, language, etc
-Scale in economies in production, marketing, and R&D	-local environment induced adaptation; differences in raw material available, government required standards & regulations
- Standard products marketed by competitors	-adaptation strategy successfully used by competitors

Adopted from Terpstra & Sarathy (2000), International Marketing, 8th ed. P. 253

5.1.4 Product Attributes in International Markets

Product policy goes beyond the product itself-attributes such as brands and trade marks, country of origin, packaging and labeling, and warranty and service policies represent key decision areas.

a) Brands and Trademarks: a major focus in international marketing is protecting the company's brands and trademarks. Another is deciding whether there should be one international brand or different national brands for a given product. Another question regards the role of private branding in international marketing. If the company uses its own brands, it may want to use multiple brands in the same market to target different customer segments. A successful brand is the most valuable resource a company has. The brand name encompasses years of advertising, goodwill, quality evaluation, product experience and the other benefit attributes the market associates with the product. Here, the main concern is either to use global brands or national brands.

- ◆ **Global brands:** building a global brand is inherent in a standardized product. Its success depends on a growing convergence of consumer tastes and the coordination of global advertising and promotion. A global brand is defined as the worldwide use of a name, term, sign, design, or combination thereof intended to identify goods or services of one seller and to differentiate them from those of competitors. The advantages of global branding include economies of scale in advertising.
- ◆ **Brand extension:** brand extension allows a firm with an existing presence in overseas markets to quickly establish its new products. Using a well known brand name with a reputation for quality can extend the impression of high quality to the new product. A good example can be Sheraton Addis. Sheraton is the original brand and Addis is the extension added.
- ◆ **Brand protection:** protecting a brand in international markets begins with registering them in the countries of interest with the appropriate authorities.
- ◆ **Product piracy and counterfeiting:** as more trade becomes technology intensive, intellectual property protection is essential to maintain competitive advantage. Firms spend large amounts of money creating technology through R&D (Research and Development). Different nations have different regulations on what can be protected, the extent of protection and the period of protection.
- ◆ **National branding:** here the manufacturer supplies the goods, but the retailer sells these goods under its own brand names. It is often used when the brand name cannot be translated into the local language; when a product is manufactured, sold and consumed locally, when it is a leading selling brand and part of a new local acquisition; or when a company wants to play down its foreignness and be thought as a local company. Private branding provides a quick and relatively low cost approach to penetrating foreign markets, though the seller fails to establish any relationship with the ultimate buyer and hence has little control over the marketing relationship. National branding permits greater identification of the product by consumers with a name more suited to the local language or jargon.

- ◆ **Country of Origin Effect:** brands are used as external cues to taste, design, performance, quality, value, prestige, and so forth. In other words, the consumer associates the value of the product with its brand. Country of origin effect is any influence that the country of manufacture has on a consumer's positive or negative perception of the product. That is why some people prefer Thailand jeans whereas others prefer jeans made in Turkey.
- b) **Labeling:** like in the branding decisions, the informational and promotional contents of the product label are influenced as well by the legal requirements as by the exporting firm's product and promotion policy. Labeling not only serves to express the contents of the product, but may be promotional. Primary considerations in labeling are providing information to the consumers and the use of multiple languages. Regulations in many countries require that detailed product composition and nutritional information be provided, as well as warning messages in the case of products that may be harmful or hazardous.

Firms may also want to provide instructions for proper product use, in which case readability and the quality of communication matter. Merely translating text from the home country's language may not be sufficient. Country regulations may also require that information be presented in all of a country's or region's official languages. This is necessary for products such as consumer electronics devices, tools, pharmaceuticals, and food products because the manufacturer desires to communicate detailed information such as how to set up equipment, energy consumption levels, recommended dosages, and recipes.
- c) **Packaging:** packaging is part of a product's attributes and companies spend considerable effort in developing packaging that is recognizable and distributive as well as functional. It is influenced by a number of factors like design, weight, shape and nature of the item to be packed. Its main purpose is protecting the product from damage while it is in transit. Factors that determine how to prepare a package are:
 - Changes in climate across countries, requiring more protective packaging against extremes of cold and heat

- Lengthy and difficult transportation and logistics networks, requiring that packaging protect goods against breakage and damage
 - Lengthy periods on shelves at retailers before final sale, again requiring that packaging be protective and maintain freshness
 - Varying sizes of packaging, with smaller-sized packages required in lower income countries because they may be more affordable; smaller size may also be more common in countries where more frequent shopping trips are made and shoppers may carry their purchase on foot back to their dwellings.
 - Differences in packaging forms because of consumer preferences: for example, whether toothpastes are sold in squeeze tubes or upright can, and whether glass containers or cardboard boxes are used for dispensing fruit juices and drinks.
 - Some standardization of packaging used to help the product be recognizable, such as Kodak's familiar yellow boxes.
 - Growing environmental consciousness on the part of consumers attempting to persuade firms to ensure that their packaging materials are biodegradable and/or recyclable and cause the least harm to the environment.
- d) Warranty and After Sales Service:** a warranty is a guarantee on the product's performance as stipulated by the manufacturer. It defines the manufacturer's liability in the case of non performance, or under performance of the product. Other than compliance with the legal requirements of the host country, product warranties and service constitute an integral part of the added value of the product offered to international markets.

A warranty without the backup of service facilities is counter productive. Consumer durables and industrial goods require servicing that is both convenient and reliable. Since customer service means enhancing efficiency of the product as well as that of the customer, the formulation of the service policy requires an assessment of customer expectations and needs, competitive practices, and the quality of service infrastructure and network available in the host country. There must be a strong level of consistency between a company's warranty policies and its worldwide after sales service network. Building such a network requires choosing locations from which to

offer service; investing in physical facilities, equipment and parts, staffing and training of qualified service technicians, and a logistics and information network to keep track of service performance and customer complaints so that they are handled in a satisfactory manner.

Warranty gives the following major benefits among others:

- It serves as a competitive tool
- A good warranty policy tends to differentiate the product in the marketplace.
- It enhances the customers' confidence in the product
- It helps in gaining additional business
- An explicit warranty limits the liability of the company should the product fail to meet the expectations of the buyer



Quick Test Questions

1. Now define a product in more comprehensive way
2. What are the four phases of international product life cycle? Describe them one by one
3. Differentiate between product standardizations and adaptation from the perspective of an international marketer.
4. Discuss product piracy and counterfeiting
5. Discuss the importance of warranty and after sales service with respect to international marketing

5.2 International Pricing Strategies

Jain contends that pricing is particularly critical and complex variable in overseas marketing strategies. The pricing decision ultimately affects an organization's ability to stay in the market. Yet the uncertainties of entirely unpredictable forces such as costs, competition, and demand pose numerous problems for international pricing. Pricing is an important decision in any business, be it domestic or international, because it directly affects revenue and thus profitability. Moreover, appropriate pricing aids growth, as development of mass market depends to a larger extent on price. A poor pricing decision threatens survival. Too high a price may mean no

business, while a lower price may lead to an unprofitable operation. In many cases the price indicates a product's quality.

International marketer uses three important parameters in arriving at a price decision. These parameters are:

1. Costs: represent the base line for setting price. In other words, costs represent the price floor beyond which prices cannot be dropped. Costs are made up of two components: fixed and variable costs. Fixed costs are those that do not vary with the scale of operations, such as salaries of managerial staff and office rent. They represent the non escapable element of cost, whereas the variable cost represents the escapable costs. Variable costs have direct relationship to the level of operation. Each of these components has its own significance when determining prices.

2.Demand and Supply: for marketing manager the upper limit of price is demonstrated by demand and supply conditions. The price charged by competitors and the attributes and quantity sold by competitors set the supply parameters. The demand conditions are interpreted from the market conditions and the consumer behavior. In general, the higher the demand and the smaller the number of suppliers in a given market for a product, the greater will be the discretion of the seller in setting the price. On the other hand, if there is fierce competition, the seller's discretion in determining price will be lower. Hence, the nature of competition in each country is an important factor that needs to be considered while setting prices.

3.Economic, Legal and Political Conditions: these represent parameters outside the market forces which influence the price structure. The government, through its policy, can modify market conditions. The economic condition of the host country also highly affects the demand for a given product and thereby it determines the price that can be charged.

The parameters explained above suggest the upper and lower limits, but the actual price lies somewhere in between.

