

# INTERNATIONAL MARKETING

**Study Unit One**

**Introduction to International Marketing**

**1.1. Introduction to International Marketing**

- Exporting is important, especially to a small country like South Africa, which participates in a free-market economy
- Not only does exporting create growth opportunities for South African businesses (like Tiger Brands, SABMiller and De Beers)
- Local companies also should contend with competition from imported goods and services even if they do not export goods
- Export businesses are influenced by the product sectors they operate in, the trade relations between the home country and the country they are exporting to, as well as the global and local economies and the many environments they have to deal with
- In so doing export companies should reflect on their strengths and weaknesses that enable or hinder them to take advantage of the growth available in foreign markets
- The latter refers to the fact that these companies should ensure that their activities are in harmony with the regulatory or other parameters required by the host country/countries
- South Africa pursues international relations with a few countries
- These include countries such as Lesotho, Swaziland, Namibia and Botswana, which are all members of the Southern African Customs Union

**1.1.1. Benefits of International Trade**

- International trade and exports are important for economic development of all countries and to improve the general standard of living
- Advantages of exporting at national level
  - Better utilisation of national resources
  - Increased overall level of technology and economic development
  - Increased global competitiveness
  - Expansion and development opportunities beyond the local market
  - Increased job opportunities and reduced unemployment
  - Better paying jobs
  - Earning foreign currency required to pay for essential imports and services
- Benefits of international trade for individual firms
  - Increasing sales: selling abroad generates additional sales not possible before
  - Increasing profits: increased sales generally translate into increased profits
  - Reducing risk: by selling abroad companies can reduce the effect of an economic downturn in the local market
    - Achieving economies of scale: increased sales because of exports means that firms can produce more with their existing capital
    - Lowering unit cost: greater throughout existing infrastructure translates into lower cost per unit of output
    - Overcoming seasonal limitations: companies that sell seasonal products can often export these goods to markets with seasons opposite to SA
    - Extending PLC: product that reaches the end of the lifecycle in SA, may have life internationally
    - Accessing untapped markets: company may have a unique product that is not yet available elsewhere in the world, resulting in sales abroad
    - Achieving higher levels of quality: when a company starts competing in foreign markets, it should become efficient in all activities

**1.1.2. Globalisation debate**

- Globalisation refers to the process of going global
- View of some is that globalisation creates inequalities mainly between the developed and developing nations of the world

**1.1.3. Welcome to the world of international marketing**

- Helps to make business and marketing decision
- Have to learn different languages, new cultures, and complex legal issues

## **1.2. What is international marketing**

### **1.2.1. Defining marketing**

- American marketing association defines as marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange that satisfy individual and organisation goals
- Definition was adapted in 2007: marketing is the activity and process for creating, communicating, delivering and exchanging offerings that have value for customer, clients, partners and society
- Exchange occurs when at least two parties that each have something of value, and who wish to transact with other person, communicate with each other and either accept or reject the others offer
- Satisfying individual needs and organisational goals, focus of any marketer is the customer
- Marketer must identify the customer and what their needs are, using market research
- The company selects a target market from a wider group
- Process of planning and executing certain activities suggest that the firm must bring together all its resources to satisfy customer needs
- Total systems approach is another element
- There are four key elements that combine to support the marketing concept
  - Customer satisfaction
  - Systems approach
  - Goal orientation
  - Societal approach
- Definition identifies four main activities known as the 4P's
  - Conceptualising and developing products
  - Establishing prices that offer value to customers and a profit to the supplier
  - Promoting products and services through personal selling, advertising, direct mail, Internet
  - Distribution or place to reach the customer through appropriate channels

### **1.2.2. Defining international marketing**

- International marketing is marketing across international borders
- Includes customer and the exchange process, individual needs and organisational goals, systems approach, value-added approach, societal approach, marketing mix and external environment
- Entering international markets means dealing with foreign environment with customs, laws, technologies, regulations and may differ hugely from domestic markets
- Differences when trading across border
  - Customer profile in the foreign market is very different from that of the customer in domestic market, due to language, religion, fashion
  - Different legal, political, social and economic systems
  - Greater complexities associated with payment, distribution, transport and insurance
  - Role of documentation assumes added importance to prevent misunderstanding and costly litigation
- Goods are subject to customs control and the payment of import duty
- Number of additional technical and administrative regulations may apply to exports
- Exchange rates are control regulations
- More extensive to use fax and email due to different time zones
- Operating in foreign markets exposes the exporter to wider more intense competition

## **1.3. Process of internationalisation**

- Process has clearly defined stages

### **1.3.1. Domestic Marketer**

- Rarely does a firm enter an international marketing without competing domestically
- More often they develop from local firms to competing in one province to become national companies – domestic marketer
- They focus on needs and wants of the customer, industry trends and environment that are to be found at home are generally non-exporter

### **1.3.2. Potential export marketer**

- Non-exporting companies are domestic marketer's and are financially performing to become national competitors
- They have a formal business plan and conduct regular research
- Such companies are essential exporters as they have basis to build
- Exporting is complex, competitive and expensive venture
- Companies without solid foundation are likely to fail, companies must ensure they have a formal business plan before considering exporting
- Firms needs to export before going global

### **1.3.3. Export marketer**

- Once the company is established in the domestic market they can consider exporting
- Occasional exporter, company may receive a small order for an overseas customer
- Export marketer, non-export decides to enter the exports market and sets export objectives for itself and prepares an exporting marketing plan

- **Indirect Exporter**

- When a local company sells its products to another local company and then exports these products to the markets
- This local company would specialise in exporting: Export trading company
- Export trading company buys local products for its own account and then sells these to markets abroad
- Company may also sends its products to another manufacturer that uses the products as components

- **Direct Exporter**

- Is a company that takes responsibility for its own exports
- Export agent is a local firm that specialises in exporting on another company's behalf: export Management Company
- Export agents undertake the foreign markets and sales of the product of the local company on a commission basis
- Agents buys and sells the product overseas for its own account
- Using export agent is helpful when you have no experience on the foreign markets
- Export agent may fill an advisory role by consulting on the product adaption, costing and price setting and packaging requirements

### **1.3.4. International marketer**

- As export grow, they become an essential part of the company's activities
- Companies may enter more and more international markets and adapt their product and its promotional message to their target market
- Exporter may decide to establish a sales or support office in one or more locations overseas'
- Exporter has developed into an international marketer
- International marketing companies that expand internationally where it operates independently out of different part of the world move into multi-domestic marketing

### **1.3.5. Multinational marketer**

- Multi domestic marketer expands by using its overseas bases to launch regional export initiatives from each of these bases
- Company will now have many branches, subsidiaries or manufacturing operation located in different countries'
- Company may also take advantage of any unique benefits associated with that region or to overcome any barriers to trade within the region

### **1.3.6. Global marketer**

- From multinational marketer, some companies grow into global marketers
- Company begins to coordinate its marketing effort in the various regions around the world to achieve standardised marketing efforts across the company's marketing mix
- They operate out of the best location with favourable conditions, market opportunities, and low cost areas, environmentally accommodating factors or minimal competition

#### **1.4. Are you ready to go global?**

- Is a challenge and not all companies can go international
- The factors vital to the success of a business's export efforts
  - Management commitment,
  - Sound financial base
  - Exportable product
  - Dedicated personnel and a communication and administration system

##### **1.4.1. Management commitment**

- Without management commitment at senior level it is likely that resources allocated to exports will be inadequate and staff motivation will be lacking
- Senior management should drive an export motivational programme aimed at informing staff at all levels and in all divisions of the new initiative
- Programme can include
  - Reasons why the company has decided to export
  - Benefits to the drive exporting
  - Proposed initial action plan

##### **1.4.2. Sound financial base**

- Foreign market development is a costly exercise
- Apart from start-up cost of setting an import/export department, they need investment in market research and promotional material
- Certain products may need to be adapted for these markets
- Adaptable may be due to labelling or packaging
- Pipeline between raw materials, production, marketing and distribution and the proceeds is much longer for international sales than for domestic sales

##### **1.4.3. Exportable product**

- Product must be in demand in the foreign markets in either its original or modified form
- Product must meet quality standards
- Easily transportable products is a benefit
- After-sales or product maintenance must be available
- Firms must have both production capability and capacity to meet foreign requirements
- Capacity to carry additional input stocks should suppliers be unable to provide immediate deliveries of required raw materials
- Firm should have enough warehousing capacity to store sufficient finished goods to make up a cost-effective consignment

##### **1.4.4. Dedicated personnel**

- Number of staff assigned to exports will depend on the budget available
- Person in charge of the export operation should be given the authority to make decisions without always having to refer to management
- Once export is contributing to the turnover, a restructure can be done with separating marketing and shipping departments
- Later this can be organised according to specific geographic areas, and task

##### **1.4.5. Communication and administration systems**

- If there are current problems like delays with documentation, invoicing and payment this must be sorted out before moving internationally
- All technologies like mail, fax must allow the company to respond promptly to overseas enquiries
- Website must be up to date which customers can use to find out more about the company, its products and services and which they can contact the firm using email.

## **Study Unit Two**

### **Marketing Strategies across borders**

#### **2.1. Introduction**

- Each stage of internationalisation has its own challenges and opportunities
- It requires specific competencies and resources, allowing the firm to respond appropriately to ensure Success
- Consequently, to ensure success, the firm's organisational objectives, structure, strategies, policies, procedures, processes and managerial practices should support these competencies and resources to enable the firm to offer superior sustainable stakeholder solutions
- Company should be market oriented to enjoy continuous success
- Management uses a tool called "marketing strategy" to ensure a market orientation,

#### **2.2. Strategy as process**

- Approach is inclusive and flexible and seeks to continuously craft strategies that are appropriate to changing environments and stakeholder preferences
- Basic idea is that international markets are most effective when they engage in a continual process of gathering, sharing and using information about customers, other stakeholders, competitors and their environment
- International markets that follow this system approach have adopted a market orientation
- Marketing orientation has three building blocks:
  - Insight: acquiring, sharing and analysing information
  - Intent: sharing knowledge about stakeholder preferences and agreeing about appropriate strategic response
  - Interaction: implementing intended strategies, observing and continually changing to adapt to stakeholder preference
- International markets are complex and fast changing and companies need insights from customers to understand the market
- The complexity makes it important to put a formal and informal processes in place to understand the market place and to respond to these changes
- Rewards for understanding these complexities and strategic sense making, market planning responsiveness are uncommon for profitability and growth
- Market orientated behaviours are not easy to adapt especially if the company is unfamiliar to strategic market planning

#### **2.3. Step One: Marketing Audit**

- Formal audit is performed to determine the financial stability of the company and to check if they meet laws and regulation
- Marketing Audit is formal, comprehensive and systematic process
- Marketing audit focuses on the companies
  - Marketing environment
  - Competitive environment
  - Resources and distinctive competencies
  - Performance
- Seeks to evaluate performance and to identify current and future trends upon which strategies are based
- Marketing audits should be repeated regularly and often by specialist
- Marketing auditors collect information about marketing activities and outcomes during a specific time frame
- Marketing audit consist of six main activities

- **Market environment analysis**

- Macro environmental analysis: is the social, legal, economic, political and technological environments for potential impact of the firm's success
- Task environment analysis: collects detailed information about markets, customers, competitors, substitute products and current and potential members of the value chain
- Quantitative analysis: such as regression and correlation analysis or more advanced techniques
- Qualitative analysis: such as focus groups, depth interviews, social disclosure analysis, content analysis, laddering, alternative analysis and scenario planning
- SWOT analysis focuses on the internal and external environment

- **Marketing strategy audit**
  - Focuses on the external environment
  - It identifies opportunities and threats and their probability and potential impact on the company
- **Marketing organisation audit**
  - Focus on the internal strengths and weakness and their impact on stakeholder relations and performance
  - Often requires the commitment of finance, HR, and operations
- **Marketing systems audit**
  - Focus on the policies and procedures of the company used in
    - Building insights about customers and stakeholders
    - Crafting intent by engaging employees in strategic conversation within the company
    - Engaging in interaction with stakeholders
- **Marketing function audit**
  - Analysis document key marketing functions within the company
  - Examine location, structure, pattern and quality of intra-organisational networks that connect people responsible for market orientation and performance
- **Marketing productivity audit**
  - Examines financial data and assess the return on investments in products and services
  - Focus on identifying new efficiencies in the marketing spending and redirecting marketing spending to products or service that have a greater return in the future

## **2.4. Step Two: Mission, objectives, strategies and structures**

### **2.4.1 Vision and mission**

- Strategic intent is when a strategic objective is so central that it unifies purpose and focuses on competitive activities
- Vision statement outlines aspirations for the future position of the company, reasons why it intends to achieve that position, enduring purpose and intentions to meet future stakeholder's needs
- Mission statement concerns the present business scope and purpose
- Stakeholders include customers, **suppliers**, shareholders, employees and government and interest groups
- Stakeholders are motivated by direct or indirect benefits and costs they believe they incur because of firm activities

### **2.4.2 Objectives**

- To give direction to the overall business, they must translate the vision and mission into objectives
- Objectives are strategic, measurable, achievable, realistic, and time-bound goals that translate the mission and vision into more detailed strategies and tactics and serve as performance targets
- These performance targets are used to evaluate financial performance and strategic performance
- Financial objectives concern for targets for return on investment, free cash flow, economic value added, sales turnover, gross profits, cost of debt, inventory turnover and other financial performance metrics
- Strategic objectives focus on the company's position and long-term business prospects and includes targets for measures such as market orientation, brand and customer equity, stakeholder satisfaction, market share, market growth, international market participation, competitiveness and cost structures

### **2.4.3 Strategies**

- Strategies are plans, meaning getting from here to there, patterns of behaviour and position in relation to products or markets or competitors that emerge as a company acts to achieve its objectives
- Corporate strategy defines the range of businesses in which the company will participate, financial, human and structural requirements for competitive success and policies and plans the company will follow to achieve its corporate objectives
- Business strategies focus on a narrower domain of competition within a specific business
- Competitive strategy refers to an even narrower competitive domain, focus on plans for delivering value to stakeholders and competition success
- Tactics allocate specific resources and marketing activities to implement marketing strategies

