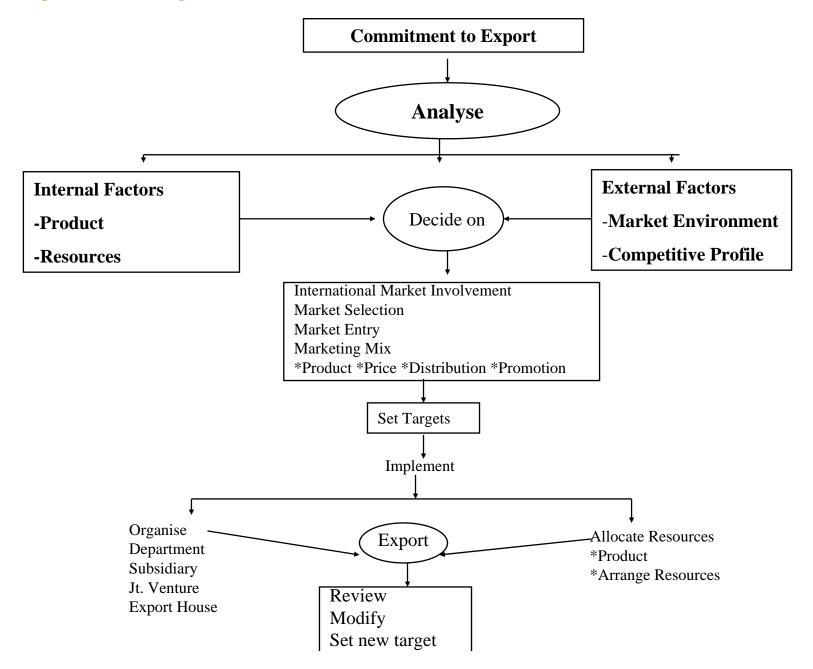
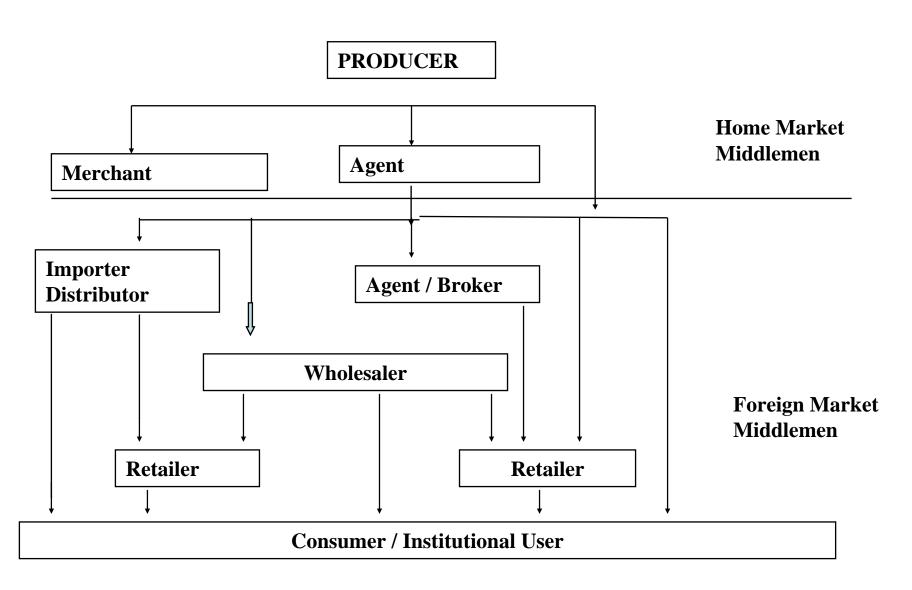
Basics of International Marketing Mode of entry, Product, Positioning, Pricing, and promotion