5.2.1 Information for Pricing Decisions

An important prerequisite for scientific export pricing decisions is regular availability of basic data regarding export products, foreign markets and other relevant market information. The details of information requirements vary from product to product, market to market and firm to firm. In general, a firm may seek information with respect to product, market and other variables.

a) Product Information: here the information required include

- | | |
|--------------------------------|-----------------------|
| - Direct material & labor cost | - Cost of selling |
| - Factory overhead costs, | - Transportation cost |
| - General administrative costs | - Distribution cost |
| - Cost of packing | - Export incentives |
| - Product guarantees | - Others |

b) Market Information: the following are important in this regard

- | | |
|--|-----------------------------------|
| - Market structure- level of competition | - Channels used |
| - Terms of payment used by rivals | - Pricing rules, if any |
| - Import duties | - Availability of promotion means |
| - Brand image | - Promotion tools used by rivals |
| | - Others |

c) Others

- | | |
|---|---------------------------------|
| - Production capacity of the firm | - Utilization of idle capacity |
| - Proportion of total production supplied to the market | - Commissioning of new capacity |
| - Competition among domestic firms | |
| - Additional export possibilities | |

5.2.2. Approaches to International Pricing

Whether the orientation is toward control over end process or over net prices, company policy relates to the net price received. Both cost and market considerations are important; a company cannot sell goods below cost of production and remain in business for very long, and neither can it sell goods at a price unacceptable in the

market place. There are different strategies of pricing that can be employed by an international marketer. Some of such methods are discussed below:

- 1) **Full cost versus 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. In variable cost pricing, the firm is concerned only with the marginal or incremental cost of producing goods to be sold in overseas markets. Such firms regard foreign sales as bonus and assume that any return over their variable cost makes a contribution to net profit. These firms may be able to price more competitively in foreign markets, but because they are selling products abroad at lower net prices than they are selling them in domestic market, they may be subject to charges of dumping.

On the other hand, companies following the full cost pricing philosophy 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 the 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 cost plus basis, that is, total costs plus a profit margin. Both variable cost and full cost policies are followed by international marketers.

- 2) **Skimming Versus Penetration Pricing:** firms must also decide to follow a skimming or a penetration pricing policy. The decision of which policy to follow depends on the level of competition, the innovativeness of the product, and market characteristics. A company uses skimming when the objective is to reach a segment of a market that is relatively price sensitive and thus willing to pay a premium price for the value received. If limited supply exists, a company may follow a skimming approach in order to maximize revenue and to match demand to supply. When a company is the only seller of a new or innovative product, a skimming price may be used to maximize profit until competition forces a lower price.

A penetration pricing policy is used to stimulate market growth and capture market share by deliberately offering products at low prices. Penetration pricing, most often, is used to acquire and hold share of market as a competitive scheme. However, in country markets experiencing rapid and sustained economic growth, and where large

shares of the population move into middle income classes, penetration pricing may be used to stimulate market growth even with minimum competition. Penetration pricing may be a more profitable strategy than skimming if it maximizes revenues and builds market share as a base for the competition that is sure to come.

Regardless of the formal pricing policies and strategies a company uses, it must not be forgotten that the market sets the effective price for a product. Said another way, the price has to be set at a point at which the consumer will perceive value received and the price must be within the reach of the target market.

5.2.3 Price Escalation

Price escalation is the disproportionate difference in price between the exporting country and the importing country. People traveling abroad often are surprised to find that goods relatively inexpensive in their home country priced higher in other countries. Some of factors that contribute towards the higher price include:

- a) **Cost of Exporting:** are the added costs incurred as a result of exporting products from one country to another. The term relates to a situation in which ultimate prices are raised by shipping costs, insurance, packing, tariffs, and longer channels of distribution, larger middlemen margins, special taxes, administrative costs, and exchange rate fluctuations. The majority of these costs arise as a direct result of moving goods across borders from one country to another and often combine to escalate the final price to a level considerably higher than in the domestic market.
- b) **Taxes, tariffs and administrative costs:** “Nothing is surer than death and taxes” has a particularly familiar ring to the ears of the international trader because taxes include tariffs, and tariffs are one of the most pervasive features of international trading. Taxes and tariffs affect the ultimate consumer price for a product and, in most instances; the consumer bears the burden of both. Sometimes, however, consumers benefit when manufacturers selling goods in foreign countries reduce their net return in order to gain access to a foreign market. Absorbed or passed on, taxes and tariffs must be considered by the international businessperson. A tariff or duty is a special form of

taxation. Like other taxes, a tariff may be levied for the purpose of protecting a market or for increasing government revenue.

- c) **Inflation:** the effect of inflation on cost must be taken into account. In countries with rapid inflation or exchange variation, the selling price must be related to the cost of goods sold and the cost of replacing the items. Because inflation and price controls imposed by a country are beyond the control of companies, they use a variety of techniques to inflate the selling price to compensate for inflation pressure and price controls. They may charge for extra services, inflate costs in transfer pricing, or break up products into components and price each component separately. Inflation causes consumer prices to escalate and the consumer is faced with rising prices that eventually exclude many consumers from the market.
- d) **Exchange rate fluctuations:** if exchange rates are not carefully considered in long term contracts, it can lead either the seller or the buyer to lose some amount of money. The added cost incurred by exchange rate fluctuations on a day to day basis must be considered, especially where there is a significant time lapse between signing the order and delivery of the goods.
- e) **Middlemen and transportation costs:** channel length and marketing patterns vary widely, but in most countries channels are longer and middlemen margins higher than customary in one country. The diversity channels used to reach markets and the lack of standardized middlemen markups leave many producers unaware of the ultimate price of a product. Besides channel diversity, the fully integrated marketer operating abroad faces various unanticipated costs because marketing and distribution channel infrastructures are underdeveloped in many countries. The marketer can also incur added expenses for warehousing and handling of small shipments and may need to bear increased financing costs when dealing with under financed 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, which includes transportation, insurance, and shipping charges. These costs add to the inflation of the final price.



• Quick Check Questions

- 1) Why is pricing such critical and complex variable especially in overseas marketing strategies?
- 2) List down the information required in relation to product before making international pricing decisions.
- 3) Distinguish between skimming and penetration pricing strategies. When should an international marketer employ
 - a) skimming pricing?
 - b) penetration pricing?
- 4) People traveling abroad often are surprised to find that goods relatively inexpensive in their home country priced higher in other countries. Mention some of the factors that contribute to such higher price in foreign markets.

5.2.4 Transfer Pricing Strategy

Different units under the same corporate body but located in different foreign countries exchange goods and services among themselves. The pricing of such exchanges is known as transfer pricing. As companies increase the number of worldwide subsidiaries, joint ventures, company owned distribution systems, and other marketing arrangements, the price charge to different affiliates becomes a top question. Prices of goods transferred from a company's operations or sales units in one country to its units elsewhere, known as intra-company pricing or transfer pricing, may be adjusted to enhance the ultimate profit of the company as a whole. The benefits are as follows:

- ◆ Lowering duty costs by shipping goods into high tariff countries at minimal transfer prices so that duty base and duty are low
 - ◆ Reducing income taxes in high tax countries by overpricing goods transferred to units in such countries; profits are eliminated and shifted to low tax countries.
- Such profit shifting may also be used "dressing up" financial statements by

increasing reported profits in countries where borrowing and other financial are undertaken.

- ◆ Facilitating dividend repatriation when dividend repatriation is curtailed by government policy. Invisible income may be taken out in the form of high prices for products or components shipped to units in that country.

Transfer pricing can be used to hide subsidiary profits and to escape foreign market taxes. Intra-company pricing is managed in such a way that profit is taken in the with the lowest tax rate. The overall objectives of the intra-company pricing system include maximizing profits for the corporation as a whole; facilitating parent company control, and offering management at all levels, both in the product division and in the international division, an adequate basis for maintaining, developing, and receiving credit for their own profitability. Transfer prices that are too low are unsatisfactory to the product divisions because their overall results look poor; prices that are too high make the international operations look bad and limit the effectiveness of foreign managers.

