PREFACE

In the curricular structure introduced by this University for students of Post Graduate Diploma Programme, the opportunity to pursue a Post Graduate Diploma course in any subject introduced by this University is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation.

Keeping this in view, study materials of the Post Graduate Diploma level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of proper lay-out of the materials. Practically speaking, their role amounts to an involvement in 'invisible teaching'. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner will seriously pursue these study materials, the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great deal of these efforts is still experimental–in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these do admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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Vice-Chancellor

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Advanced **Diploma in Export-Import Management**

PAPER - 2

Marketing and Sourcing

Course Writing

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Notification

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Open University

Advanced Diploma in
Export-Import Management
Paper - 2

Unit 201 ❒ International Marketing : Basic Concepts

Structure

201.1 Introduction

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201.3 Organisational transition

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201.1 ❒ Introduction

According to the American Marketing Association (AMA) "***international marketing** is the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.*"

In the present days it is almost natural that firms will be searching for the markets beyond their national boarder for marketing. It may not only for distributing the home country overproduction but also with motive of producing in the foreign countries. Previous years saw many large multinational firms went for different country markets for marketing their products but with the progress in technology and communication a number of small and medium firms are also joining the bandwagon for internationalization. Some 'born global' firms are even starting their entrepreneurial journey in the foreign country markets. Truly global companies like Coca Cola, General Motors, Mc Donald, KFC etc are earning profits greater than the Gross Domestic Product of many small countries. However, playing in the international field with a desired market share is not easy. This is primarily because the competition in the distant country market where not only local players are active but at the same time other international giants also putting their best foot forward. Secondly, different marketing environment in different countries requires firms to adapt them quickly which they may find difficult to do in actual practice. Therefore, a firm may be successful in the domestic market but may find it difficult to put a good show in the foreign country market. However, if the firm is successful, the rewards in terms of customer size, revenue etc would be great to cherish. International Marketing management as a subject, therefore, mainly focuses on following two dimensions related to the internationalization of firms.

- **How the practice of marketing varies from country to country?**

Different countries, different people, different choice and preferences make it difficult for a firm to graduate from a domestic player to an international player. A firm, on the internationalizing mode, therefore, must understand the differences in the marketing environment in different countries of interest and then position a marketing plan that best suits the country environment. This may require a complete understanding of the factors responsible for the differences. For example, a religious factor in a country wants that food to be sold in the market must be free from meat products.

- **How much it varies?**

It involves understanding of the distant country market conceptually and finding out the reasons for variance of customers' taste, choice, preference so as a take a strategic decision while developing the marketing mix for the countries. The understanding of the variance is also very important from the point of view that from this exercise the firm understands its ability towards standardization of marketing programme across possible number of countries. In a sense, the more standardization the firm would be able to make across the country markets, the more will be the cost advantages it would get through economy of scale. Understanding the depth of cause of variance would allow the firm either to put the standardized marketing programme across possible number of countries deliberately or customized them in accordance with the requirements.

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201.2 ❐ Historical Perspective

In the past Indian traders set sail from the port of south India carrying with them cinnamon, pepper and other spices and traded in the markets of Java, Cambodia and Bali. Similarly, different countries in order to send off their products and commodities took sea route to reach other countries where markets were available. However, trade between countries became more frequent only after World War II and presumably due to the consequence of the demise of colonialism and the recreation of numerous independent nations with demand for products and commodities of their choice. After the world war II , American companies were pioneer in going to different countries of the world with their products in a bid to win over those markets. European companies, Asian companies later followed to suit to take benefits of cross country marketing. With the progress of time more and more firms from different countries joined the internationalization movements. Historically, so far as marketing practice of these companies is concerned, two distinct phases emerged out.

Multinational Phase: During this phase the companies went out to the countries for marketing their products with the believe that different countries require different marketing strategies in order to win over the local consumers. The companies believed that if a company from England does business in France it not is not only require to understand the local language but , in addition, need to do business in "the French way" by assimilating in to the French socio-cultural, geo-political, and economic conditions. This conversion to 'local' continues to be practiced by many companies, mostly the pioneering US while spreading to other countries. Therefore, an 'English company' took the shape of 'French company' in France, 'Japanese company 'in Japan, 'Chinese company' in China and so on so far as marketing practice is concerned.

Global Phase: As the momentum of globalization paced up with rapid technological development and communication networks, companies found two good reasons for not confining to country market by behaving as 'local'. First, because of globalization now they can plan and develop their businesses at a different level which is not 'local' but regional or may be global even. Second one is pure marketing reason; the consumer segments across the countries are homogenizing globally in parallel with the globalization of manpower, material, money, and information. In other words, businesses worldwide now increasingly need "global standardized approach" under which marketing activities can be conducted in countries in a homogenized manner without much consideration of country specific requirements.

201.3 ❒ Organisational transition

Organisations usually develop through phases from domestic to the global form to take advantage of marketing across the countries of the world. A company may start with a relatively small export base and exporting products to the selected countries of the world. At this stage some company may stop and never get any further than the exporting stage. Some other companies go beyond export and set up own manufacturing plant aboard. In course of time, some of those companies would go global and market their products in many countries of the world with almost not remembering the country where from they initially originated. The successive stages of evolvement and change of the marketing orientation is noteworthy. In the first stage, the company has dominant domestic focus with concentration of all the activities in the home country market. The company at this stage serve the own country consumers and hence does know quite nicely about marketing environment. Usually, being domestic company they enjoy all the government support or so to say, country government frame business rules and regulations keeping them in to mind.

In the second stage the company may resort to exports of products that are primarily produced keeping in mind the home country consumers. The targeted foreign countries are limited at this stage and market selection for exporting is not strategic to start with. A separate export division is created for the purpose who reports to the home country oriented managers managing the company.

In the third stage, companies who get benefits of operating in the foreign markets may think of extending exports further to other countries. With the increase of number of countries the complexities also increases. The approach of extending home country based marketing programme may no longer work in favour of the company in some countries. The company may find that in order to be a successful marketer the marketing mixes requires adaptations in some countries. The home country oriented manager of the organisation has no clue what marketing mix modification exactly suits the customers' of the foreign countries. The export based division often, in that circumstances, may fail to deliver results at par with the expectation of the company.

In the fourth stage, the companies finally think of shifting its marketing orientation from home country orientation to an international one. At this stage the companies learns to think of different country environment and endeavours to develop marketing mix according to the country specific requirements. The companies, in order to understand foreign country well, may think of opening foreign branches and induct managers who are conversant with international business operations.

In the fifth stage, the companies recognise that markets around the world consist of similarities and differences and with due consideration to the difference also it is possible to develop a global marketing strategy based on similarities to obtain certain degree of scale economics. The cost effectiveness resulted from the scale economics are endeavoured to be used in achieving super competitiveness in the global market through state of the art R&D, global brand building, innovation etc.

Table 1.1 Stages of domestic to global evolution

Management emphasis	Stage one Domestic	Stage two Export	Stage three International	Stage four multi Domestic	Stage five global
Focus	Domestic	Ethnocentric	Polycentric	Polycentric	Geocentric
Marketing strategy	Domestic	Extension	Adaption	Adaption	Extension
Structure	Domestic	International	International	Worldwide area	Adaption creation matrix/mixed
Management style	Domestic	Centralised top down	Decentralised bottom up	Decentralised bottom up	Integrated
Manufacturing stance/marketing office	Mainly domestic	Mainly domestic	Host country	Host country/ selected foreign country	Lowest cost worldwide
Investment policy	Domestic	Domestic used worldwide	Mainly in few host country	Mainly in each host country	Cross subsidization
Performance evaluation	Domestic market share	Against home country market share	Each host country market share	International market share as a whole	Worldwide

201.4 ❐ International Marketing –benefits

201.4.1 New Market Entry & Growth

A company may lookout for opportunities to expand in new markets proactively. for different reasons. One pivotal reason is that the company has developed a new innovative product and hence desire to expand marketing arena. Another common reason is that home country market has become too saturated for the existing product and some foreign markets still not exposed or less exposed with the product. For some companies, this is a proactive move to expand to foreign markets for neither of the above two reasons. It is simply expand in to new territory to get more consumers in different country markets and expansion of consumer base. Mostly, the companies from developed countries and dealing with mass consumer products initially felt the need of expansion to foreign markets in search out of consumers as domestic population was not enough to sustain the fixed cost of doing business. The American Gerber baby Food Company was forced to get into foreign markets as number of babies took birth in the home country was not enough to sustain the marketing need of the company. However, some companies dealing with seasonal products find that a domestic market has not been sufficiently large to evacuate their large seasonal production and hence look for international markets.

201.4.2 Gaining Scale and Scope Returns at Home

When markets are expanded to different countries, the customer size is expected to be bigger which a company will be catering to. When products are produced in a large scale in a mass production system, the company is expected to enjoy the scale economics. Economies of scale refer to the cost advantages that an enterprise obtains due to fall in producer's average cost per unit as the scale of output is increased. "Economies of scale" is a long run concept and refers to reductions in unit cost as the size of a facility and the usage levels of other inputs increase. Increase in market size expected to provide company economies of scale and optimal productivity. It may be noted here that, many international companies have increasingly high fixed costs associated with them; therefore a very large customer base is necessary to make participation feasible and to bring unit costs and prices comparatively down.

201.4.3 Learning from a Leading Market

Leading markets have the most advanced technologies and the most demanding consumers for the designated product categories. For example, Japan is lead country market for electronics products. In many leading markets, the potential for significant market share is not present, but market participation there provides an opportunity for honing the marketing mix, keeping up with the latest breaking trends and developments, so that this knowledge may be transferred throughout the organization's other operations and markets. Avoiding leading markets takes a big competitive risk.

201.4.4 Pressurising Competitors

Bharti Airtel Limited put considerable marketing effort in India to fight out competition from other companies like Vodafone in India market. Later Bharti Airtel Limited took a giant step towards becoming a global emerging market telecom operator by completing the acquisition of Zain Group's ("Zain") mobile operations in 15 countries across Africa for an enterprise valuation of USD10.7 billion. With this acquisition, Airtel became the first Indian brand to go truly global with a footprint that covers over 1.8 billion people. Geographic spread wise, Airtel's operations has also expanded in 18 countries across Asia and Africa with a customer base of over 180 million. Airtel with international market participation reckoned to be the fifth largest mobile operator in the world on a proportional subscriber basis and hence putting considerable pressure on the competitors like Vodafone, Aircel, Reliance Communications ,local partnerships of Japan's NTT DoCoMo, Abu Dhabi's Etisalat, Norway's Telenor and Russia's Sistema in the home country market. Internationally also it is fast becoming competitors to many international big brand.

201.4.5 Diversifying Markets

Companies may not like to confine in one country because of country specific risks effecting business. Participation in various countries may give them benefit in long run in case of high risk situation evolved in one country. It can survive then with the less risky country markets. For example, a company operating in country A engulfed with economic and business recessions may depend on country B a breathing space.

201.4.6 Learning how to do Business Abroad

Participating in markets which require cultural and other adaptations refines global marketing skills. Entering a "prototype" market where skills learned are directly transferable to other similar and desirable markets increases long-term prospects of success.

201.5 ❐ Drivers of International Expansion

Companies in most of the countries are getting encouragement from their respective country government towards internationalization. Sweden is a small country but reaping economic benefit from its large number of companies successful on the international market. Companies such as Volvo, Saab, Scania, Ericsson, H&M, Electrolux and IKEA are just some of the Swedish names that are showing excellence in different international markets and bringing international trade related benefits to the country. The companies are also feeling that avoiding international expansion could mean not only losing market share but also missing of numerous opportunities created by changes in the international environment.

201.5.1 Drivers in Business Environment

Competition:

Competitive pressure is frequently a driver of internationalization. Either because of competition a domestic company may look out for international expansion to a country where competition is less or intense competition requires a company for multi country presence to retain competitiveness.

Regional Economic and Political Integration

Cultural similarities through common history, language, religion, and subsequent political integration for mutual benefits through exchange of goods and commodities have brought many countries very close. As a result the trade barriers among the member nations have been reduced, business regulation are almost harmonized, currency acceptability has increased. These situations are making company's international expansion easy.

Technology

Improvement in technology related to Media, Web and the Internet has helped companies to see business opportunities in the foreign markets more clearly than ever before. Improvement in communication technology has revolutionized the way many companies conduct business outside and manage them towards profitability.

Improvement in the Transportation Infrastructure

The area of transportation infrastructure is developing day by day. Not only travelling of business executive of companies having multi country interest have become easy but at the same time transportation of goods and commodities have also been revolutionized . This acts as stimulus factor for a domestic company towards internationalization.

Economic Growth

This is one of the primary reasons towards international expansion. Economic growth of many countries has made the people living in those countries much more demanding for newness in products in terms of quality, technologically updated, fashionable etc for which they can also spend. International expansion allows the companies to get these market opportunities encashed.

Converging Consumer Needs

Consumers worldwide are loyal to global brands such as Nestle, Levi's Jeans, etc. Uniform consumers segments are emerging worldwide through convergence of needs and requirements. Companies now can expect similar consumer demand in multi country markets which allow them to standardized their marketing programme across countries.

201.5.2 Firm Specific Drivers

Product Life-Cycle Considerations

Different countries are at different levels of economic developments. A company can take advantage of it through expanding in different countries of different economic development status and thereby prolonging the product life cycle of products. Products that are in late maturity, or even in decline stage in USA , can better off their position by entering into the new markets, say Burkina Faso, where the product would be high in demand.

High New Product Development Costs

Innovative products or new products takes long time and huge expenditure to get developed to the usable stage. For this, it is required to tap large markets covering several countries for long periods to recover costs and to make a profit as well.

Economies of Scale and Cheap Labour

During the maturity stage of the product life cycle, at least , the core product is likely to achieve a standard which is expected to have its markets in the different country markets without any customization specific to a particular country. The company, at this stage may likely to achieve economies of scale in production by marketing across different countries as least cost producer. It may then attempt to still lower price by moving manufacturing operations and facilities abroad, to developing countries in search of significantly lower labour cost.

Learning Plough back

International companies learn from different countries and this learning is expected to benefit the company in retaining competitiveness through developing right marketing strategy. McDonald leant nicely that customers of different countries will be differently placed when it comes to the selection of products though it is offered by a global brand. McDonald has replaced the Big Mac by the Maharaja Mac (which was originally a mutton burger, but is now a chicken burger)for Indian customers, McShawarma (shawarma served in flatbread) and McKebab (kebab served on flatbread) served for Israeli customers in Israel, Japanese menu is dominated by Teriyaki McBurger (Ground pork sandwich with mayonnaise, lettuce, and teriyaki sauce), McArabia is sold in the Middle East, as Ebi-Chiki Set (2 shrimp nuggets and 3 chicken nuggets) is very popular in Korea. However, not only the company is managing the countries specific difference but at the same ensuring that there difference are kept within 20 percent variation making way for 80 percent standardisation across the 120 country markets it serves.

201.6 ❒ Levels Marketing Involvement

Companies present in the international markets differ in terms on degree of internationalization. A small company of India may be exposed to the international market, like neighboring country of Bangladesh, through exporting of its surplus products after fulfilling domestic requirements. Naturally, the company is comparatively less involved to internationalization since it brings only 15 percent of its revenue. Now, think of another small company located in Kanpur who markets products primarily to about 20 foreign countries and 80 percent of its revenue matures from foreign markets. Obviously the second company, referred here would pay more attention to international business with lot of involvement than the former one. The first company also faces with fewer limitations like requirements of changes in product, price, place, promotion due to change in the country and hence customers' requirements. Consider the case of another big company, say McDonald, marketing in 120 country markets with total involvement in foreign country marketing with the super ability of handling country specific differences.

Now, based on their involvement or dependency in the international market, company would demonstrate their marketing orientation. Export oriented small companies are not expected to pay special attention to the distant customers' need. Such company generally believes in ethnocentric philosophy i.e. what the domestic customers' preference, the same should be the preference for foreign customers. Here we can use the term 'Export marketing' to denote the type of marketing practice resorted by the company in the foreign country.

However, in course of time, say, this company expanded to more countries and started earning substantial revenue from foreign operation but without losing its ethnocentric philosophy i.e. still the company involved in the process of creation , production, distribution, promotion and pricing of products, services based on ideas and experiences of domestic market or at best the regional markets. However, the company would be expanding to different countries of interest with presence of sales offices and subsidiaries in foreign countries or is an active partner in strategic alliances with local companies. It is important to note that, at this stage, international activities are not coordinated across the different countries, or across different regions. However, the company would inclined to act from the headquarter in the home country from where all the activities will be coordinated. The marketing of this type can be termed as 'international marketing'.

At the subsequent stage, it may so happen that the company requires to give a substantial focus on each country customer (when more countries are involved), to the extent that it has stopped to be coordinated by home country based headquarter but instead each country office takes the lead to manage marketing operations of the concerned country. In other words, this company now likes to imagine it almost as a domestic company, located in another country market, fighting to acquire market share in a particular country market. This type of marketing is often referred to as 'multinational marketing'.

'Global marketing', on other hand, just has the connotation of marketing opposite to multinational marketing. It involves in coordination of marketing activities across different countries without focusing primarily on national or regional segmentation. The entire co ordination is looked after or orchestrated by the global headquarter not necessarily located in the country of origin. It creates facilities like production centre, R&D centre etc in the countries of specific interests. Global marketing focuses on the on the emergence of global consumer segments and endeavors to meet their requirements through standardized approach. A company engaging in global marketing has a geocentric philosophy towards internationalization and reaps the benefits through economy of scale.