- **Generic Strategies**

- **Porter** proposed three generic strategies:
  - Overall low cost leadership: focus on cost, not prices
  - Differentiation: combination of marketing elements that present target customers with a distinctive, appealing offer, usually on the basis products or service quality
  - Focus strategies: avoid directly competing with stronger companies by defining market niche that are too small to interest larger competitors but large enough to support profitable company

- **Miles and Snow** proposed four generic strategies based on intended rate of product market development (new product development and penetration of new markets)

- Prospectors

- Attempt to find new market opportunities
- They invest heavily in research and development and respond to early signals of changing stakeholder preferences and competitive activities

- They prefer to operate in broad product categories that are changing

- These products are often in the first stage of PLC

- They are often cash hungry

- Defenders

- Seek out relatively stable products or service areas

- They prefer to focus on more limited product or service offering and protect their domain by offering lower prices and higher quality or better service than competitors

- They are very aggressive marketers and called cash cow

- Analysers

- Differentiate products and pursue cost leadership

- Products offering is limited and resist changing their product mix more than prospectors

- They try to avoid being the first movers in the product category

- Reactors

- Do not seem to have well defined strategies

- They resist change and respond only when they forced to by the competitive environment

- They are even more risk-average and the least profitable and sustainable business of the four types

- **Strategic orientation**

- Innovation orientation unifies strategy around being first to market with new products, services or features

- Learning orientation focuses on acquiring, storing and sharing knowledge to increase knowledge about customer, competitors and the environment to enhance responsiveness

#### **2.4.4. Structure**

- Structure refers to the way that work is organised within the company and the pattern on reporting and communicating relationships within the company and its value chain

- Structure may be organised based on infrastructure, geographic, customers, technology, and value chain relations

- Organisational structure refers to the values, goals, attitudes and beliefs that characterise a company and influence how people relate to each other

- Organisational structure must adapt to other differences, such as diversity, literacy, numeracy, access to financial resources and infrastructure

- Cultural hierarchy relies on the system of ascribed roles to ensure responsible behaviour and on socialisation processes that encourage people to accept the unequal distribution of power

#### **2.4.5. Supply chain**

- Structure also includes suppliers, distributors, service providers, strategic alliance partners and other member of supply chain

- Supply chain consists of all companies that participate in providing a product or service to final consumer, from stages of conception

- Supply chain for international products are complex, dynamic

- When supply chains are not efficient, every member may experience unexpected cost such as shipping, High inventories and lower demand fulfilment

- Competition in international markets increasingly puts supply chain against each other

- **Porter**, companies organise work around five activities: Inbound logistics, production and operations, outbound logistics, marketing and sales and services

- These primary activities draw on support activities: HR, infrastructure, technology and procurement

### **2.5. Step Three: Stakeholder value**

- It is known that developing and implementing marketing strategies relies on customer understanding derived from the product

#### **2.5.1. Why stakeholders**

- Customer are the heart of the company and should be focused on

- Customers are important but so are suppliers, labour, politicians, environmentalists, government leaders, trade regulations and media

### **2.5.2. Analysing stakeholder value**

- International marketers measure and manage stakeholder perceptions of the value received from the company
- Customers are valued in three types of resources: time, money and cognitive processing capacity
- Equation of financial value weighing up what is received less what it cost hides more complex decision influences that require analysis
- Strategic cost analysis explores the links between the firms cost structures and the perceived value delivered to the markets
- Strategic cost analysis compares a company's unit cost against competitors to understand sources of cost advantage

### **2.5.3. Benchmarking against competition**

- Higher the comas relative cost the more vulnerable it is to competition
- Cost structure should also be benched marked against competition
- Benchmarking is an ongoing process which assesses the strategies, policies, processes and performance to improve performance
- Agile manufacturing is a concept that embraces lean manufacturing, flexible manufacturing and marketing issues

## **2.6. Step Four: Intermarket segmentation**

- Sound simple in theory but it is not
  - Find segments comprised of people or companies with similar requirements
  - Select the target intermarket segment
  - Position the product by defining a compelling combination of marketing mix strategies
  - Implement the strategy
- International market segment is the process of deifying relatively homogeneous groups based on shared preferences that relate or our chase or consumption behaviour
- Intermarket segmentation focuses on identifying meaningful segments that can be found in many countries

### **2.6.1. Segmentation basis**

- Intermarket segmentation schemes may be assessed on six generally acceptable criteria: identifiability, substantiality, stability, actionability and accessibility
- Market segmentation is difficult as it drives purchase and consumption behaviour such as culture, values, attitudes, beliefs, product knowledge,
- Generally, refers to whether a segment base in general or dependent on specific domain or context
- General observable bases include easily observed segmentation variables that are independent pf domain or context,
- General unobservable bases refer to segments variables that transcend situation and context but are difficult or impossible to observe such as values and lifestyle
- Lifestyle refers to activities, interest and opinions
- Domain specific bases include segmentation variables that are linked to situation and context
- Standardised international marketing focuses on markets which have some universal appeal is assumed to exist
- Concentrated international markets focus on one defined international market
- Differentiated international marketing is a special case of concentrated international marketing in which company targets two or more distinct segments

## **2.7. Step Five: Market selection**

- Once the target market has been identified the company must select geographic markets in which they will operate
- Market selection is an ongoing process of market appraisals and assessment in which international marketers choose the locations in which they will serve their target intermarket segment, firm increasingly internationalise and conduct assessments of new markets, they learn from their analyses and experiences in different international markets
- Ethnocentric mind-set assume the superiority of their home market and seek to find similarities in other market
- Polycentric orientation has increased international experience exposes the firm to unique characteristics of foreign markets which market is unique
- Regiocentric mind-set seeks to find similarities within regions compromising more than one country
- Geocentric mind-set acknowledges similarities and differences in the domestic market and foreign markets

### 2.7.1. Choosing evaluative criteria

- Company mind-set is important because it is a lens through which companies evaluate countries for international participation
- Firm with regiocentric mind-set many decide to participate in a particular market because it is a lead market or major market for a product
- Company with polycentric mind-set, may avoid the same country to avoid required product adaptations
- SLEPT analysis can help identify criteria for market evaluation and decide how much to weight to place on each

- **Market and its potential**

- First category is market characteristics and potential
- Market assistance information is available from domestic and foreign government agencies
- They provide volumes of information which includes current, projected population, spending power and growth rates, education, occupation and other demographic information and macroeconomic information about economic structure, imports, exports, air, road, sea, rail and foreign reserves

- **Regulatory and legal influence on operations**

- Despite recent progress trade and tariff, government policies often vary between countries with direct and indirect effects on the company that have financial and non-financial concerns
- Government policies impact an industry structure regarding rivalry and competition, labour laws, available modes of transportation, investment and profits, etc.
- Regulatory and legal issues have different implications across different industries and modes of entry
- Important that the tax structures and fees are understood such as licences, foreign exchange or quotas

- **Likely nature and structure of competition**

- Marketing audit helps identify the players who will shape the nature and structure of competition in an international market
- Should identify competitors, understand the quality of their stakeholder relations, their value chain and supply chain strengths and weaknesses
- Task environment audit helps explain the generic strategies and strategic orientations of potential competitors and their ability to compete
- Should expose excess production capacity, weak brand building or poor stakeholder relations that face a potential competitor's vulnerability to competition and unhealthy price cutting

- **Standardisation and adaption**

- Company mind-set also influences one of the decisions of international markets: decision to standardise or adapt marketing strategies
- Standardisation marketing seeks to capture benefits by minimising variations in the marketing mix between countries
- Adaption strategies seek to minimise responsiveness to local variations in preference by varying the marketing mix

- **Resources and marketing participation strategies**

- Resource analysis usually conducted in two ways
  - Viable alternative market participation strategies
  - Match between a company resources and the resources needed to participate in the market are assessed
- Entry mode choices include exporting, directly or indirectly, entering licensing or agency relationships, franchising, opening abroad, hiring contract manufacturers
- Market based resources include external linking capabilities, reputational assets, market innovation capabilities and HR
- Marketing resource include marketing culture and distinctive marketing capabilities
- General use factors can be assessed by any company and include unskilled labour, raw materials and infrastructure
- Specialised factor conditions includes skilled labour, capital and facilities that requires investment and development

- **Assessing risk and rewards**

- Financial and economic risk include potential loss of investment in market development and participation and the opportunity costs of participation in markets that are not chosen
- Currency risk involves the risk of currency value fluctuations
- Political risk may be encountered if legal frameworks are dynamic or if national and local government boundaries are not clear
- Legal risk concerns equal treatment in courts of law, protection of property rights and consistency in law enforcement
- Reputational risk arises when local supply chain partners engage in appropriate behaviours

## **2.8. Marketing plan**

- Strategic marketing planning process produces incredible learning but it is not lost if people in the company cannot access the activities to performance
- International strategic marketing plan makes these linkages explicit by providing a written, detailed and living statement of where, how and when a company intends to achieve its marketing objectives
- Marketing plan constantly updates reference document that captures the assumptions, plans, activities and outcomes of marketing strategies

### **2.8.1. Executive summary**

- Most plans start with two or three-page executive summary
- Executive summary captures the main marketing objectives, expected sales, key situational, environmental and competitive issues, key country strategies, key success factors

### **2.8.2. Marketing objectives**

- Should be present at the beginning of the marketing plan and relate to the mission, objectives, strategies and structures
- Objective for sales, profitability, market share and return on marketing expenditure should be reported
- Market based assets and resources include intangible assets such as knowledge that is fixed in individuals and processes within the company
- Relational market based assets are intangible assets such as customer, channel network and other stakeholder relationships that are associated with external companies that are not alone controlled by the company

### **2.8.3. Situational analysis**

- Reports appropriate information that was collected during the marketing environment audit in the level of detail required
- This is for the marketing plan users can understand the assumption upon which it is based and thus be sensitive to situational changes that might suggest that strategies are no longer appropriate
- Information about the macro environment indicators of industry size growth and profitability is usually reported for appropriate levels of aggregation

### **2.8.4. Marketing environment**

- Marketing environment analysis draws largely on the audit of the task environment
- Information reported focuses on
  - Downstream stakeholders, such as customers, ultimate consumers and downstream distributors, agents and other strategic alliances partners
  - Upstream stakeholders, such as suppliers, labour markets and raw materials
  - Other stakeholders, such as government, civil society, environmentalists and interest groups

### **2.8.5. Competitive environment**

- Marketing plan should detail the significant elements of the competitive environment including basic business performance on competitors at global, regional and local level
- Potential competitors and substitute products should also be identified and assessed
- Section should advise the reader of the mission, objectives, strategies and structures of the competitors, intended target market and positioning strategies

### **2.8.6. Summary: strengths, weaknesses, opportunities and threats**

- Many companies include short section summarising the external opportunities and threats facing the company
- This should be located after the section that reports the current situation, marketing environment and competitor environment
- Internal strengths and weaknesses should also be summarised
- This allows readers to make sense of previous sections and understand the issues that have been identified before moving forward

### **2.8.7. Segmentation, targeting and positioning**

- Marketing plan should include details about how intermarket segments were selected and how they were identified
- This should include information that explains the sources of data that were consulted and methods that were used to compile the segment

- Marketing audit stresses the need for understanding the behavioural basis for purchase and consumption behaviour
- Total market and intermarket segment sales turnover, growth, profitability and market share should include previous three to five years
- Projection for the coming three to five years should also be included
- Positioning strategy should be identified and be provided to justify why the intermarket segment will find this positioning strategy compelling
- Target markets that competitors intend to serve and their respective positioning strategies for those target markets should be provided

#### **2.8.8. Country strategies**

- Some companies have different plans for different countries
- Choice of how many plans the company will have depends on the level of aggregation in each plan, structure and responsibilities, use of standardised or concentrated segmentation approach and the degree of internationalisation
- Marketing plans written at global or regional levels of aggregation should summarise major country strategies in a separate section of the plan so the reader can gain overall understanding of the international marketing priorities

#### **2.8.9. Marketing mix strategies**

- Product, pricing, promotion and distribution strategies should appear in separate sections
- Each of these should present the specific marketing strategies and a reason why the strategy has been chosen

#### **2.8.10. Resources**

- Resources should be addressed in detail in two ways
  - Intended effects of the market based assets of the various marketing mix and targets should be set
  - Resources required to achieve each marketing mix strategy should be reported and link to strategies and performance outcomes

#### **2.8.11. Key success factors and assumptions**

- Marketing mix strategies of the plan should conclude with a summary of the key success factors and assumption of the marketing plan
- This section helps everyone to understand the reasons why strategies were chosen and what it required for success

#### **2.8.12. Scheduling, controls and evaluation**

- Summaries timelines, controls and evaluation procedures
- Strategic, administrative and operational marketing goals are usually written in the style of SMART objectives (strategic, measurable, achievable, realistic and time-bound)
- Analytic tools makes it easier to use and less expensive

### **2.9. Step Seven: Implementing the marketing plan**

- During implementation, the plan is put into place
- Stakeholders, suppliers, competitors and other third parties may not behave as anticipated
- Hidden factors may emerge that invalidate assumptions
- Economic conditions may not hold to be true
- Internal resources and competencies may perform much better than planned and the company must assess progress toward the marketing plan goals, seek cause for discrepancies and adjust the plan
- To achieve this level of flexibility, companies may put two broad types of control into place

- **Monthly performance reviews**

- Assess the execution of marketing tactics (activities, timing and targets)
- Accomplishing of goals (sales, market share, profitability and adherence to financial budgets)
- This type of control process is to assess whether the firm has done what it planned to do

- **Quarterly strategy reviews**

- Evaluates the appropriateness of strategies in the changing marketplace, focusing on gaps between the projected situation and actual events
- Many firms revisit the assumptions about strengths, weakness, opportunities and threats and report benchmark performance on policies, procedures and performance against competitors in the quarterly reviews

## **Study Unit Three**

### **Socio cultural environment**

#### **3.1. Introduction**

- Successful international marketing is based on identifying differences in culture

#### **3.2. What is culture?**

- Culture is the sum of knowledge, beliefs, morals, law, art or any other capabilities that are part of human members of a society
- Culture has traditionally been defined in terms of values and basic human values applies across a wide range of cultures.”
- Acculturation is when people from across the world, individuals are changing and altering their own culture to other culture

#### **3.3. Levels of culture**

- The following are the four different levels of culture:

- **Individual behaviour**

- This refers to the behaviour of employees of firms
- Result of the influence of the firm, industry and national cultures on an individual.
- Example: When an international marketer from the USA deals with a representative from Kenya, it is imperative to know that the behaviour of the Kenyan representative is the sum of all cultural levels the individual is exposed to

- **Firm culture**

- Each firm has its own unique elements of culture such as values, beliefs and behaviour.
- Example: The values, beliefs and behaviours of the employees working in the marketing department may differ from those who are working in the financial department

- **Industry culture**

- This is related to the branch of industry concerned and has to do with business behaviour and ethics found in a particular industry.
- Example: Different companies in a particular industry that promote “going-green” and preserving the environment

- **National culture**

- Involves all the assumptions and the legal framework within which business activities are conducted.
- Example: When a South African firm negotiates with a Ghanaian firm, different laws, regulations, beliefs and norms apply in each country.