An intra-company pricing systems should use sound accounting techniques and be defensible to the tax authorities of the countries involved. All of these factors argue against a single uniform price or even a uniform pricing system for all international operations. Four arrangements for pricing goods for intra-company transfer are as follows:

- ◆ Sales at the local manufacturing cost plus a standard markup
- ◆ Sales at the cost of the most efficient producer in the company plus a standard markup
- ◆ Sales at negotiated price
- ◆ Arm's length sales using the same prices as quoted to independent customers

5.3 International Marketing Promotion

As you may recall from your principles of marketing module, promotion is one of the four mixes of marketing. It is often refereed to as „marketing communication“. In this

section, you will be learning about promotion from international marketing perspective.

Promotion means communication with the target customers. The creation of awareness, interest, desire and action is the universal aim of the promotion mix. It also aims at informing, persuading and reminding the customer about the item being promoted. It includes advertising, personal selling, sales promotion and publicity. Below each of these elements are discussed:

5.3.1 Advertising

Terpstra & Sarathy assert that advertising is the paid communication of company messages through impersonal media. The message may be audio, as in radio, visual, as in billboard or magazines, or audiovisual as in television or cinema advertising. Advertising everywhere is used to achieve various marketing goals, which include paving the way for the sales force, gaining distribution, selling products, improving brand image, and so on. It must also be able to overcome people's resistance and inertia to change and counter competitive claims to draw consumer's attention to the advertiser's products. Moreover, advertising plays the role of attracting potential customers and to help hold them as loyal customers to the product.

5.3.1.1 Constraints on International Advertising

The international advertising program of a company is determined by varieties of factors. Such factors include:

- 1. Legal Consideration:** government regulations are a fact of life as countries regulate the content of advertisement. The presence of such regulations makes it difficult to create a universal advertising campaign. Law pertaining to advertising may restrict the amount spent on advertising, the use of particular media, advertising of certain kinds of products, the use of certain types of copy and visuals, comparative advertising, misleading and unfair advertising, use of foreign made commercials and others.

2. **Language:** language is one of the major barriers to effective communication through advertising. The problem involves different languages of different countries, different languages or dialects within one country, the subtler problems of linguistics, literacy rate, prevalence of idioms, etc. Language translation encounters innumerable barriers and thereby hampers communication. Communication is impeded by the great diversity of cultural heritage and education which exists within countries and which causes varying interpretations of even single sentences and simple concepts.
3. **Cultural Diversity:** the problems associated with communicating to people in diverse cultures present one of the greatest challenges in advertising. Communication is more difficult because cultural factors largely determine the way various phenomena are perceived. Knowledge of cultural diversity must encompass the total advertising project. Existing perception based on tradition and heritages are often hard to overcome. In addition to concerns with differences among nations, advertisers find subcultures within a country require attention as well.
4. **Production and Cost Factors:** the facilities for and cost of production of advertisement vary from country to country causing severe production limitations.
5. **Selecting the Agency:** many marketing functions are performed within the company. With advertising, the firm almost always relies on expertise from the advertising agency. Agency selection is usually the first advertising decision the marketer has to make. Two major alternatives are open: an international agency with domestic and overseas offices or local agencies in each national market. The following selection criteria can be employed towards agency selection.
 - *Market Coverage:* does the particular agency or package of agencies cover all relevant markets?
 - *Quality of Coverage:* how good a job does this package of agencies do in each market
 - *Market research, public relations, and other marketing services:* if the firm needs these services, in addition to advertising, how do the different agencies compare on their offerings?

- *Communication and control*: if the firm wants frequent communication with agencies in foreign markets, it is inclined to hire a domestic agency that has overseas offices.
- *International coordination*: does the firm wish to have advertising tailor-made to each market?
- *Size of the company's international business*: the smaller the firm's international advertising expenditures, the less there is to be divided among different agencies. The firm's advertising volume may determine agency choice to ensure some minimum level of service.
- *Image*: does the firm want a national or international image? If it wants local identification, it might choose a local agency rather than an international one.

5.3.1.2 Advertising Media Strategy

A major decision for an international marketer is whether the firm should use national or international advertising appeals- a localized or standardized approach. Many marketers strongly believe that a successful advertising concept will do any where. Critics of standardization in advertising argue, however, that cultural differences require a campaign to be tailored to each country. Media strategy is also concerned with availability, coverage and cost of the media.

- **Standardized Approach**: many practitioners and scholars believe that universal advertising can work. Empirical research on the subject and experience of many marketers confirm that such sentiments abound among advertisers. In their study of sample of Fortune 500 firms, Donnelly and Rayns discovered that 90 percent of the firms to at least some degree extend their US advertising approach to non domestic situations. Advocates of standardization point to a number of advantages offered by such a strategy including: economies of scale in production and distribution, lower advertising production costs, a consistent international brand and/or company image, transfer and sharing of good ideas, and greater sophistication for less developed countries.

However, opponents of standardized campaigns point a number of drawbacks like problems of language, culture and lifestyle; differences in market characteristics including conditions, customer needs, and media availability; local resistance, and consumer usage patterns and perceptions of a product may vary from one country to another.

- **Localized Advertising:** customization of advertising for each nation is justified on the grounds of cultural differences among countries. A standardized advertising approach seems particularly unsuited in developing countries, where marked differences in life style, level of wealth, market structure, and various other aspects of the environment exist compared with advanced nations.
- **Availability:** the availability of advertising media differs substantially from country to country. It is closely related with economic development of the host country. Some countries have too few advertising media and others have far too many. In some countries government does not allow advertising through certain media. For example, advertising of products like tobacco, alcohol, etc., are prohibited in many countries.
- **Coverage:** media coverage implies the number of people who are collectively exposed to different media like the press, television, radio, how many people see the movies in cinema houses, and so forth. This provides an estimate of the proportions of total population in a country who are exposed to different media. In other words how many people read a particular newspaper or magazine, watch particular television program or listen to particular radio channels which broadcast commercials. In addition, advertisers are also interested to have socio-economic profiles of different media audiences to make an assessment of qualitative coverage.
- **Cost:** the basic media cost involves the cost of space in the print media and the cost of time in electronic media, with wide variations according to special positions and special time segments. The media prices are normally quoted by the individual units of media but prices are susceptible to negotiations especially between the media owners and advertising agencies. It is to be noted that the price of individual media unit is determined on the basis of coverage potential of the media.

5.3.1.3 Setting the International Advertising Budgets

Among the controversial aspects of advertising is determining the proper method for setting the advertising budget. This is also a problem domestically as it is internationally. In theory, it is not difficult to state the amount of money that the firm should put into advertising abroad. In each of its markets, the firm should continue to put more money into advertising as long as each advertising birr returns more than a birr spent on anything else. In practice, this marginal return principle is difficult to apply because of the impossibility of measuring accurately the returns, not only from advertising but also from other company outlays. Due to this difficulty, companies have developed more practical guidelines. But matching returns to advertising outlays should be practiced at least on rough basis as it is important to have some idea as to whether a sum of money should go into advertising or personal selling or package improvement or something else. Some of the guidelines which can be employed in the determination of advertising budget are:

- 1. Percentage of sales Approach:** is the easiest method for setting advertising budget. Besides its convenience, this method has the advantage of relating advertising to the volume of sales in a country and thus keeping advertising from getting out of hand. It seems a fair method as it allows each market to get advertising budget it deserves. For the firm that centralizes control over international advertising, the percentage of sales approach is very attractive. A manager at headquarters would have difficulty using any other budgeting approach for say 50 or 100 markets.

Despite its attractions, however, this approach has limitations. The purpose of advertising is to cause sales, but this approach perversely makes the volume of sales determine the amount of advertising. When sales decline, advertising would also decline, although long range considerations might suggest that advertising should be stepped up.

- 2. Comparative Parity Approach:** is concerned with matching competitors' advertising outlays. It is used by some companies. Although it may offer the firm a feeling that it is not losing ground to its competitors, the merit of this approach is

doubtful in domestic operations and it is especially to be challenged in international marketing.

3. **Objectives and Task Method:** this one begins by determining the advertising objectives, expressed in terms of sales, brand awareness, or something else, and then ascertaining the tasks needed to attain these objectives, and finally estimating the costs of performing these tasks. It is as relevant for markets abroad as it is at home. It logically seeks to relate the advertising budget in a country to the firm's situation and goals there. To use it satisfactorily, however, the firm must have good knowledge of the local markets to set appropriate objectives.
4. **Comparative Analysis Approach:** here markets are grouped into categories according to their relevant to advertising. This method provides more flexibility than the uniform approach and more control than the laissez-faire approach. Categories might be based on size, media situation, or other pertinent features.