Unit 202 ❒ International Marketing Environment

Structure

202.1 ❒ Introduction

In general, the international marketing environment consists of all factors which can affect the marketing operation of a company while doing business in a foreign country. These factors are external to the company and largely uncontrollable by regular business management practice. The various environmental factors can be grouped under the broad heads like economic environment, political environment, legal environment, technical environment, institutional environment, pressure group environment, and cultural environment. Each country provides a specific marketing environment to the business organization. In general terms, it would be desired by a company, with presence in multi country markets, to experience a similar set of marketing environment in each country where it operates. But, in practice, it is extremely difficult to have similar marketing environment in different countries. Global companies operate in the midst of these different types of environments prevailing in different countries and very often get their marketing operation effected or influenced by them. They are often forced to take marketing decisions like marketing exchange process, execution, positioning etc to be employed in a specific country that best suit to the specific environment of the country. How far a company would differentiate its marketing strategy across countries of operation would largely depend upon the intensity of country specific opportunities in business terms. However, it involves analysis of each country's specific environment, ascertain similarity or differences across countries where the company has its presence and relate them to the company's overall objective and taking decisions in terms of required standardization or customization of marketing efforts.

202.2 ❒ Environment effecting marketing

The country specific marketing environment can create business opportunities in a country or may diminish it to a large extent. Grupo Exito is a leading international Colombian retailer represented through 262 stores across different countries. The stores sell a wide range of food and non food products through its super market 'Exito' chain of stores. The company had its presence in Venezuela through six hypermarkets and around 32 supermarkets. During 2010, Venezuela began the nationalization of French-Colombian supermarket chain Exito. The government announced that henceforth the Exito in Venezuala would be a "socialist mega-stores." where price speculation and hoarding etc have no place. President Hugo Chavez ordered folding of six occupied stores into a government-run chain dealing with household goods, clothing and footwear at discount prices for the Venezuelan consumer. The pretext of this entire takeover was that Exito hypermarkets illegally speculated and raised prices when the national currency Bolivarian currency was devalued. Changes in the political environment in Venezuala, therefore, made Venezuelan market wiped out from the marketing landscape of the company. The responsible environmental factor was detoriated political environment of the concerned country. Can the company do anything about it? The company can hardly influence the political environment of the country. However, Exito could have benefitted from an early assessment of the environment and hence be readied with remedial measures. German luxury carmaker BMW got the effect of the change of the economic environment in India. BMW witnessed a 45% sales growth in India during 2011 and was expecting a moderate 20% increase during 2012. However, amid present uncertain economic conditions in India, the company was not at hopeful of increased sales. "The Indian market is on the downside and going through a fragile economic environment. The hike in excise and import duty and petrol prices at regular intervals has impacted consumer sentiments as demand has been softening over the past few months," remarked BWM Group India President Andreas Schaaf. The economic environment of a country has super ability to affect the marketing scenario of a company in a specific market. Legislation requiring payment of higher rate of taxes, duties levied on the company may likely to affect pricing of the product. In general, a new law or changes in the existing law can be detrimental to the competitive positioning of the product. Here, the hike in taxes, duties may viewed as a threat, at least in the short run, because it may adds up the cost of making a car, which can reduce sales or profit. The tax hike and reduction of sales, however, might also be viewed as an opportunity to create a new market segment for India. The BMW cars in India can be re positioned as a car with good gas mileage or may be a luxury but environmental friendly car that use alternative fuels such as the electric exclusively for Indian market. However, this re positioning run the risk of missing standardization led scale economics due to customization according to a country specific requirement. Technological environment of country, similarly, provide opportunities to business for a producer who produce them. A favourable technological environment means that the country has the forces quite active that are responsible for development of new technology. Also the country welcome the superior technology oriented products or services, in general, easily accept and has quick diffusion rate. For example, technological environment in Japan is excellent. Toyota and its subsidiary Denso Wave introduced a new technology in 1994 to track vehicles during the manufacturing process known as the QR Code. Unlike the old bar code that was designed to be mechanically scanned by a narrow beam of light, the QR code, and is detected as a 2-dimensional digital image by a semiconductor image sensor which is then digitally analyzed by a programmed processor. The QR code was immediately proved to be one of the most popular types of two-dimensional barcodes as it allows its contents to be decoded at high speed. In fact, the QR code was accepted in those countries immediately where technology environment was favourable and also got popularity.

Social –cultural environment is also provides very useful understanding to the international marketers. The case of Kellogg, the U.S. cereals giant, demonstrates that it is not only important to understand company's own strength but it is equally important to understand whether that strength matches nicely with the cultural liking of the target market. Kellogg, was initially on entry in to Indian market, during 1995, lured by the prospect of getting in to the breakfast table of a billion breakfast eaters of India. Kellogg's initial offerings in India included cornflakes, wheat flakes and Basmati rice flakes. However, the company saw that even after three years the sales were not increasing. There was even 25% decline in countrywide sales since March 1995, the month Kellogg products had been made available nationally. The reason was investigated to understand that culturally Indian consumers were not accustomed to have cornflakes as breakfast but rather prefers to have traditional "roti and chapati". Kellogg banked heavily on the quality of its crispy flakes. But pouring hot milk on the flakes made them soggy. Indians always boiled their milk unlike in the West and consumed it warm or lukewarm. Indians also wants to spend time for preparing breakfast from every morning rather than a readymade one. The advertising message of the company continuously wanted Indian people to understand and enjoy the benefit of having the convenience of readymade breakfast cereal which failed to resonate well with the Indian mindset.

The important point of this discussion is that international marketers need to understand the marketing environment of the different countries, where it has marketing interest, misunderstand or wrong understanding will not allow making good decisions. Also one critical point to understand here that marketing environment of a country is not static but it changes over time and hence the international marketers must put continuous attention to the changes in the marketing environment of countries of its interest.

202.3 ❐ Marketing and Economic environment

The economic environment of a country has a far reaching effect on marketing. Burkina Faso in Africa is one of the poorest countries in the world with an average income per capita of •250 (US$300) during 2011. It has more than 80% of the population live with subsistence agriculture. The contrast may be seen in Luxembourg, a landlocked country in Western Europe, bordered by Belgium, France, and Germany and with the world's highest GDP (nominal) per capita of US$ 80119(International Monitory Fund estimate). It has very less population engaged in agriculture except some small, family-owned farms. Luxembourg has a population of over half a million people in an area of approximately 2,586 square kilometres where as Burkina Faso has population of more than 15,757,000 in an area of size is 274,200 square kilometers. Global company like Coca Cola markets in both the countries but its marketing style will be influenced by the economic environment of the country. Coca-Cola tailors their marketing efforts based on the country's economic status. In the 2009 annual report, the company noted that: We have disciplined marketing strategies that focus on driving volume in emerging markets, increasing our brand value in developing markets and growing profit in our most developed markets. In emerging markets, we are investing in infrastructure programs that drive volume through increased access to consumers. In developing markets, where consumer access has largely been established, our focus is on differentiating our brands. In most developed markets, we continue to invest in brands and infrastructure programs, but at a slower rate than revenue growth. The economic trends generally affect the size and needs of various markets mainly due to the purchasing power of their population and therefore variation in their need and wants.

202.3. 1 The Economic Development Disparity

In the post world war era, countries of the world were seriously involved in the business of economic development. Many countries adopted policies of economic liberalization in order to stimulate their economies. For example, West Germany's reforms of 1948 put the country in a new path. In general, the western countries, in the mid-20th century, experienced economic prosperity which popularly termed as the postwar economic boom or the long boom. The growth stalled with a serried of crisis thereafter like collapse of the Bretton Woods system in 1971, oil crisis in 1973, stock market crash during 1973–1974 which ultimately led to the 1970s recession. During the period and after, the individual country's economic progress depended on country specific initiatives rather than a generalized pattern of economic growth in some particular region. The rise of economic growth also crossed geographical area like Europe or America and surfaced in some countries, in East Asia, like Japan, Korea during 1980s. However, many countries failed to install the economic development process primarily due to less favorable initial economic, social and political conditions in the postwar era. The reasons for the differences of the economic development in countries were due to the following factors:

1. Resource Endowments:

Some countries were much more endowed with abundant natural resources which could be utilized by the countries for rapid economic development. However, some countries, through resource wise rich but lacked the methods or technology for their exploitation. There were marked difference in skilled human resource endowments in the countries that treaded in the path of development and those who did not. The technology gap between the countries widened more between the countries with the passage of time.

2. Relative levels of per capital income

The lack of technology in some countries led to reduced productivity both in agriculture and in industries. This further contributed in lower per capital income and as a result the disparity in income level between countries increased.

3. Climatic differences

The countries located in the tropical or sub-tropical climatic zone were endowed with a variety of natural resources. Geographically, most of the developed countries are situated in the temperate zone. Initially the process of industrialization and connected life style were copied by the poor countries from rich countries whose climatic condition were totally different. This did not work well in hot and humid climate of poor countries resulting deteriorating soil quality, rapid deterioration of goods, poor health of animals, weakening of the health of workers etc. This created disparities of economic development in different countries.

4. Population size

The rich countries had a slow rise in the population growth in contrast to the poor countries. With the accumulation of the wealth in the rich countries, they also experienced death rate decline. By contrast, the population in the developing countries has been increasing putting excessive pressure on the land availability per capita. This has also affected the agricultural productivity and hence economic progress.

5. Economic Policy

Economic policies followed by different countries were different. The rich countries adopted quite early a more open trade policy so as to connect with the global economy. This also helped them to market their products across different markets of the world and raise the total factor productivity of a chosen technology. In contrast, the poor countries had an early orientation with inward-oriented trade policies. For example, in India, the government adopted the ideology of economic nationalism and self-reliance rather than forging connections with the global economy.

202.4 ❒ Classification of countries

There are many contending classifications of countries from an economic development perspective. They are :

202.4.1 World bank classification

GNI per capita of a country i.e. the dollar value of a country's final income in a year, divided by its population provides an easy indicators that measure the economic environment of a country and hence, of course, a general understanding about the people living in a country. World Bank's classification of countries by income group according to 2008 GNI per capita used the World Bank Atlas method in calculating gross national income i.e. GNI per capita in U.S. dollars for certain operational purposes. The World Bank uses the Atlas conversion factor for the purpose. The purpose of the

Atlas conversion factor is to reduce the impact of exchange rate fluctuations in the cross-country comparison of national incomes. In this method the countries are first grouped in four categories

As of 1 July 2011 low-income economies are those that had average incomes of \$1,005 or less in 2010; lower-middle-income economies had average incomes of \$1,006 to \$3,975; upper-middle-income economies had average incomes of \$3,976 to \$12,275; and high-income had average incomes of \$12,276 or more. This was revised from the previous income standard like low income, \$975 or less, lower middle income, \$976–3,855, upper middle income, \$3,856–11,905, high income, \$11,906 or more

Economy	**July 2010 Classification**	**July 2011 Classification**
China	Lower middle	Upper middle
Ecuador	Lower middle	Upper middle
Fiji	Upper middle	Lower middle
Ghana	Low	Lower middle
Jordan	Lower middle	Upper middle
Lao PDR	Low	Lower middle
Latvia	High	Upper middle
Maldives	Lower middle	Upper middle
Mauritania	Low	Lower middle
Netherlands Antilles	High	..
Solomon Islands	Low	Lower middle
Thailand	Lower middle	Upper middle
Tunisia	Lower middle	Upper middle
Zambia	Low	Lower middle

Source: World bank

Low-income and middle-income economies are sometimes referred to as developing economies. In this listing, “developing” does not imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status.

202.4.2 International Monetary Fund (IMF) Classification

The first IMF classification system divided countries into (1) industrial countries, (2) other high-income countries, and (3) less-developed countries. In the early 1970s, the modified classification system of IMF divided countries into (1) industrial countries, (2) primary producing countries in more developed areas, and (3) primary producing countries in less developed areas. By the late 1970s, the classification system had changed to (1) industrial countries, (2) other Europe, Australia, New Zealand, South Africa, (3) oil exporting countries, and (4) other less developed areas. However, later this classification system was significantly simplified when it introduced a two category system consisting of (1) Advanced Economies and (2) emerging and developing economies developing countries. Rather than being based on strict criteria, economic or otherwise, this classification has evolved over time with the objective of facilitating analysis by providing a reasonably meaningful organization of data. A few countries are presently not included in these groups, either because they are not IMF members, or their economies are not monitored by the IMF, or because databases have not yet been compiled. Cuba and the Democratic People’s Republic of Korea are examples of countries that are not IMF members, whereas San Marino, among the advanced economies, is an example of an economy for which a data base has not been completed.

Advanced Economies: the World Economic Outlook April 2012 listed 34 advanced economies in the world. The seven largest in terms of GDP are: the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada—constitute the subgroup of major advanced economies, often referred to as the Group of Seven (G7).

Emerging and developing economies: The group of emerging and developing economies includes 150 countries who are not classified as advanced economies. The regional breakdowns of emerging and developing economies are (1)central and eastern Europe (CEE), (2) Commonwealth of Independent States (CIS), (2) developing Asia, Latin America and the Caribbean (LAC), (3) Middle East and North Africa (MENA), and (4) subSaharan Africa (SSA). Emerging and developing economies are also classified according to analytical criteria. The analytical criteria reflect the composition of export earnings and other income from abroad; a distinction between net creditor and net debtor economies; and, for the net debtors, financial criteria based on external financing sources and experience with external debt servicing. The detailed composition of emerging and developing economies in the regional and analytical groups is shown in Tables D and E. The analytical criterion by source of export earnings distinguishes between categories: fuel (Standard International Trade Classification—SITC 3) and nonfuel and then focuses on nonfuel primary products (SITCs 0, 1, 2, 4, and 68). Economies are categorized into one of these groups when their main source of export earnings exceeds 50 percent of total exports on average between 2006 and 2010. The financial criteria focus on net creditor economies, net debtor economies, and heavily indebted poor

202.4.3 NIC classification

The term NIC is acronym for "Newly industrialized country" has been extensively used by political scientists and economists to denote the countries whose economies have not yet reached "advanced" or "developed" status but have progressed better than their other developing counterparts. These countries characteristically are keener for industrialization and hence expect to achieve rapid economic growth than their counter parts. The examples of such countries are India, Brazil, China, Malaysia, Philippines and Thailand. Another characteristic feature of NIC countries is export orientation through all round policy support from the respective governments. The other features of NICs are

- Strong political will.
- Industrial economies mostly revolving in the manufacturing sector.
- An increasingly open-market economy, increased number of free trade agreements. e showing allowing free trade with other nations in the world. national corporations operating in several continents.
- Strong capital investment from foreign countries.
- Political leadership in their area of influence.
- Rapid growth of urban centers and population.

202.4.4 UN Classification System

- A United Nations classification contrasts LLDCs (least- developed countries and lowest- income countries) and LDCs(less- developed countries and lower-income countries) to developed countries.
- **Developed countries—** These highly industrialized countries have well-developed industrial and service sectors. In this category fall newly industrialized

countries, as well as countries that have had a developed status for many years. Although these countries present great potential because they have consumers with the highest per capita income, they also present challenges to international firms because their markets are in the maturity stage, consumers have established preferences, and the competition is intense. The World Bank refers to the countries in this category as high-income countries, with a GNP per capita of US$9,266 and above.

- **Countries with emerging markets—**Countries considered emerging markets are both developing rapidly and have great potential. They are countries in Latin America such as Argentina, Peru, Brazil, Uruguay, Paraguay, Chile, Bolivia, to name a few; countries in Asia such as China with its immense market, and India with its substantial middle class; and the transition economies of Central and Eastern Europe, which are rapidly privatizing state-owned industries and adopting market reforms. Important in this category are Big emerging markets (BEMs), which present the greatest potential for international trade and expansion. The World Bank refers to the countries in this category as middle-income countries, with a GNP per capita of US$766 to US$9,265.

- **Developing countries—**Countries in this category are primarily agrarian, have low per capita income levels, and are located in different regions in Asia and in Sub-Saharan Africa. Developing countries are often neglected or under-served by large multinationals and consequently present great potential in niche markets. Even the countries with the lowest per capita income have a stratum of society that can afford global products. Furthermore, because they are primary recipients of international development aid, they present important opportunities for firms operating in the areas of infrastructure development and industrial development, for the related consultancies. The World Bank refers to the countries in this category as low-income countries, with a GNP per capita income of less than US$755.

202.4.5. "Third World Countries" classification

Alfred Sauvy, a French demographer, in an article that he wrote for the French magazine, L'Observateur in 1952, after World War II first coined the word "Third World countries". The terms "First World," "Second World," and "Third World" countries were primarily used to discriminate between countries in respect of their alignment with political ideology like democracy, communism . The terms thereafter were used frequently and hence evolved to level that started referring the levels of economic development of the group of countries.

First World described the NATO (North Atlantic Treaty Organization) countries and their allies, which were democratic, capitalist and industrialized. The First World included most of North America and Western Europe, Japan, and Australia.

Second World described the communist-socialist states. These countries were, like First World countries, industrialized. The Second world included the Soviet Union, Eastern Europe, and China.

Third World described those countries that did not align with either the First World or Second World countries after World War II and generally described less-developed countries. The Third World included the developing nations of Africa, Asia, and Latin America.

Fourth World was coined in the 1970s, referring to the nations of indigenous people that live within a country. These groups often face discrimination and forced assimilation. They are among the poorest in the world.

202.5 ❒ The Political environment of International Marketing

Country specific political system involves government and its politics essentially to manifest the state's sovereignty over a territory and people.The government includes certain formal structures like legislative agencies, for smoothing running of a system of governance. The politics include different parties, lobbying groups, trade unions etc. The political system may be different for different country. Say the country North Korea, is controlled by a single individual or entity. China, on the other hand is run by a single party. Jordan and Saudi Arabia has different system and run by monarch who are ruled by an absolute leader chosen by hereditary means. Iran is ruled by religion-based leadership. In Israel, representatives of the population operating under a political party rule the country. In United States, a number of directly elected representatives chosen by voters run the country. Knowledge of political system is essential for international business as each political system has its own advantages and disadvantages effecting business functions. Many political systems have root in another or variants and has interlinked characteristics. So at this juncture it will be worthwhile for understanding different political systems.

