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

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#### **Steps for Exports**



#### **International Marketing/Distribution Channel**







#### Figure 1.2 Schematic model of the export marketing mix

### 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

Communica	ation Prod	uct
	Same	Different
Different	Strategy 2: Product Extension Communication Adaptation	Strategy 4: Dual Adaptation
Same	Strategy 1: Dual Extension	Strategy 3: Product Adaptation 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	No change	Face lift	Inconspicuous substitution			
Marketing		• No change	<ul><li> Appearance</li><li> Costs</li></ul>	<ul> <li>Technology</li> <li>Materials</li> <li>Manufacturing</li> </ul>			
		Remerchandizing	Relaunch	Conspicuous substitution			
	Re-mix	<ul> <li>Name</li> <li>Promotion</li> <li>Price</li> <li>Distribution</li> </ul>	<ul> <li>Costs</li> <li>Promotion</li> <li>Price</li> <li>Distribution</li> </ul>	<ul> <li>Technology</li> <li>Materials</li> <li>Manufacturing</li> <li>Name</li> <li>Appearance</li> <li>Promotion</li> <li>Price</li> <li>Distribution</li> </ul>			
		Brand repositioning	Product repositioning	Innovation			
	New market	<ul> <li>Name</li> <li>Promotion</li> <li>Price</li> <li>Distribution</li> <li>Target</li> <li>Competitors</li> </ul>	<ul> <li>Name</li> <li>Appearance</li> <li>Costs</li> <li>Promotion</li> <li>Price</li> <li>Distribution</li> <li>Target</li> <li>Competition</li> </ul>	<ul> <li>Technology</li> <li>Materials</li> <li>Manufacturing</li> <li>Promotion</li> <li>Price</li> <li>Target markets</li> <li>Competition</li> </ul>			

Product

The phasing continuity matrix

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



Product life cycle

#### Rate of change of product

Fast Computer chips; Watch cases: Consumer automotive electronics; electronics; dolls color film; automobiles; pharmaceuticals; trucks chemicals; telecommunications; network equipment Toothpaste; Industrial shampoo machinery Standardized Customized in all markets market-by-market Steel; petrochemicals Toilets; (e.g., polyethylene); chocolate cola beverages; bars fabric for men's shirts Slow

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> </u>	<u> </u>
	\$11.00	\$11.00
Export documentation		<u> </u>
		\$11.75
Ocean freight and insurance		<u> </u>
		\$14.00
Import duty (10% of landed cost)		<u> </u>
		\$15.40
Wholesaler markup (15% on cost)	<u> </u>	
	\$12.65	
Importer/distributor markup (25% on cost)		3.85
		\$19.25
Retail markup (50% on cost)	<u> </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.

### **<u>Right Price</u>**

- 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, i.e., 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	а	а
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	а	а

<sup>a</sup> Being reviewed

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