#### **3.4. High and low context cultures**

- **Low-context cultures**

- European countries such as France, Germany, Holland and United Kingdom (UK) are referred to as low-context cultures
- Individuals transmit and interpret messages primarily on what is said or written.

- **High-context cultures**

- High-context cultures are typical of Japan, the Middle East and many African countries
- In order to understand what is being communicated, a person hearing or reading the message should ‘read between the lines’ and be more interpretive

#### **3.5. Fundamentals of culture**

##### **3.5.1. Material culture**

- Is the result of the society exposure to technology
- Related to the way the economic activity of a society is arranged
- It is visible in the society’s economic, social, financial and marketing infrastructure

##### **3.5.2. Aesthetics**

- Every culture has its own idea of what is good taste
- This is expressed in through form, colour and music
- Adverts cannot be used across all markets due to different cultures
- Colour also has different meaning in different cultures and should be considered
- Brand names also have different meanings in different cultures

### 3.5.3. Social organisation

- Seen as the way people relate to each other
- Based on kinship, common territory, special interest groups, class or caste groupings, age and role of women in society
  - **Kinship**
- Western families consist of parents and children
- Structure of family impacts on what the family consumes
  - **Common territory**
- Refers to neighbourhoods, suburbs or city and towns
- Can assist international marketer in segmenting the market
  - **Special interest groups**
- Special interest groups in terms of religion, occupation, recreational and political affiliations
- They are useful in identifying segments in the market
  - **Class or caste groupings**
- Defined as informal ranking of member of society based on their income, occupation, education and other factors
- As a result, members of each class have relatively the same status and members of all other classes have either status
- Class is related to socio economic groupings
- Some cultures have caste system and if born in a certain caste, you will remain in that caste for your life
  - **Age**
- Some elders may live with the children however some may live apart as socio economic systems
- Segments of society represent a market for unique accommodation, facilities and activities
- Teenagers do not live apart from their parents but highly influence what the family purchases
  - **Role of women in society**
- In some countries women are treated equally to males
- Household appliance company may benefit from marketing to the women as they would decide for an appliance

### 3.5.4. Manners and customs

- Culture differs in terms of what is good manners and customs
- Incorrect interpretation of manners and customs might lead to incorrect conclusions and misunderstanding

### 3.5.5. Education

- Society culture and heritage is reflected by their educational system
- It influences views, wants and motives of an individual
- Also influences customer responsiveness to new products and business practices and competitive behaviour

### 3.5.6. Religion and beliefs

- International marketer needs an understanding of sacred objects, philosophical systems, beliefs, norms, taboo holidays a ritual for the foreign market before starting in them
- Religion varies with cultures
- Religion dictate the way people live their lives in terms of food, drink, dress and activities they engage in

### 3.5.7. Attitudes

- Attitudes is a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a given object
- Values is relatively enduring beliefs that serve as guides for what is considered appropriate behaviour and are widely accepted by members of a society
- Cultures place different values on aspects such as time, achievement, work, health and risk taking
- These differences affect the products that can be sold, packaging that can be used and the marketing communication activities that can be followed in a foreign market

### 3.5.8. Language

- Often described as the key to culture
- International marketer that wants to enter a foreign market should learn the language in that country
- Also, to use locals to assist they overcome this barrier
- Language is verbal and non-verbal

- Verbal: written and spoken form
- Non-verbal: time, space, material possessions, friendship patterns and business agreements

### 3.6. Individualism and collectivism

- Individualism describes a culture that is made up of individuals that are loosely connected to each other
- The main objective for such an individual is to promote individual goals, initiative and personal achievement
- Examples of individualistic cultures are New Zealand, Australia, Canada, England and France.”
- Collectivism describes a culture consisting of closely connected individuals
- Individuals in such a culture view themselves as part of a collective or many collectives
- Examples of collectivistic cultures are Russia, Vietnam, Argentina, China, Brazil, India and Greece.”

### 3.7. Hofstede's cultural value dimensions

- **Power distance**

- This refers to the extent to which the less powerful members of a society, a business or family accept and expect the fact that power is distributed unequally among the members.

- **Uncertainty avoidance index**

- This represents the society's tolerance for uncertainty and ambiguity
- When individual feel threatens by uncertain situations, they tend to have strict laws and regulations in place to guide their behaviour

- **Individualism**

- This refers to the extent to which members of a society promotes individual self-interest and collective interest
- Collective side, from a young age they are integrated into strong, solid in groups, often extended families which protect them in exchange for undivided loyalty

- **Masculinity**

- A masculine cultures values assertiveness, materialism and limited concern for other members in society
- In high masculine cultures, women role is more traditional that has limited career opportunities and responsible for household and caring for children
- In less masculine cultures, women have a more modern role and even seen as equal to men

- **Time orientation**

- Some cultures have a realistic future orientation characterised by determination, ordering of relationships by status and keeping to this order
- Some cultures have short term orientation characterised by personal evenness and solidity

### 3.8. Trompenaars' cultural value dimensions

- **Universalism vs. particularism**

- Individual share the idea that general codes, values, standards and rules have a priority over the needs and claims of others in the group
- In a pluralistic culture, individuals see culture in terms of human friendship and intimate relationships

- **Individualism vs. communitarianism**

- Individual's will tend to set the individual before the community
- Individual's benefit, happiness and fulfilment get priority as individuals take their own initiative and concentrate on themselves

- **Neutral vs. affective**

- Culture characterised by neutralism, individuals repress their emotions and appear to be more neutral to both joyous and distressing events
- Individuals will tend to not display or expose their feelings overtly
- Culture are more affective individuals tend to express their emotions in reaction to certain events or circumstances

- **Specific vs. diffuse**

- Individuals belonging to a so-called specific culture get to the point without delay when interacting with others
- Specific individual's concentrate on hard facts, standards and contracts

- **Achievement vs. ascription**

- With achievement status, individuals gain their status from their accomplishments
- Achieved status must be proven continuously in order to gain certain status
- Ascription status, people derive their status from their gender, age or level of income

- **Attitudes to time**

- Time orientation has two aspects:
  - Cultures assigned to the past, present and future
  - Approach to the formation of time
- Sequential culture, individuals will do one thing at a time
- Synchronic time culture, individuals will do several things at once believing that time is flexible and tangible
  - **Attitudes to the environment**
- Inner directed culture, individuals have a structured view of nature
- Outer directed culture, individuals have a more organic view of nature
- Humanity is viewed as one of the nature's forces and life should be in harmony with nature and the environment

### **3.9. The values theory and the measurement of cross-cultural values**

- The values theory identifies a set of ten different value constructs which are recognised across cultures
- These cross cultural values include power, achievement, hedonism, stimulation, self-direction, universalism, benevolence, tradition, conformity and security."
- Theory also specifies differences and similarities between these values, which lead to a coherent circular structure that indicated the relationship between these values

### **3.10. Using social axioms to augment the measurement of value dimensions:**

- Are beliefs about how life works, general beliefs that people hold about themselves, society, physical environment and spiritual world
- Social axioms differ from one person to another and mirror the unique experiences of individuals
- Social axioms provide information that can be used to guide behaviour to accomplish specific goals for protection, ego defence or self-worth

#### **3.10.1. Dynamic externality**

- This reflects an outward orientation and a basic dealing with outside influences where fate and a supreme being are important to people
- This is related to the power distance, collectivism and conservatism value dimensions
- Muslim nations such as Pakistan, Malaysia, Indonesia and Iran are high in dynamic externality

#### **3.10.2. Societal cynicism**

- This identifies an aspect of national culture that receives little attention from the current culture-level indicators of value
- Has a lower importance for motivation for high performance or greater achievements
- Societal cynicism is high in countries such as Pakistan, Georgia, Estonia and Thailand.

### **3.11. Cultural Analysis**

- Sometimes products are marketed in many different countries and each have their own culture
- Marketer must develop an analytical framework to deal with cultural differences

#### **3.11.1. Communication typologies**

- Have been suggested as a basis for cultural analysis
- Four communication typologies that have been identified:
  - **Contextual vs. personal**
- Determine if the focus is on the role of the sender of the message and the relationships with the receivers of the message or if it is on the message itself
  - **Direct vs. indirect**
- Involves explicitness of what is being said
- Sometimes the individual express meaning and feeling in what they say and sometimes they don't
  - **Elaborative vs. succinct**
- Refers to the amount of verbal communication in a culture
  - **Instrumental vs. affective**
- Refers to the orientation of sender of the message
- Sender is instrumental in delivering the message without much concern for putting the receiver in an uncomfortable position

#### **3.11.2. Value dimension**

- Cultural dimensions are identified by researchers explaining the difference between cultures around the world
- By understanding these cultures, it will be easier to decide on a marketing strategy for a specific group or culture

### **3.11.3. Social axioms**

- Are beliefs about how life works, general beliefs that people hold about themselves, society, physical environment and spiritual world
- Social axioms differ from one person to another and mirror the unique experiences of individuals
- Social axioms provide information that can be used to guide behaviour to accomplish specific goals for protection, ego defence or self-worth

### **3.12. Self-reference criteria**

- When a person views another culture with an evaluative and egotistical approach regarding their own culture
- When cultural difference is less obvious, marketers tend to ignore them as they seem so like the home country
- Marketer should define the problem or goal in terms of the home-country's cultural traits, habits and norms
- Then should define it in terms of the host or foreign country's cultural traits, habits and norms
- Next is to isolate the influence of the self-reference criteria in the problem or goal and investigate how it complicates the problem
- Last is redefining the problem by excluding the influence of the self-reference criteria and focusing on solving the problem or achieving the goal optimally

### **3.13. The relationship between culture and international marketing**

- The delivery of value to a customer in a foreign market is also affected by culture
- For the international marketer to succeed in a foreign, he/she needs to understand how individuals in a foreign market 'think and function'
  - **The customer in the international market**
- To tap into a foreign, market the international marketer needs to determine the religion, attitudes, beliefs, customs, manners and many more elements when trying to understand the customer
  - **The marketing mix international market**
- Issues such as country-of-origin, pricing and place, come to the fore when making product decisions for a foreign market.
  - **Delivering value in an international market**
- As there are differences in material culture with regards economic, financial, social and marketing infrastructure
- It's not always easy to deliver similar value to all customers all over the world.
  - **Business ethics in the international marketer**
- As cultures differ from one to another so do ethical standards
- This then poses major challenges to for the international marketer.

## **Study Unit Four**

### **Legal environment**

#### **4.1. Introduction**

- Understanding the law is imperative for everyone, especially for international marketers.
- Trading across borders places both the buyer and seller at risk and evokes the law in both countries and often in other countries through which money or goods pass during the execution of the trade transaction.

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#### **4.2. The influence of the law on society in general**

- In a broad sense the law is an institutional framework which defines acceptable behaviour in a particular society and offers solutions when people deviate from such behaviour.”
- The purpose of the law is to organize societies, so that people can interact and carry out their activities both in a productive and safe manner.
- Without rules and behavioural boundaries that are articulated through the law, there be absolute chaos.
- A challenge faced by business people is that different countries/regions uphold different legal systems.

#### **4.3. The legal framework of international business**

##### **4.3.1. National law:**

- The domestic legal environment is made up of a system of national law that has evolved in that country over a period.
- The set of rules devised for and applicable for a country is known as the national (or domestic) law.