5.3.2 Personal Selling

In discussing advertising, we could speak of international campaigns and international media, but personal selling involves personal contact and is more culture bound than impersonal advertising. As result, even though international business has expanded tremendously in recent decades, personal selling activities are still conducted primarily on a national basis. In fact, many national markets are divided into sales territories served by salespeople recruited only from their respective territories. They do not even cover a national market.

One task of the international marketer is to determine the role personal selling should play in each market. Once the role of personal selling has been decided, the administration of the sales force is similar to that in the home market. That is, the same functions must be performed: recruitment, selection, training, motivation, supervision, and compensation. Since the sales task varies by country and personal selling takes place on a national basis, sales management must be decentralized to the nation market.

- a. Recruiting and selecting the sales force:** recruiting and selecting sales representatives are done in the local market by those who know the situation best. As an aid in recruitment and selection of sales personnel, many companies develop job descriptions and specification lists. Both may vary internationally. In a foreign market, the sales job will be a function of the firm's product line, distribution channels, and marketing mix. Thus, the job will not be exactly the same in all markets. In many countries, a variety of religious, educational, and racial or tribal characteristics must be considered. When markets are segmented in these dimensions, the sales force may have to be segmented also.
- b. Training the sales force:** training salespeople is done primarily in the national market. The nature of the training program is determined by the demands of the job and the previous preparation of the sales force.
- c. Motivating and compensating the sales force:** motivation and compensation of the sales force are closely related. Indeed, attractive compensation is often the chief motivator. Motivation can be more a challenge abroad than at home. Although compensation is a prime motivator, there are other ways to motivate. Since much depends on cultural factors, motivation must be designed to meet local needs.
- d. Controlling the Sales Force:** some control techniques that can be used to this end are establishing sales territories, setting schedules and call frequencies, using quotas and reporting arrangements. Even though this activity is decentralized, international managers should participate in establishing control techniques.

5.3.3 Sales Promotion

Sales promotion is designed as those selling activities that do not fall directly into the advertising or personal selling category, such as the use of contests, coupons, sampling, premium, cents off deals, point of purchase materials, and so on. Sales promotion is generally concerned with stimulating new attitudes towards the promoted product. When income is low, people are usually even more interested in "something for nothing" such as free samples, premiums, or contests. Besides increasing sales at the retail level, sales promotion helps in building the morale of the sales force. Some

companies use sales promotion simultaneously with sales incentive schemes so that they can complement each other. Sales promotion also acts as a push-through device by creating a demand for a product among customers, who then compel dealers and retailers to stock it.

Above all, sales promotion offering should be culturally acceptable. The need for customizing of sales promotion to match the perspectives of a country should be accomplished carefully. Management of a sales promotion requires:

- ◆ a clear definition of *objectives* (for example, introducing a new product, increasing sales of an existing product, reducing seasonal declines in sales, countering competitors' gains, and registering new customers);
- ◆ making *budget* allocations (which must be done in the context of a total promotional budget including advertising and personal selling);
- ◆ drawing a *plan of action* covering such points as length of the campaign, details of sales promotion offerings, instructions required for the sales force and middle agents, coordination needed with other departments of the company, media announcements and cost estimates and
- ◆ *an evaluation* of the campaign to determine its viability for future use in the same country and in other nations.

5.3.4 Public Relations- Corporate Communication

Terpstra & Sarathy contend that public relation is concerned with images. The firm is trying to present itself in a favorable light with one or more of its constituencies. Too often it has meant telling the world how good the company is or explaining away the company's mistakes. Good public relation is corporate diplomacy- the firm seeking to relate constructively to its various stakeholders to the benefit of both parties. Thus, it involves more than corporate communication- it requires appropriate corporate behavior. Public relation is often more important in a foreign market than it is domestically.

Public relations is not marketing but good relations with the public are essential to marketing success. A firm that is seen as a bad citizen may experience a boycott of its

products. In another sense, public relations can be considered as the marketing of a product, the product being the firm itself. The firm's product can enjoy continued success only because of their performance. The image of the product can not be maintained if product performance is not consistent with it.

A firm must obviously behave in a legal manner in all of its markets. It also must be perceived as behaving in an ethically correct and environmentally friendly way. The publics of a firm are broader than its markets. They include all those who are affected by the firm's operations- and all those who can have an effect on the firm's success. These publics, stakeholders, or constituencies include the following:

- Customers
- General public
- Stockholders
- Media
- Suppliers
- Employees
- Activist groups
- Financial community
- Distributors
- Government



Quick Check Questions

- 1) Why is personal selling done largely within national boundaries rather than internationally?
- 2) Identify the various publics of a firm in foreign markets
- 3) What is the relationship of public relations to marketing?
- 4) What is the basic intent of sales promotion?
- 5) Describe the constraints of international advertising one by one
- 6) What are the guidelines that can be used in the determination of advertising budget?

5.4 International Channels of Distribution

Dear learner, this section describes the varieties of intermediaries (i.e., agents, wholesaler and retailers) involved in moving products between countries as well as within countries. The tasks and functions of the various intermediaries will be examined. It should be kept in mind that certain types of intermediaries do not exist in

some countries and that the pattern of use as well as the importance of each type of intermediary varies widely from country to country. A manufacturer is required to make several decisions that will affect its channel strategy, including the length, width, and number of distribution channels to be used.

5.4.1 Factors Affecting Choice of Channels

An international trader 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. Below each of the six Cs is described.

- 1) **Cost:** there are two types of channel costs: the capital or investment cost of developing the channel and 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 cost (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:** critical elements here are capital requirements and cash flow patterns associated with using a particular type of middlemen. 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 must provide initial inventories on consignment, loans, floor plans, or other arrangements.
- 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 arrangements 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 crucial goal is full market coverage to gain optimum volume of sales obtainable in each market, secure a reasonable market share, and attain satisfactory market penetration. Coverage may be assessed by geographic or 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 develop 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 market 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 services required, and value of the product. Channel commanders must be aware that channel patterns change; they cannot assume that once a channel is developed to fit the character of both the company and market, no more need be done.

- 6) Continuity:** channels of distribution often pose longevity problems. Most agent middlemen firms tend to be the 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.

5.4.2 Direct and Indirect Selling Channels

Cateora contends that companies use two principal channels of distribution when marketing abroad:

- 1. Indirect selling:** Indirect selling, also known as the local or domestic channel, is employed when a manufacturer in Ethiopia, for example, markets its product through another Ethiopian firm that acts as the manufacturer's sales intermediary (or middleman). As such, the sales intermediary is just another local or domestic channel for the manufacturer because there are no dealings abroad with a foreign firm. By exporting through an independent local middleman, the manufacturer has no need to setup an international department. The middleman, acting as the manufacturer's external export organization, usually assumes the responsibility for moving the product overseas. The intermediary may be a domestic agent if it does not take title to the goods, or it may be domestic merchant if it does take title to the goods.

There are several advantages to be gained by employing an indirect domestic channel. For example, the channel is simple and inexpensive. The manufacturer incurs-no-start-

up cost for the channel and is relieved of the responsibility of physically moving the goods overseas. Because the intermediary very likely represents several clients who can help share distribution costs, the costs for moving the goods are further reduced.

An indirect channel does, however, have limitations. The manufacturer has been relieved of any immediate marketing costs but, in effect, has given up control over the marketing of its product to another firm. This situation may adversely affect the product's success in the future. If the chosen intermediary is not aggressive, the manufacturer may become vulnerable, especially in the case where competitors are careful about their distribution practices. Moreover, the indirect channel may not necessarily be permanent. Being in the business of handling products for profit, the intermediary can easily discontinue handling a manufacturer's product if there is no profit or if a competitive product offers a better profit potential.

2. **Direct selling:** is employed when a manufacturer develops an overseas channel. This channel requires that the manufacturer deal directly with a foreign party without going through an intermediary in the home country. The manufacturer must setup the overseas channel to take care of the business activities between the countries. Being responsible for shipping the product to foreign markets itself, the manufacturer exports through its own internal export department or organization.

One advantage gained in using the direct selling channel is active market exploiter since the manufacturer is more directly committed to its foreign markets. Another advantage is greater control. The channel improves communication because approval does not have to be given to a middleman before a transaction is completed. Therefore, the channel allows the company's policy to be followed more uniformly.