202.5.1 Democracy

Democracy is actually derived from the Greek language and means as much as power to the people. This is the most admired and preferred political system evolved over the years. In this type of political system either people govern themselves in a structure of direct democracy, or there are elected representatives of the people who form the government in a representative democracy. There are few benefits of democracy in relation to doing business in a country. Democracy provides for frequent elections after a specified period of time. This ensures that governments are required to work hard to provide economic benefit to the people or else face the threat of replacement by a new one. Therefore, the government is supposed to implement favourable policies for economic growth and reform so as to stay in power. In the process, if the electorates are satisfied with the popular and pro economic development representative, the candidate may be reelected. Democracy endeavors to ensure that ensures that wealth is fairly distributed and economic deprivation is minimized and hence, in turn, ensures certain amount purchase power every strata of society. Democracy allows for many political parties to compete for power. This gives businesses an opportunity to put their case heard fairly to a like minded party and put them before the government and bring issues in the table, debate on the unfavorable issues with possibilities of rectification, if any.

2.5.2 Direct Democracy

This type of democracy has dominant role of citizen. In a direct democracy, citizens make decisions directly by proposing laws or referendums on laws which are disliked, voting to determine who enters public office, and recalling public officials who are not doing their jobs. A classic example of a direct democracy is the Town Meeting. Town meetings are annual events where all citizens who want to can attend to vote on issues of importance to the community. At a town meeting, citizens might decide how to allocate funds in the community, or they may propose new laws to make the community run more smoothly. Switzerland is the country with long tradition of direct Democracy. The constitution of Switzerland provides the federal legislation. However, the cantons (federal states) decide on aspects that are not adequately covered. Therefore constitution is updated from time to time to take account of changes in society and technology. But participation of citizen is ensured in the process. The constitution may be changed only if an overall majority of the electorate agrees in a referendum and if the electorate of a majority of the cantons agrees, too.

202.5.3 Indirect Democracy

An indirect democracy, on the other hand, uses a small group of officials to make decisions of importance on behalf of their constituents. A well known example of indirect democracy is a house of legislature such as the United States Senate. Members of a legislature are typically elected by constituents, although they may also be appointed, depending on how their government is run. These individuals are expected to make decisions on behalf of all citizens, but the voices of individual citizens are not part of the voting process, although citizens may testify at hearings on laws of interest, and they are encouraged to contact their representatives about issues of concern. Further Indirect Democracy is divided in two types. i.e Presidential democracy & Parliamentary democracy. Presidential democracy is practiced in U.S where as Parliamentary democracy is practiced in India.

202.5.4 Totalitarianism

A totalitarian government basically desires to regulate and control all aspect of private and public behaviour in the country. For that the country may be run with only one political party or one monarch or one dictator. The state may be secular non secular. The inherent characteristics of totalitarianism is philosophical absolutism, leading role of party in the power, and insistence on thought reform in the direction of In other words, totalitarian government pushes for establishing an universal truth in the country in line with official ideology and force for an all-encompassing role of the party even in the public life. Examples in this respect are many. Joseph Stalin, infamous for his campaigns of terror, was totalitarian dictator of the USSR from 1941 until his death in 1953. Thereafter, Soviet Union was under the totalitarian communist government till 1991. The other totalitarian government can be seen in countries like China, or North Korea. The government is in full power and generally means that one person or party holds absolute control and population is excluded from the political process. For example, North Korea has a single-party and is widely considered to be a de facto totalitarian dictatorship. The political system of the country is built upon the principle of centralization. The ruler Kim Jong-il exercises absolute control over the government and the country with allowance of limited freedom of expression and close supervision of people’s way of life. China , in the post Mao regime somewhat left the ‘totalitarian tag’ and moved towards authoritarianism by tolerating some pluralism in social organization, becoming less forceful in mobilizing the entire population in pursuit of national goals and exercising its power relatively in a predictable way. Due to extensive role government the businesses may need to involve government in every aspect of doing business or must be well under the circumference of what is desired is and what not. Wrong move may lead to leaving the country all together even without any petition heard. Doing business requires alignment or at least pretention of alignment with the views and cause of state philosophy. However the state is expected to disciplined and free of workers related problems creating a pro-productive business environment

202.5.6 Socialism

Socialism promotes a political system that believes that all the wealth and capital is owned by the state only or at best commonly owned. Socialist economies are strong believers that production, productive system, allocation of economic inputs are only meant to satisfy the economic demands and human needs rather than profit accumulation in hands of few individuals. Produced goods, profits and other resources are actively distributed based on the principle of individual merit/individual contribution. Socialist took care so that there is no disproportionate distribution of wealth in the society but at the same time ways and means of collective welfare of the people living in the state is achieved. Socialists believe that that capitalism is an illegitimate economic system, since it serves the interests of the wealthy and wealth and wealth accumulation permitted in the capitalist society only make ways for exploitation of lower class of the society and therefore the state has an active role to prevent it. It is difficult to exemplify a pure socialist state today. But a democracy believing in the socialist idea of equality is not uncommon. In India, the largest democracy in the world, most of the organizations and nation as a whole preach for equal right for the common man. It has devised specific government programmes for delivery of resources for the benefit of the common man. Hugo Chavez, the left-wing leader, who has governed Venezuela since 1999, has been trying to create pure Socialism in his own country. Mr Chavez still has strong support, particularly among the poor who have benefited most from his socialist policies, which have seen Venezuela's oil riches spent on services including health and education. Brazil is another example. India and Brazil together to day put a great picture of economic exuberance and provide an attractive destination of doing business to the international businesses. Because of special attention put to do social justice to the common and poor man, these country are expected to have relatively higher tax structure, some cultural rigidity, and anti capitalist pressure group.

202.6 ❒ Political risk

Different authors have defined the term 'political risk', as it is applicable in international business, differently. According to Llewellyn D. Howell1 , "political risk refers to the possibility that political decisions or events in a country will affect the business climate in such a way that investors will lose money or not makes as much money as they expected when the investment was made."

David Schmidt2 defines political risk as "the application of host government policies that constrain the business operations of a given foreign investment." But one think is common –the term political risk, in the context of international business, reflects the host country's political decisions which either directly affect or indirectly would affect the business environment and hence may disturb the foreign business in such a way that the company had to undergo a risky phase leading to even loss of money in the process. The political risk is not, therefore, welcome by the foreign businesses and hence they put every effort for neutralisation. As the countries vary in accordance with their propensity to create disturbance in the business environment emanating from political decisions, the foreign business in a host country also vary in terms of their preparedness to tackle those disturbances. The preparedness depends upon its ability to assess the political situations of the host country correctly as the business entity can hardly do anything to reverse host country's political decision. Though countries plagued with political instability are more prone to provide uncertain situation for international business but this generalisation may not be applicable for all. There may be some small countries reeling under political instability but that political instability is a more a continuous phenomenon affecting the country as a whole with its varied effects in international business. Here, the uncertainty becomes certainty and above all, international business may not have to face host government hostile policies that constrain business operation.

However, in the same way, many big countries may have political stability but can have political risk For example; Google.cn was launched in China during January 2006 with the belief that Chinese population will be increasing their information access through more unrestricted use of internet. Therefore temporarily the company agreed to host countries decision to censor some results while entering in to the country. From 2006 onwards the company carefully monitored the political decisions affecting their business. Then came a situation during 2010 when Google found that a highly sophisticated and targeted attack on their corporate infrastructure originating from China that resulted in the theft of intellectual property from Google. The company found that the host country political 3 regime was not supportive when the matter was taken up with the government officials. The company decided to review the feasibility of our business operations in China with possible shut down Google.cn, and returning back from the country. The example of Google portrays a possible governmental or sovereign interference in the business process of a foreign company leading to loss of revenue. The government interference may also be in terms of confiscation of company property, sudden restriction in currency repatriation to home country, imposing limits to business transactions and so on. Political risk originates not only from government interference as stated above but also occurrences of any political events like communal or racial violence, terrorism, and action of guerrilla groups leading to strategic, financial, or personnel loss for a foreign company.

202.6.1 Classification of political risk

Now it is understandable that different political system exist in different countries of world. The international marketers would, therefore, encounter different political environment in different countries. While doing so, the different environments may put up different political risks emanating from host government policies. For international business political risk can come from many directions. Broadly, based on the sources of such risk, the political risk can be divided in to three categories- expropriation, transfer, and political violence risk.

1. Expropriation risk: This type of risk arise from host government's pressure or action, directly or indirectly, on foreign company's ownership or control pattern, or forceful demand on the company's development rights or facilities or and on its products for the host country's own use. These usually happen under the pretext of the national interest. Nationalisation and domestication are the ugliest face of expropriation where the host country either takes over the control of the foreign company or entrust the property or development rights of the targeted foreign company to a national company. This blatant face of expropriation, in these days, has been reduced considerably. Because any move on the nature of expropriation brings enough bad names to deter foreign investors investing in the country so some countries may move indirectly in executing towards their goal of expropriation in small steps. This 'creeping expropriation' may take different forms like increased regulations, confiscatory taxes, restrictions on the repatriation of currency, changes in exchange rates and forced re-negotiation.

2) Transfer risk: This type of risk is very common for multinationals and arise from uncertain and unclear system of cross-border flows of capital and know-how transfer, unanticipated imposition of capital controls rules both for inbound or outbound, blocked funds, imposition restriction on dividend and interest payments, complex and confusing tax laws etc.

c) Political violence risk: This type of risk refers to losses from damage to, or the destruction and disappearance of tangible assets of foreign company due to politically motivated acts of sabotage and terrorism, strikes, riots, and civil commotion, insurrection , coups d'état and outright war.

202.6.2 Manifestation of political risk in business;

The political risk of any type whether it is macro, micro or global can effect doing business in a host country. Generally, the managers of international business perceive that in political stable, developed countries these risks are comparatively less than the politically instable least developing countries. It is also expected that in a democratic country the political risks would be comparatively less than totalitarian countries. The socialist countries, on the other hand, are expected to perform in a known laid down path and hence political risks in those countries, through high, but predictable. However, in practice, there is no set rule to assess manifestation of political risk in business and therefore it requires continuous profiling of political risk and assessing their impact on business. The major politically designed events that effects doing business internationally are discussed below critically to understand them more closely.

Expropriation risk	Transfer risk	Political violence risk
1. Confiscation	1. Currency Control	1. Unwarranted action by political pressure groups
2. Domestication:	2. Discriminating tax structure	2. Labour unrest due to politics
3. Local Content requirements and import restriction		3. Physical damage to assets from political violence
4. Loss of image due to political transition:		4. Terrorism
5. Politically motivated Cyber attacks		

1. Confiscation:

This is possibly the worst form of manifestation of political risk. In simple sense it is the hostile takeover of foreign company by the host country government without payment. Confiscation generally consider a drastic step of a host country government and therefore most of the previous circumstances of confiscation involved home nation –to- host nation aggression build up also. For example Cuba and USA was at the logger head for a long time and when Fidel Castro came to power the American property was confiscated. In the current days the cases of confiscations are rather not a frequent happening . But some events of the nature are happening in some cover up. For example, Venezuelan government, during October 2011 took over almost 200,000 hectares (494,000 acres) of land owned by British meat company Vestey Foods Group . The government had been in talks for months to buy the Vestey cattle ranches. But after the confiscation Venezuela's President Hugo Chavez declared that It was actually s a friendly agreement and he was very thankful to the owners of the English company who had been in Venezuela for more than 100 years.

2. Domestication:

Domestication is the step which the host country may take to prove its desire for intense nationalization. The domestic companies in a country may be very poor in terms technology resulting weakness, inefficiency and hence unable to compete with foreign companies. The host country may be at that time desperate to upgrade competitiveness of the domestic companies by forcibly acquiring the foreign companies doing business in that country and transfer ownership of the foreign entity in to domestic one. There are no real and long-lasting benefits of confiscation enjoyed by the host country excepting very temporary surge of popularity amongst the support groups of government. Grupo Exito, is the leading Colombian retailer with about 262 stores has good presence in Columbia as that offer a wide range of food and non food products. The majority stake in Exito is owned by French group Casino, while Medellin-based Almacenes Exito SA own 29%. The company had its presence in Venezuela through six hypermarkets and around 32 supermarkets. During 2010 Venezuela began the nationalization of French-Colombian supermarket chain Exito. The government announced that henceforth the Exito in Venezuala would be a "socialist mega-stores." where price speculation and hoarding etc have no place. President Hugo Chavez ordered folding of six occupied stores into a government-run chain dealing with household goods, clothing and footwear at discount prices for the Venezuelan consumer. The pretext of this entire takeover was that Exito hypermarkets illegally speculated and raised prices when the national currency Bolivarian currency was devalued.

3. Currency Control :

Venezuelan currency crisis is a glaring example of this type of political risk. The democratically elected government declared that foreign debt payments and the import of basic foods and medicines were its top priority. The government farther artificially pegged Bolivar at 17% stronger than what it was last traded to US dollar to impose check on movement of foreign currency out of the country. This political risk arises out of ruling government fear of shortage of foreign currency and imported food and medicine cheaper to the countrymen. Earlier the Venezuelan importer of food and medicine had to pay 1,853 bolivars against one US dollar of import but now after pegging of currency outgo of the same importer would be 1,598 boliver only. Under the new currency rules, foreign companies operating in Venezuelan requires registering with the government before they can repatriate profits overseas. A little different manifestation of this tendency of control of foreign currency can see in country like Myanmar. The officially declared Myanmar's currency Kyat (pronounced as 'Chayt') and US dollar exchange rate is 6 Kyat is equal to 1 USD. But just come out of the airport and anyone would have access to many small unofficial money exchangers who will gladly make payment of 120 Kyat for 1 US dollar. Since the country is facing the US sanction for long period of time so it does want to cheek repatriation of profit through exchange rate manipulation officially and unofficially.

4. Local Content Requirements and import restriction:

The foreign company because of its international spread are expected to globally outsource different components to achieve distinctive competitiveness while producing in the host country. How much the company would source locally would depend would surely depend on the company's strategic sourcing decision. But it may not be always true. Locally-sourced expenditures by the foreign company may also be dictated by the local government. Take the case of China in respect of local content requirements of its wind power industry which is in vogue for many years. Any company in the sector manufacturing wind turbine equipment requires using certain percent locally-made components. The imposition of locally content requirement began way back in 2003 and with time it became more stringent. Requirements began with mandating 50 percent local content in 2003, and increased to 70 percent in 2004, where it remains today. In addition, the 70 percent local content requirement now applies not only to the government-run wind concessions, but to all wind farms being developed in China. In automobile sector, different countries stipulates local content requirement differently. In Brazil it is about 60 percent for established automobile manufacturers and 50 percent for newly-established one during the first three years of production and 60 percent thereafter. In fact all the MERCOSUR (Brazil, Argentina, Uruguay and Paraguay) countries regionally stipulate at least 60 percent regional content for automobile manufacturing in the region and the member countries allow trade among them with a 0 percent import duty.

5. Physical damage to assets from political violence

"A war zone," was the correct word to describe the capital city of Cairo during the recent uprising in Egypt. The port city of Suez was devastated due to frequent violent clashes. Foreign ccompanies in Egypt suffered a variety of losses as a result of civil unrest. These crisis effected different companies differently. Some had physical damage to the company property; some had disruption of regular business activities, increased security expenses, temporary housing and relocation and evacuation expenses. The uncertainty on the business horizon prevailed as the military junta took over after suspending the both houses of parliament. The business entities would now expected to get additional problems like changes in the government to business relationships, changes in taxation, licenses, and contract terms, currency fluctuations. During October 2010 Though no one was seriously hurt in a landmark gay-rights march here on October 10, the violence between ultranationalist protesters and police that engulfed the Serbian capital threatens to overshadow a visit by U.S. Secretary of State Hillary Clinton. Nearly 150 people — mostly police officers — were wounded in the rioting, which pitted some 6,000 protesters against nearly that many police and internal security officers. About 250 were arrested in the aftermath of the violence, which saw roving gangs wreak havoc across Belgrade, as entire sections of the city effectively became no-go zones. This is not the first time that far-right, ultranationalist groups have sparked violence in Serbia. In 2008, several hundred protesters attacked the U.S. Embassy in Belgrade after Washington announced its recognition of the erstwhile Serbian province of Kosovo. Later that year, similar elements rioted when Bosnian Serb wartime leader Radovan Karadzic, wanted in The Hague for war crimes, was arrested.

6. Discriminating tax structure

International marketers face great problem if because of political whims the host country discriminate local and international companies in respect of levying tax. About 13 large foreign origins companies said they are concerned with the conditions for doing business in Hungary as the government in its desperation to generate additional revenue made a discriminatory move by raising taxes on selected and mostly foreign-dominated sectors of the economy.

7. Restriction on transfer of profit

Most countries have put rules in place guaranteeing investors an unrestricted remittance of dividends, profits and liquidation proceeds, on condition that payment of taxes and other liabilities has been made according to local regulations. The exceptions include Ethiopia and Mozambique which request prior authorisation for transfer of funds, and South Africa which reportedly imposes requirements in the case where a South African company is fully owned by non-residents. Accepting the obligations of the Article VIII of the IMF's Article of Agreement compels countries to remove restrictions on payments and transfers for international current transactions, and to adopt multilateral payment system free of restrictions and discriminations. Ethiopia, Nigeria and Mozambique have not yet accepted Article VIII. They continue to avail themselves of the transitional agreements of Article XIV, which allows countries to provisionally keep the restrictions they were imposing before joining the IMF.

8. Labour unrest due to internal politics

Foreign companies may face labour problem due to internal politics in a country. Recently in China there were labour unrest in selected foreign companies and government officials found supporting their actions . A number of suicides at Taiwan's Foxconn, which counts Apple, Dell and Sony among its client's had led the company to doubled salaries of the workers. Japan's Honda Honda offered a 24 percent rise in salaries to buy piece its main parts factory Patrick Chovanec, an economist at Tsinghua University in Beijing opined "the companies are concerned about their image at home and abroad, whereas a Chinese subcontractor making soap possibly wouldn't care what the world thought of them." The US fast-food giant KFC agreed a salary rise for 2,000 staff in northern Shenyang city after months of trade union pressure. Suzuki's Indian production facility at Manesar came under a labour unrest which stalled production at engine units of Suzuki Powertrain India and Suzuki Castings in Manesar and two-wheeler unit of Suzuki Motorcycle India in Gurgaon. Generally the domestic companies more closely linked with the local politics and have better connections with government officials. The foreign companies may, therefore, fall prey to the discriminating pattern of labour unrest in foreign countries.