##### **4.3.2. Public international law:**

- Another dimension to the international legal environment are the set of rules that govern the relationships between countries and the operation of international organizations such the UN, International Monetary Fund (IMF), World Bank and the World Trade Organization (WTO).
- The public international law mainly deals with:
  - Territorial issues
  - Human rights issues
  - Conflict situations
  - Diplomatic representation
  - Economic trade relations
  - Internationally accepted rules and regulations

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##### **4.3.3. Private international law**

- A situation arise whereby business partners in two different countries become involved in a contractual battle
- They made n provision in their contract for any disputes to be dealt with an according to a mutually agreeable legal process in a mutually agreeable location
- The private international law refers to a set principles which are followed in determining:
  - Which country’s national law will govern proceedings should a dispute arise
  - In which country’s court, such a matter will be heard

##### **4.3.4. Sources of law in an international context**

- In Western legal tradition, there are two main sources of law:
  - Legislation: collective term for the laws that have been devised by bodies with legislative or law making authority
  - Judicial authority: collective term for the wide ranging legal opinions which have over the years gone into interpreting and deciding the cases brought to a country’s court
- The body of laws made through judicial authority is often referred to as common law.
  - Common law: countries are those which look to judicial authority as their primary source of law
  - Civil law: countries are those which look to legislation as their primary source of law

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#### **4.4. Legal issues confronting international marketers**

#### 4.4.1. Marketing mix considerations and the law

- Achieving marketing mix at international levels requires more than just the correct product satisfying cultural inclinations
- Major influence in the legal orientation of the market and the myriad rules that are in place to regulate international business practices

- **Product strategy**

- Intellectual property rights entitle the creator of an original piece of work to prevent others from reproducing or copying the same work without the permission from the creator
- Product liability is the liability incurred by the producer of the product which due to defect or deficiency causes injury, damage or loss to the customer

- **Pricing strategy**

- International marketer needs to investigate whether any legal mechanism is in place which could complicate the process
- Presence of tariffs or other taxes would raise the price of the product in the foreign markets, cost of pre-shipment inspections if this were a requirement of a foreign government

- **The promotional strategy**

- Should give thought to how the legal systems in place for foreign marketer could convey a message to the target audience

- **Market entry and associated distribution strategy**

- Government of the target market might limit the power of foreign entities operating in the market, from whether they are entitled to distribute their good through existing channels to the permissible extent of their local company

#### 4.4.2. Different approaches to contracts in different parts of the world

- At the core of most commercial transactions is the contract which is an agreement entered two or more parties
- In terms of which goods will be sold or a service will be delivered in exchange for an agreed price or rate of remuneration
- A contract even if reduced in writing, might be viewed with far less gravity

#### 4.4.3. International dispute settlement

- Mediation: When there is a dispute, parties will have a third person, the mediator, to actively participate but also objectively debate over the issue at hand with a view to get a solution from the parties which is mutually agreeable

- Arbitration: compared to regards to settlement, it is formalized the arbitrator a judge, reference

- Litigation: involves the court to resolve differences.



When mediation with dispute more technique, and accts more like instead of a

This technique parties going to their

#### 4.5.

**Study Unit Five**  
**Economic Conditions**

**5.1. Introduction**

- Globalisation is when regions, economies and societies even cultures are moving closer together
- At the same time, the rich and poor nations is growing even larger
- Other issues that add to the economic divide are technology and communication, global warming, poverty, global food crisis and natural disasters

**5.2. Global economic environment**

<b>Host-country environment</b>	<b>Home-country environment</b>
Government actions	Government actions
Political actions	Political actions
Social actions	Social actions
Media	Media
Other pressure groups	Other pressure groups

**INTERNATIONAL BUSINESS**

<b>International environment</b>	<b>Global environment</b>
Foreign policies of other countries	Global organisation (UN, World Bank, IMF, WTO)
Regional organisations	Global development (global resource, oil & energy)
Non-governmental organisations	
International activist group	

**5.3. Economic development and its role in globalisation**

- Globalisation is the increasing interdependence, integration and interaction between people and corporations in disparate locations around the world
- It is an umbrella term that refers to a complex of economic, trade, social, technological, cultural and political interrelationships, affecting general prosperity and the wellbeing of global societies
- These interrelationships reflect the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows and more rapid and widespread diffusion of technology.

**5.4. Role of economy in international marketing**

**5.5. Nature of economics**

**5.5.1. Capitalism**

- Is an economic system where factors, such as production and distribution is privately owned, managed and developed in a free market

- **Pure capitalism**
  - Government does not interfere in business
  - Entrepreneur owns the factors of production privately and coordinate their business in free market
  - No such system exists in the world
  - Through political influences and tools, such as sanctions, subsidising, economic activity and other support by the government
    - **Controlled capitalism**
      - Controlled capitalism involves both private and public sector
        - **Socialism/authoritarian capitalism**
          - Government owns most or many of the factors of production, but there are also privately owned businesses
          - This type of economic system might restrict businesses and prohibits them to expand or grow internationally
            - **Democratic capitalism**
              - Entails a large private sector, with government intervention through taxes and investments

## **5.6. Global economic systems**

- **Free market economy**
  - Requires that there are no economic or government influence, such as taxes, regulation and other inventions
  - Parties concerned negotiate, reach an agreement and stick to it
    - **Subsistence economy**
      - Is an economic structure in which that what is required in the country is produced, mostly agriculture
      - There are rarely extra for export purposes and develops to a certain point or slowly
      - This leads to better undeveloped economy and little to no economic specialisations referred to as developing nations or less developed countries (LDC)
        - **Centrally planned economy**
          - Or command economy which the government is the decision maker regarding what should be produced, manner to produce and for whom
          - Economy is characterised by a more stable approach to the exploitation of resources and any extras of production and factors such as unemployment are centrally managed
            - **Mixed economy**
              - With any combination of the above-mentioned economies
              - Consists of private-sector businesses that produce goods and the government that ensures that the essential are produced
              - Also, the public-sector are involved such as transport, education, security and health

## **5.7. International economic dimensions**

- The different economic systems have different efficiency levels
- The efficiency levels are reflected by certain economic and socioeconomic dimensions

### **5.7.1 Economic dimensions**

- The most important economic dimensions include gross national product (GNP) and gross domestic product (GDP), GNP/capita and GDP/capita, income distribution, private consumption, gross domestic investment, private and government consumption, unit labour costs, inflation and exchange rates

### **5.7.2 Gross national product and gross domestic product**

- GNP and GDP are measures of the size of the economy of a country
- GDP of a country is defined as the market value of all final goods and services produced within a country in a given period
- GDP is the sum of value added at every stage of production of all final goods and services produced in a country in each period
- GDP captures the amount a country produces, including goods and services produced for overseas consumption
- $GDP = \text{consumption} + \text{investment} + \text{government spending} + (\text{exports} - \text{imports})$
- Private consumption or consumer expenditure includes most personal expenditures of households such as food, rent and medical expenses, but does not include new housing

### **5.7.3 GNP per capita and GDP per capit**

- GDP (nominal) per capita reflects the value of all final goods and services produced within a nation in each year, divided by the average population for the same year

#### **5.7.4 Income distribution**

- Income distribution is vital because it measures how a country's national income is divided among the members of the population  
- This is particularly important for an international marketer because the business targets its exclusive products at the high-income segment of the population

#### **5.7.5 Private consumption**

- Private consumption or consumer expenditure includes most personal expenditures of households such as food, rent and medical expenses, but does not include new housing.

#### **5.7.6 Gross domestic investment**

- Gross domestic investment is a form of spending, although in capital goods, such as houses, machinery and equipment.  
- It indicates whether an economy is expanding or retracting, which could present opportunities or pose a threat for the export marketer.

#### **5.7.7 Private and government consumption**

- Private consumption represents expenditure on final goods and services like clothing and food  
- Government consumption refers to payment of salaries and wages  
- These figures indicate whether an economy is expanding or retracting, which may present opportunities or pose threats for the exporter.

#### **5.7.8 Unit labour costs**

- This variable is significant for international marketers because it is a measure of labour productivity  
- Economic growth in a country or sector can be linked either to increased employment or to more effective work of those who are employed  
- The understanding of what drives labour productivity, be it the accumulation of machinery, improvements in physical and institutional infrastructures, streamlining of human capital, the generation of new technologies and so on

#### **5.7.9 Inflation**

- Inflation is a rise in the general level of prices, as measured against some baseline of purchasing power  
- Measuring inflation is a question of econometrics – that is, finding objective ways of comparing nominal prices to real activity  
- Examples of common measures of inflation include the following:  
    - Consumer price indices (CPIs) measure the price of a selection of goods purchased by a “typical consumer”.  
    - Producer price indices (PPIs) measure the price received by a producer

#### **5.7.10 Exchange rates**

- This variable is crucial because it influences pricing  
- Pricing, in turn, affects competitiveness  
- Pricing forms part of the marketing mix,

### **5.8. Nature of the economy**

- Another factor influencing the international marketer is the nature and degree of economic development  
- Including the focus of the economy, its level of development, infrastructure, transportation, communications, energy, commercial infrastructure and urbanisation

#### **5.8.1. Agrarian, mining, manufacturing or service**

- **Agrarian**

- Farming is promoted as the most economic activity in the the country  
- SA has a dual economy both commercial and subsistence farming  
- Advantages to SA to be able to export  
    - Infrastructure with three international airports, three deep water ports and well developed roads and railways  
    - Counter seasonality to Europe  
    - Biodiversity in products and climates  
    - Marine and aqua-cultural diversity

- Relatively competitive input costs in terms of labour
- Established international trade relations
- **Mining Economy**
- Economy is driven by activities focused on exploitation of the country's minerals and other natural resources
- Focus should not only be on cultivating these resources, but also to refine these resources, to develop more industries and sustain these resources
- Variety of minerals are produced like chromite ore, gold, manganese, diamonds, platinum, copper, coal, etc.
  - **Manufacturing economy**
  - Main economic activities are focused on converting raw materials into finished goods
  - Mass production with some government regulations forms part of the free market economy
  - Manufacturing is organised centrally by the government
  - **Service economy**
  - Servitisation means that a large percentage of companies are moving towards bringing service components to their products
  - More value is being placed on service delivery, customer satisfaction, customer retention and the establishment of rapport between the company and its clients

### 5.8.2. Levels of development

- Internationally countries are grouped according to their level of development into three categories
  - **More-developed countries**
  - Characterised by well-developed industries and high per capita income in terms of standard of living
  - **Less-developed countries**
  - Characterised by developing industries, growing international trade and lower per capita income
  - Emerging market is one that is in the process of developing, concentrating on the future development of its industries and manufacturing
  - **Least-developed countries**
  - Characterised by underdeveloped industries and economic activities focused on agrarian and subsistence economic activities, low per capita income and little or no international trade activity'

### 5.8.3. Infrastructure

- Infrastructure is generally a set of interconnected structural elements that provide the framework supporting an entire structure
- The better developed the infrastructure of a country, the easier it is for international marketers to do business in a country.

### 5.8.4. Transportation

- Influences the distribution of their products and services
- Transportation is influenced not only by the topography of the country by its level of economic development
- The availability of transport includes the level of development in terms of air, water, roads and railways.

### 5.8.5. Communications

- The availability of a well-developed communication infrastructure is of vital for businesses to consider expanding its operation to a foreign
- Things such affects the promotional strategy – the messages the marketers would like to share with their target audience.

### 5.8.6. Energy

- The international marketer needs to ensure that the market offers necessary energy sources for manufacturing and distribution purposes
- This variable is significant primarily because it is used in the production of goods and services and thus affects the international marketer

### 5.8.7. Commercial infrastructure

- Financial or commercial infrastructure is the level of development and service delivery offered by banking and other financial institutions in that market
- This variable refers to access to and the quality of support services such as banking, insurance, wholesale and retail outlets, which have a direct bearing on the international marketer

### 5.8.8. Urbanization

- Defined as the proportion of a population that is in cities

- It is relevant to the international marketer because it indicates where the highest concentration of customers is based
- People living in cities may differ slightly from those in rural or deep rural areas in terms of attitude, expectations, education, income and spending patterns

## **5.9. Socioeconomic dimensions**

### **5.9.1. Market size**

- Market size is an indication of the market potential regarding buyers and sellers
- Size is an indication of potential sales volume and the level of demand for the product the firm wishes to offer
- International marketers engage in exports to grow their business

### **5.9.2. Populations growth**

- Population growth is the change in population over time, and can be quantified as the change in the number of individuals in a population per unit of time
- Term "population growth" is often used informally for the more specific demographic term population growth rate

### **5.9.3. Population density and distribution**

- Is the number of persons per unit of area which may include or exclude cultivated or potentially productive areas
- Commonly this may be calculated for a country, city, country, another territory or the entire world, world population is seven
- Cities with exceptionally high population densities are often considered to be overpopulated, although the extent to which this is depends on factors like quality of housing and infrastructure or access to resources.

### **5.9.4. HIV/AIDS**

- Is a crucial measure because it affects the wellbeing of people, their ability to earn income and their spending
- With regional initiatives, the decrease the number of newly infected people, to provide antiretroviral drugs and treatment to those living with the virus and their families

## **Study Unit Six**

### **International political environment**

#### **6.1. Introduction**

- For international businesses worldwide, an understanding of the political environment is just as important as understanding the social and economic environment.

#### **6.2. The importance of analysing the political environment:**

- There are four principle reasons for this:

- Businesses operate across international borders
- The world is becoming a more unstable place because of international political violence
- Businesses are moving their manufacturing operations to countries with higher political risk

because financial advantages such as lower taxes and cheaper taxes

-Due to the nature of global political economy executives and government leaders are encouraged to be more vigilant with regards to political risk measures and these must be taken into consideration when making strategic plans

#### **6.3. The four sub-political environments**

- Political environment includes all international and domestic political factors that could impact operations or potential operations of a business plan

- Host-country: any political developments in the country in which the business has invested
- Home-country: any political developments in the country in which the business is based
- International political environment: concerned with the policies and activities of other countries,

regional organisations and NGO

- Global political environment: it incorporates political development that transcend individual countries or groups of countries

#### **6.4. Political risk and international marketing**

- Political risk can be defined as “the risk of change in government policy that would adversely impact on a company’s ability to operate effectively and profitably”

- Some of the concerns that international marketers face when assessing political risk include the extent of the political or government stability, political intervention and political turmoil

##### **6.4.1. Political stability**

- In the context of international marketing, political stability means that “political change has minimal adverse effect on business operations and is seen to be gradual and predictable.”

##### **6.4.2. Sovereignty**

- In the context of international marketing it is imperative to differentiate between “internal” and “external” sovereignty.

- Internal sovereignty is when a government can determine its own political, economic and social control on business.

- External sovereignty refers to the independence or autonomy of a country.