Direct selling is not without problems. It is a difficult channel to manage if the manufacturer is unfamiliar with the foreign market. Moreover, the channel is time consuming and expensive. Without a large volume of business, the manufacturer may find it too costly to maintain the channel.

5.4.3 Types of Intermediaries

a) Direct Channel

There are several types of intermediaries associated with both the direct and indirect channels.

1. Foreign Distributor

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

There are a number of benefits in using a foreign distributor. Unlike agents, the distributor is a merchant who buys and maintains merchandise in its own name. This arrangement simplifies the credit and payment activities for the manufacturer. To carryout the distribution function, the foreign distributor is often required to warehouse adequate products, parts, and accessories and to have facilities and personnel immediately available to service buyers and users. Still, the manufacturer must be careful in selecting a foreign distributor or it may end up with a distributor who is deficient in marketing and servicing the product.

2. Foreign Retailer

If foreign retailers are used, the product in question must be a consumer product rather than an industrial product. There are several means by which a manufacturer may contact foreign retailers and interest them in carrying a product, ranging from a personal visit by the manufacturer's representative to mailings of catalogs, brochures, and other literature to prospective retailers. The use of personal selling or a visit although expensive because of travel costs and commissions for the manufacturer's

representative provides for a more effective sales presentation as well as for better screening of retailers for the distribution purpose. The use of direct mail, although less expensive, may not sufficiently catch the retailers' attention. For such big-ticket items as automobiles or for high-volume products, it may be worthwhile for a manufacturer to sell to retailers without going through a foreign distributor. In fact, most large retailers prefer to deal directly with a manufacturer.

3. State-Controlled Trading Company

For some products, particularly utility and telecommunication equipment, a manufacturer must contact and sell to state-controlled companies. In addition, many countries, especially those in Eastern Europe, have state-controlled trading companies, which are companies that have a complete monopoly in the buying and selling of goods. Being government sanctioned and controlled for trading in certain goods, buyers for state-controlled trading companies are very definitely influenced by their governments' trade policies and politics. Most opportunities for manufacturers are limited to raw materials, agricultural machinery, manufacturing equipment, and technical instruments rather than consumer or household goods. Reasons for this limitation include shortage of foreign exchange, an emphasis on self-sufficiency, and the central planning systems of the communist and socialist countries.

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

b) Indirect Channel

For a majority of products, a manufacturer may find it impractical to sell directly to the various foreign parties (i.e., foreign distributors, foreign retailers, state-controlled

trading companies, and end users). Other intermediaries, more often than not have to come between- these-foreign buyers and the manufacturer.

With an indirect channel, a manufacturer does not have to correspond with foreign parties in foreign countries. Instead; the manufacturer deals with one or more domestic middlemen, who in turn move and/or sell the product to foreign middlemen or final users. Although there are many kinds of local sales intermediaries, all can be grouped under two broad categories: (1) domestic agents and (2) domestic merchants. The basic difference between the two is ownership (title) rather than just the physical possession of the merchandise. Domestic agents never take title to the goods, regardless of whether the agents take possession of the goods or not. Domestic merchants, on the other hand, own the merchandise, regardless of whether the merchants take possession or not. An agent represents the manufacturer whereas a merchant (e.g., distributor) represents the manufacturer's product. The merchant has no power to contract on behalf of the manufacturer, but the agent can bind the manufacturer in authorized matters to contracts made on the manufacturer's behalf.

1. Export Broker

The function of an export broker is to bring a buyer and a seller together for a fee. The broker may be assigned some or all-foreign market in seeking potential buyers. It negotiates the best terms for the seller (i.e., manufacturer) but cannot conclude the transaction without the principal's approval of the arrangement. As a representative of the manufacturer, the export broker may operate under its own name or that of the manufacturer. For any action performed, the broker receives a fee or commission. An export broker does not take possession or title to the goods. In effect, it has no financial responsibility other than sometimes making an arrangement for credit. An export broker is less frequently involved in the export (shipping) of goods than in the import (receiving) of goods.

The export broker is useful because of its extensive knowledge of the market supply, demand, and foreign customers. This knowledge enables the broker to negotiate the most favorable and seasonal products that do not require constant distribution. An

export broker may be thus used on a one time basis by small manufacturers with limited financial resources who are selling in broad markets.

2. Manufacturer's Export Agent or Sales Representative

This is an independent businessperson who usually retains his or her own identity by not using the manufacturer's name. Having more freedom than the manufacturer's own salesperson, a sales representative can select when, where, and how to work within the assigned territory. Working methods include presenting product literature and samples to potential buyers. An export agent pays his or her own expenses and may represent manufacturers of related and non-competing products. The person may operate on either an exclusive or nonexclusive basis. Like a broker, the manufacturer's export agent works for commission. Unlike the broker, the relationship with the manufacturer is continuous and more permanent. The contract is for a definite period of time and the contract is renewable by mutual agreement. The manufacturer, however, retains some control because the contract defines the territory, terms of sale, method of compensation, and so on.

The manufacturer's export agent may present some problems to the manufacturer because an agent does not offer all services. Such services as advertising, credit assistance, repair, and installation may be excluded. An export agent may take possession but not title to the goods and thus assumes no risk-the risk of loss remains with the manufacturer. Finally, the manufacturer gives up control over marketing activities, and this can hurt a manufacturer whose volume is too small to receive the agent's strong support.

3. Export Management Company (EMC)

An export management company (EMC) manages, under contract, the entire export program of a manufacturer. An EMC is also known as a combination export manager (CEM) because it may function as an export department for several allied but non-competing manufacturers. In this regard, those export brokers and manufacturers' export agents who represent a combination of clients can also be called EMCs. When compared with export brokers and manufacturers' export agents, the EMC has greater freedom and considerable authority. The EMC provides extensive services, ranging

from promotion to shipping arrangement and documentation. Moreover the EMC handles all, not just a portion, of its principal's products. In short, the EMC is responsible for all of the manufacturer's international activities.

Foreign buyers usually prefer to deal directly with the manufacturer rather than through a third party. Therefore, an EMC usually solicits business in the name of the manufacturer and may even use the manufacturer's letterhead. Identifying itself as the manufacturer's export department or international division, the EMC signs correspondence and documents in the name of the manufacturer. This may be an advantageous arrangement for small and medium-sized firms that lack expertise and adequate human and financial resources to obtain exports. This arrangement may be a good way for a firm to develop foreign markets while creating its own identity abroad. The EMC, on the other hand, faces a dilemma because of a double risk: it can easily be dropped by its clients either for doing a poor job or for making the manufacturer's products too successful.

4. Cooperative Exporter

A cooperative exporter is a manufacturer with its own export organization that is retained by other manufacturers to sell in some or all foreign markets. Except for the fact that this intermediary is also a manufacturer, the cooperative exporter functions like any other export agent. The usual arrangement is to operate as an export distributor for other suppliers, sometimes acting as a commission representative or broker. Because the cooperative exporter arranges shipping, it takes possession of goods but not title.

The cooperative exporter's motive in representing other manufacturers primarily involves its own financial interests. Having fixed costs for the marketing of its own products, the cooperative exporter desires to share its expenses and expertise with others who want to sell in the same markets abroad. The relationship between the cooperative exporter and its principal is a long-term one. The arrangement provides an easy, low-risk way for the principal to start marketing overseas, and the relationship should ordinarily continue as long as unrelated or noncompetitive products are involved. A problem may arise if the principal decides to market a new product that

competes directly with the cooperative exporter's own product or those of the exporter's other clients.

5. Purchasing/Buying Agent

An export agent represents a seller or manufacturer; the purchasing/buying agent represents the foreign buyer. By residing and conducting business in the exporter's country, the purchasing agent is in a favorable position to seek a product that matches the foreign principal's preferences and requirements. Operating on the overseas customer's behalf, the purchasing agent acts in the interest of the buyer by seeking the best possible price. Therefore, the purchasing agent's client pays a fee or commission for the services rendered. The purchasing agent is also known by such names as commission agent; buyer for export, export commission house, and export buying agent. This agent may also become an export confirming house when confirming payment and paying the seller after receiving invoice and title documents for the client.

The buying agent is valuable for manufacture because it seeks those firms out and offers them services. However, since the agent operates on an order basis, the relationship with either seller or buyer is not continuous. This arrangement thus does not offer a steady volume of business for the manufacturer and neither does it offer any reduction in financial risk.