9. Unwarranted action by political pressure groups

In some countries there are pressure groups that look upon the foreign companies as oppressor and against the national interest. They usually garner the huge popular support as sentiments of nationalism are involved in the issue. Often political parties take active interest in such issues to project an image of national saviour. For example, one national level political of party, All India Forward Bloc, recently said that his party will launch a nationwide movement against multinational companies on the lines of Quit India Movement as they think that their works are detrimental to the national interests. They are expecting that other political parties of the country would soon join them to oust the multinational companies from the country. The BT brinzal of Monsanto counld not enter indias due to active protest from the pressure griop.

10. Loss of image due to political transition:

The Political transition and events aftermath saw many foreign companies loosing the firm footing they had in the country during previous regime. The instability of ruling political party becomes the root cause of the initiation of the transition. The instability may originate from various reasons like election delay, reforms delay, participation of military in the government decisions making, economic reasons like continuing poverty etc. Pro democratic political parties may look forward to the coming elections as a way out to change existing rulers who have been democratically elected but fall from the grace of the majority citizen with the passage of time. The political party in power may delay the election process in the country to avoid defeat in the new election process. Some of the countries may deliberately delay the reform process in the country which majority of the citizen desire to install in the country. These reforms are related to political affairs , economic affairs or legal matters of the country.

11. Politically motivated Cyber attacks

The world biggest search engine Google during 2009 complained about a "highly sophisticated and targeted attack" on their corporate infrastructure. They found that the origin of the attack was in China and that resulted in the "theft of intellectual property from Google." In light of the attack Google is making sweeping changes to its Chinese operations. During 2011, McAfee, the wholly owned subsidiary of Intel Corporation dealing with dedicated web security service, reported that at least five large oil and gas companies were targeted by a series of cyber attacks. They code named it as "Night Dragon" and subsequently found that control servers in the US and the Netherlands were used to gain access to computer systems in Kazakhstan, Taiwan, Greece and the US. The attacks appeared to be attempting to gather information about gas and oil field production systems, financial documents related to field exploration, oil and gas lease bids and industrial control systems. The company sources claimed that cyber intruders appear to be operating from within China. Sony the Japanese electronics giant, also was subjected to cyber attacks when the hackers had broken into its PlayStation and Qriocity networks released the personal and billing information of up to 77 million people.

12. Terrorism

Terrorism is fast becoming of particular concern to multinationals. Terrorism affects international firms directly as well indirectly. The direct effects are comparatively small than the indirect effects. While direct effect may be of immediate tragic loss of life of life of employee or property but indirect effects include huge decline in consumer demand, unpredictable shift and interruption of value and supply chain, deteriorating international relation effecting trade Times to time the foreign companies are falling prey to the heinous act of terrorism like employee abduction, ransom claim, running of protection rackets, forceful intervention in vendors, distributors, and joint-venture partners selection process, damage of company property due incidents like bomb blast etc.

202.7 ❐ The International Legal Environment

The international marketers need to push their offerings through different country markets. Each market has its own legal system within which every international business need to operate. In fact, the legal system is an inevitable component of the environment within which a business operates without much liberty for manipulations. The commercial laws, enacted from time to time, are equally binding on the international marketers as it is for the domestic marketers or even more in some cases. These laws of the land influence not only each and every variable of marketing mix but also the environment within which a business operates. This has a direct bearing on the management of global marketing plan as standardization of marketing strategy often disrupted by country specific legal rules and principles. For example, during 2007, Indonesia introduced a rule that required all locally aired ads would have to be produced and directed locally with local talents.

Truly speaking, there is a lack of adequate international judicial and administrative framework or a body of law which would form the basis of a truly comprehensive international legal system applicable to all the countries. On the other hand, inadequacy of standard 'international law" applicable to all the countries gave rise to "country law" of individual nations or a group of nations based on individual nation's requirements and understanding. In general terms, legal systems vary greatly from country to country in terms of treatment of several important legal variables which may include "tradition, precedent, usage, custom, or religious precept4. This legal country specific legal system provides international marketers an exact space within which business is to be regulated. The international business entity, in the host country situation, is expected to conduct business operations like contracting, sourcing, production, marketing etc with due respect to the limits provided by the legal system of the concerned country. In simple terms, it is the country's legal system in respect of fair competition, product safety standard, price fixing; marketing communications etc demands that the foreign businesses should regulate its business practice within the ambit of the country specific regulations.

Not respecting the country's legal system may attract trouble for the foreign companies. Many International businesses understand the reality that legal restrictions are almost binding on them. Deviations may put them in difficult positions. World's popular male grooming brand Axe of Unilever may be successfully communicated the product benefits by tag line "giving guys the edge in dating game" to the European customers but the same communication will hit the flat in conservative countries of Middle East. Therefore, companies would like to understand country specific legal system more closely and acceptance of its marketing programme in the environment. Accordingly, along with understanding of economic, political and cultural environment of the foreign markets, the international businesses also need to know country specific legal system in great details. The academic researchers also had gone to extreme to do research, publish articles, and write business cases depicting the situations of handling legal barriers in international business.

202.8 ❐ International Cultural environment

Culture is basically a society's personality evolved over a period of time. It is almost collective programming of human mind which distinguishes the members of one group or category of people from another. Culture is an integrated system of learned behavior patterns that are characteristic of the members of any given society. Now, how it is used in international business in marketing products internationally? Since culture has the ability in influencing what people do and people can do, therefore understanding culture of particular country provides huge benefit in deciding exact positioning of the product in the international market. Culture is more important for how managers should decide, less to what the decision should be. Many companies find that their products have failed in the distant country market because they did not have the knowledge of country's customs, cultures, and laws. For example, Kellogg's cornflex failed to market product in India when they positioned the product as Indian breakfast. Whereas Indians are culturally are more attuned to traditional breakfast consisted of Roti a, chapatti but not cornflex.

202.8. 1 Elements of culture:

1. Language—language has a prominent role as an element of culture: the language one learns in the community where one is born and raised shapes and structures one's world view. At a primary level, language has two aspects: the spoken/written language and the nonverbal language.Spoken/written language poses a number of concerns to marketers. Firstly, in terms of translation, the diversity of language creates numerous difficulties for marketers operating internationally. Even if same language is shared by different countries, marketers should be aware of differences in meaning. Translation is expensive, especially in markets where multiple languages are spoken.Nonverbal communication includes body language, gestures, eye-contact and even silence. Silent communications, especially gestures, have different meanings across cultures, and marketing managers must be aware of them in order to avoid embarrassing or costly mistakes.

2. Religion:

Religion defines a society's relationship to the supernatural and, as a result determines dominant values and attitudes. Religious beliefs are important determinants of consumer behavior: Purchase motivation; consumption preferences and patterns; customs and business practices; attitude towards authority, family, peers and foreigners; as well as attitudes towards material possessions, cultural values, and norms, among others, can all be traced to religion.

3. Cultural Values:

Values are enduring beliefs about a specific mode of conduct or desirable end-state; they guide the selection or evaluation of behavior, and are ordered by importance in relation to one another to form a system of value priorities.Norms are derived from values and are defined as rules that dictate what is right or wrong, acceptable or unacceptable. To be successful in the markets where the firm is currently operating or where it is planning a presence, marketers need to be capable of discerning between the following:

- What an outsider must or must not do (cultural imperative)
- What locals may do but an outsider cannot (cultural exclusive)
- What an outsider may or may not do (cultural adiaphora)

4. Status Concern and Materialism

Related to one's background is one's concern with status, or status concern—maintaining it or acquiring it—and with material possessions, or materialism. Individuals concern with status is related to the values placed on symbols of status and on the attainment of high status.

202.8.2 Cultural Variability

Cultural variability is the term used to identify differences between cultures using the Hofstede dimensions. All cultures can be classified based on a number of dimensions. Each dimension should be thought of as a continuum. Geert Hofstede classified culture on the dimensions of collectivism, masculinity, power distance and uncertainty avoidance.

The Hofstede Dimensions

Power Distance— the manner in which interpersonal relationships are formed when differences in power is perceived.

Uncertainty avoidance—the extent to which individuals is threatened by uncertainty, risks, and ambiguous situations and thus adopts beliefs, behaviors, and institutions that help them to avoid the uncertainty.

Masculinity—the degree to which a national culture is characterized by assertiveness, rather than nurturing.

Femininity— the degree to which a national culture is characterized by nurturing, rather than assertive, values.

Individualism—the degree to which people in a country prefers to act as individuals, in their self-interest.

Collectivism—the degree to which individuals prefers to act in the interest of the group, rather than in their own self-interest.

2.8.3 The Self-Reference Criterion and Ethnocentrism

When interpreting cultural phenomena in other countries, marketers must avoid the unconscious reference to their own value systems, to their own way of doing things; that is, they should refrain from resorting to the self-reference criterion, as defined by

James A. Lee. Lee suggested a four step correction mechanism to address individuals tendency to resort to the self-reference criterion, which is heir in adapted to a marketing context**:**

1. Define the marketing problem or goal in terms of one's home country's cultural traits, norms and values.
2. Define the marketing problem or goal in terms of the host country's cultural traits, norms and values.
3. Isolate the self-reference criterion influence and evaluate it to understand how it affects the marketing problem.
4. Redefine the marketing problem and, in the process, eliminate the self- reference criterion influence. Solve the marketing problem based solely on the unique condition of the host county

Ethnocentrism is the belief that one's culture is superior to another and that strategies used in one's home country (presumably a developed country) will work just as well internationally.

202.9 ❒ References

[* | In-line.WMF *][* | In-line.WMF *]

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2 David Schmidt as quoted in Robert Poirier (1997), "Political Risk Analysis and Tourism," Annals of Tourism Research, 24(3), p.667. See also David A. Schmidt (1986), "Analyzing Political Risks," Business Horizons, 29(4), pp.43-60.

3 Schmidt, D.A. (1986). Analyzing political risks, Business Horizons. Vol.29, No.4, 43-50.

4 John D. Daniels, Lee H. Radebaugh & Daniel Sullivan, *International Business*, p. 102 (11th Ed., 2007).

Unit 203 ❐ Export Market Selection

Specification

203.1 ❐ Introduction

There is no doubt that businesses of all sizes, in this age of globalisation, would look for internationalization of business activities through cross country business. At the same time, different countries of the world have demonstrated urgency for opening up more and more and providing cross border businesses a congenial environment. This is evident from the pace and number through which countries are increasingly embracing free trade. The World Trade Organization has recorded, since its establishment in 1995, both the number of FTAs (Free Trade Agreements) and the pace of signing new FTAs is increasing. From 1995-2003, there was an average of seven FTAs signed yearly. From 2004-09, that rose to a yearly average of 15. There are now 266 bilateral or regional FTAs, and perhaps another 100 of which the WTO has been not been officially notified. Another motivation for countries for embracing more openness in trade may be the comparative economic benefits the opened countries have earned than those who had shown reluctance in terms of openness to trade and believed in prevailing ease of doing business.

Now, in the backdrop of country's willingness to encourage foreign business, firms of different sizes are also strongly making move towards the internationalisation of business activities through export. Indian companies are not an exception to the process of internationalisation. Many Indian SMEs are increasingly showing their inclination to go aboard and market their products in foreign countries. Now at this juncture, it is important to identify right market for the right product. This export market selection for a predetermined product is an important step as it ensures advantage for the exporters in several ways:

1. A correct selection of market allows the exporter to compete in the international

market and hence sustain the focus.

2. It makes an optimum fit between a prospective market's requirements and a exporter's ability to meet those requirements (or conversely, the exporter's ability to alter the requirements of the market).
3. Selecting a market carefully allows the exporter to understand the market not only purely on marketing grounds but in addition broader considerations of the exporter's skills, capabilities, and goals are also get tested against the identified market. This helps the exporter to identify own requirements as well.

203.2 ❐ Market selection process: reactive approaches

Many exporters enter in to the distant country market by chance. It starts with an opportunity that came in the way in a piece meal and unexpected manner. The exporters could not leave aside the unsolicited orders and hence took necessary steps for sending products abroad. This is a case of reactive market selection approach where the exporters acts passively in choosing markets by filling unsolicited orders or awaits initiatives on the part of foreign buyers, foreign representatives (importers, agents, and so on). The characteristics of reactive market selection are:

- Indirectly selection of the market for export wherein the effort of the exporter is significantly low.
- The selection process consists of informal and unsystematic approaches on the part of the exporter.
- The marketing effort remained on the low ebb on the part of the exporter and exporting frequency remains more or less sporadic.
- With this approach, the exporter is responding to a situation that has emerged rather than creating situations on exporter's favour.
- Frequent unexpected change in the in the demand creating difficulty in production scheduling for the exporter accompanied with requirement of unexpected changes in product design parameters received from the importing agency.
- One of the driving motives is the short term profit, which is often provided very easily by the low costs usually associated with filling an unsolicited order.

The reactive approaches, in general, are short lived requiring the exporter to change country market very frequently and hence not welcomed by a seasoned exporter.

203.3 ❐ Market selection process: proactive approaches

A typical proactive approach of export market identification and selection starts with desk based research, at the exporter's end, for collecting data, information, facts etc from the prospective country markets leading to short listing of markets or countries. This is followed by all-round efforts for indentifying prospective buyers in the shortlisted countries followed by actively soliciting inquiries from foreign firms/buyers. The exporters may advertise or be listed in national or sub national export directories; they may also participate in internationally oriented fairs and/or exhibitions in the home country. Market selection by passive means are increasingly being used by small and medium-sized exporters with little or no experience with the easy availability of international market information through internet, access potential buyers' web sites etc. Even the larger and more experienced exporters may find the proactive selection process useful in certain cases like additional market selection, getting in to country markets where the exporter has never before exported. The exporter, through proactive approach, not only initiates foreign markets selection process but at the same time get involved in pure marketing in the country abroad like customer segmentation of these markets, deciding on marketing mix that suits the segmented customers etc. Since proactive market selection is a formal process so the exporters use established tools and techniques for extensive market research, identifying customer segments, modify products as per requirements, fix pricing through full understanding of the target country market requirements. .

However, since the proactive market selection process is comparatively time taking than the reactive one some exporters may tend to apply the proactive strategy to what are considered primary markets and the reactive strategy to what the company considers to be secondary or marginal markets.

303.4 ❐ Proactive or Systematic market selection

Now when an exporting firm contemplates an expansion in to the foreign market it is natural that it would want to judge the potentiality as to which country or countries provides the best of the marketing opportunities. This matchmaking between what the firm can offer to the market and which country is the best fit for such offer is an important consideration that the firm needs to decide before making a serious move for expansion. At this juncture the firm faces a task of identifying the countries in term of potentiality from around 200 sovereign countries in the world. This poses considerable difficulty not only for the small size firms but for bigger firms also. The following are the problems generally encountered by the firms.

- What information is required?
- How to collect first hand information about the countries?

- What analyses need to be done using the secondary data?
- How much in-depth analysis one would do?
- What criteria one would adopt to discriminate international markets against one another in order to select suitable countries for market entry?
- How much would depend upon the factors like proximity or personal preference, rather than "hard" factors such as market size, growth rate or accessibility?
- What would be the best methodology that can be applied for selection of market by using the data that would be collected in the process?

203.5 ❐ Export market Selection

How can the export oriented firms select country market? How they assess the export market opportunities? What specific market research they need to do when looking for a country of probable export destination? The small and medium enterprises (SMEs) recognise that there would be some countries across the world where their produce would be of great demand. But which are the countries who may continue to accept the products made or send by the exporting firm and allow them to earn profit through export? Access to internet resources has allowed a window of knowledge but what exact information is to be looked for are not known. In what sequence the information would be useful for this purpose? A systematic way of deciding on the export market opportunity obviates these problems and allows the exporting firms to follow steps leading to the objectives.

1. Decide on your objectives

How important the enterprise is considering exporting? The more importance is attached on exporting; it is likely that the firm would like to know a great detail about the foreign markets opportunities before sending products abroad. The depth of analysing also depends on how much time the entrepreneur would possibly be able to spare for desk work. Many small firms are 'all in one' i.e. due to smallness it is difficult to distinguish between the enterprise and the entrepreneur. In that case it may be difficult for the entrepreneur to spare time for this particular task by dissociating from day to day business activities. Comparatively bigger SMEs may have the ability to employ experienced international marketing manager who has the requisite feel of the markets abroad and understand well about the informational requirements.

2. Decide on the product and ascertain the exact HS code:

The Harmonized System (HS) codes are an international method of classifying products for trading purposes. This classification is used by customs officials around the world to determine the duties, taxes and regulations that apply to the product. The Harmonization Code System (HS-Code) is a system of progressively more specific identifiers for a commodity. This number is an aggregate of a series of codes starting with a broad category assigned a 2-digit identifier. It is then assigned a 4-digit identifier and goes down further.

For example,

Chapter 04 deals with dairy Products, bird's egg, natural honey, edible products of animal origin.(2 digit)

0401: Milk and cream, not concentrated nor containing added sugar or other sweetening matter.(4 digit)

04011000: Milk and cream containing fat not exceeding 1%.

04012000: Milk and cream containing fat > 1% but < 6% by wt.

04013000: Milk and cream containing fat > 6% by wt. (6 digit)

Another example

Chapter – 16 deals with preparation of meat, of fish or of crustaceans, mollusks or other aquatic invertebrates.

1602	*Other prepared or preserved meat, meat offal or blood*
1602 10 00	Homogenised preparations
1602 20 00	Of liver of any animal ;Of poultry of heading 0105 :
1602 31 00	Of turkeys
1602 32 00	Of fowls of the species Gallus domesticus
1602 39 00	Others Of swine :
1602 41 00	Hams and cuts thereof
1602 42 00	Shoulders and cuts thereof
1602 49 00	Other, including mixtures
1602 50 00	Of bovine animals
1602 90 00	Other, including preparations of blood of any animal

2. Decide the countries who could be possible destination for products

Once the product/products is/are decided and the relevant HS codes are known, the exporter may look for the demand of that product/ products in country markets. This process can be initiated by looking at the import demand of the different countries of the world. Yearly import demand of a country for a particular is the total import that a country makes in respect of that product in a year from another country. This demand is expressed in money terms or in quantity. A country, generally, imports a product or commodity from another country when that product or commodity is not available the country or fall short to meet the local demand. There are various sources, internet based or otherwise, from where import data can be made available for the purpose. However, all the sources, in general, used to store these import data against the HS code of the product. The pre indentified HS code will be utilized at this stage to ascertain the import demand of the countries. The various sources from where the import figure of the countries can be available are stated below.