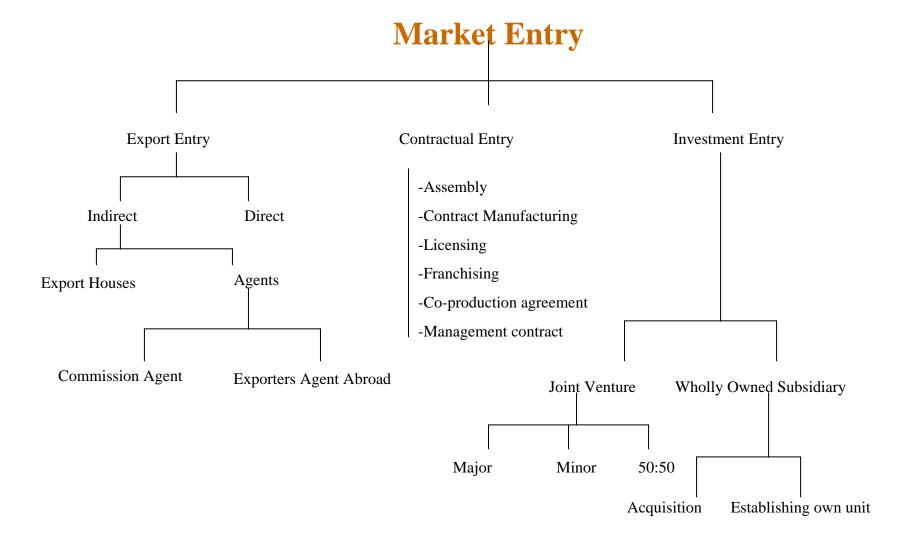
Biswajit Nag
Indian Institute of Foreign Trade
New Delhi
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Steps for Exports



International Marketing/Distribution Channel





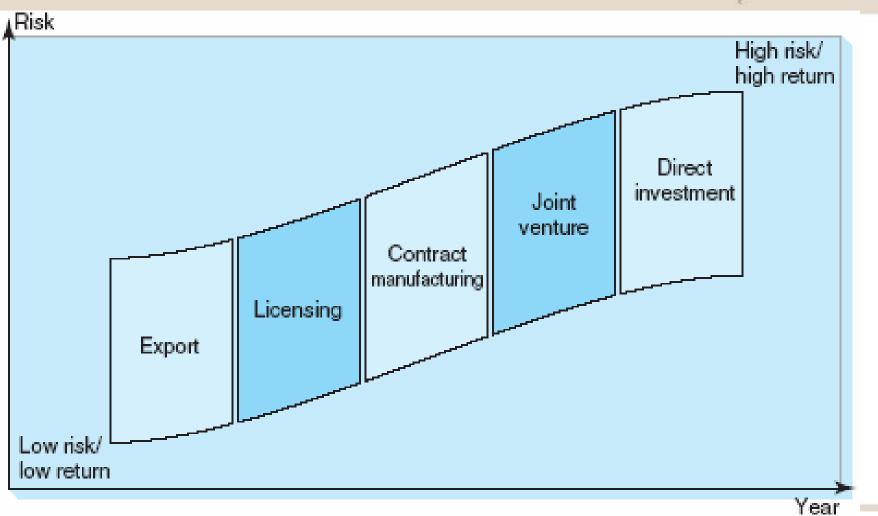
Schematic Model Foreign environments (uncontrollable) Domestic environments Economic Political (uncontrollable) forces forces Political Economic Firm's forces forces characteristics (short-run uncontrollables) Channel Price Competition Size Export Cultural forces Competition volume Cultural forces Firm's Product modification Dealer support export marketing Export competitiveness Export (controllables) Credit Geography and Type of export product Distribution structure Distribution structure

Figure 1.2 Schematic model of the export marketing mix

OHT 1.2

Market Entry Mode and Risk





Which strategy should be used?

It depends on:

- Vision
- Attitude toward risk
- How much investment capital is available
- How much control is desired

Licensing



A contractual agreement whereby one company (the licensor) makes an asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation

Patent

Trade secret

Brand name

Product formulations

Licensing vs Franchising

The primary difference between a franchisee and a licensee is that franchisees can expect to have a much closer relationship with their parent company than their licensee counterparts. Franchisees typically retain rights to the parent company's trademark and logo. This is important because it is a visible representation of the connection between franchisor and franchisee.