### **6.4.3. Political intervention**

- Is when action by government forces businesses to change their strategies, policies or operations
- The motive behind intervention is because of government seeking to further social welfare, political or economic objective
- Political intervention can take on several forms such as:
  - Confiscation: most extreme form of government intervention, is the seizing of business assets by some authority without any compensations
  - Exportation: is the seizing of business assets with some form of compensation
  - Domestication: when there is partial ownership of a foreign business by the government or nationals of the country
  - Repatriation: restrictions take place when formal or informal government policies restrict the reimbursement of profits, dividends and investment capital generated from the business

### **6.4.4. Political turmoil**

- This refers to any action by political, government, religious and ethnic group that brings about harmful effects to a business
- Political turmoil can include a wide range of various actions such as civil conflict, international conflict, military and guerrilla activities, riots, religious tensions, ethnic tensions, political violence and social activism.

### **6.5. Political risk and country risk assessment**

- Risk indices and scenario planning are two established techniques that businesses can use for political and country risk assessment.

#### **6.5.1. Political risk indices**

- Highly stable countries possess the following characteristics
  - Efficient state institutions
  - Government effectiveness
  - High degree of political legitimacy
  - Sound economic performance and policies
  - Absence of significant anti-state opposition
  - Rare instances of political violence
  - Low levels of social, ethnic, or religious tensions
  - Infrequent occurrence of humanitarian emergencies and to be able to manage disasters

#### **6.5.2. Growth competitive indices**

- The World Economic Forum publishes the Global Competitiveness Index (GCI), which can be used by international marketers to assess potential growth of business markets in 133 countries

#### **6.5.3. Scenario Planning**

- Scenario planning does not bring about statistical forecasts or probabilities,
- Rather brings about plausible scenarios to motivate creative problem solving and to get international marketers to think about unthinkable outcomes

### **6.6. Strategic responses to manage political risk**

- If political risk cannot be avoided, then it is necessary to recognise and prioritise the risk and mobilise resources to deal with them

#### **6.6.1. Tolerating risk**

- Means that risk levels are bearable and hence nothing else needs to be done
- This is when an organisation has identified and prioritised risk, and decides that the political risk is tolerable and that it is not necessary to manage the risk further.
- In this case, the cost of managing the political often outweighs the potential business loss.
- For example, if a country introduces a law that limits the distribution of the international marketer product and the marketer decides to tolerate this political risk.

#### **6.6.2. Minimising risk**

- This approach to managing risk aims to reduce the potential impact of risk by forming joint ventures with local partners
- An example of minimising risk would be to join ventures with local partners.
- "Political pay-offs" or bribes are used widely across the world to minimise risk. International marketers are faced with the ethical dilemma of paying off officials to minimise political risk as in some countries, this is illegal.

### **6.6.3. Diversifying and hedging risk**

- This approach to managing risk involves the spreading of risk
- This means branching out into more than one country
- Hedging risk pertains to taking additional risk that can make up for other risk.
- For example, a business could choose to operate in a portfolio of countries that are exposed to very different types of political risk.

### **6.6.4. Concentrating risk**

- This approach is the opposite of diversifying and hedging risk that is, focusing on one country
- Businesses that concentrate risk are often able to reduce operating costs and build strong relationships with the host-country.
- For example, some foreign businesses operate in Africa and are actively involved in the prevention and treatment of HIV/Aids.

### **6.6.5. Transferring risk**

- This approach involves the outsourcing of parts of operations to local businesses and as such transferring the risk to them
- By outsourcing, the business can focus on building stronger relationships and building the brand while the outsourced companies, who are better equipped, can deal with the risk.

### **6.6.6 Insuring risk**

- This approach involves transferring the risk to the insurer
- If the risk then materialises, the exporter can claim damages from the insurer
- This will only refund the exporter financially and will not prevent or undo damages caused to its reputation.

## **Study Unit Seven**

### **Physical and technological environments**

#### **7.1. Introduction**

- Technological and environmental factor have a huge impact in international markets

#### **7.2. Physical environment**

- The physical environment, that is, the natural environment of a country, encompasses the topography, proximity, natural resources, energy, climate, pollution and environmental hazards
- Also includes the available infrastructure (roads and communication), energy sources and energy capacity of a country

##### **7.2.1 Topography**

- Topography is the study of the earth's surface features (lakes, rivers, mountains and deserts) or those of other planets, the moon and asteroids
- Topography of a country or even a specific region in the host-country can influence the cost in distribution products to the intended markets
- Topography also influences the type of activities that are possible and may present unique opportunities to deliver products to meet those needs

##### **7.2.2. Geographic factors: proximity**

- Refers to the proximity or location of a country-of-origin and the market being entered
- Countries that are close to each other offer the international marketer the opportunity of reduced transport cost as transport systems may be interlinked

##### **7.2.3. Natural resources**

- A commodity is generally regarded as a natural resource when the primary activities associated with it are extraction and purification, as opposed to creation
- Thus, mining, petroleum extraction, fishing and forestry are generally considered natural resource industries, while agriculture is not
- Natural resources are often classified into renewable and non-renewable resources
- Renewable resources are generally living resources (say, fish, coffee and forests), which can restock (renew) themselves and be used indefinitely if they are not overharvested
- Non-living renewable natural resources include soil, water, wind, tides and solar radiation
- Biotic resources are derived from animals and plants (the living world)
- Abiotic resources are derived from the non-living world (land, water and air)

##### **7.2.4. Energy**

- Defined as the potential to cause changes
- It is thus cause of any change, specifically to do work
- Energy is a conserved quantity, meaning that it cannot be created or destroyed, but only converted from one form into another

### 7.2.5. Pollution

- The major forms of pollution include air, water, soil, noise, light, and visual pollution
- Environmental hazards refer to result of human activities that have negatively impacted the overall health of the planet
- Pollution also includes littering that occurs due to human neglect and bad habits

### 7.2.6. Climate

- Climate is commonly considered to be the weather, averaged over a long period
- Weather includes the seasons (summer, autumn, winter and spring), storms (thunderstorms, blizzards, hurricanes and tornados), precipitation (fog, drizzle, rain and sleet)
- Climate is especially important in the production of agricultural products that are used as inputs in food products
- More specific aspects that need to be addressed include
  - Altitude over sea level
  - Rain season
  - Tendency to experience droughts
  - Temperature extremes
  - Nature of storm activity
  - Longitude and latitude co-ordinates

## 7.3. Technological environment

- We cannot live without technology
- We rely on it for smooth running of our lives both at work and at home

### 7.3.1. Technological growth and globalisation

- There are three forces that have contributed towards this globalisation and these three forces:
  - Growing similarity of markets
  - Reduction in global trade tariffs
  - Technology
- To survive and remain competitive it is important to consider the following five factors:
  - Competition is global and not just local.
  - Industry boundaries are eroding
  - Everyone relies on advanced technology
  - Demand for individualised solutions
  - Product lifecycles are becoming shorter

### 7.3.2. Aspects and concepts of technology

- Technology may be complex and confusing and may discourage people if they do not comprehend it or if they feel other people will think less of them for their lack of technological knowledge

- **Aspects of technology**

- It is useful to consider technology with the following three concepts in mind:
  - Categories of technology: five types of technology, energy, material transport, communication, information and genetics
  - Impetus for technology development: reasons behind technological development includes defence needs, seeking to be socially responsible by improving lives of masses, improve standing of the business by generating profits
  - Technology development process: three stages, invention stage where the new technology is developed, innovation stage where the new technology is introduced to the users and the diffusion stage where the new technology is spread through the market and adds value

- **Concepts of technology**

- To comprehend the workings of the technological environment there are certain concepts that one needs to be familiar with
- The following are points to consider:
  - Technology: method or technique for converting inputs into outputs in accomplishing a specific task
  - Marketplace versus marketspace: virtual marketplace is referred to as marketspace and transactions are concluded over the Internet
  - Computer networks and electronic data interchange: computer network is many computers that are connected through a network server which controls the flow of information between the users of that computer
  - Convergence: is the merging of technologies into fewer devices. Functions such as speech, TV, text entry, web browsing, etc.

### 7.3.3. Impact of technology on international business

- **Specific impacts of technology**

- The increased improvements of technological development have led to limitless opportunities in various business areas and business applications.
  - To survive a business needs to develop high quality products and services.
  - Walls to block out competitive advantage were built for
    - Using economies of scale and scope which made it difficult for competitors to copy
    - High switching cost
    - High entry and exit barriers
    - Investing in unique capabilities which differentiated them from competitor products
  - Impact on size and scope: digital business allows businesses to reach a wider audience at a greater speed than previously possible
  - Impact on switching cost: cost and speed on conducting transactions has been reduced
  - Impact on structure defences and resources: old style businesses invested in infrastructure, dispersed sales force and rigid and structured distribution channel
  - Impact on capability-based advantages: unique capabilities have become even more important in the digital age
- 
- Influences of technology that have implications for the international business and marketer:
    - Commitment to technology: business may commit to technology in terms of money, equipment and time because when deciding it was the best decision
    - Improved reach and visibility: website overcome the time barrier as they are accessible 24 hours and can transact anytime of the day
    - Cost reductions: transaction cost can also be reduced in an online environment when compared to normal over the counter transaction
    - Price reduction: cost reductions are the ability to gain greater profit margins or to offer products at lower or more competitive prices
    - Reduction in barriers: greater access to information makes customers more confident in their purchase decisions and can be gathered from more than websites
    - Data warehousing and decision-making: better marketer's knowledge of the market and customers, better they can meet their needs and adjust to any changes
    - Telecommuting: ability to allow employee to work from home through modems, DSL
    - Impacts on marketing: by collecting customer information and building a database of individual customer transactions the marketer can gain information on customer trends and habits and focus on providing satisfying customer needs
    - Logistics: during the process the goods will have to be transported and stored
    - Transportation: modes of transport have become more fuel efficient, faster, quieter and can transport more cargo than ever before

### 7.3.4. Technological divide

- The gap between the most industrialised and the less industrialised countries becomes even more apparent when one looks at the levels of technological development and penetration in these countries
  - **Protectionism and suspicion**
  - One source of economic development is investment from foreign businesses and another is exporting to buyers in foreign markets
  - Some countries tend to be more suspicious of the more industrialised countries aiding, believing that they may want to dominate their country
    - **Technology in industrialized and low-income countries**
    - Technology is seen by the industrialised nations as a tool to achieve greater success
    - Many may see it as using technology to dominate or gain control over less industrialised countries
    - Introduction of new technology offers many opportunities for rapid growth in the less industrialised countries
      - **Digital divide**
      - Industrialised countries have a significant financial advantage over low-income countries and this financial gap is widening
      - This is in part because to advance, capital and investment is required

### 7.3.5. Domestic digital divide

- In addition to there being disparities between countries when it comes to access to digital technology, there are also disparities that exist within countries; a domestic divide if you will

- **Bridging the divide**

- Access refers to being able to afford the technology, being trained and able to use the devices and being able to carry out the required functions
- Obstacles: poor infrastructure, corruption, lack of education and lack of access

### **7.3.6. Social trends and technology adaption**

- The following are the seven social trends that affect technology adoption can be identified:
  - Response expectations: people expectations have increased and in a sense, they have become impatient
  - Aging population: older generation may not have access to technology or cannot access the technology due to physical restrictions
  - Single living: there is an increase in the single parent household, product offerings need to be adapted to meet the needs of these households
  - Technology refusers: people simply do not want technology to run their lives and their homes to look like an electronic warehouse, website should cater for multi-cultural and multilingual
  - Globalisation: technology has meant that if your product is on the web then it is available to anyone who accesses your site
  - Personalisation: technological marketing offers the opportunity to tailor a product offering to a specific individual
  - New working trends: flexible working practices, telecommuting and blurring of work and leisure has meant that individual is not always at the office and cannot work on the spot

### **7.3.7. Technology into the future**

- For any business to survive in this rapidly changing environment it is essential that the environment be continuously be monitored and changes made where they are needed
- There are two areas that experience the more growth, biology and electronics
- Nanotechnology refers to the science of unimaginable small electronics
- Two areas of convergence need to be highlighted
  - Network convergence: convergence of network infrastructure which covers the devices and the systems which transport information between devices
  - Media convergence: merger of various players like TV, radio, newspaper and magazine into few substantial businesses

## **Study Unit Eight**

### **International Marketing Research**

#### **8.1. Introduction**

- Marketing research is the source of knowledge about market sizes, brand shares, market penetration and consumer behaviour
- As firms expand international operations, environmental complexity increases
- Marketing research comprises a set of essential tools international marketers use to make sense of the environment and improve market orientation
- Refers to the collection, analysis and sharing of three types of information: export market intelligence, export marketing assistance and export marketer assistance and export market research information
- Information is the main blocks of market orientation
  - Insight: acquiring, sharing and analysing information
  - Intent: sharing knowledge about stakeholder preference and agreeing about appropriate strategic response
  - Interaction: implementing intended strategies, observing stakeholder responses and continually adapting to stakeholder preferences, improving customer experience

#### **8.2. What is marketing research?**

- The systematic gathering, recording, analysis, interpretation and presentation of information on problems relating to the marketing of goods and services
- Marketing research helps to reduce risk in decision-making caused by environmental uncertainties and lack of knowledge in international markets

##### **8.2.1 Information types**

- Information has a huge impact marketing orientation and performance
  - **Primary data**
- Refers to information collected by a company or its researchers with the purpose of answering specific questions
- Data includes focus groups, in-depth interviews and surveys
  - **Secondary data**
- Refers to information that is publicly available from external parties and which has not been collected for the specific purpose of the company
- In SA, all media and product survey is the best-known source of secondary data used by marketers
  
- Marketers identify three types of export marketing information
  - **Export market research: primary and secondary data**
- Refers to the information that is collected systematically and for defined purposes
- Includes quantitative research such as questionnaires, data mining and structured interviews
- Includes qualitative research such as focus groups, observational research, projective techniques and in-depth interviews

- **Export market intelligence**

- Is gathered from people in the company, its suppliers or customers
- May be collected from competitor sales presentation at trade shows, customer industry association meetings or personal visits to a foreign market

- **Export market assistance**

- Secondary information is great for general characteristics of an export country and its economy but informative to achieve sales growth
- Exporters choose different types of information depending on their needs such as writing a marketing plan, evaluating cross cultural appropriateness of an advertisement or making sale forecast and major financial and time budgets
- Exporter can engage a marketing research agency to conduct research into the viability of a product, brand or into advertising