- **World Integrated Trade Solution** (WITS): The is a software developed by the World Bank, in close collaboration and consultation with various International Organizations including United Nations Conference on Trade and Development (UNCTAD), International Trade Center (ITC), United Nations Statistical Division (UNSD) and World Trade Organization (WTO). WITS (World Integrated Trade Solution) is a simple yet powerful tool which gives access to trade and tariff related statistical information. It also includes simulation and analysis tools for further analysis of trade data to meaningful conclusions.

- **The United Nation Statistics Division** (UNSD) **Commodity Trade**: UN COMTRADE is a data base contains exports and imports by detailed commodity and partner country. Values are recorded in US dollars along with a variety of quantity measures. The Database includes information for over 170 countries, some of which have been reporting these types of statistics to the United Nations since 1962.The data are recorded according to various internationally recognized trade and tariff classifications. These data are for internal use only and not be re-disseminated in any form without written permission of the United Nations Statistics Division (UNSD). The access to UN COMTRADE is through the website of UNSD at http://comtrade.un.org/db/default.aspx . A download limit of 50,000 data records per query is applicable for technical reasons. There is no limit on the number of queries. UN COMTRADE also offers premium access, which allows for downloads of more than 50,000 records and for the use of advanced functions of UN COMTRADE but only through payment.

- **Trade Analysis Information System** (TRAINS): **The United Nations Conference on Trade and Development** (UNCTAD) is another data base which contains information on Imports, Tariffs, Para-Tariffs and Non-Tariff Measures for 119 countries. The data on tariffs, para-tariffs and non-tariff measures are available at the most detailed commodity level of the national tariffs (i.e., at the tariff line level). The data are recorded according to three internationally recognized trade and tariff classifications.

- **The World Trade Organization's** (WTO) **Integrated Data Base** (IDB): IBD contains imports data of countries by commodity and partner country and MFN applied and where available preferential tariffs, at the most detailed commodity level of the national tariffs. The **Consolidated Tariff Schedule** Data Base (CTS) contains WTO bound tariffs, Initial Negotiating Rights (INR) and other indicators. The CTS reflects the concessions made by countries during goods negotiations (e.g., the Uruguay Round of Multilateral Trade Negotiations). The IDB and CTS are practical working tools and there are no implications as to the legal status of the information contained therein.

- **World Trade Atlas (WTA):** World Trade Atlas was developed by **Global Trade Information Services (GTI)** during 1993 to promote a better understanding of global economic development. With the globalization of world markets, trade data analysis was becoming increasingly important in understanding the dynamics of world trade. Recognizing this development, coupled with an understanding of advances in personal computer technology, GTI developed a new and better software solution for trade data analysis. Today, GTI is recognized as the premier supplier of international merchandise trade data on the Internet. GTI presently serves clients in over 250 cities in 50 countries worldwide. The U.S. edition of the World Trade Atlas® (WTA) was the first software developed by GTI, followed in succeeding years by different country editions. The WTA revolutionized the way government officials and businesses use trade data. It allows one to browse through each country's trade data quickly and easily to determine the competitiveness of its trade on the world market. Prior to the development of the World Trade Atlas®, a trade analyst might spend weeks or months developing a simple table that could be produced using the World Trade Atlas® in seconds. GTI's newest software, the Global Trade Atlas® (GTA), incorporates all of the best features of the World Trade Atlas and accommodates the Extra Data Fields of many reporting countries, including US State, Port and Customs District data. Rather than viewing trade in different country editions, one can now view trade around the world in one database. Further, one can create a model for a commodity, such as wine, and can view all exports or all imports worldwide on one screen. Trade analysts can determine more accurately market shares of world trade for a particular commodity. In addition, one can now easily estimate import and export trade for those countries that do not have reliable trade data of their own by using the trade data of other countries. All of GTI's software products are continuously enhanced to perform more quickly, with more flexibility, and in other ways to meet the needs of subscribers to the data.

3. Establish trend of import from countries:

Since, the HS code/ codes of the product/products are known, the next step is to collect and analysis of the import data for the previous years under that pre determined HS code of the countries of the world. To proceed with this, establish first a lowest level of import, in value term, with the understanding that any country imported below this benchmark with not be considered as prospective country and hence dropped out straightway from further analysis. The remaining country will be the prospective countries. These prospective countries are then arranged in terms of descending order of import value. The same exercise may be done for 3-5 years to understand the trend of import for the past 3 or 5 years. Next task is to select about minimum 15 but not more than 25 countries which satisfy the condition i.e. trend for the past years are not fluctuating and imports values are also comparatively high. At this stage these short listed countries will be known as promising countries.

4. Establish the trend of exports from your country

The next step is to know the trend of export of the product/products from the host country, i.e. the exporter belongs to the promising countries**.** This involves collection of export figure for the last five years. The same data sources used in ascertaining imports in step 3 will be utilised here. This basically serves two purposes; one, whether

the own country of the intending exporters has a history of export in the selected product/products and two, what are the countries where the product/products are exported. For example. if the product is ginger and the exporter is looking for Indian export of ginger then through this analysis the following results may be obtained.
Product

Product Ginger	Major Export destination In 2008	Market fluctuation			
		05-06	06-07	07-08	08-09
	Saudi Arabia 10%	USA	Bangladesh	UK	USA
	Morocco 11%	Saudi Arabia	Saudi Arabia	Soudi Arabia	Bangladesh
	Spain 12%	Bangladesh	UK	USA	UK
	UK 20%	Spain	USA	Spain	Spain
	Bangladesh 23%	UK	Spain	Bangladesh	Morocco
	USA 24%	Morocco	Morocco	Morocco	Soudi Arabia

Working on the step 4 will allow the exporter to understand the previously identified 15- 25 country markets more closely. Primarily, this analysis in step 4 will lead to the answer of the following two questions:

- What is the indian's position in terms of exports to the countries identified in step 3
- What is the trend over the years? Is india gaining export market there or loosing?

Understandably, if india loosing markets in the identified countries very fast then there must be some reasons which need to be investigate further and primarily inclustion of these countries in the promishing countries list will be doubtful.

5. Understanding competition in the promising market.

Trade intensity index Formulated by Frankel (1997)[1] is based on an actual observation of bilateral trade flow, and it measures the intimacy of the trading relationship between any given two countries.

1. Frankel, J., Stein E and Shang Jin-Wei (1997). "Regional Trading Blocs in the World Economic System." Institute for International Economics, Washington DC, ISBN-0-88.132-202-4

Iij • (Xij/Xi) / (Mj/W)
where Xij denotes exports from Country • to Country •,
Xi equals the total exports from Country •,
• is the total imports of Country •, and
• represents the world trade volume
For example, at this stage the exporter may remain undecided as to which of the five countries need to be targeted. All the destination five countries under consideration found to be varying in terms of share of export in the successive years. Naturally, the exporter need to understand the above five countries more closely. One way of doing it would be to measure the intimacy of the trading relationship between the country of the exporter and the destination country. This can be done by computing the trade intensity index in the following way.
Export of ginger from India to USA in 2006: 3.21 million USD
Total agricultural export of India in 2006:
Total import of ginger by USA from world in 2006: 5 million USD
Total agricultural import of USA in 2006 from World: 407480 million USD
So, the trade intensity Index (TII) will be: (3.21/6860)/ 5/407480 = 38.13
In this way the TII of the countries under consideration can be plotted

Product	**Trade intensity Index**			**Remark**
Ginger	2004	2005	2006	
Spain	0.51	7.30	3.92	An index of more (less) than one indicates a bilateral trade flow that is larger (smaller) than expected, given the partner country's importance in world trade.
USA	26.70	82.27	38.13	
UK	32.54	42.54	54.64	

6. Understanding own competitive advantage

Measures of revealed comparative advantage (RCA) have been used to help assess a country's export potential. The RCA indicates whether a country is in the process of extending the products in which it has a trade potential, as opposed to situations in which the number of products that can be competitively exported is static. It can also provide useful information about potential trade prospects with new partners. Countries with similar RCA profiles are unlikely to have high bilateral trade intensities unless intraindustry trade is involved. RCA measures, if estimated at high levels of product

disaggregation, can focus attention on other nontraditional products that might be successfully exported. The RCA index of country I for product j is often measured by the product's share in the country's exports in relation to its share in world trade:
$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$
Where x_{ij} and x_{wj} are the values of country i's exports of product j and world exports of product j and where X_{it} and X_{wt} refer to the country's total exports and world total exports. A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

7. Final decision on target market

Once the countries of interest /are identified the next task for the marketers is to ascertain the issues related like, market access, product potential, local distribution and production, landed cost. The various issues the marketer would like to know for further screening of the countries are detailed below in the tabular form.

Market access	Product potential	Local distribution & Production	Landed cost
The product specific tariff rate, Any quota that has been imposed on the product. The non tariff – barriers practiced in the country.	The production of the particular product in the country, trend, reason for shortage.	Conditions for local manufacture, Technology status	Domestic distribution channel system costs, Number of wholesalers, retailers, their margins
Any existing or possible trade agreement like RTA, FTA etc	Is there any resistance to foreign product?	Regional and local transportation facilities	Freight charges from Home country to host country. Insurance
Internal taxation like rate of VAT etc	The competitive offering in the market	Availability of intermediaries	Cost of marine insurance
Regulations on repatriation of income to the home country. Employment regulation in case of foreigners.	Industry – specific key indicators of demand		Cost of product modification, labeling requirement, packing norms

8. In-depth screening for final selection

During the second stage of export market selection, in-depth screening, information specific to the industry is gathered analyzed and evaluated for each of the potential foreign target markets. Now the numbers of countries have been reduced sufficiently while passing through the steps from 1 to 7. All of the countries, after step 7, would become the potential countries of export. But the exporter, at this juncture i.e. in step 8 , may build up more knowledge base, develop understanding for these potential countries in respect of the following.

Market potential: Here, the central focus is on whether the target country markets have the affinity to purchase imported products, and whether the needs of the market are being adequately satisfied by product imported.

Market size: Market size analysis requires an assessment as to what share of the total market in the country the exporting firm can reasonably expect to obtain in the backdrop of existing and forthcoming competition from domestic and other foreign players.

Market growth: From the trade data already an estimate of the growth of import has been obtained. But what is the growth of demand of the product taking in to consideration the total consumption of the product for the past years? Getting the market size measures for previous years would help to compute and project the growth estimates for the future years.

Competitive intensity: The number of competitors in the market, and the relative size distribution of market shares can measure level of competition. Competition is generally toughest where a few large domestic companies dominate the market. When existing companies all have small shares, or when foreign companies have already made successful entry, the competitors will generally be less concerned about a new entrant. .There are a number of competitive strategies, which might influence selection of markets. These include entering a market so as to pre-empt the entry of others, entering a market in which there are already competitors and confronting them, and entering a market where large competitors do not exist.

Entry barriers: The countries put entry barriers to protect domestic industry. It may be to ensure that companies entering from foreign markets conform to trade relation's arrangements with other countries. These barriers may take different forms and act on as deterrent to the exporter while sending products or doing marketing inside the country. Entry barriers can be both tariff and non-tariff. Tariff barriers also include aspects like high customs duty imposed on entry of products in the foreign market. Non tariff barrier may take different shapes which may include impose of regulations like regulations relating to local content and ownership. Some barriers may be regarding repatriation of profits, dividends, and capital, taxation issues and technology transfer. Marketplace barriers can include access to better place of showcasing products, skilled personnel avalibility, warehouse space, transportation, allocation of critical inputs, such as power and water, and control over prices.

Political environment: This is important to marketer's selection and assessment of a foreign market as political volatility of the selected country market may diminish the continuity of the market as attractive destination. Therefore, an examination of target country's political volatility is part of establishing a close understanding of the short listed market.

Economic development: This is very important as understanding of economic climate allow gaining understanding with various parameters like market potential, expected market growth, product sophistication requirement, pricing of products, importers expected behaviors, regulations to be enforced etc

Unit 204 ❐ Selected Market and Entry Choices

Structure

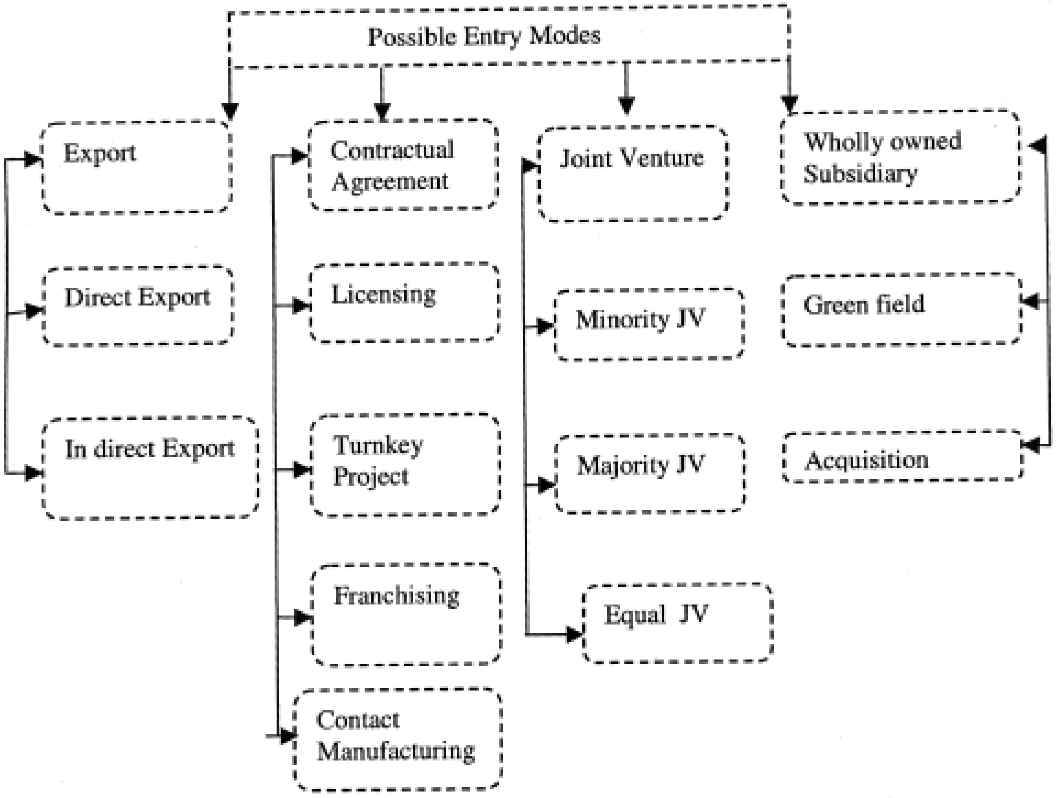
204.1. ❐ Introduction

After selecting a country market the next task in the firm's Internationalisation process is deciding on entry mode. The foreign entry mode has been defined as an institutional arrangement made by the firm for organising and conducting foreign business transaction. A firm can primarily make several arrangements to enter in the selected country. A firm may like to enter a country by exporting the product from home country production base and reap the benefit of international marketing. On the other hand the same firm may go for setting up a wholly owned subsidiary in the target market and market the products. Obviously the two different mode of entry i.e one by export and another by wholly owned subsidiary offers different advantages and disadvantages to the internationalising firm. Say a small enterprise is internationalising with export as method of entry. The method of entry is export because the small firm did not have the luxury to set up a wholly owned subsidiary in the distant market. So the decision here is simple. But suppose a big firm is deciding on entry mode who can send the product to the foreign market through export as well as has enough resource to enter foreign market by setting up a wholly owned subsidiary. How the firm will decide? Things become complex when one considers that the firm can go to the market through set up a joint venture. Decision making seems to require a complete understanding of the entry mode options, their merits and demerits for making a conscious choice

4.2 ❒ Possible Entry modes

When companies identify opportunities in the foreign market the next natural decision would be to decide on the entry mode. In this respect the companies have choices that range from simple to complex. The products can be shipped to the selected market for exchange of money. Here the exchange is considered less risky as such exchange includes neither transfer of know-how nor any investment commitment in the foreign country. However, if the distance between the exporting country and importing country or the location of production is extensive causing transportation cost as a deciding factor towards competitiveness then export as entry mode is not preferred. The licensing or franchising may be the next preferred mode of entry where the home firm shares its proprietary technology and other know-how with the foreign firm for exchange of usually a fee plus a royalty on revenue. Strategic alliances are the collaborations between the home and host firm to share some value activities. The wholly owned manufacturing set up may be the preferred mode of entry when the home firm sets up a wholly owned manufacturing subsidiary by way of foreign direct investment in the host country in plant and machinery.

Figure1: Principal entry mode



204.3. Exporting as entry mode

For small and medium size firms internationalisation is generally not a straight forward process but rather takes place gradually. This exempts those small firms who are born global. The basic purpose of founding 'born global' small firms to take advantage of the external country markets possibly because domestic market size is either insufficient or constrained to economic growth to the desired level. Exporting involves lowest risks in the process of internationalisation and hence is popular process of internationalisation for the small firms who began their operation in the domestic market. In India the small and medium sector firm are responsible for about 34 percent of the total export from the country[1] . Many small and medium enterprises resort to this entry mode particularly in the initial stage of internationalisation. Basically the process is opportunity driven. The small firm first becomes aware of the export marketing opportunities and hence takes active interest in it.

There are two possible ways of tapping overseas markets basing your operations in the home country. These are (a) indirect export and (b) direct export.