The relationship between licensees and the licensing company is looser than the relationship between franchisors and franchisees. In most cases, the licensee does not retain rights to use the company's trademark. Instead, the licensee is expected to establish its own identity in the marketplace.

License opportunities are often less expensive than franchises in both the upfront investment and ongoing fees. Once the licensee launches the operation, the relationship with the licensing company is frequently limited to purchasing products whereas franchisees can expect to pay royalties on a go-forward basis.

Franchise





Franchising Questions



- •Will local consumers buy your product?
- How tough is the local competition?
- Does the government respect trademark and franchiser rights?
- Can your profits be easily repatriated?
- Can you buy all the supplies you need locally?
- Is commercial space available and are rents affordable?
- Are your local partners financially sound and do they understand the basics of franchising?

Investment

- Partial or full ownership of operations outside of home country
 - Foreign Direct Investment
- Forms
 - Joint ventures
 - Minority or majority equity stakes
 - Outright acquisition

Joint Ventures

 Entry strategy for a single target country in which the partners share ownership of a newly-created business entity

How to Choose a Strategy?

- Two errors that management makes in choosing a strategy
 - NIH (Not invented here) syndrome means managers ignore the advancements of subsidiaries overseas
 - Managers impose policies upon subsidiaries because they assume what is right for customers in one market is right in every market

How to Choose a Strategy?

- Cave Dweller new products launched internationally to dispose of excess production
- Naïve Nationalist company recognizes growth opportunities outside of home market
- Globally sensitive company views world as competitive marketplace

How to Choose a Strategy?

- The product itself, defined in terms of the function or need it serves
- The market, defined in terms of the conditions under which the product is used, preferences of potential customers, and ability to buy the product
- Adaptation and manufacturing costs the company will incur

Basic Product Concepts

- A product is a good, service, or idea
 - Tangible Attributes
 - Intangible Attributes
- Product classification
 - Consumer goods
 - Industrial goods

Product Types

- Buyer orientation
 - Amount of effort expended on purchase
 - Convenience
 - Preference
 - Shopping
 - Specialty

Country of Origin as Brand Element

- Perceptions about and attitudes toward particular countries often extend to products and brands known to originate in those countries
 - Japan
 - Germany
 - France
 - Italy

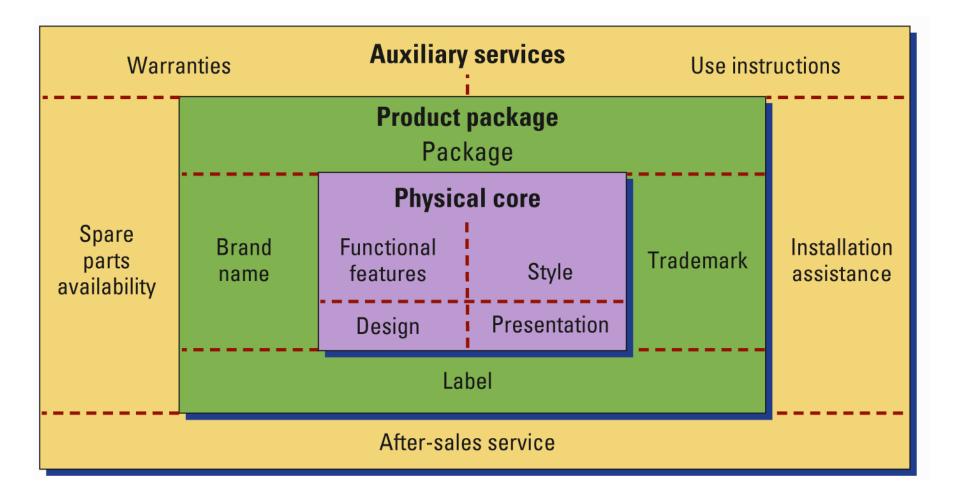
Extend, Adapt, Create: Strategic Alternatives in Global Marketing