### **8.3. Export market research**

- Comprises of different research and purpose of market research is to describe the process to stakeholders so they can make *decisions* or some other process
- Other types of research have the purpose of *predicting* some occurrences such as market size, brand share, acceptance of a new product or attitudes towards brand
- *Normative or prescriptive* purpose such as collecting data about media or product preference and given information about a market segment, media plan or distribution outlet selling strategy

#### **8.3.1. Strategic decisions**

- Aim of different research is to provide information that is needed to make decisions on wither strategic or tactical level
- Strategic decisions include what markets to enter, how to enter and where to locate production facilities
- Research to support strategic decisions may include
  - Entry decisions: political, financial and legal risk assessments. Indicators include amount of expropriation, expert ratings on stability, inflation rate, and foreign exchange risk, restrictions on capital flow, import export risk and restriction on ownership
  - Modes of entry: Focus on the cost of production and marketing. Indicators to consider are cost of energy and labour, availability and cost capital and technology and interest rates
  - Opportunity: export marketer investigates the macro market potential. Aspects are GNP per capita, growth of GNP, population size and density, urbanisation and education levels
  - Product market: aspects such as sales volume of a product, sales of substitute products, number and size of the competition

#### **8.3.2. Tactical decisions**

- Research to support tactical decisions includes
  - **Product research**
    - Focus on when to add, delete or change a product
    - Researcher may use focus groups or qualitative research to generate ideas for new products
    - Survey research may be used to evaluate new product ideas, and concept test marketing may be done by exporting company
  - **Promotion research**
    - Aim is to provide information on the best way to communicate with the target market through selecting the appropriate advertising copy and media
    - Research on this may include pre-and post-testing of advertisements, surveys on media habits and surveys on the response to alternative type of promotion
  - **Distribution research**
    - Provides information on availability and desirability of distribution channels
    - Researcher may conduct shopping surveys and consumer behaviour, distributor attitudes and policies, warehouse location, consumer attitudes to different retail outlets
  - **Pricing research**
    - Focus here is to collect information on the ability of consumers to pay and the effect that pricing has no demand
    - Price sensitivity studies may be taken for this purpose

### **8.5. Research process**

- Application and execution of the research is determined by the research
- Business to business research put more effort on secondary data because they are more in touch with their markets

- Techniques, tools and concepts in international markets remain unchanged but different
- Primary data is data that is specifically or primarily collected to solve the problem or opportunity facing management

### 8.5.1. Desk research

- Refers to the secondary data source that is being investigated and is reactive in nature
  - Secondary data are historical data that have already been collected
  - Researchers begin by collecting and analysing secondary data and primary data may not be needed
    - **Importance and uses of secondary data**
  - First step is to determine if whether there is secondary data available and can solve the problem
  - This can save time and money as primary data collection is expensive
  - If secondary data is available the researcher can gather this information and identify appropriate sources
    - Most important uses of secondary data
  - Monitor the company's external environment regarding economy, competitors, consumer, technology and suppliers
  - Monitor the company's performance to ensure the early identification of the problem or opportunity
  - Gain better insight into the problem that is being investigated and the research methodology used and is useful to test data that is desired
  - Serve as a basis for final decision making as there is no resources for primary data
  - Evaluate and validate the data that has been collected in sample surveys
  - They are subject to sampling, reporting, processing and non-response errors
- 
- **Problems with secondary data**
- Availability and accessibility of quality secondary data
  - Reliability is not always such that decisions can be made with confidence
  - Comparability of data, problem is related to the comparability and the continuity of data and may have lack of historical data
  - Validity of secondary data, all possible shortcomings should be kept in mind when using any source of secondary data
- **Sources of secondary data**
- Consists of internal and external data
  - Internal data are obtained from invoices, sales reports, financial analyses and research surveys that have already been conducted
    - Internal secondary data
  - Data collected by the company during normal business transactions and not collected to solve the specific marketing plan
  - Internal data forms the basis on the company marketing information system
  - Secondary data includes sales, profits, losses, market share, stock, debtors, creditors, orders, cash flow, salaries, travel, boarding, advertising and cost
    - External secondary data
  - Compromises of official statistics
  - Data includes reports to consumers, market structure, competitors, economic culture, socio-cultural factors, technological development and government action
  - Important sources of external data includes
    - Government: normally publishes information on the macro and micro issues. Publications cover general trends, economic issues, trade between countries. Census and demographic data, income and production figures
    - International organisation: such as the UN, World bank, IMF publish information useful to international markets
    - Service organisation: such as attorney firms and accounting firms, airlines, and freight forwarders can provide data on business practices, legalisation, political stability and basic trade data
    - Directories: Industry such as Europe 15 000 largest companies, Moody international manual provides useful background information on foreign companies
    - Electronic information services: large number of data bases and search engines provide online information on products and markets
    - SIC codes: important source of business to business research is the classification of industrial products. SIC is standard industrial classification and used to determine the sample segments
- **Evacuation of secondary data**
- Secondary data are not specifically collected to solve the marketing problem as data may not be reliable
  - Researchers judgement of the secondary data is important and must use their logic and discuss the information with experts in the field

- When researcher's uses external secondary data, the following factors must be considered
  - Quality of the source from which the data is obtained
  - Purpose of the publication
  - Characteristics of the data collection method and the way the data are presented
  - Extent the survey
  - Ways in which definitions and terms are defined and classified in the various sources
  - Sampling method that was used
  - Sample loss that occurred
  - Way in which fieldworkers were recruited, trained and managed
  - Recentness of the data as secondary data can quickly change
  - Measure that is used in the various sources
  - Suitability of the data, whether they are applicable to the marketing problem or opportunity
  - Enterprise / institution that collected the data
  - Reason why the data were collected
  - Research methods and the data collection methods that were used
  - General proof that the data were carefully collected, analysed and presented

### **8.5.2. Primary research**

- Research can be qualitative or quantitative

- **Qualitative research**

- Qualitative research findings are not subject to quantification or statistical and mathematical analysis
- Aim of qualitative research is to develop an in-depth understanding of human behaviour and the reasons for such behaviour

- Qualitative research includes

- Focus groups: relies on objective moderator who introduces a topic to a group of respondents and directs the discussion of the topic in a non-structured and natural fashion. Goal is to learn and understand what people must say and why
- In-depth interviews: relatively unstructured, extensive interviews in which the interviewer asks many questions and probes for in-depth answers to determine the respondent's motives, beliefs, attitudes and feelings about something
- Case study: is an intensive study of limited number of units of analysis such as a single individual, group or even referred to as a case study. Aim is to understand the uniqueness
- Grounded theory: systematic qualitative research method with the emphasis to generate theory from data in the process of conducting research. First step is data collection, key points are then marked with a series of codes, codes are grouped into similar concepts to make them workable, and categories are then formed
- Action research: known as participatory research a reflection process of progressive problem solving led by individuals working with others in teams or part of a community to improve ways of solving problems. Aim is both to contribute to solving the immediate problematic situation and furthers the goals of science
- Observation research: systematic process of recording the behavioural patterns of people, objects and occurrences by using personnel or mechanical methods of observation without questioning or communicating with them. Forms of observational research includes
  - Non-participation observation: use of cameras in stores to observe customer behaviours
  - Market audits
  - Customer control panels, recording of purchases

- **Quantitative research**

- Mainly concerned with numbers and data that can be easily quantified
- Involves gathering data that is absolute, such as numerical data to analyse it in an unbiased manner
- Aim is to classify features, count them, and construct statistical models to explain what is observed
- Popular technique is surveys and can be administered by mail, telephone, face to face or Internet
- When survey is done, the researcher turns directly to the people or company that can provide the required information
- It could be the consumer or a middle man such as an agent or wholesaler, retailer or a combination
  - Consumer survey: survey amongst the customer
  - Merchandise survey: survey amongst the middlemen
- Advantage is the actual motives, opinions, attitudes, preferences and intentions of customer can be collected
  - Personal interviews: involve face to face communication between the interviewer and the respondent. Have various forms such as structured single call interviews, panel interviews and depth interviews

- Telephone interviews: involve the collection of data through telephone conversations between the interviewer and the respondent
- Written communication: respondent fills in a postal questionnaire or provides the interviewer with written data. Common is postal survey but technology has made it easier with Internet either through web-based forms or e-mail questionnaires
- **Designing an instrument for collecting primary data**
- Once the information has been specified the researcher must determine how the information must be collected
- Questionnaire is a key instrument for data collection and the type used for collection depends on the primary data needed and the data collection methods
- Properly constructed questionnaire permits the collection of standardised, uniform data
  - Considerations when designing a questionnaire
- Specify the information needed: researcher must ask precisely what must be measured to satisfy the research objectives and to solve the problem
- Question content: after deciding the type of questionnaire needed and its methods of collection the individual questions are formed
- Question structure (response format): when the researcher decides what type of questions to include in the questionnaire, possible reaction or expected answers. Structured question give the respondent multiple questions with one choice. Unstructured question are open ended questions encouraging the respondent to compile and express their response freely
  
- Question wording: way in which questions are formed can result in the respondent refusing to answer the question or answering incorrectly. Wording must consider respondents background, language and culture.
  - Use simple words that are familiar to everyone
  - Avoid ambiguous words and questions
  - Avoid leading questions that indicate the answer
  - Avoid presumptive questions and assumptions
  - Avoid generalisation and pose jet question in specific terms
  - Avoid twofold questions
  - Avoid questions that the respondent might find unreasonable
- Question sequence: sequence affects the refusal rate and the quality of the response obtained, particularly when sensitive matters are dealt with
- Physical characteristics and layout of the questionnaire: format is achieved with a realistic number of items, sufficient spacing between the items and a consistent physical layout
- Pretesting of the questionnaire: once the draft is complete it is essential to test and refine it. Researcher may conduct personal interviews with the same group to test the questionnaire and the individual questions. Researcher can adjust the questionnaire based on the pre-test. Once the questionnaire has been approved, it can be used to collect primary data
- **Problems with primary data**
- Reluctant to respond: respondents are unwilling to react for various reasons, tax evasion. May reject due to personal issues
- Samples for field survey: lack of detailed information on the characteristics of the population and comprehensive lists from which to draw representative samples
- Language and comprehension: varying idioms and translation hampers the acquisition of specific information required
- Infrastructure: postal service may be irregular and very few telephones are available
- Measurement: measurement may work in one place but not in another. Special care must be given to the reliability and validity of the measurement methods

### **8.5. International marketing information system**

- MIS can be defined as planned combination of ways and methods for gathering, filtering, analysing, storing and flow to relevant information for this purpose of marketing decision making
- This information must be:
  - Relevant: management must be able to make decisions about target markets, products, price, distribution and marketing communication
  - Useful or flexible: must be available in a form that the user will be able to understand and apply
  - Timeous: information must be available on a continuous basis
  - Accurate: relevant in international context as data becomes quickly outdated due to major changes
  - Exhaustive: interrelationship amongst variables, factors that may influence a decision must be represented in the information system

- Convenient: data must be convenient in terms of use and assess

## **Study Unit Nine**

### **International product policies and development**

#### **9.1. Introduction**

- Product or service that the company markets to its international customers is the basis for success
- Without this product or service success the company could fail

#### **9.2. Role of the product in the international market**

- Product or services forms the basis of the international marketing mix and combines the other elements, distribution, pricing and marketing communication
- Once the product or service can be marketed internationally then decision regarding the countries of sale must be decided
- Once decided, the pricing must be finalised
- Extended marketing mix include people, processes and physical aspects
- People refer to all the persons involved in the marketing the product or service in international markets
- Process refers to the different processes involved in selling the product or service to the customer
- Physical aspects refers to the physical place of delivery of the product or service

#### **9.3. Classification of international products and services**

- Product can be defined as a tangible good, a service, an idea, or a combination through the exchange process that satisfies the customer needs
  - **Consumer products**
    - Products that people of any country buy on a regular basis
    - Products bought by every customer
    - Common consumer product work locally and internationally
    - Examples: bread and milk
  - **Industrial products**
    - Produced for a specialised industry to meets needs of a specific group of consumers
    - Category of SA manufacturers selling to overseas manufacturers for use in overseas manufacturing process is classified as industry products
  - **Services**
    - Intangible: some services cannot be touched, smelled or seen. There are tangible elements to them. Such as airline that offers food
    - Perishable: services that cannot be stored. Such as airline that leaves with empty seats cannot gain the profits from those seats
    - Inconsistent: serviced to different customer are never quite the same

- Insurable: provider if the service is linked to the service. International rock star and the conceit cannot be separated

#### **9.4. International product planning**

- When a company plans to enter the international market, they just consider product objectives and strategies
  - Taking the domestic product internationally without modifications
  - Modifying the product to meet the needs of the specific country to which it intends to export
  - Investing and developing a new product for global markets
- There are two basis planning strategies to follow
  - Route of standardisation
  - Product differentiation

##### **9.4.1. Option of product standardisation**

- Economies of scale: when longer production runs occur in a manufacturing plant, large economies of scale can be attained. Meaning the manufacturing cost per unit declines because of full use of machinery
- Savings in development: due to the high cost of developing the product, the longer the production run, the better the savings. Development cost are repaid over more units, saving on development per unit cost
- Technical content of products is basically homogeneous: most industrial products have the same content, making the standardisation option very attractive, leading to cost saving
- Consumer mobility: consumers are world citizens with high levels of mobility. Costumer expect to be able to buy the same products throughout the world