204.4 ❐ Indirect Export

This is the simplest form of export. In this process both the manufacturer and the intermediary are located in the home country. The customer who could be buying agent of another company is located in the foreign country. The manufacturers takes the responsibilities of R&D , production as well as marketing the products so produced. The intermediary in this case is either foreign department stores or foreign firms that have branch offices locally or agents who make purchases on behalf of their parent offices abroad. The sales are affected in the host country when products are transferred to the intermediary. The intermediary then takes the possession of the products accomplish the task of transportation to the customer i.e. parent office abroad. The manufacturer can also transfer the products to the export houses located in the country or to the merchant exporters. Many small manufacturers take this route to transfer the products to the foreign country. The reason behind is that in the first case manufacturer easily can handover the job buyer search in the foreign, deciding on the terms of sale with the foreign buyers, transportation etc to the to the specialist agencies which normally do engage in manufacturing.

Benefits indirect export

The manufacturer remains free from dealing with the foreign firms directly. Therefore, they do not require keeping export personnel or exporting departments. The intermediaries like export house or merchant exporters are specialised agency hence possess the expertise of dealing with export logistics etc with efficiency. The efficiency further get enhanced when agency collects products from several parties from time to time but despatch them together resulting saving in unit cost through consolidated shipments. In many instance the export houses are recognised agencies that are encouraged by the government for their contribution in enhancing exports from a country and earning of valuable foreign currency. Often the encouragement to the export houses come in the form of some incentives like duty draw back etc. Therefore the urge to increase export sales in turn benefits the producers also through materialisation of sales quickly.

The reputation of export house will enable the manufacturer to get better representation for his products abroad. In case the export house is selling complementary products, sales might increase.

Drawbacks of indirect exports

Since the producers never get exposed to the foreign markets, so the producer's knowledge about the foreign markets remains rudimentary throughout. Hence manufacturer keeps on depending continually on the export house and not developing export expertise

The export house/merchant exporter, in order to earn more through commission, may take on too many unrelated lines resulting in the producer getting neither the expertise nor the attention he is looking for.

There is also a possibility of both the manufacturer and the export house lacking personal involvement in the export business since either party may drop the other at any moment.

In view of the fact that the export house will be pushing the product abroad on its own name and reputation, the foreign customers may not associate the product with the manufacturer at all. This danger is more if the export house uses its letterhead and brand name.

204.5 ❐ Direct Export

In Direct export the manufacturer takes the full responsibilities on him in finding a buyer abroad and materialising international transfer of his products to the destination country. In direct export the manufacturer takes more risk with the expectation of getting better benefits since the whole process i.e. contacting buyer abroad, negotiating the price, realisation time for sales proceed, terms of contracts etc are all managed by him.

Benefits of direct exporting:
Forms of Direct Exporting:

There may be broad two types of direct exporting based on the organizational requirements.

Export Department:

In this method the export department is crafted out within the organization and entrusted with the responsibilities of export management. Depending upon the volume of export the department size may be varied with reinforcement from the main marketing department. This method is very popular because of the simplicity and least expensiveness.

Dedicated Export department:

This is possible when export earning outclass the earning from the domestic market earning or at least significant to the company. Generally a larger company is expected to have dedicated export department. The department then can act as separate profit centre with excusive focus on export and export management.

Drawback of exporting

Exporting is the considered to be the mode of entry in to the foreign market that mostly resembles market expansion at home. Being in the lower order of mode of entry options, an exporting firm is considered to at the disadvantageous position of getting too close to the customers abroad. It is generally the importing agent or firms who listens to the customer's needs and wants and may, in turn, pass them to the manufacturers. So, in a way manufacturing exporters are at a disadvantageous position and may contemplates to use other modes of entry like licensing , strategic alliances and foreign direct investment in wholly owned manufacturing subsidiary in order to have more control on the way and means of getting more close to the customers abroad. Therefore since control on local marketing effort is vital for efficient marketing of product firms are resorting to various hybrid entry strategy like exporting through independent agents and distributors ,export through alliance with a local marketing partners and export through a wholly owned sales subsidiary in order of increasing marketing control. It is a very common scenario that the manufacturer exporters export products to be marketed by the independent agents and distributors.

204.6 ❐ Entry through contractual agreements

204.6.1 Contract Manufacturing

In this method of market entry, the hiring firm approaches a contract manufacturer to get its products manufactured on a cost plus profit basis. In the process a working agreement is executed between two companies i.e. between the Contract Manufacturer and the hiring firm. The contract manufacturer will assess the requirements for production in terms of processes, labor, tooling, and material costs and realize the cost from the manufacturer on delivery of the product. The Contract Manufacturer basically takes care of the manufacturing responsibilities only. Other associated tasks e.g. technology, research and development, logistics, marketing etc are all taken care of by the hiring firm. In many international contract manufacturing arrangement, the hiring firm also takes care of the procurement of the materials and selection of vendors in order to ensure that products are manufactured with right quality and specification. The hiring firm markets the finished product according to its own marketing programme and brand advantage. Many firms in sectors like aerospace, defence, computer, semiconductor, energy, medical, food manufacturing, personal care, and automotive fields utilize this mode of entry extensively.

Benefits of contract manufacturing

Cost Savings

Companies save on their cost of capital because they do not have to pay for a facility and the equipment needed for production. They can also save on labour costs such as wages, training and benefits.

Mutual Benefit to Contract Site

A contract between the Contract Manufacturer and the hiring firm for guaranteed production may last several years. The manufacturer will know that it will have a steady flow of business until then.

Advanced Skills

Companies can take advantage of skills that they may not possess, but the contract manufacturer does. The contract manufacturer is likely to have relationships formed with raw material suppliers or methods of efficiency within their production.

Qualit

Hiring firms can have their own methods of quality control in place that helps them to detect counterfeit or damaged materials early on.

Focus

Hiring firm can focus on their core competencies better if they can hand off base production to an outside company. This method is more suitable for firms possessing advantage in marketing and service but not that proficient in production.

Economies of Scale

Contract Manufacturers have multiple customers that they produce for. Because they are servicing multiple customers, they can offer reduced costs in acquiring raw materials by benefiting from economies of scale. The more units there are in one shipment, the less expensive the price per unit will be. Sometimes, hiring firms may procure raw materials on behalf of the contract manufacturers and organize for its distribution amongst its contract manufacturers located all over the world in order to secure quality.

Flexibility:

It provides an easy way to reach a country by the manufacturer through getting the products produced by a contractor and to pull out at short notice in case of trouble. This method is advantageous in situations where it make sense to produce in countries of low cost and retaining the right to him in marketing the products in countries of interest.

Demerits of contract manufacturing:

The parent company has to depend on the manufacturing company and its efficiency. Often the manufacturing company not only handles jobs of one manufacturer but a number of similar jobs for other manufacturers. This may not allow the products to maintain its exclusiveness in the market place.

204.7 : Licensing

In this process one company (licensor) agrees to let another company [licensee] commercially use a technology for a period of time in lieu of a payment called 'royalty'. The term 'royalty' is generally used to designate the fees associated with licensing. The royalty could be an ongoing payment calculated as a percentage of sales of products or a one-time payment. The licensing agreement generally designates the licensee to manufacturer a particular single product or a group of products and an agreement is generally reached between the licensee and licensor regarding the royalty and other terms of association. The time frame of the license varies from case to case.

Advantages of entry by licensing

Company intending for internationalisation can make entry in the country market without much capital outlay.

Since direct investment in the foreign country market is considerably low so this method of market entry is also somewhat flexible and quick. This is a very quick and easy way to enter the foreign market; This is also good method of entering in to countries where market is alluring but with certain amount of risk By this method, the licensor gains easy access to the market knowledge.;

Disadvantages of entry by licensing

The licensee remains the absolute user of the technology for a considerable period of time in a country market. This allows the company not only to know the technology well but also acquire marketing expertise. At the end of the licensing agreement, like in the case of contract manufacturing, there is a possibility that the licensee might become competitor to the licenser.

The licensee cannot get away from the agreed terms even there is some rift between the licensee and licensor till the contract period last. So licensee may take advantage of the situation unless the licensing agreement is carefully drafted to tackle the future eventualities.

Like in contract manufacturing this method of entry also suffers from problems related to the controllability issues.

204.8 ❐ Franchising

Franchising is a very popular form of entry mode for companies in particular having marketing excellence. In these days this entry mode is being extensively used by restaurants and hotel chain for entering in different country markets. In licensing arrangement the technology is licensed to be used by a partner organisation but in franchising a well set business model, popular brand name, and efficient management techniques are transferred to the franchisee from the franchisor. This transfer is governed by an agreement know as franchisee agreement which sets the rights and responsibilities of both the involved parties.

Advantages of entry by Franchising

By using this entry mode the franchisor need not raise capital for investing in the target country as the local franchisee manages investment requirements. The franchisee also gets the requisite support from the franchisor to set up the business operation and easy transfer of product and brand to a new country. Since the franchisor need not invest much financial resource in this mode of expansion so retain flexibility of winding up the foreign operation in case of need.

Disadvantages of entry by franchising

The brand and marketing excellence of the franchisee are handled by the franchisor located in another country. This requires careful and continuous quality control from the franchisor's head quarter so that the integrity of the brand name is maintained and not diluted. The franchisee agreement requires careful drafting and in accordance with the franchisee law of the target country. The objective is to focus on standardization of products and customer service to preserve customer patronage and the value of the franchise name.

204.9 ❐ Joint Ventures

Joint Ventures are very much like licensing arrangements, but in the former the international firm has, normally, equity participation and management voice in the local firm. In joint ventures the entrant transfers capital, technology, management expertise to the local company. The local firm is usually close to the market where the entrant has specific interest to serve. The local firm becomes the partner in JV and contribute to the partnership through better understanding of the local market, access to the to the channels of distribution. Joint ventures create the existence of a separate business entity, co-owned to some degree by each of the partners. For successful JV it is necessary that objectives of the entrant are complementary to the local companies objectives.

Advantages of Joint Ventures:

As compared to the earlier three forms of overseas investment, joint venture has the following advantages:

Equity participation leads to greater prospects of profit from foreign operation. This could be attractive in lieu of fixed returns associated with franchising or licensing. JV allows the entrant to be more closure to the market place and market understanding thereof provide prospect of better control of marketing operations.

Knowledge generated, experience gathered out of the foreign operations provides the company the vital ability for future expansion plan. The local partner provides a good understanding of the local market and therefore initial teething problems are expected to be avoided. Local employee of the partner company helps in understanding the local sentiments well. The partner also can have existing relationship with the critical suppliers which are quite helpful for the entrants.

Disadvantages of Joint Ventures:

Joint Ventures involve greater risks in comparison to franchisee and licensing. This mode requires considerable financial commitments hence require careful planning and judicious selection of a JV partner. .

204.10 ❐ Wholly-Owned Foreign Enterprise

WOFE involves greatest commitment to a foreign market. In this mode of entry a company either a company starts a new facility in the foreign country from the scratch or acquire a local business operation by outright purchase. This mode has its own advantages. First, complete control of business operation and second closeness to the market. .

There are two ways in which an entrant can go for a WOFE. It can acquire 100% ownership in a foreign country or can develop one's own facilities from scratch.

Advantages of WOFE:

WOFE provide full ownership of the foreign establishment so the profit generated from foreign operation need not to be shared with any local company. The desired marketing control will be maximum in this operation. This, indeed, a great advantage. The ever changing market place requires continuous change of marketing mix as recipe. Being close and importantly ability to change according to the requirement provides marketing edge. The technology orient company need not share its cutting edge technology with a local company there by enjoy absolute freedom in technology upgradation as per own strategy. This also helps in international integration with other establishments of different countries as per its global strategy.

Disadvantages of WOFE:

WOFE requires considerable amount resources in terms of capital and management resources. The localness is difficult to achieve in the short run because of absence of a local partner. Some country puts mandatory requirement of local partnership where WOFE is not a feasible option of market entry.

204.11 ❐ The selection of an international market entry mode:

Out of the all entry modes, a firm needs to select the one that best suits it. This selection is a prerequisite of the larger framework for international marketing planning. When a firm reaches the level that it should decide it's the entry mode? It is assumed that the firm already has the answer the following questions before it embarks on the task of deciding the entry mode:

- Why does the firm want to go international?
- Which products or services does the firm wish to offer to international markets?

- Which country in the region does the firm plan to enter (and in what sequence)?
- For each product/country market segment, what level of managerial time and financial resources does the firm intend to commit? Also prior to the analysis, two assumptions need to be made (based on answers to the first three questions outlined above):
- The country and market segment are included in a subset of geographic segments which management wishes to penetrate show evidence of growing demand for the selected product and/or service offering.
- The product or service to be offered is one in which the firm has gained profitability domestically and/or in other international market segments

Next, a framework needs to be developed to examine the opportunities and constraints facing the firm in developing the target international market segment for the selected product and/or service. These opportunities and constraints fall into five subcategories:

1. The firm's policies - including the degree to which it wishes to retain control of various aspects of business activity, its attitudes towards going international , its risk propensity and plant location preference
2. The firm's competitive position including current market share, its relative financial strength, level of experience, technological uniqueness
3. Product or service related variables associated with the directness of marketing channel
4. Comparative cost variables for home Vs host country manufacturing, marketing and financing.
5. External environment variables including indicators of relevant government regulation in both the home and host countries, host country political risk, target market size, unique buyers preferences, foreign exchange availability, cultural homogeneity and geographic constraints such as distance, extreme climate and topographic barriers.

Finally, the firm need to compile all of above information and compare them in order to decide the entry mode which is most likely to achieve its marketing objectives.

[1] http://dcmsme.gov.in/sido/export.htm

Unit 205 ❐ Marketing Mix decision for International Markets

Structure

205.1 ❐ Introduction

Marketing involves proactive role of the marketers to identify consumers' needs of a target segment and supply various goods and services to satisfy those needs most effectively. In all sense, therefore, then marketing involves:

(a) Production or manufacture of those products that are going to satisfy the consumers' need;

(b) Making the products available it at a price that the consumers' likely to pay with reasonable satisfaction;

(c) Ensuring that the product available to the consumers at different places which reduces consumers' the perceived as well as actual cost of getting the product.

(d) Adequately informing the consumers about the product and its characteristics through the use of communication tools like advertisement, merchandising, etc.

The success of any marketing effort depends on how sharply the above four major decision areas namely, (i) products, (ii) price, (iii) place (distribution) and (iv) promotion have been planned and implemented. These four decision areas are popularly named as 4 'P's or four elements of marketing and together they constitute the marketing mix. These four areas are interrelated and hence a right mix is extremely important to win over the target consumers better than the other competitors in the market place. When entering an international market, firm endeavors to understand the target consumers in a particular country and then activates right kind of marketing mix suitable to them. In course of time, the firm may have entered another country and in the process made its presence felt in a number of foreign markets. When internationalizing for the first time, the firm experienced that it had to change the marketing mix for the target foreign market because essentially there was differences in consumers' preference between home country and the target foreign country. The firm, while entering other foreign markets subsequently felt that all the countries, it had entered, had differences in consumers' preferences which compelled the firm to customize the marketing mix for each country. The firm, on the other hand, was unhappy with frequent customization of marketing mix as it involved in alteration of all the elements of marketing mix every time a new country was explored. So, the question is – Can a firm stick to standardization of marketing mix across countries where it has presence? This standardization or adaptation of marketing mix is a matter of huge interest amongst the international marketers since a long time as it involved the most crucial question – how the marketing success in a foreign country will come? In reality, almost no marketing mix is only adapted or only standardized. According to Keegan and Green (1999), a great thinker in the field of international marketing, "the essence of global marketing is finding the balance between a standardized (extension) approach to the marketing mix and a localized (adaption) approach that is responsive to country or regional differences." Therefore, it appears that a firm needs to make a fundamental decision regarding its cross border marketing strategy pertaining to the degree to which marketing mix offerings are to be standardized or adapted. Some elements of the marketing mix are more frequent candidate for adaptation than the others like promotion and price. The product is the hardest element to adapt as it involves change or alteration in the manufacturing process. Another great writer in international marketing, Doole & Lowe (2004), opined that the elements of marketing mix should be seen as placed in a continuum in between adaptation and standardization where firms themselves to decide which elements of their marketing mix and to what extent are going to be adapted or standardized.

205.2 ❐ Product decision

205.2. 1 Global Standardization

Global Standardization is synonymous with the term "globalization". Global standardization means that primarily the product has been developed on a standardized format for the global consumers who have identical preference for that product standard irrespective of the country they belong. The product standardization, across countries, further leads to the standardization of the other elements of marketing mix. This further leads to a marketing situation where a firm feels that world is really flat and consumers of different countries of the world are converging to a single global pattern by forgetting theirs country specific differences. The firm believing in such standardization would contend with coverage of limited market segments rather than frequent customization.In case of some products like highly technical products like hybrid cars or high class product like Channel perfume one can feel the effect of global standardization. Hybrid cars produced by Toyota motors are highly standardized irrespective of the country of consumption. For FMCG products, the global standardization is difficult to happen though it is not impossible as well. Among the numerous arguments put to the firms in favor of global standardization of marketing mix, the following are mentionable.

- A section of world population is increasingly behaving as global citizen rather than from a specific country.
- International travel of the people are increasing rapidly
- A section of consumer prefer for higher quality and lower price to satisfy them rather than increase price with customization.
- Global convergence of taste, preferences are happening. For example, Americans are stated liking a standard size of car forgetting their preference for big car, in general. On the other hand , The Japanese stated liking a standard size of car forgetting their preference for small car, in general

205.2.2 Regional Standardization

This is a variation of global standardization at the regional level. A regional standardization strategy is applicable to a particular geographic region. Comparatively, regional standardization is easier to apply than global standardization. For example, regional standardization with uniform marketing strategy can be effected in European Union more easily than to the entire world. With the spread of regional market integration like MERCOSUR, NAFTA, African Union the firms are increasingly using regional standardization and coming out with products of regional interests. Nestle has launched many products suitable of regional market and actively pursuing the promotion of regional brands like Mackintosh, Vittel, Contadina, Alpo, Findus.