- Extension offering product virtually unchanged in markets outside of home country
- Adaptation changing elements of design, function, and packaging according to needs of different country markets
- Creation developing new products for the world market

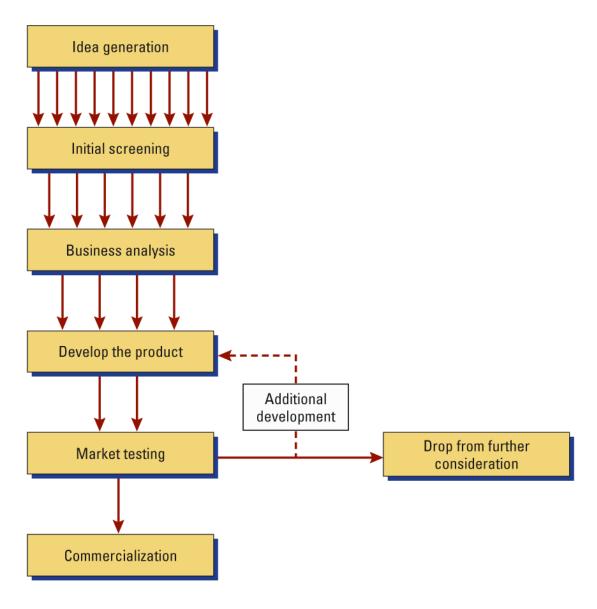
Global Product Planning: Strategic Alternatives

Communication **Product** Same Different Strategy 2: Strategy 4: **Product Extension Dual Adaptation** Different Communication Adaptation Strategy 3: Same Strategy 1: **Product Adaptation Dual Extension** Communication Extension

Product Decision



Dimensions of a product



New product decision process

1. Societal factor

- (a) Legality: product liability
- (b) Safety: usage hazards
- (c) Environmental impact: pollution potential
- (d) Societal impact: benefit to society

2. Business risk factor

- (a) Functional feasibility: work as intended
- (b) Production feasibility: technically feasible
- (c) Stage of development: prototype development
- (d) Investment costs: development costs
- (e) Payback period: time to recover investment
- (f) Profitability: profit potential
- (g) Marketing research: necessary market information
- (h) Research and development: production development

3. Demand analysis

- (a) Potential market: size of total market
- (b) Potential sales: economies of scale
- (c) Trend of demand: growth of demand
- (d) Stability of demand: demand fluctuation
- (e) Product life cycle: expected length of cycle
- (f) Product line potential: potential for additional products, multiple styles, and so on

Evaluative criteria for screening new product ideas

4. Market acceptance factor

- (a) Compatibility: existing attitude compatibility
- (b) Learning: degree of learning for proper usage
- (c) Need: level of need/utility provided
- (d) Dependence: dependence on other products
- (e) Visibility: difficulty in communicating benefits
- (f) Promotion: cost to communicate benefits
- (g) Distribution: cost of distribution channels
- (h) Service: cost to provide after-sales service

5. Competitive factor

- (a) Appearance: perceived competitive superiority
- (b) Function: perceived usage relative to competition
- (c) Durability: perceived durability relative to competition
- (d) Price: selling price relative to competition
- (e) Existing competition: level of existing competition
- (f) New competition: potential level of new competition
- (g) Production: patentability or secrecy protection

Evaluative criteria for screening new product ideas (continued)