6. Country-Controlled Buying Agent

A variation on the purchasing agent is a country-controlled buying agent. This kind of agent performs exactly the same function as the purchasing buying agent, the only distinction being that a country-controlled buying agent is actually a foreign government's agency or quasi-governmental firm. The country controlled buying agent is empowered to locate and purchase goods for its country. This agent may have a permanent office location in countries that are major suppliers, or the country's representative may make formal visits to supplier countries when the purchasing need arises.

7. Export Merchant

The intermediaries covered so far have certain factors in common: they take neither risks nor title, preferring to receive fees for their services. Unlike these middlemen domestic merchants are independent businesses that are in business to make a profit rather than to receive a fee. There are several types of domestic merchants. Because they all take title, they are distinguished by other features such as physical possession of goods and services rendered. One kind of domestic merchant is the export merchant. An export merchant seeks out needs in foreign markets and makes purchases from manufacturers in its own country to fill those needs. Usually the merchant handles staple goods, undifferentiated products, or those in which brands are unimportant. After having the merchandise packed and marked to specifications, the export merchant resells the goods in its own name through contacts in foreign markets. In completing all these arrangements, the merchant assumes all risks associated with ownership. The export merchant's compensation is a function of how product is priced. The markup is affected by the profit motive as well as by market conditions.

8. Export Distributor

Whereas export merchants and drop shipper's purchase from a manufacturer whenever they receive orders from overseas, an export distributor deals with the manufacturer on a continuous basis. This distributor is authorized and granted an exclusive right to represent the manufacturer and to sell in some or all-foreign markets. It pays for goods in its domestic transaction with the manufacturer and handles all financial risks in the foreign sale. An export distributor differs from a foreign distributor simply in location. The foreign distributor is located in a particular foreign country and is authorized to distribute and sell the product there. The export distributor, in comparison, is located in the manufacturer's country and is authorized to sell in one or more markets abroad.

9. Trading Company

Those that want to sell and those that want to buy often have no knowledge of each other or no knowledge of how to contact each other. Trading companies have come into existence to fill this void. In international marketing activities for many countries, this type of intermediary may be the most dominant form in volume of business and in

influence. Many trading companies are large and have branches wherever they do business. They operate in LDCs, developed countries, and their own home markets.

A trading company performs many functions; the term describes many intermediaries that are neither brokers nor import merchants. A trading company may buy and sell as a merchant. It may handle goods on consignment, or it may act as a commission house for some buyers. By representing several clients, it resembles an EMC, except for the fact that it:

- 1) has more diverse product lines,
- 2) offers more services
- 3) is largest and better financed,
- 4) takes title (ownership) to merchandise,
- 5) Is not exclusively restricted to engaging in export trade, and
- 6) goes beyond the role of an intermediary (which provides only export facilitation services) by engaging directly in production physical distribution channel development, financing, and resource development.

5.4.4 Channel Management

Channel management means selecting appropriate channels of distribution and making them work. The selection process requires decisions on distribution structure and choice of specific channel members. Once the selection is made, the goal is to make the channel arrangements work adequately. The channel selection process involves establishing channel objectives and feasible channel alternatives, evaluation of alternatives, and the choice of appropriate channels.

- a) Establishing Objectives:** the objectives of an international channel of distribution derive from total marketing objective in foreign market. These objectives are concerned with a clear cut definition of the target customers. Implicit in the definition of target customers is the decision about whether the company wants intensive, selective or exclusive distribution. Intensive distribution is an attempt to reach the mass market, and it requires a broad based channel structure. Selective distribution refers to distributing the goods through a few outlets. Exclusive distribution means letting a designated channel undertake distribution on a monopoly basis. Objectives

not only designate the target customers but also specify the type of service to be rendered to each group of customers.

- b) Establishing Feasible Channel Alternatives:** the characteristics of customers, product, intermediaries, competitors, marketing environment, and company's strengths and weaknesses determine the various possible alternatives for the distribution of a line of products. If the number of customers is large or geographically widespread rather than concentrated, and if they make their purchases in smaller quantities at frequent intervals, the company will have to opt for intensive distribution, that is, a large number of channel outlets. Another factor to be considered here is the desire of customers to deal with a particular type of channel.

A variety of product characteristics have an effect on the selection of channels of distribution. Perishable goods require direct channels. Bulky but inexpensive products can use long channels. Shorter channel is employed when the unit value of a product is high.

The kind of channels available constrains channel selection. The company should consider the terms demanded by different channel constituents and evaluate them in comparison to services and benefits provided, including factors such as channel location, credit granted, quality of the sales force, warehousing facilities, reputation in the market, and outlay on advertising and overall experience.

- c) Evaluation of Alternative Channels:** each channel alternative should be evaluated on the basis of three factors: coverage, control and cost. Coverage refers to both qualitative and quantitative coverage of customers and is determined by an analysis of customers, including such factors as their geographical locations, sales potential, and service requirements. Usually customers are grouped into homogeneous categories. Each channel alternative can then be evaluated for different customer segments according to geographic coverage, coverage of big accounts, meeting the needs of different segments, and the like.

Control refers to the discretion that the company has, or wants to have, in seeing the goods through to the customers. Dealing with some intermediate agents leaves the

company in better control of various activities such as establishing prices, recommending cooperative advertising, and suggesting inventory level. On the other hand, other intermediaries will demand flexibility in pricing, the right to refuse to enter into cooperative advertising, freedom in deciding how much inventory they would like to carry and so forth.

A third factor in evaluating channel alternatives is cost. Direct distribution by the company is usually more costly if the sales base is small, but it gives the company full control over distribution. In the final analysis, a balance has to be struck among cost, coverage and control. No one factor can be considered in isolation. Probably a composite index should be utilized to measure each channel. The channel with optimum coverage and control at minimum cost would be the obvious choice.

- d) Choosing the Channel:** after the alternative channels have been evaluated, the one most appropriate to the stated objective should be chosen. It is often difficult to state the objectives in concrete terms for clear matching with alternatives. Thus, subjective judgment becomes important in the final decision.



Quick Check Questions

1. Distinguish between direct and indirect channels of distribution
2. What is the basic difference between domestic agents and domestic merchants?
3. What is channel management?
4. What are the processes involved in channel selection? List down them and discuss.

5.5 Summary of the Chapter

One of the fundamental decisions for successful international marketing relates to product policy and planning. Product decisions are probably the most crucial as the product is the very essence of marketing planning. The international product life cycle shows that a product is innovated in a country to satisfy consumer needs and the country starts marketing the product in foreign country. Gradually, foreign country also starts production and becomes efficient in producing those items. As result the

innovator country loses its export marketing and finds the import of that product advantageous. Hence, the innovator becomes the importer of the product.

In deciding what products the company should sell overseas, the basic question is whether to standardize or adapt the product for foreign markets. Factors encouraging adaptation include economies of scale in manufacturing, R&D, and marketing; preserving the country of origin image, and others. Factors encouraging adaptation include greater profit potential, differing use conditions, income levels, and consumer tastes, local market laws, operating plants in many countries, consumer profiles, and competition. Adaptation is more likely if the costs are low and do not force the company to raise prices.

The major choice of brands is concerned with whether to adopt local brands or global brands. Global brands are consistent with a standardization approach to world markets. Issues important to brand policy in international markets include protecting against brand piracy, paying attention to the cultural connotations of brand names, and dealing with government regulations in the area brands and trademarks. The country of origin of a product affects how it is perceived and accepted in foreign markets and both technical and government mandated standards affect a company's ability to market products in various foreign markets.

Packaging adaptation may be necessary to protect the product because of differences in climate or a longer than average time spent in the distribution channel. Labeling may have to be adapted because of language differences, the need to inform consumers, and government requirements. Warranties are guarantees the manufacturer gives to customers in case the product fails to perform up to level stipulated. For certain products, offering worldwide after sales service is crucial.

Pricing is particularly critical and complex variable in overseas marketing strategies as it affects an organization's ability to stay in the market. Usually international marketers employ three parameters in arriving at a price decision: costs, demand & supply and economic, legal and political conditions. A firm may seek information with respect to product, market and other variables. An international marketer can approach

international pricing using either full cost versus variable cost pricing or skimming versus penetration pricing. Price escalation is about the disproportionate difference in price between the exporting and importing country. Some of the factors that contribute towards such differences are: cost of exporting, taxes, tariffs, administrative costs, inflation, exchange rate fluctuations, and middlemen involvement.