205.2.3 Global Localization

In a bid to capture more market across countries of the world firms are initiating adaptations to local condition. The degree of adaptation may vary from firm to firm and country to country. Nokia for capturing Indian market better than the local players are introducing new Internet services and affordable mobile handsets specifically tailored for Indian customers. It has also partnered with key operators to deploy mobile vans in rural villages. Nokia introduced bicycle fitted with dynamo for India which a cyclist can use to produce enough power for 28 minutes of mobile talk time or 37 hours of standby time. A phone holder was also included in the bicycle. According to some international marketing writers the idea of marketing a standardized product with a uniform marketing plan around the world remains purely theoretical. Nokia tried to do standardization of some core elements of the product i.e. mobile phone same everywhere. For example, in a visit to Kenya, a Nokia official found that all the Nokia products are displayed in a plastic bag in a local shop instead of the usual company supplied cardboard box. Latter it was found that the cardboard boxes were used for different purpose as those can 'make good fire'. Nokia thereafter customized the packaging system for the country. Therefore, product requires being adapted to differences in local culture, legislation, and even using conditions. Therefore, it is an onerous task on the part of international marketers to decide on the different elements of a product requiring standardization in a bid to satisfy country specific requirements. In this decision, they resort to two approaches: one involves offering parts(modules) that can be assembled worldwide in different configurations, depending on the needs of the market—modular adaptation; the other, standardizing the core product/service, but allowing for easy modification from market to market—core product strategy. In an instance of the latter, the core product is identical from one country to another, but certain aspects of the offering differ from market to market.

205.2.4 Compulsory Adaptation

Compulsory adaptations are those adaptations which a firm has to abide by while marketing products in foreign country markets. Different countries have different restrictions which, in most cases, are of unavoidable in nature. Again, in most of the occasions such compulsions come from legal point of view. For example, there are various country specific import regulations in vogue which drives adaptations in case of exported products. The following are some examples of them

US regulations on processed food products entering in US through import.

- Label formats must adjusted to provide nutritional analyses
- Cannot claim the presence or absence of a dietary property in lebelling ,

European Union regulations on processed food products entering in EU countries through import.

- Compulsory country of origin labeling(COOL) for meat and fish ingredients in processed food
- Front pack freezing dates the label is a must

China regulations on clothing

- All clothing is labelled with the factory of origin, including telephone and fax numbers.

Right-hand traffic and left-hand traffic regulations in countries

- Vehicles are manufactured in left-hand drive (LHD) and right-hand drive (RHD) configurations. 76 countries of the world go with left hand traffic while 163 countries with right hand traffic.

Mandatory adaptations involve voltage across countries

- 220 volts for Europe, whereas, in the U.S., the standard is 110. Other such adaptations involve electrical frequency cycles (50 verses 60), electricity and telephone jacks, and television/ VCR systems (NTSC in the U.S., PAL and SECAM II in the rest of the world).

205.2.5 Discretionary Adaptation

These modifications /customizations are done by firms without any obligatory requirements imposed by foreign markets. For example, discretionary product customizations of McDonald are as follows:

- USA McDonald: Serves Hamburger
- Japan McDonald. Chicken Tatsuta, Teriyaki chicken, teriyaki Mc Burger
- India McDonald: Replaced its traditional Big Mac with Maharaja Mac
- Germany McDonald: It serves beer
- New Zealand McDonald : Serves Kiwi Burger with beet root sauce
- Singapore McDonald : Serves chicken rice with chili sauce cooked in veg oil
- Italy McDonald:Serves verities of salads featuring Mediterranean flavor

These modifications are useful to make consumer feel the foreign product close to his own traditional preference and ensures marketability. This is more pervasive in case of foods products but firms may not show too much inclination to do it unless faced with competition. High tech products like HD TV, hybrid car may avoid customization altogether because of their acceptance sheer on technology advantage.

205.2.6 The International Product Life Cycle (IPLC)

Products pass through distinct stages during the life cycle like introduction, growth, maturity, decline during which profits may rise and fall. The firms employ different marketing strategies in each stage respectively to manage the profitability. The international product life cycle (IPLC) involves a complex relationship between the product life cycle stage and international trade and investment linking multi country marketing of the products. At a basic level, the premise of the IPLC is as follows: Firms from developed countries prefer to engage in domestic production in the early stage of the product life cycle primarily because product specifications and the manufacturing process are not yet stable. As the product advances to the maturity stage, product specifications and the manufacturing process stabilize. At this point, price competition becomes intense, and international markets emerge, prompting firms to move production abroad to benefit from lower manufacturing costs. When the products move from county to country they experience to have different stages of life cycle. A product may be at the maturity stage in one developed country, but the same product is at the introduction stage in a least developing country or growth stage in another developing country. This complex relationship between product life cycle and international trade and investment allow international marketers to extend the life of the product in the international level.

205.3 Promotion decision

205.3.1 The International Promotional Mix

The components of the international promotional mix are international advertising, international sales force management, international sales promotion, and public relations and publicity. Firms use the promotional mix to communicate with international consumers about their products and services. In this process of expanding internationally, companies are faced with numerous challenges to their plans for communicating with the world's consumers. Many of the challenges are attributed to differences in culture. Firms must also be prepared to handle the challenges presented by the local media avaiability, by the local advertising infrastructure, and by the different government regulations regulating all aspects of communication with the target market.

205.3.2 The International Communication Process

The international communication process involves using the entire promotional mix to communicate with the final consumer. Regardless of the elements of the promotional mix involved, the communication essentially has the same format. The international sponsor (sender), usually represented by an advertising agency, encodes a message into words and images. The message is then translated into the language of the target market and transmitted through the channel of communication, or medium to the international consumer in the target market (receiver). The medium may be

- a non personal medium:
- A print medium, such as a newspaper, magazine, billboard, pamphlet, a point-of-purchase display
- A broadcast medium, such as television and radio
- An interactive medium, such as a web page or a computer terminal on the retailer's premises
- Advertising

International advertising is becoming increasingly complex; more and more local and international firms are competing for consumers who are increasingly sophisticated and demanding. International advertising is defined as a non-personal communication by an identified sponsor across international borders, using broadcast, print, and/or interactive media.

205.3.3 Media Challenges(Media Availability)

An important issue facing the international marketing manager is media availability, the extent to which the media needed for a particular communication exists locally, or if it does exist, how it can be used as intended for the company communication. Firms who have communicated uniquely in one part of the world, say, Europe, cannot expect to have same media availability in Africa.

205.3.4 Media Challenges (Media Reliability)

Media reliability, the extent to which the existing media reliably reach the target consumer in the intended format and within the intended time frame, is also an important consideration**.**

205.3.5 Media Challenges (Media Restriction)

Media restriction, refer to the different limitations that existing media pose on the sponsor. For example, the media could limit the types and the number of advertisements aired or published as in the case of China**.**

205.3.6 Media Challenges (Media Costs)

Media costs differ greatly between countries, and even within a particular country. Factors that account for this difference range from income per capita of target market and competition for media by advertisers, to firm status (a local firm is charged less than an international firm in Eastern European countries, China, Cuba and Vietnam.

205.4 Pricing Decision

205.4.1 Challenges in Pricing Decisions

Pricing decisions are affected by all the external elements in a firm's international environment. International firms many a times are compelled to react effectively to changes in the competitive environment like in the political and legal environment, and in the economic and financial environment.

The competitive environment

- The competition exists in a country forced firm to adjust price to retain market share. Grey market/parallel imports is a competitive threat to pricing of the products in country where grey marketing is always high. Diverting products purchased in a low-price market to other markets (parallel imports) by means of a distribution system not authorized by the manufacturer, otherwise known as a grey marketing. A firm engaging in a differential pricing strategy could be vulnerable to competition from unauthorized channels. In fact, differential pricing (price discrimination) by the manufacturer has been identified as a main cause of parallel importing.
- Dumping by low cost countries in the target country market may pose a competitive threat and hence require strategies to deal with the price.

The political and legal environment

- Transfer pricing i.e. the price at which intra –firm transfer of goods or products takes place during cross country transfer. Transfer pricing is a pricing strategy used in intra-firm sales: The pricing of products in the process of conducting transactions between units of the same corporation, within or beyond the national borders of the parent firm, is known as transfer pricing and regarded as a legitimate business opportunity by transnational corporations. The legal aspects of it and their enforceability in a country effects price fixing by other firms
- The price of protectionism the country political regime preached or practice.

The economic and financial environment

- Inflationary pressure on price due to specific country market situation
- Fluctuating exchange rates through which the country is passing or trend.
- Shortage of hard currency and level of economic disciplines maintained by the country.

The competitive environment

International and local competition often poses serious concerns to multinational firms in respect of price fixing. In case of severe competition firm can keep product prices low by manufacturing in a low-labor-cost country in other competitive country markets. In case of acute competition in a country, the firms may be tempted to reduce price without disturbing its brand image in another country where it can maintain comparatively higher price.

Dumping as a competitive threat

Firms also can face challenges from companies dumping products in their target market. Dumping is an important factor affecting pricing decisions. A typical example of dumping involves a foreign company that enjoys high prices and high profits at home as a result of trade barriers against imports; the company uses those profits to sell at much lower prices in foreign markets to build market share and suppress the profitability of competitors with open home markets.

205.5 ❐ Distribution decision

Distribution plays an important role in the entire marketing mix decision taken in the international marketing programme as it allows the products and services to reach the ultimate customer. The firm in international markets has two options so far as distribution function is concerned: reach directly to the customers or reach indirectly through middleman or a suitable combination of the two.

205.5.1 Distribution decision : institutional aspects

The primary decision in this regard is the designing the appropriate channel structures suitable to the country market with the desired length of such structure. If the channel length is longer, then more likely that producer's profits will be indirectly reduced. This is because the end product's price may be too expensive to sell in volume because of profit sharing by all the involved parties. Yet reducing channel length may be impossible, as country infrastructure requirements may dictate the involvement of the channel partners. The other decision is regarding the option of organizing distribution of their goods in foreign markets through the use of indirect channels, i.e. using intermediaries or direct channels or a combination of the two in the same or different markets.

205.5.2. Indirect Distribution

The international marketer may make use of domestic distribution entities by use of different types of intermediaries for distribution in foreign markets like a) domestic Overseas Intermediaries (commission buying agents, country-controlled buying agents, export management companies, export merchants, export agents or foreign Intermediaries like a) foreign sales representatives b) foreign sales agents, c) foreign stocking and non-stocking agents d) state controlled trading companies

205.5.3. Direct Distribution

The options are used by the firms with the intention of retaining the marketing control totally in their hand. This involves sending firm's sales representatives abroad from the headquarter country, setting up of local sales/branch office in the foreign country, establishing an own sales subsidiary abroad, entering into a distribution joint venture or executing franchising agreement with another country.

205.5.4 Channel designing : factors involved

Within the overall international distribution policy of the firm, the following important factors play a major role in designing distribution channel.

(1) Capital requirements; the marketers prefers to set op distribution channel with maximum involvement of own representative as it allows to handle them effectively. However this arrangement calls for substantial investment in the foreign country.

(2) Level of distribution costs: the profit margin dictates the quantum of distribution cost which a firm can bear. The minimum distribution cost yet efficient in meeting the distribution strategy of the firm would be the objective of the firm to achieve.

(3) Desired extent of control over distribution channel: the more the control, the more is the requirements of having firm's own involvement in the channel structure. Firms desired to have full marketing control on their own hand would go for establishing own distribution channel in the foreign markets.

(4) Depth of market coverage: intense distribution in the foreign markets with substantially large geographical coverage calls for manufacturer's own involvement to an extent in the channel structure to maintain channel objective.

(5) Competitive practices: The competitive market requires efficient distribution with cut in the channel length. The competitors choice towards distribution also influence others firms distribution policy.

(6) Country Specific Legal requirements: Countries have traditional distribution structures which are often backed by legal requirements. For example Japanese distribution structure with layers of wholesales followed by layers of small retailers is well protected by laws. The firms individually do not have enough power to overcome the traditional Japanese distribution system and hence fall in line with the system requirement instead of going against it. In Saudi Arabia, a small number of hands approved by the royal family control its manufacturer-wholesaler retailer distribution system.

(7) Involvement: short-term or long-term involvement of the firm in international marketing governs the choice of distribution channels. A firm with long term involvement is likely to have a significant own involvement in distribution in the foreign markets.

205.6 ❐ Physical distribution

Physical distribution aspects cover transport and warehousing of product before offloaded to its users. With the progress of globalization transport sector has been modernized, national boundaries have become permeable to product from other countries penetration by trade allowing easy access to different country customers. Multi modal transport system and containerization of products are allowing product movements seamlessly through sea and land arteries. The usual process of cross country transfer of goods starts from transportation by lorry to the port on one country, keeping them in a warehouse and then finally reloaded into the ship through containerization. The important aspects in the management of physical distribution of goods includes a) keeping the costs associated with packing and transportation under control b) order taking and processing them in bulk so that they can be transported as economic lot c) inventory control in the destination country so as to keep the inventory carrying cost minimum or negligible d) reaching the destination country earliest without stock out in the distant market place. These aspects, given the geographical distance, the associated business risks and the variety of transportation modes available, usually provide big challenge to the firm in the face of contradicting objectives. On one hand, the objectives is to ensure ready and regular supply of goods in foreign markets at the shortest time possible but on the other hand, it is required to be done at the minimum cost possible. Physical Distribution Management, therefore, termed as known as the dark continent of marketing by a great thinker like Peter Drucker. However the physical distribution, if executed with professionalism, can offer tremendous potential in cost cutting and improving profitability by beating other competitors in the distant market. The requirement in this respects is to look transportation, warehousing and inventory functions in an integrated manner.

Unit 206 ❐ Global Sourcing

Structure

206.1 ❐ Introduction

During the age of globalization it is the task of the manager of a company to source products and services from the best source to enhance production efficiency of the firm. During 1980s, Nike found that costs increased in the US as a result not being able to compete with other athletic footwear manufacturers. Nike closed its US factories and sourced almost all of its production from Asia. In 1982, 86% of Nike's athletic footwear came from Korea and Taiwan. The company worked with its lead suppliers to open up manufacturing plants in Indonesia, China and Vietnam. Thanks to the efforts put in global sourcing, now, Nike's products are manufactured in more than 700 factories in 51 countries through sourcing globally the right components at right time from right locations. Benefits the company availed through the sourcing globally and shifting production locations accordingly are:

- Purchase price declined
- Total cost of ownership decline
- Improved supplier quality
- Delivery cycle shortened
- On time delivery performance improved

Therefore, global sourcing may be defined as a process of procurement of products or services from independent suppliers or company-owned subsidiaries located abroad for consumption in the home country or a third country.

206.2 ❒ Drivers of global sourcing

Although global sourcing has been an established international business activity since the 1980's it has gained new momentum with the rapid pace of globalization. The following are the key drivers which made global sourcing more attractive to the companies of different sizes in recent years:

- Technological advances in the sectors like telecommunications which made possible to connect anybody, any where located. The geographical distance between the manufacturers and suppliers may not matter much because of fast connectivity possible in these days.
- Declining transportation costs has been noticed due to increased efficiency and competition amongst the transport operators
- Internet has opened a huge information base regarding availability of product and services from the world and thereby bringing suppliers, principal manufacturers, suppliers of components or parts and the customers of the finished products.
- Globalisation coupled with technological development has brought customers across the world close to the manufacturers of products. Now, products are made not for a single country market but keeping in view of the global customers. This has enhanced sourcing requirements of the manufacturers.
- Common items required for manufacturing for a particular products if produced in a country provides the advantage of specialization as well as scale economics. For Ford Motor car, 30 percent of the car's value originates in Korea, 17.5 percent in Japan, 7.5 percent in Germany, 4 percent in Taiwan and Singapore, 2.5 percent in the U.K., and 1.5 percent in Ireland and Barbados. That is, the concerned countries of sourcing are specialising in some particular products in which they have advantage. This country specific advantage is only meant for Ford Motor Company but may also be extended to other vehicle manufacturing companies of the world also to enjoy scale economics in production.
- Achieving process specialization provides competence with reduction of cost. Flextronics is a leading technology supply chain company with annualized sales of roughly $30 billion focused on delivering complete design, engineering and manufacturing services to communications infrastructure, industrial, aerospace and defense, medical, automotive, clean-tech, enterprise computing and storage, and mobile and consumer electronics OEMs. Flextronics helps its customers design, build, ship, and service electronics products through a network of facilities in 30 countries and across four continents. This global presence provides

design and engineering solutions that are combined with core electronics manufacturing and logistics services, and vertically integrated with components technologies (PCBs and power supplies), to optimize customer supply chains by lowering costs, increasing flexibility, and reducing time-to-market. A high level of process specialization has been achieved by the company over the years. This has been specifically possible because of the global sourcing of OEMs like Ericsson, Cisco, Hewlett-Packard and many others from Flextronics

206.3 ❒ Decision for Sourcing

Company would switch over to sourcing components of the value chain activities rather than manufacturing in its own premise primarily for (1) Cost reduction or (2) others in the same industry or the competitors are involved in sourcing for achieving competiveness. However, in undertaking global sourcing, three important decisions are to be taken:

(1) Make or buy:

In general terms the decision whether to manufacture in house or to be brought from outside depends upon the cost reduction ability of the decision. If a company feels that a substantial reduction of cost would be there by replacing the in house manufacturing, then primarily it is an positive indication towards outsourcing. This will be further supported by evidence of what other companies in the same line of business are doing. What others are doing provides an industry standard but not necessarily be the only factor of deciding make or buy. The next decision in the line would be, in the next stage, to decide on whether the company would strive to build up own capabilities. This involves answering of the questions: what is the best in class source, if sourced from outside? Can the company build up such capacity internally? Do the company's internal design and mfg capabilities lag behind the potential suppliers? How much investment is required to match with outside suppliers?

(2) Which value- chain activities should be outsourced;

In usual terms, it would be better to continue to keep those activities in the value chain which can be produced internally better than the outsiders to maintain the current advantage going. One important point here is to see that company must be able to act as system integrator of outsourced activities and internally producing components. For example, in one extreme, Volkswagen while in Brazil VW decided to outsource the manufacture of all the parts of its trucks. It decided to only maintain internally the activities of coordination (purchases, planning, production programming, and control and materials), end product quality control, and engineering for configuration of the omnibuses and trucks produced, as well as post-sales distribution and service. On the other extreme, a company may even out source only a critical component of the entire value chain.