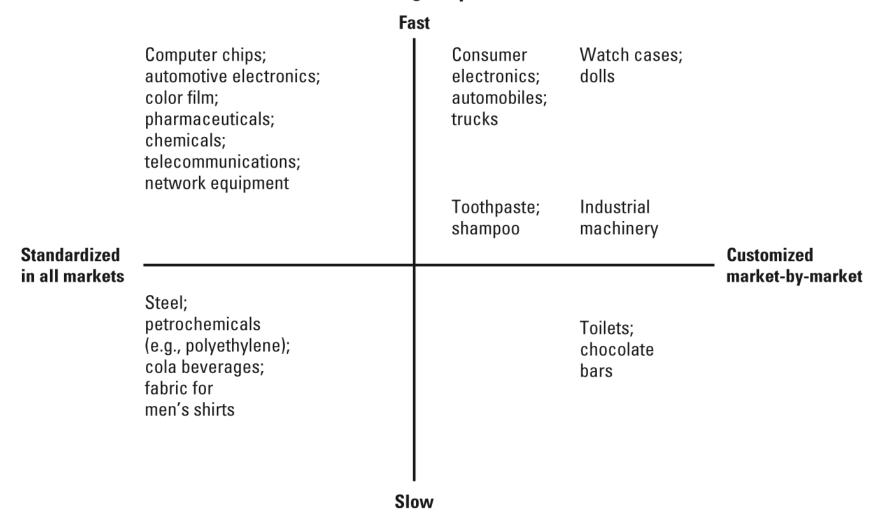
	Product				
		No change	Modified	Technology change	
		No change	Face lift	Inconspicuous substitution	
Marketing	No change	No change	Appearance Costs	TechnologyMaterialsManufacturing	
	Re-mix	Remerchandizing	Relaunch	Conspicuous substitution	
		NamePromotionPriceDistribution	CostsPromotionPriceDistribution	 Technology Materials Manufacturing Name Appearance Promotion Price Distribution 	
		Brand repositioning	Product repositioning	Innovation	
	New market	 Name Promotion Price Distribution Target Competitors 	 Name Appearance Costs Promotion Price Distribution Target Competition 	 Technology Materials Manufacturing Promotion Price Target markets Competition 	

The phasing continuity matrix

Source: adapted from Saunders (n.d.), p. 25

Product life cycle

Rate of change of product



Market requirements and product characteristics

	Globalize when:	Adapt when:
Competitive factors		
Strength of competition	Weak	Strong
Market position	Dominant	Nondominant
Market factors		
Homogeneity of consumer preferences	Homogeneous	Heterogeneous
Potential for growth of currently small		
segments	Low	High
Consumer purchasing power	Uniform	Varied
Willingness of consumers to pay for		
differentiated products	Low	High
Need satisfied by product in markets served	Shared	Individual
Conditions of use	Uniform	Varied
Product factors		
Importance of scale economies in		
manufacturing	High	Low
Opportunities to learn from small-scale		
production of innovative products	Low	High
Type of product	Industrial	Consumer
Codes and restrictions	Uniform	Varied
Companies factors		
Scope of international involvement	Many or large markets	Few or small
Company resources (financial, personnel,		markets
production)	Limited	Abundant

Factors to consider for global product strategy

Source: Rosen, 1986

Companion Products

- Products whose sale is dependent upon the sale of primary product
 - Video games are dependent upon the sale of the game Console
- "If you make money on the blades you can give away the razors."





X-Box Game System and Sports Game

Pricing Decision

Customer economics:

Will the decision maker pay for the product himself?

Is the cost of the item a substantial percentage of the total expenditure?

Is the buyer the end user? If not, will the buyer be competing on price in the end-user market?

In this market, does a higher price signal higher quality?

Customer search and usage:

Is it costly for the buyer to shop around?

Is the time of the purchase or the delivery significant to the buyer?

Is the buyer able to compare the price and performance of alternatives?

Is the buyer free to switch suppliers without incurring substantive costs?

Competition:

How is the offering different from competitors' offerings?

Is the company's reputation a consideration? Are there other intangibles affecting the buyer's decision?

Factors affecting price sensitivity

Source: adapted from Dolan, 1995, p. 178

Basic Pricing Concepts

- The Global Manager must develop systems and policies that address
 - Price Floors
 - Price Ceilings
 - Optimum Prices
- Must be consistent with global opportunities and constraints

Global Pricing Objectives and Strategies

- Managers must determine the objectives for the pricing objectives
 - Unit Sales
 - Market Share
 - Return on investment
- They must then develop strategies to achieve those objectives
 - Penetration Pricing
 - Market Skimming

Market Skimming

- Market Skimming
 - Charging a premium price
 - May occur at the introduction stage of product life cycle