Promotion is about communicating with the target customers. It comprises of four pillars, usually referred to as promotional mixes: advertising, sales promotion, personal selling and public relations/publicity. Its main objectives are creation of awareness, interest, desire and action. Its aim can also be informing, persuading and reminding customers about the item being marketed by a particular firm. Advertising is any paid communication of a company's message through impersonal media. The major constraints of advertising include legal consideration, language, cultural diversity, production & cost factors and selecting the agency. An international firm can adopt either standardized or localized approach with respect to its advertising endeavor. Sales promotion is concerned with those selling activities that do not fall directly into the advertising or personal selling category, such as the use of contests, coupons, sampling, premium, cents off deals, and point of purchase materials and so forth.

Personal selling involves personal contact and is more culture bound than impersonal advertising. It is conducted on a national basis. An international marketer has to determine the role personal selling should play in each market. As the sales tasks vary by country, sales management must be decentralized to the national market. It encompasses such activities as recruiting and selecting, training, motivating & compensating and controlling the sales force. Public relation is concerned with image building. Good public relation is a corporate diplomacy- the firm seeking to relate constructively to its various stakeholders to the benefit of both parties. An international marketer can use either direct or indirect channel of distribution to market the products. There are varieties of intermediaries among which a firm can choose one or many.

Self Check Exercise 5

Part I- Multiple Choice Questions

Choose the right answer among the alternatives given

1. An international marketer can
 - A) export the home market product to foreign markets
 - B) adapt the home market product to meet the needs of foreign customers more closely
 - C) develop new products to meet the specific needs of customers in foreign markets
 - D) all of the above
 - E) only A&C

2. Which one of the statements below is incorrect about product?
 - A) it is a bundle of utilities/ benefits
 - B) it is a collection of physical, service and symbolic attributes which yield satisfaction to users
 - C) customers purchase only the physical attributes of products, not their subjective attributes like image or quality
 - D) all of the above are correct
 - E) none of the above

3. A marketer who exports a product originally designed for a local market to other countries with virtually no change is employing
 - A) adaptation
 - B) standardization
 - C) mass marketing
 - D) segmented marketing
 - E) none of the above

4. Which one of the factors below does not favor adaptation?
 - A) strong cultural differences, language, etc
 - B) variations in ability to buy/income differences
 - C) scale in economies in production, marketing, and R&D

- D) variations in consumer needs and conditions of use
 - E) A&D
 - F) None of the above
5. A product attribute that is associated with intellectual property protection to maintain competitive advantage is
- A) product piracy and counterfeiting
 - B) brand protection
 - C) brand extension
 - D) labeling
 - E) None of the above
6. Identify a wrong statement among the following
- A) adopting global branding imparts the advantage of economies of scale in advertising
 - B) brand protection requires getting registered the brand in the countries of interest with appropriate authorities
 - C) In international branding, the manufacturer supplies the goods but the retailer sells such goods under its own names.
 - D) Private branding provides a quick and relatively low cost approach to penetrating foreign markets
 - E) None of the above
7. warranty gives all the following benefits except____
- A) serves as a competitive tool
 - B) a good warranty policy differentiates the product in market place
 - C) helps in gaining additional business
 - D) enhances customers' confidence in the product
 - E) None of the above
8. Which one of the following is correct?
- A) costs represent the floor beyond which prices cannot be dropped

- B) too high a price may mean no business, while a lower price may lead to unprofitable operation
 - C) if there is high demand in the market place and large number of suppliers are there, the greater will be the discretion of the seller in setting price
 - D) if there is fierce competition, the seller's discretion in determining price will be higher
 - E) A&B
 - F) C&D
- 9.** A skimming pricing strategy would be advisable
- A) When the objective is to reach a segment of a market that is relatively price sensitive and hence willing to pay a premium price
 - B) When limited supply exists
 - C) When the product is innovative and the firm is the only seller
 - D) All of the above
 - E) Only A&C
- 10.** Which one of the factors below is not among the constraints of international advertising?
- A) Language
 - B) Cultural diversity
 - C) Production and cost factors
 - D) Legal consideration
 - E) None of the above
- 11.** The easiest method for setting advertising budgets is
- A) percentage of sales method
 - B) comparative parity approach
 - C) objectives and task method
 - D) comparative analysis method
 - E) None of the above

12. The most credible mix of promotion is

- A) personal selling
- B) advertising
- C) sales promotion
- D) public relation/publicity
- E) None of the above

13. The advantages of indirect channel include

- A) helps retain control of the marketing of the items
- B) the manufacturer incurs no start up cost of the channel
- C) it is simple and inexpensive
- D) all of the above
- E) all except A

14. Channel selection process involves

- A) Establishing objectives
- B) Establishing feasible channel alternatives
- C) Evaluation of alternative channels
- D) Choosing the channel
- E) All of the above
- F) All except D

PART II- True or false Questions

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

- 1) Product adaptation becomes appropriate when a consistent company or product image is needed and product uniformity is required.
- 2) Any influence that the country of manufacturing has on a consumer's positive or negative perception of the product shows country of origin effect.
- 3) Primary considerations in packaging are providing information to the consumers and the use of multiple languages.

- 4) A firm which is concerned only with the marginal or incremental cost of producing goods to be sold in overseas marketing while making pricing decisions is said to be employing variable cost approach.
- 5) Price escalation is the disproportionate difference in price between the exporting country and the importing country.
- 6) The prime objective of sales promotion is creation of awareness, interest, desire and action.
- 7) Media coverage implies the number of people who are collectively exposed to different media like press, television, radio, and others.
- 8) Public relation is not marketing, but good public relation is highly essential to marketing success.
- 9) A manufacturer's export agent or sales representative can present some problems to the manufacturer because an agent does not offer all such services as advertising, credit assistance, repair, installation and the like.
- 10) A variety of product characteristics have no effect on the selection of channels of distribution through which the products would be transported to users.

Answers to Self Check Exercises

Self Check Exercise 1

Part I-Multiple Choice Questions

- | | |
|------|-------|
| 1. E | 7. B |
| 2. C | 8. E |
| 3. E | 9. A |
| 4. D | 10. E |
| 5. A | 11. D |
| 6. C | 12. D |

Part II-True or False Questions

- | | |
|----------|----------|
| 1. False | 4. False |
| 2. False | 5. True |
| 3. True | 6. True |

Self Check Exercise 2

Part I -Fill in the Blank

- | | |
|-----------------------|-------------------|
| 1. IBRD | 6. Confiscation |
| 2. World bank | 7. Nationalism |
| 3. Balance of payment | 8. Damping |
| 4. Boycotts | 9. Common law |
| 5. Aesthetics | 10. Domestication |

Part II- Multiple Choice Questions

- | | |
|------|------|
| 1. A | 5. C |
| 2. B | 6. D |
| 3. D | 7. E |
| 4. A | 8. B |

Self Check Exercise 3

Part I- Multiple Choice Questions

- | | |
|-------------|-------------|
| 1. D | 6. E |
| 2. E | 7. E |
| 3. B | 8. E |
| 4. D | 9. A |
| 5. B | |

Part II- True or False Questions

- | | |
|-----------------|-----------------|
| 1. True | 4. False |
| 2. True | 5. True |
| 3. False | 6. False |

Self Check Exercise 4

Part I- Matching

- | | |
|-------------|--------------|
| 1. C | 6. G |
| 2. D | 7. J |
| 3. A | 8. H |
| 4. F | 9. E |
| 5. B | 10. I |

Part II- Multiple Choice Questions

- | | |
|-------------|-------------|
| 1. F | 5. B |
| 2. D | 6. E |
| 3. B | 7. B |
| 4. E | 8. C |

Self Check Exercise 5

Part I- Multiple Choice Questions

- | | |
|-------------|--------------|
| 1. D | 8. E |
| 2. C | 9. D |
| 3. B | 10. E |
| 4. C | 11. A |
| 5. A | 12. D |
| 6. C | 13. E |
| 7. E | 14. E |

Part II- True or False Questions

- | | |
|-----------------|------------------|
| 1. False | 6. False |
| 2. True | 7. True |
| 3. False | 8. True |
| 4. True | 9. True |
| 5. True | 10. False |

References

Terpstra, Sarathy, (2000), **International Marketing**, 8th ed., India, South Western College Publishing,

Philip R. Cateora, (1999) **International Marketing**, 10th ed., USA, Irwin McGraw Hill,

Philip R. Cateora, (2005) **International Marketing**, 12th ed., India, Tata McGraw-Hill Publishing Company Limited

Jain Subhash C., (2001) **International Marketing**, 6th ed., India, South Western College Publishing,

Arba Minch University
College of Business and Economics
Department of Management

Assignment Material on the Course: International Marketing

Maximum Marks= 30

Course code: Mgmt 2102

Credit hours: 3

Name_____

ID NO_____

Department_____

Semester_____

Center_____

Instructions:

- ◆ This assignment covers the entire module and hence you should make sure that you understand well the chapters covered before proceeding with the assignment
- ◆ The assignment must be submitted to the office of your center on or before

Part I-Multiple Choice Questions (1 point each)

Choose the right answer among the alternatives given and write the letter of your choice on the space provided to the left of each question.