(3) Where in the world value chain activities should be performed.

A company has the choice of either keeping the sourcing activity at home or find out a supplier in the foreign countries and executes the value chain activities at different locations. It may be running of main assembly line in one location and sub assembly lines in different locations. These sub assembly lines would ultimately be used in the main assembly line. Since the outsourced components will be a part of the either the main assembly line or sub assembly line so all the sourcing activities are needed to be executed with maximum efficiency. Here, total geographic configuration of such activities is very crucial since synchronization of each of the activities at the least possible cost and time are of immediate importance. Geographic configuration refers to the pattern of geographic arrangement of different locations where the firm carries out value-chain activities. Instead of concentrating value –adding activities in their home country, many firms configure these activities across the world to save money, reduce delivery time, across factors of production, and extract maximal advantages relative to competitors. For example, Fiat Auto has established a sourcing policy aimed at maximizing efficiency worldwide by buying components from suppliers capable of offering optimal cost, quality and service terms. This policy entails them the creation of a full proof system capable of dominating and co-coordinating the whole set-up.

206.4 ❐ Global Sourcing from Subsidiaries verses Independent Suppliers

Many multinational companies source from their own subsidiaries abroad. Here, the subsidiary of the parent company manufactures the required sub components and delivers them to the parent company who will be using it in the main assembly line. Companies enjoy the benefit of receiving supplies through from subsidiaries as the whole supply chain tends to be more integrated. This is because of the following benefits are expected from sourcing from own subsidiaries.

a) Better integration of subsidiary with the parent company
b) Subsidiaries understand the parent company's manufacturing philosophy well and hence sub assemblies are manufactured in accordance with that.
c) The delivery schedule, design parameters etc are easy to be fed to the own subsidiaries
d) Hierarchical relationship between the parent and its subsidiaries allow to maintain an efficient flow of communication between them
e) A win –win relationship exist between the involved parties
Genpact was a captive sourcing unit of General Electric (GE). GE sold Genpact in 2005, and the supplier became an independent firm.

206.5 ❐ Global Sourcing from Independent Suppliers

Contact manufacturing has become more or less common in these days where a company off load the responsibilities of manufacturing the whole product or a sub assembly to an independent business set up located abroad. A typical contractual relationship develops between the focal firm and its foreign manufacturer with an agreement that the independent supplier will manufacture products according to well-defined specifications given by the focal firm. In some cases, R & D, development of specifications are also entrusted with the contractual manufacturer through clearly spelling out of the terms of the association between the involved parties. Once the products are manufactured, the contract manufactures turns then over to the focal firm which then markets, sells and distributes them. In essence, the focal firm "rents" the manufacturing capacity of the foreign contractor with full utilization of its manufacturing experience. For example, Microsoft contracted three companies in China who manufactured the famous gaming gadget Xbox 360. Flextronics and Wistron (who worked on the first Xbox) and Celestica (a new partner with Microsoft) manufactured the game system in their plants in China utilising the expertise and support of three of the world's best-in-class manufacturing companies.

206.5.1 Benefits of sourcing through Independent Suppliers

- Reduced investment: Companies save on their investment abroad because they do not have to construct or built up facilities needed for production. They can also save money in terms of payment to the workers, training cost etc.

- Business assurance – A contract with reasonably long duration allow the both the manufacturer and the contractor to exactly know the requirement of each other's. The manufacturer gets a steady flow of business without the headache of marketing them to the different customers.
- Super Skill development–Contract manufacturers because of possessing the requisite skill in a particular line are expected to get similar job from others marketers. Contract manufacturers take these advantages in enhancing their skills to a level of achieving perfection.
- Quality –since the contract manufacturers go through strict quality regulations imposed by the contracting company, the products are expected to be free from damage, inferior quality etc.
- Focus– The contract manufacturing allows the companies to focus on their core competencies. That is, if Microsoft is good in marketing then it will continue to do the marketing job leaving the task of manufacturing to a hard core manufacturer like Flextronics.
- Economies of Scale – Contract manufacturers look for different customers global who can give them similar jobs to enhance production and utilization of production capacity in the fullest possible way. In the process they reduce the production cost through economies of scale and hence they become less expensive per unit in terms of price.

206.5.2 Risks sourcing through Independent Suppliers

- Reduced level of knowledge: When a company allow contract manufacturer to produce product, it become significantly dependent on the manufacturers. After successful marketing of products, if in any way there is conflict of interest, it is difficult for a company to build up the manufacturing capabilities within short time leading to a helpless situation.
- Multiple Relationships: The contract manufacturer in course of time may pick up other customers with similar production requirements. This becomes very difficult situation for the company. It may be the close competitors of the company. However, in that case the company may not be in a position to leave the contract manufacturer because of total dependency it had on the manufacturer.
- Less concerned about market requirements: When entering into a contract, companies make sure that the manufacturer's standards are at par with that of the company and the manufacturer is striving towards continuous development. This is required

because of the competition in the market and continuous upgradation requirements of the customers. In many cases it is difficult to make the contract manufacturer understand this market reality.

- Loss of technical knowhow: When entering into the contract with contract manufacturer for manufacturing of gaming gadget, Microsoft had divulged many technical knowhow to them. These technical knowhow like formulas or technologies are important for them. This is why it is almost feeding the secret information to the company outsiders.
- Loss of Flexibility and Responsiveness: It may be required on the part of a company, at some point of time, to get back to manufacturing and internalize the entire operation rather than giving the task to the outsiders. However, without direct involvement in manufacturing over a period of time it would be difficult for the company to respond to manufacturing requirements.

206.6 ❒ Offshoring

Offshoring is another type global sourcing. Offshoring refers to the relocation of a business process or entire manufacturing facility to a foreign country. This involves shifting of production facilities or any other business processes such as accounting etc to the foreign countries in order to enhance competitive advantage. Production of apparel, toys, and consumer goods in China or in Vietnam etc by US or European companies are examples of off shoring. The economic logic of off shoring is to reduce costs by shifting the production base to a low cost country.

206.7 ❒ Extent of Global Sourcing

The world is shrinking because of rapid technological development. In this shrinking world it is now has become possible for businesses to look through the world and source products, assembly etc from the places that best suits them. European and U.S. manufacturing either relocated themselves to low cost countries through opening up subsidiary companies or engaged producer abroad to produce their products at low cost. During 1990s, IT services and customer-support activities or other service sectors became part of the off-shoring trend. As days progressed business-process outsourcing in product development, human resources, & finance/ accounting services has become very common to take the advantage of shrinking world through locating the best in the world. The global sourcing trend, in fact, has been encouraged more by the following facts.

- Large-scale manufacturing industries whose primary competitive advantage is efficiency and low cost are looking towards achieving it through relocating to the low cost countries.
- Global convergence of customer need has made some sectors tremendously benefitted through global sourcing. For example, industries such as automobiles that have uniform customer needs and highly standardized processes in production and other value-chain activities are utilizing global sourcing to the extent possible.
- Service industries that are highly labor intensive, such as call centers and legal transcription are taking the help of the manpower who are comparatively cheap.
- Information-based industries whose functions and activities can be easily transmitted via the Internet, such as accounting, billing and payroll are becoming increasingly dependent on global networks.
- Industries such as software preparations, whose outputs are easy to codify and transmit over the Internet or by telephone, such as routine technical support and customer service activities are getting concentrated in specific countries of interest. These industries are offering their services to the global level which can be conveniently sourced by companies across the world.

Unit 207 ❐ Role of Information in International Marketing

Structure

207.1 ❐ Introduction

International marketing managers deals with multi country operations and the countries are dissimilar in many respects like economic status, cultural affinity, demographic profile, rules and regulations in vogue, political situations, strength of pressure groups, currency status etc. Say, a marketing manager of an US company, headquartered in New York, need to monitor its 50 country business operations located in Asia, Africa, Middle East countries. In order to take any marketing decision, the business manager needs to know the different forces, country specific as well as international, affecting its business specific to each country. This country specific marketing information constitutes a basis for all executive action which must be taken at the right time to improve the chances of success in a complex global environment. Such information, though amply available through different sources like web sites in internet, journals, bulletins etc needs to be carefully evaluated and viewed in light of the purpose for which it was collected. The availability of and access to the information may be limited in least developing countries, and of course with a question mark on its reliability, if available at all. For example, in the least developing country like Myanmar, much of the demographic and production data was tainted by pressure of the military governments. However, the developed countries are always a step ahead than the developing country in terms information availability and reliability. Another important aspect here is that making the available information ready for the purpose. For example, suppose an international company deciding on the possible positioning of the newly developed cosmetic products in Tanzania. Now, Tanzania being a least developed country there will be limitations on data availability. In addition, if data is available to some extent then the issues would be; how to use those data to derive some meaningful conclusions? This leads to the necessity of installing or executing some research in the distant country market to understand the situation first and then based on the research findings business decision would be taken. International marketing research is especially complex since it is to be conducted in another country where the situation may not be the same like that of the home country. International manager, therefore, requires the understanding of conducting research in foreign country situations also with understanding of sources and availability of required information. For example, the manager may be successfully positioned the cosmetic product like shampoo in USA but researching in middle east countries where women used to cover their head in a veil would require altogether different types of data and information in order to decide about market positioning in middle the middle east countries.

207.2 ❐ Defining International Marketing Research

International marketing research is the systematic design, collection, recording, analysis, interpretation, and reporting of information pertinent to a particular marketing decision facing a company operating internationally. There may different types of research requirements for a company.

207.3 ❐ Types of International marketing research

- Research of industry, market characteristics and market trends
- Buyer behavior research
- Product research
- Distribution research
- Promotion research
- Pricing research.

207.4 ❐ The scope of International Marketing Research

International marketing research has a broader scope than domestic research: Managers will need additional information to compensate for lack of familiarity with the foreign environment.

207.4.1 Organizational buying behavior

This is applicable in business to business buying situation. This type of research examines the buying decisions like composition of buying group, decision making process, concept of time, level of hierarchy involved in decision making process etc for a specific country market.

207.4.2 Consumer behavior

here the full focus is given to the consumers of a specific country. Cultural issues play an important role. Researchers put their time in understanding the impact of culture on consumers like information searching pattern for buying a product, decision making process for buying a product, actual buying process and involvement of the consumers thereof, after sales or before sales service wanted or desired for a product. This type of research provides a good understanding of the influence of the country's culture on the consumers. Consumer's inclination for a specific country products, for example, inclination of Indian consumers for Japanese made electronic products, are also studied to understand the behavior of the consumer when exposed to a product made by a specific country.

207.4.3 Mode of entry

research in this area allows a company to understand how the company would select the optimum entry mode while entering another country. The researches in this area cover the following area

Entry mode selected by companies of similar nature or in the same sector for a specific country market. This allows a company to understand and decide its own entry mode. The process of selecting entry mode and operationalising the selection in company are also some areas that are needed to be researched out. Then another broad area of research in this domain is first decide on the entry mode and then find out its implication in other areas like marketing, performance etc. For example, export is the mode of entry already decided and now the researcher is wanting to know the marketing mix options, factors for export success, barriers of exporting etc. the same type or research is needed by the manager if the entry mode is joint venture or wholly owned subsidiary.

207.4.4. Research of industry, market characteristics and market trends

Every country is a new environment for a company. Therefore, while entering the company will be interested to understand the industry, market characteristics, and market trends and market-share analyses, strategic group dynamics etc. This research is useful for the company to understand the market trend in a country and decide its own positioning.

207.4.5 Product Research

When going for a new country market firms usually wants to understand the level of acceptability of its product in the new market. It may be an already successful product in the home country market. What extent it would require modification to the liking of the customers of the target country? In addition, the company wants to assess the degree of discretionary modification to be effected on the product. Product testing research identifies the extent to which the product conforms to local tastes, choice and preferences . For example, PepsiCo Foods International decided to undertake extensive product testing in China before introducing its Cheetos snack food brand. The company researched out to know that Chinese customers were not fond of the cheesy taste of the product. As a result, PepsiCo's local joint venture Guangzhou Frito-Lay decided to get rid of the cheese and replace it with cream and steak flavors. Sales increased dramatically. Brand name generation and testing in the distant country market also an important area in this field. Coca cola had to resort to huge research to understand why the brand name is not accepted by the Chinese customers.

Product packaging research is also an important area which the managers want to undertake in a foreign market. These study takes the shape of action research where consumers' reaction to the package, adequacy of information provided in the package and acceptability of colour and packaging material are noted to assess the marketing implications.

207.4.6 Distribution Research

The distribution channel structure is different in different countries. At the same time it is important for the international marketers to reach the target marketers at the quickest time possible. Therefore international marketers look for developing understanding of the basic characteristics of the channel structure of the country of interest. Distribution channel structure research identifies the different layers of distribution intermediaries and their role and functions. The second stage of the research deals with the channel performance and its coverage in order to identify what it requires further to develop channel as per the requirements.

Another important area in distribution is the physical distribution. It involves identifying the logistics companies, their capabilities, applicable charges, total time required for transportation and their available alternatives.

In the international markets the internationalizing company wants to know its distribution partners like wholesalers or distributors well so as to keep the channel conflict at the minimum. In should be kept in mind that in cross cultural situation knowing each other's culture bound behaviors are very important to establish a good relation with the channel members. These researches endeavors to find out culture based behavioral patter n of the intermediaries.

207.4.7 Promotion Research

Effecting communication is important in international marketing. When a communication is made to a target country population it is important to know how the people received it. The creative idea of the communication may not be perceived or appreciated equally in all countries. There may be several barriers of communication like language, culture, legal etc faced by international marketers in different country markets. Therefore, promotion research is crucial for companies doing business internationally so that they understands and evaluates the extent to which the communication is effective. Internationally, before launching a new communication it is imperative then to research out effectiveness and appropriateness of advertisements. Initially, it may be the desire of the marketers to extend the home country or regionally successful advertising to other markets. The research, in this respect, tests the applicability of such home country advertisement or regional one in a new country market. The other collateral aim of the research would be to understand differences that stems out of the cultural variability between two countries. Media research is another important area of research wherein the internationalizing company strives to understand the effectiveness of different media like media advertising (TV, radio, newspapers, magazines), Direct Response Advertising, Interactive (on-line) Advertising & Web Sites, Outdoor Advertising (billboards, posters, cinema), Point-of-Purchase Advertising, Brochures & Sales Literature etc .

207.4.8 Pricing research

Pricing of a product internationally itself is a difficult problem. Pricing research, therefore, is much more problematic in international marketing. The primary area of research in this arena is to ascertain whether a standardized price can be maintained in different countries. If not then what are the factors that effects the price standardization. There could be factors that are mandatory in nature like tax structure, VAT difference etc. In addition, the research would try to understand the other factors affecting the price setting like per capita income, consumer's surplus in a target segment, spending habits etc in a target country market.

207.5 Sources of information

There are two sources from which data for research in international marketing can be collected, secondary sources and primary sources. Secondary data is defined as data collected for a problem other than the problem at hand and hence already exist in the printed or digital format or otherwise. Primary data are first hand data collected by the researched through survey, interaction etc with target population. Primary data has not been published yet and is more reliable, authentic and objective. Primary data has not been changed or altered by human beings; therefore its validity is greater than secondary data.

207.5.1 Secondary Data Sources

The following are examples of secondary data sources that would provide information for researchers of international marketing :

Published Printed Sources

Books:
Books are available on international marketing written by many authors. In many books authors are focusing on a specific country like 'marketing in China' or for a region like "marketing in south east Asia "

Journals/periodicals:

Journals and periodicals are very important source for data or information collection which provides up-to-date information which at times books cannot and secondly, journals can give information on the very specific topic on which you are researching rather talking about more general topics. There are various journals of international marketing and international business which would be extremely essential for the international marketers. For example

- Journal of International Marketing: This journal presents scholarly, managerially relevant articles on international marketing, bridging the gap between theory and practice. JIM is geared toward international marketing/business scholars and marketers at senior- and mid-level positions.
- International Marketing Review*:* The principal aims of (*IMR*) are to push back the boundaries of the thinking, theory, and practice in international marketing, and to provide a forum to explore these developments. It is not an International

"Marketing Review", and does not consider itself a home for general marketing papers or single country studies.

- Journal of Global Marketing: includes the latest global marketing planning and programming strategies, current information, and contemporary research findings on marketing challenges and opportunities that firms, industries, and public sector agencies encounter worldwide. The expert contributors to the journal include leading marketing and international business scholars, practitioners, and policymakers who provide up-to-date practical information vital for management and administrative professionals.

Magazines/Newspapers:

Magazines are also effective. Newspaper is more reliable and in some cases the information can only be obtained from newspapers as in the case of some political issues required in international marketing. For example, Advertising Age, Adweek, American Demographics, Brand Marketing, Brandweek, Catalog Age, Chain Store Age, Discount Store News, business horizon etc are important sources of secondary data

Electronic Sources:

As internet is becoming more advance, fast and reachable to the masses; it has been seen that much information that is not available in printed form is available on internet. Many web based sources are important for international marketing researchers. For example, www.global edge.com, www.ciafactsheet, www.ITPO.htm ,Management Dynamics - Trade Wizards , Indian Corporate database, Indian Company Database, Indian Economy Reports, Commodity Prices, Financial indicators, Stock Prices, Company Reports by Centre for Monitoring Indian Economy,http://trade-india.net/ India Mart - Indian Manufacturers Suppliers Exporters Directory,India Exporter Manufacturer,India,thegreatindianbazaar.com/aboutus.htm,

Unpublished Personal Records:

Some unpublished data may also be useful in some cases.

Marketing Research suppliers:

A.C. Nielsen, Kelton global, a and others offer subscribers extensive information on different markets. Overall, secondary data collected by different research suppliers is quite useful.

207.5.2: Primary data source

Primary data based research are more authentic than based on secondary data. However, because of cross country involvement, collecting primary data in international marketing research is a genuine problem particularly for small and medium size of business. Other problem stems out from selecting sample to be representative of the population, designing of the questions appropriate to various cultural and social backgrounds of the respondents, inability of respondents to communicate their opinions to inadequacies in questionnaire translation, different viable contact methods of establishing contacts due to prevailing cultural norms in different countries.