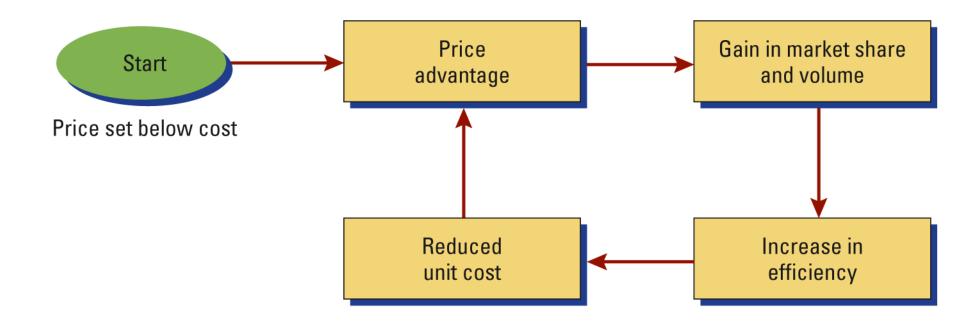


Penetration Pricing



Penetration Pricing

- Charging a low price in order to penetrate market quickly
- Appropriate to saturate market prior to imitation by competitors



Experience-curve pricing

	Domestic market	Export market
Factory price	\$10.00	\$10.00
Domestic freight	<u>1.00</u>	<u>1.00</u>
	\$11.00	\$11.00
Export documentation		<u>0.75</u>
		\$11.75
Ocean freight and insurance		<u>2.25</u>
		\$14.00
Import duty (10% of landed cost)		<u>1.40</u>
		\$15.40
Wholesaler markup (15% on cost)	<u>1.65</u>	
	\$12.65	
Importer/distributor markup (25% on cost)		<u>3.85</u>
		\$19.25
Retail markup (50% on cost)	<u>6.32</u>	9.62
Final consumer price	\$18.97	\$28.87

Cost figures of a consumer product

Source: Terpstra (1988) International dimensions of marketing, 2nd edition. © 1988. Reprinted with permission of South-western, a division of Thomson Learning.

Right Price

- An important determinant of business success.
- Right price does not always mean low price.
- Right price depends upon factors like nature of the market, costs, competition, buyers purchasing power, foreign exchange fluctuations etc.
- Sometimes companies price the product very low with certain specific objectives like market penetration, using price as a strategic marketing variable to achieve the firm's objective. Japanese firms in general aim at building market share rather than early profits.
- Sometimes low price is the result of predatory pricing strategy. This is a practice of temporarily selling at prices below cost with the intension of driving out existing competitors or warding off new competitors.

Pricing Approaches

Major pricing approaches are Cost – based pricing and Market – based pricing.

Cost-based pricing

■Cost based pricing, also known as cost plus pricing, is a common method of pricing. Under this method the price includes a certain percentage of profit margin on the sum total of the full cost of production, marketing costs an allocation of the overheads. That is Price = [fixed cost + variable costs + overheads + marketing costs] + specified percentage of the total cost.

Market-based pricing

- ■When exporters are price followers rather than price setters.
- •Involves assessment of prevailing prices in International Markets and a top-down calculation is made.
- •This is very flexible policy in the sense that is allows the prices to be changed in accordance with the changes in the market conditions. The product may be priced high when demand conditions are very good and the price may be lowered when the market is sluggish if that helps in increasing sales. This method is sometimes referred to as what the traffic will bear method,ie., charging the maximum possible price given the market conditions.

Following Competitors

• Many firms follow the dominant competitors, particularly the price leader, in setting the price. The price leader is the firm which initiates the price trends.

Negotiated Prices

• Deciding the price by negotiations between the seller and the buyer. This is popular with government and institutional purchases.

Customer Determined Price

• In a number of cases, the foreign buyer specifies the price at which he is prepared to buy the product. Whether a price quotation given by the buyer will be acceptable to seller or not will depend on factors like his cost structure, conditions of business, objectives etc.