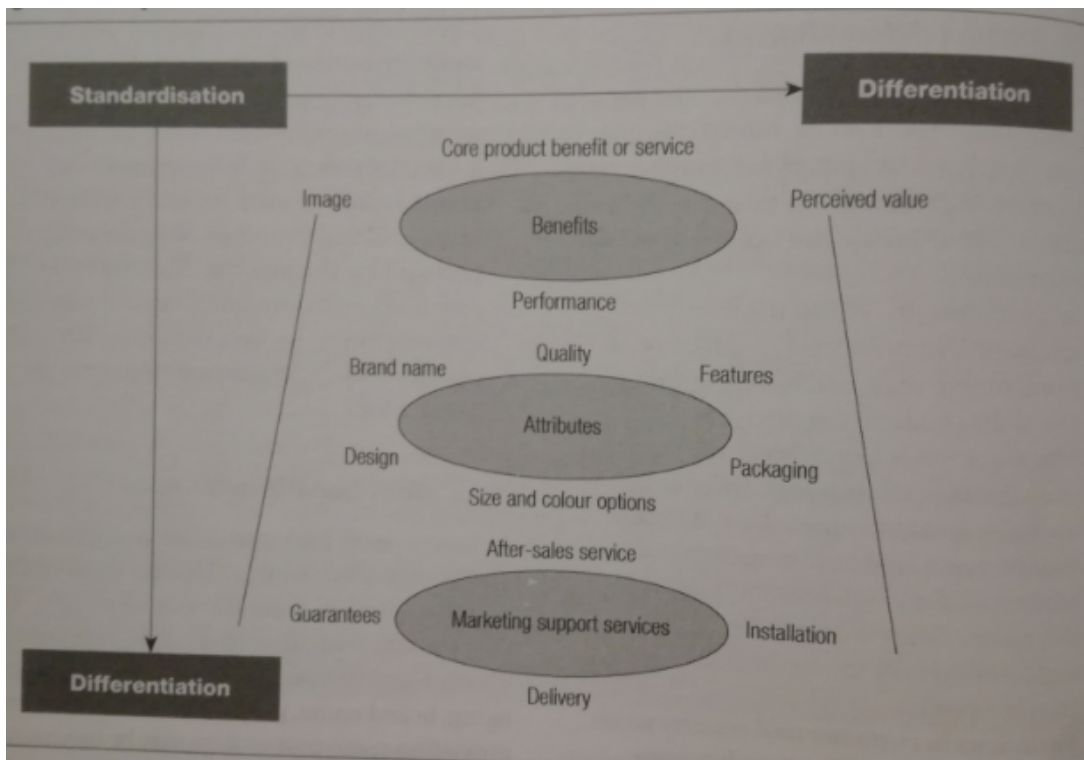
##### **9.4.2. Product differentiation**

- Implies that the exporting manufacturer makes modifications to the product that it intends to sell in other parts of the world
  - **Increasing profits**
    - Main argument for economies of scale and lowering the unit cost of the product
    - Main aim is to maximise the profitability of the product
    - Different countries and consumers have different specific needs and requirement of products and company should try and comply with this to increase profits
  - **Variations in customer and country needs**
    - Developed countries have standards and requirements regarding a product which are different from developing countries
      - **Technical abilities**
        - Linking to different countries depends on the technical abilities of the country
        - Selling a product in developing countries must be supported by good technical support and some modifications may be done to cater for lower service levels
      - **Specific country requirements**
        - Will push the manufacturer to opt for product differentiations
        - Aspects such as tariff levels and taxation policy will make the option of product differentiation the better option

##### **9.4.3. Cost-benefit relationship**

- Product standardisation versus differentiation depends on the cost
- Cost for differentiation may consist of research cost, alteration to packaging, brand name, guarantees
- Cost for standardisation may be incurred as opportunity cost
- Opportunity cost refers to the cost-benefit relationship that must be made between standardising and losing potential sales versus differentiation with all its related cost
- Cost benefit relationship must be calculated and the net difference will decide which option to follow

#### **9.5 International product concept**



- There are three essential aspects of the total product: product benefits, products attributes and marketing support services

#### 9.5.1. Product benefits

- Refers to the core aspects or core product that customers want
- International customer's wants to buy a product that meets his/her needs and provides satisfaction through performance and image

#### 9.5.2. Product attributes

- Refers to the elements of quality of the product, brand name and packaging
- These are additional to the core aspects of the product

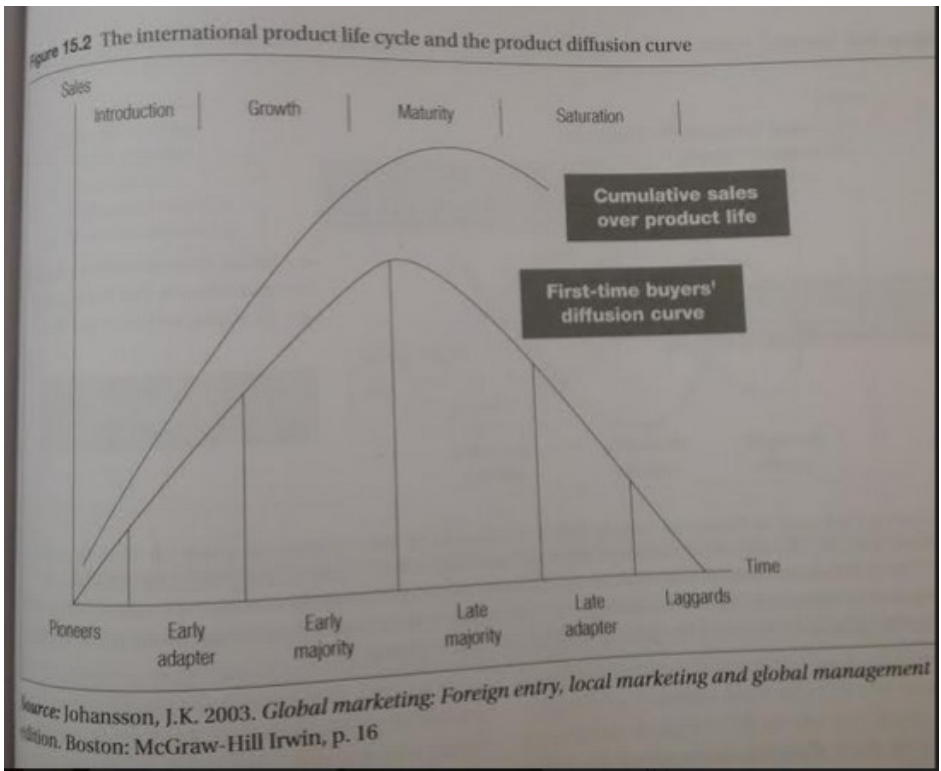
#### 9.5.3. Marketing support

- Refers to the additional elements to the core and product attributes, which help to market the product
- After sales service, personal delivery and the warranty on a product are marketing support
- Image and perceived value are usually standardised when focusing on the core product or service but when dealing with product attributes the support services for adaption increase
- Global companies use after-sales service as a strategic tool in the global market to obtain product differentiation and gain competitive advantage

#### 9.5.4. Product lines, product mix and product items

- Product line is a group of products that are closely related and have similar functions and hence sold to the same customer groups through similar outlets and within a certain price range'
- International markets may start selling a single product to global markets and they add new products to the existing one, developing a product line

### 9.6. International product life cycles and the diffusion of products



- PLC has four stages: introduction, growth, maturity and decline
  - Introduction: global manufacturer may produce for local markets only and may even start exporting the product to one or more near countries
  - Growth: start production in other countries
  - Maturity: foreign manufactured products become increasingly dominant in the world
  - Decline: original country of manufacturing may start importing the product usually after closing its domestic manufacturing facilities
- Stages in the diffusion process
    - Pioneers: first movers are adapting/buying the product
    - Early adopters: first major group to buy the product
    - Early majority: additional buyers that forms a leading group buying the product
    - Late majority: followers that buy only when a product has proven itself
    - Late adapters: eve later buyers of the product
    - Laggards: last group of people to buy the product

**9.7. International new product development**


**9.7.1. Idea generation**

- Ideas can be obtained from various sources and brainstorming is required as a success rate of one to one hundred ideas generated stills hold true

- R&D is an important aspect of international value especially how it links production and operations management (POM) and marketing activities of the market
- Due to the links the marketing department has with the customer, they provide valuable advice to R&D regarding what customers want
- R&D interface with POM is needed as customers demand better and more innovative products
- POM will want to save cost and marketing will want to spend money to achieve sales that have been planned for
- POM wants to standardise production and marketing wants to have product differentiation and cater for the largest group of customers

#### **9.7.2. Preliminary screening**

- Is to identify the most viable ideas and the design parameters in product development
- Ideas can now be evaluated against requirements of target markets and countries in which it is supposed to be marketed in the future

#### **9.7.3. Product concept research**

- Entails doing some market research to test the product concept in some market place
- Common techniques are focus groups and field surveys
- Focus groups provide feedback about potential product in group related communities
- Ordinary field survey interview respondents on an individual basis
- Formal approach to product testing is trade-off analysis and conjoint analysis

#### **9.7.4. Sales forecasting**

- Once the ideas have been passed and the market research has been done, commences with sales
- Product is formulated and potential target markets identified
- It is now possible to calculate the sales potential per segment
- Also, to identify potential competitors in the market and estimate the impact of potential competitive action

#### **9.7.5. Test marketing**

- Sales forecasting is complete and potential figures have convinced management that the product is viable
- Now the manufacturing will start and the product must be test marketed in certain locations
- Once the product has passed this stage it is ready to be marketed globally

#### **9.7.6. Eliminating obsolete products**

- There are several reasons why this may happen
  - Product is manufactured in short run production lines and demand diminishes, it is too expensive
  - Product takes up a big amount of management and salesperson time whilst not providing the return
  - Product projects the image of a conservative and technologically backward company
  - Quest for new product innovation may be delayed due to management hoping that the poor product performance of the existing product is temporary or the results are due to lack of marketing
- Before the product is abandoned, they should consider
  - Likely effect on sales and profits in the event of reviving the product
  - Likely advantages if a change in the marketing strategy of the product
  - Extent to which the product assists in the sale of other products in the range
- Product elimination needs to be considered because of
  - Market potential in all its markets. Product may not be profitable in the domestic market or an export market, may be in the growth stage where it is impacted by economic factors
  - Product is manufactured in several locations, then a far greater range of distribution and market condition combinations, must be considered before products are eliminated. Although this could lead to standardisation

### **9.8. Packaging and labelling component of the international product**

- Aim of packaging is to protect the product, and to help the market communication aspects, branding and market positioning
- Packaging requirements must be considered
  - Protection needed by the product in different countries of the world and the infrastructure to transport the product. Rough handling, poor transport conditions and long distances may require special type of packaging
  - Time that the product will be in transit from the manufacturer to the customer. If it is long periods the packaging must be considered
    - Special packaging requirements exist in certain countries regarding the size and recycling of the packaging

- Cultural aspects also play a part in packaging. Choice of colours, shape and type of material used may promote sales opportunities. If the product packaging is standardised then worldwide recognition would be possible
- Labelling requirements must be considered
  - Cultural differences play a role in the design of the label. Pictures and symbols used on the label can be misinterpreted by different cultures
  - Legislation in different countries must be adhered to. Different requirements are set by different countries regarding aspects such as country of origin, weight or volume, contents, nutritional value.

### **9.9. Use of branding in international marketing**

- Brand: is a name, symbol or logo, term or combination which identifies the manufacturer and differentiates it from a competitor's product
- Brand name: part of the brand that can be spoken
- Brand marque or symbol (logo): stamp or like the prancing horse for Ferrari
- Manufacturers can use the brand to identify the product, encourage sales and to encourage new products sales
- Brand equity: value of the company and its brand name

#### **9.9.1. Country of origin**

- Country of origin affects customer perception of product quality, brand image and purchase decision
- Customer are willing to pay more for products and services originating from desirable countries
- Products from a developed country are better than those from an undeveloped country

#### **9.9.2. Global brands**

- Some international company's make use of global brand name which can be found on most countries
- With global brands, they follow consistency in the global market

#### **9.9.3. Local brands**

- Sometimes company might use local brands with the corporate banner brand name included

#### **9.9.4. Types of international brands**

- Sole branding: every brand is run on its own with product or brand manager responsible for it
- Hallmark branding: corporate brand is used for all products and services and no sub brands are used
- Family branding: uses a corporate brand and has many sub brands
- Extension branding: commences with one product and stretches the brand to cover their categories as it proceeds

#### **9.9.5 Brand piracy**

- Brand piracy: when the owners of the brand find themselves in a position where the brand name is being used in another country without its permission
- It is an international scourge that has brought massive financial losses for the international brand name
- Brand piracy can occur in many ways:
  - Outright piracy where the product looks the same and used the same trademark
  - Reverse engineering where the original product is stripped, copied and manufactured and sold at a lower price
    - Counterfeiting where the product quality is inferior but the same trademark is used
    - Passing off where the product is modified but the trademark is similar in appearance or the brand name sounds the same
  - Wholesale infringement, famous ploy used with the registration of Internet domains

### **9.10. Selling customer services globally**

- Services can be sold as business to business or consumer to consumer
- Due to uniqueness of the service there will be differences between the marketing of services and consumer product
- Customer services such as education, entertainment, financial services and health care are usually inseparable and require the production and consumption of the service to occur almost immediately, which cut out exports
- Customer services are exported but means of licensing, franchising and direct investment
- Marketing of consumer services globally are slowed by
  - Protectionism: China has stopped the use of google due to censoring conflicts
  - Control of cross boarder data flows: is a problem due to borderless world we live in and we ca transfer information by the pressed of a button

- Protection of property rights: concern for companies with piracy issues
- Cultural difference: customer rely on customer to customer contact and culture become important

### **9.11. Selling business-to-business products and services internationally**

- Selling industrial products abroad is easier than consumer products as there is more standardisation
- Industrial products are used to manufacturer other products and service with the implication that the best product will be bought to optimise manufacturing
- Industrial companies after buying industrial products to realise a profit and a profit motive is universal
- Business services such as consulting, accounting and auditing services will also play a role
- Unique decisions why industrial company wants to enter the market
  - Volatility of industrial demand which cannot be compared to consumer demand. Industrial demand is derived demand hence it is dependent on demand for another product
  - Stage in the economic development of the country and requires can investment in industrial products and services and makes the economy attractive
  - Market demand for industrial products and will look at developments in these markets and will be trying to market its range of products to these countries