- _____1) Which one of the following correctly describes regular foreign marketing stage of international marketing involvement?
- A. The company does not actively cultivate customers outside national boundaries
 - B. The company seeks markets all over the world and sells products that are a result of planned production for markets in various countries

- C. The firm has permanent productive capacity devoted to the production of goods to be marketed on a continuous basis in foreign markets
- D. The primary focus of operation and production is to serve foreign market needs
- E. Firms treat the world, including their home market, as one market
- F. None of the above

_____2) Which one of the statements below is incorrect about a firm that adopts ethnocentric orientation?

- A. It considers that the product, marketing strategies, and techniques applicable in the home market are equally applicable in the overseas markets
- B. It looks foreign markets merely as extension of the home market
- C. It organizes its international marketing activities on country by country basis
- D. It adopts a world wide approach to marketing and its operations become truly global in character
- E. A&B
- F. C&D

_____3) _____ is sometimes used as an entry strategy when there is no commercial transaction between two countries because of political reasons.

- | | |
|---------------------------|----------------------------|
| A. Joint venture | D. Wholly owned subsidiary |
| B. Licensing | E. Strategic alliance |
| C. Third country location | F. None of the above |

_____4) Which one of the statements below is incorrect?

- A. The importance of market research is much more high for international marketing than for domestic marketing
- B. Administration of activities is relatively easy for international marketing than for domestic marketing
- C. Adapting products is very essential for an international marketer than for domestic marketer
- D. All of the above
- E. None of the above

- _____5) Ato Kibret, Marketing Manager of Brothers' Limited Company, has come across with a demand that is not satisfied as there is no product in the market that can satisfy the demand through his market research endeavor. Such types of demand is known as
- A. Latent demand
 - B. Existing demand
 - C. Incipient demand
 - D. A&C
 - E. None of the above
- _____6) The primary reason for the existence of WTO (World Trade Organization) is
- A. providing a framework for multilateral trade negotiations
 - B. providing funds and technical assistance to facilitate economic development of its member countries
 - C. promoting international monetary cooperation
 - D. Facilitating the expansion of international trade and exchange rate stability
 - E. All of the above
 - F. None of the above
- _____7) Which one of the statements below is false?
- A. Quota is a tax imposed by a government on goods entering at its borders
 - B. Tariffs can be used as a revenue generating tax or to discourage the import of goods
 - C. Blocked currency is one of the monetary barriers that is used as a political weapon or as a response to difficult balance of payment situations
 - D. Tariffs put an absolute restrictions on the quantity of a specific item that can be imported
 - E. None of the above
- _____8) Identify the right statement among the following
- A. Values that are important to one group of people are equally important to other groups as well
 - B. Cultural differences minimally affect marketing and hence it is not important for international marketers to be familiar with the culture of target customers

- C. Culture includes all learned behavior and values that are transmitted to an individual living within the society through shared experience
- D. All of the above are correct
- E. None of the above

_____9) Which one of the statements below is correct?

- A. A culture most backward in the eyes of others can foster certain pride in its people about its traits and ways
- B. Cultural pride and prejudice can lead people to reject foreign ideas and imported products
- C. If perception of greatness is attributed to another culture, it may lead to eager acceptance of things reflecting that culture
- D. All of the above
- E. Only A&B

_____10) The most serious political risk that results in seizing of a company's assets without payment by a government or other concerned body is

- | | |
|------------------|----------------------|
| A. Expropriation | D. Tax control |
| B. Confiscation | E. Local content law |
| C. Domestication | F. None of the above |

_____11) A nonbinding agreement between parties that is employed to resolve international disputes by asking a third party to mediate differences is known as

- | | |
|-----------------|---------------|
| A. Mediation | D. Litigation |
| B. Arbitration | E. A&C |
| C. Conciliation | F. B&D |

_____12) Which one of the statements below is correct?

- A. The piracy industry has grown so sophisticated and many counterfeit goods are almost impossible to distinguish from the original
- B. Companies that introduce innovative products to various markets should keep a constant watch against piracy and counterfeiting

- C. The failure to protect intellectual property rights adequately in the world marketplace can lead to the legal loss of rights in potentially profitable markets
- D. Counterfeits and piracy of intellectual property constitutes outright theft
- E. All of the above are correct
- F. All except C

_____13) One of the export documents that is unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain amount to or to the order of a specific person or bearer is referred to as

- | | |
|---------------------|-----------------------|
| A. Letter of credit | D. Packing list |
| B. Bill of lading | E. Commercial invoice |
| C. Bill of exchange | F. None of the above |

_____14) A type of letter of credit that contains an authorization by the issuing bank to the advising or confirming bank to make advances to the beneficiary before presentation of documents is

- | | |
|----------------------------------|-----------------------------------|
| A. Transferable letter of credit | D. Green clause letter of credits |
| B. Red clause letter of credits | E. Straight letter of credits |
| C. Revocable letter of credits | F. Negotiable letter of credits |

_____15) In _____ arrangement the buyer bears all the transportation costs and the risk of loss of goods.

- A. FOB
- B. FCA
- C. FAS
- D. CIF
- E. CIP
- F. None of the above

_____16) Which one of the statements below is true?

- A. Market forecast refers to the total market demand under optimal conditions
- B. Market potential shows the expected level of market demand under the given conditions.
- C. Collecting information for marketing research from primary sources is more easier than collecting it from secondary sources
- D. An international marketing researcher is supposed to collect information regarding only the four Ps
- E. None of the above

_____17) Which one of the following is true?

- A. International marketing control can seldom be as complete as control of domestic operations
- B. The cost of the control system must commensurate with the benefits accruing from it
- C. Both financial and non financial performance measures can be used to evaluate the performance of subsidiaries by a MNC
- D. All are correct
- E. Only A&D are correct

_____18) A multinational company which deals with such products as musical recordings, works of art, books, and motion pictures that are difficult to modify should advisably use

- | | |
|-----------------------------|-----------------------------|
| A. Standardization strategy | D. Niche marketing strategy |
| B. Adaptation strategy | E. None of the above |
| C. Market segmentation | |

_____19) Chala usually prefers jeans that are made in Turkey to those made in other countries regardless of whatsoever may be their quality. His behavior can be attributed to

- | | |
|-----------------------------|----------------------|
| A. Country of origin effect | D. Global branding |
| B. Brand preference | E. B&D |
| C. National branding | F. None of the above |

_____ 20) Which one of the statements below is false?

- A. A multinational company ought to use skimming pricing when the objective is to reach a segment that is willing to pay higher prices
- B. When the product a firm offers to the market has little substitutes, employing penetration pricing is highly recommended
- C. Skimming pricing is an ideal strategy for a company that wants to stimulate market growth and capture market share
- D. Prices have to be set at a point at which value received by customers is equivalent to the price paid to get those values
- E. A&D
- F. B&C

Part II- Discussion Questions (2 points each)

Write the answer for this part on the answer sheets attached herewith.

1. Discuss the processes involved in international channel selection one by one.
2. Distinguish between foreign distributor and foreign retailer.
3. What is meant by localized advertising?
4. Thoroughly discuss about cultural borrowing and indicate how it can affect the marketing activities of a multinational company (MNC).
5. Why is bill of lading the most important and valuable document than others that are issued in the course of conducting international trade, especially import and export?