Marginal Cost Pricing

- Marginal cost pricing approach is common in evaluating the profitability of orders in case of firms with excess (ie., idle) capacity.
- Under the marginal cost pricing, the relevant cost considered for pricing is the variable cost, the fixed cost is excluded from the calculation of the cost of the product.

Positioning

- Locating a brand in consumers' minds over and against competitors in terms of attributes and benefits that the brand does and does not offer
 - Attribute or Benefit
 - Quality and Price
 - Use or User
 - Competition

Positioning Strategies

- Global consumer culture positioning
 - Identifies the brand as a symbol of a particular global culture or segment
- Foreign consumer culture positioning
 - Associates the brand's users, use occasions, or product origins with a foreign country or culture

Positioning Strategies



International Channel Strategies

- Two forms of channel strategy
 - -direct involvement
 - Own sales force, retail stores, etc.
 - -indirect involvement

Independent agents, distributors, wholesalers

Characteristics Impacting on Channel Design and Strategy I

- Customer characteristics
 - customer number, geographic
 distribution, income, shopping habits,
 reactions to different selling methods
 - Need for multiple channels increases as the number of customers increased
- Product characteristics
 - -perishability, service requirements, bulk

Characteristics Impacting on Channel Design and Strategy II

- Middleman characteristics
 - -attitude towards the manufacturer
 - selection & care of distributors & agents
 - distributor & agent performance
 - termination
- Environmental characteristics
 - -economic, social & political dimensions

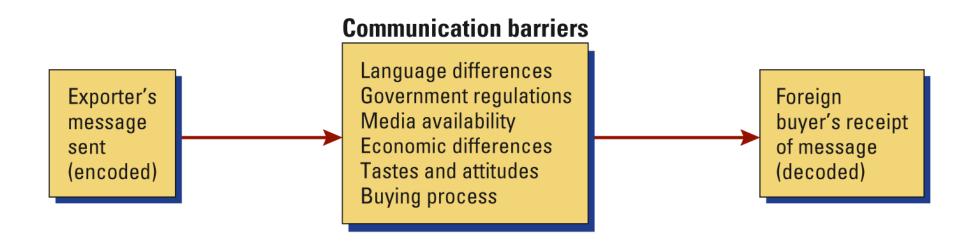
Distribution Channels for Consumer Products

- Door-to-door
- Manufacturer-owned store
- Franchise operations
- Combined structures

Promotion through Marketing Communication

- Marketing communications includes advertising, public relations, personal selling, sales promotion, direct marketing, trade shows and sponsorship
- Either local adaptation or distinct local campaigns may be required

Promotion Strategy



Some barriers to export marketing promotion

Promotion Mix

- 1. Availability of funds for promotion. Different activities have different costs per unit of activity.
- 2. Cost of promotion activities.
- 3. The degree of competition, both short and long term. Usually, the greater the degree of competition, the higher the budget allocation per forecasted product sale.
- 4. The type of product involved, its seasonality, and its price.
- 5. Mode of market entry. When distributors, agents, and partners in alliances are used for entry, they may share the promotion costs with the exporter.
- 6. The type of market. In a highly industrialized country more sophisticated promotion techniques can be used compared with countries of lower educational standard, where there is more reliance on radio communication and illustrated poster sites. Demographic characteristics are relevant.
- 7. The nonmonetary resources available within the company to handle the promotion and their adequacy and cost.
- 8. Size of market, and sizes of various market strata.
- 9. Media availability.

Factors affecting promotion mix

Source: adapted from Branch, 1990, pp. 68–70

Promotion Regulation: Examples

Activity	Germany	France	UK	Netherlands	Belgium
On-pack price reductions	Legal	Legal	Legal	Legal	Legal
Extra product	а	Legal	Legal	a	a
Money-off vouchers	Not legal	Legal	Legal	Legal	Legal
Free prize contest	Not legal	Legal	Legal	Not legal	Not legal
In-pack gift	а	a	Legal	a	a
		1		l	l

^a Being reviewed

Legality of selected sales promotion activities (as of mid-1999)