#### **9.11.1. Quality concern in the marketing of industrial products**

- Selling of industrial products, the quality of the products is important which the customer determines
- Successful global companies have entered the markets and minimised risk but following product strategy by adhering to local standards of quality and technology
- Most countries use the ISO 9000 as an indication of quality
- ISO certifies the manufacturer's quality system to ensure that it meets international published quality standards

## **Study Unit Ten**

### **International distribution and logistics systems**

#### **10.1. Introduction**

- One of the most important decisions for an exporter is to decide how its range of products and services should be delivered to prospective buyers
- Two basic options are available
  - Sell and deliver the products and services directly to the end-user
  - Use intermediaries, who perform variety of functions associated with the marketing of the product

#### **10.2. Role of distribution in international marketing**

- Supply chain is the upstream linkages with the internal linkages inside the organisation and the downstream linkages
- Supply chain links to the optimum, and creates optimises value for the customer in the form of products and services that satisfy customer demands
- The distribution function is the marketing instrument that presents the product to the consumer and forms an integral part of the broader concept within marketing called managing the supply chain."
- Managing the supply chain suggests that all the business processes of the organisation are incorporated from the end- user backwards (i.e. the customer) through to the original suppliers that supply the product or service as well as any information that may be beneficial for the customer

... performed by members of the international distribution channel

Marketing activities	Description	Example
<b>Transactional functions</b>		
Buying	Purchasing products to resell them	The function of buying from various farmers in order to export maize is performed by the South African Grain-Exchange
Selling	Promoting products to customers	Export representatives are used to help sell South Africa's wines in the EU
Risk-taking	Taking risks by owning products that can deteriorate, become obsolete, be damaged or stolen	Every intermediary that takes ownership of a product runs the risk of a damaged product. This is where insurance comes into play
<b>Logistical functions</b>		
Concentration	Bringing products from various places together	Products destined for the EU must be gathered locally before being transported
Storing	Protecting products in such a manner that it reaches the customer in excellent condition	Refrigeration is one example where special type of storage is needed to export deciduous products
Sorting	Activities such as accumulation, allocation, assorting and sorting out occurs to break down the range of products into quantities that the customer wants	Accumulating products such as export grapes for the export market is one example of the sorting activities undertaken by a South African cooperative
Logistics/physical distribution	Moving the products physically by means of transportation, and the use of warehousing and inventory management	Putting grapes on a refrigerated container ship that takes a month to arrive in London, is an example of the use of the logistical function
<b>Facilitating functions</b>		
Financing	Obtain credit to facilitate an overseas transaction	This is usually obtained from a bank such as Standard Bank
Grading	Inspecting products and grading them on quality	For example Class 1 A is an export grade
Marketing research	Gathering data on the target market, competitors and reporting on these issues	Every exporter is involved in research. Syndicated research is sometimes undertaken

### 10.3. Market entry strategies

- The method of entry is imperative for the exporter
- There are diverse with regards to the viewpoints on the method of entry for the exporter into a foreign market

#### 10.3.1. Exporting

- Exporting is the obvious step for the new exporter to enter the global market
- There are two types of exporting
  - Direct exporting: exporter takes charge and control over the channel by contacting the final customer or the foreign intermediaries
  - Indirect Exporting: exporter appoints another business inside the country to act as go-between in marketing its products in foreign markets
    - Reseller: who takes title to the products
    - Resale and the sales intermediary: operate as SA export agent and earns commission selling the product to foreign resellers

#### 10.3.2. Licensing

- Implies that the exporting organisation offers a foreign business the right to use the organisations proprietary knowledge in another part of the world for which the organisation will pay a certain royalty or other form of compensation
- Patent covers a product or process, right to use a trademark or brand name, copyright permission, manufacturing knows how on products, technical advice and assistance

- Includes the supply of components, materials, which may be required in the manufacturing process

- **Advantages of licensing**

- Very little outlay is needed with promise of providing an attractive rate of return on capital invested
- Access to markets, which might be closed due to high rates of duty, import quotas to other

restrictions

- In case of failure, less risk is involved
- Less risk of having assets nationalised or expropriated as happened in several developing

countries

- Access to the licensee local marketing and distribution organisations as well as existing clientele, avoiding many start-up problems

- Many government favour licensing over foreign investment because licensing brings technology and know-how into the country without the problems of ownership associated with foreign direct investment

- Because of limited capital requirements licensing enables new products to be sold worldwide before competition develops, thus raising the barrier to entry

- **Disadvantages**

- Developing potential competitor in the market by transferring sufficient expertise to the licensee to enable the organisation to set itself up as a competitor once the licensing agreement is terminated

- Licensing provides a slow and eventually limited return on the investment of managerial R&D time

- Governments can impose restrictions either on remittance of royalties or on the supply of components

- Sometimes it is difficult to control the quality of the product manufactured by the licensee that it is sold under the licensor brand name

- Although the specified responsibility of each party is spelled out in the official contract, misunderstandings and conflicts can arise during the implementation stage

- **Franchising**

- Franchising is a good example of licensing

- Franchising is where the franchiser provides the franchisee with the right to a standard package of components such as brand name, business models with management and marketing expertise for a specific period

- In exchange the franchiser gets royalty payments

- Franchisee must provide capital and personal involvement to make the franchising agreement work

- **Contract manufacturing**

- Where a foreign manufacturing organisation is contracted to manufacture a product under specification

- Advantages

- No need to invest in manufacturing capacity, organisation placing up the contract does not need to tie up capital resources a concern with possible risk

- If handled correctly there is less risk of the organisation experiencing financial loss because of political risks

- Organisation placing the contract can avoid labour and other problems that could result from lack of familiarity with the country concerned

- Cost of advantages could include saving in logistical cost and lower production operation cost

- If the expected demand for a product proves to be correct, it is easier and less costly to terminate a manufacturing contract than to shut down a wholly owned offshore production unit

- Disadvantages

- If it difficult to find a foreign manufacturer with the ability to fabricate the product to the required standards in a satisfactory quantity

- Risk of being involved in buying products from countries where sweatshop activities are condoned

- Even when a suitable manufacturer is identified, the company concluding the contract runs the risk of training a potential competitor

- **Turnkey contract**

- Where the mother country's organisation is involved in developing the factory and training the personnel to run the factory

- Also, referred to as EPC and are the preferred method of contracting for international infrastructure projects

- Normally assumes the risk of defects in contracts specifications and is responsible for the entire construction process from design to building

### 10.3.3. Strategic alliances

- Business relationship that is developed between two or more organisations to work together and share the risks in achieving a joint objective

- **Joint venture**

- JV is a form of strategic alliance
    - This is used when domestic and international markets form a new understanding
    - Both parties invest equity and management partnership is to run the new business
    - JV have a very short lifespan because it is difficult to control the venture and obtain the set of objectives

**10.3.4. Wholly owned manufacturing subsidiary (Greenfield venture)**

- This entry option has the most commitment and highest risk involved for the exporting company
- Heavy investment in capital and HR is needed to make this work
- Reasons for using GV
  - Make use of low cost labour
  - Avoid high import taxes
  - Reduce the cost of physical distribution
- FDI is a way to circumvent future trade barriers, providing more guarantees for multinational companies regarding investment

**10.4. Channel alternatives**

- Once the exporter has considered the different entry alternatives, the exporter must now evaluate the channel alternatives
- It is therefore, important to consider the following four aspects regarding the use of channels in different countries:
  - The prevalence of retail concentration: should consider other countries when choosing a channel alternative
  - Channel length: ties in with the concept of retail concentration
  - The barriers of entry to get into the distribution channel: where relationships between intermediaries have been established for decades
  - Channel quality: refers to the expertise and skills of established retailers and their ability to support the foreign business products

**10.4.1. Marketing logistics**

- Logistical issues form an important international distribution decision process
- Decisions on the modes of transportation must be considered
- Marketers should consider location, speed and cost

**10.4.2. Type of distribution channel**

- There are two sets of distribution channels, home-country channel members and foreign country channel member
- Channel distribution members play an important role in the international distribution of product and services

- There are four channel alternatives
  - Direct channel: using own manufacturer representative to either sell directly or through an intermediary in the foreign market
  - Export management company
  - Large domestic intermediary: includes the importer, wholesaler and retailer

**10.5. Role of channel members**

Home country channel member	Foreign country channel members
Selling directly to organisations in the foreign country or using a manufacturer representative	Foreign buying agents can represent the domestic manufacturer
Domestic intermediaries such as large retail and export merchants and agents	Export merchant buys the product from the domestic manufacturer for reselling
Trading companies who buy from domestic manufacturers to resell in foreign countries	Distributor also buys the product for resale. Usually have an exclusive agreement with the domestic manufacturer
Export management companies work under contract for the manufacturer of products such as tyres and spare parts	Foreign wholesalers and retailers may buy directly from the domestic manufacture

### **10.5.1. Home-country channel member**

- **Selling directly to the customer**
- There are two alternatives
  - Manufacturer may deal directly with some specific organisations in the foreign country
  - May make use of manufacturer's representative
- Specific customers to whom the organisation would like to sell too
  - Importers may purchase a product directly from the exporting company or they may act as buyer's agent
  - Exporting company may be required to sell directly to foreign government departments
  - Exporter may have to deal with specifically appointed state trading organisations with products
  - Retailers such as large department store has central buying office that buy directly from exporters
  - Large global industrial organisations may also purchase their requirements directly from the manufacturer
- **Direct intermediaries**
- Other forms of domestic intermediaries are the export merchant and export agent
  - Export merchant purchases the goods from the exporter on its own account, with the aim of reselling them a profit
  - Export agent is a domestic organisation in the local market that represent the exporter overseas
- **Trading companies**
- Normally buys and sells for its own account but can also act as an agent for a manufacturer
- When performing in a trading capacity, trading company will buy a product from a local manufacturer and sell it abroad
- It can also import products from an overseas customer
- Trading companies conduct its own marketing activities, carries the financial risk, completes all the documentation and oversees the physical distribution of goods
- **Export management company (EMC)**
- EMC can be a local firm or part of an overseas form and manages under contract the whole export programme of the manufacturer
- Usually work with smaller exporters and are remunerated through a commission structure
- Usually do not have sufficient capital to do long-term investment in a range of products for an exporter and must have a positive cash flow

### **10.5.2. Foreign country channel members**

- **Foreign buying (import) agents**
- Work for commission and are typically smaller brokerage houses
- Agent acts on behalf of an exporter either by taking order, finalising contracts or negotiating deals using authority given to him by the exporter
- One agent could represent several manufacturers of complementary and non-complementary products
  
- **Export merchant**
- Takes title to the product with the intention of reselling it at a profit
- This merchant deals with the exporter on a continuous basis
- **Distributor**
- Usually located in the foreign marketplace, also buys from the exporter to resell at a profit, and located in the foreign marketplace
- They have an exclusive agreement with the manufacturer and may even appoint their own sub-distributors

### **10.6. Channel management**

- Once the international marketing strategy is chosen, the challenge of distributing the product within those foreign markets remains
- There are several factors to consider such as:
  - Channel availability: direct markets call for different approaches to market entry
  - Sales volume and profit objectives: Sales volume will depend to a large degree on the channel selected. Estimating long-term sales and cost, comparing margins with sales volume can assess the profitability of a market
  - Operating costs: estimating sales volume should always be considered when relating to the cost of a market entry method. Setting manufacturer operation in another country will involve initial investment and ongoing working capital

- Personnel requirements: certain markets may have too many requirements and may not be easy to enter. To establish a production plant, requires skilled managerial and technical staff which may not be freely available
- Risk: greater the investment, the higher the risk. Organisation may risk inventories, receivables, financial loss because of exchange rate movements
- Control: by selecting local trading company, organisation may have no control over an overseas marketing or manufacturing operation
- Flexibility: environmental and market conditions often change over time. They may wish to expand their space in the foreign market to take advantage of new market opportunities or cut down operations

### 10.6.1. Channel Design

- Channel design must take the following market characteristics into consideration:
  - The number, geographical location, purchasing patterns and purchasing patterns of customers
  - The bulk, the weight and degree of perishability, unit value and servicing requirements of each export product
  - The quality of the existing intermediaries available regarding inter alia physical distribution, storage, advertising, customer credit and selling activities
  - Whether hybrid channels of distribution will be used.
- When the barriers are present, the following alternative could be considered
  - Taking over local distributors in the form of buy-outs
  - Encouraging channel members by offering better financial incentives
  - Establishing own distribution outlets
  - Developing an innovative channel of distribution

### 10.6.2. Channel selection

- The selection of a channel of distribution and the specific channel members will depend on the distribution costs, the degree of control that can be exercised over the channel, market coverage and the likely continuity of the distribution service over the long term
- The following are the two aspects to consider:
  - Anticipated distribution costs: is the initial capital required for the development of a channel and cost of maintaining the channel
  - Degree of control over the channel: this depends on their financial position. Advertising expenditure is necessary to generate customer demand makes it easier to pull and push products through the distribution channel
  - Market coverage: there are three basic options, intensive, selective and exclusive coverage.

### 10.6.3. Channel management process

- Once a suitable intermediary has been identified, a distribution agreement must be drawn up
- Sales targets will be part of the agreement
- Target will serve as a basis for performance evaluation of the distributor whilst failure to meet it will give the organisation the right to terminate the contract

- The following aspects must be considered:

- **Motivating intermediaries**

- Once intermediaries have been selected, a motivational programme should be instituted to maintain their interest in products
- Additional motivation, apart from financial incentive include
  - Staff training
  - Advantageous credit terms
  - Company communication
  - Technical assistance

- **Terminating distributor agreements**

- Organisation may want to terminate the distributor agreement due to changes in market conditions, performance not to expectation or organisational changes
- Dismissing intermediaries is not an easy due to legal protection

- **Controlling intermediaries**

- Efficient control over international channels of distribution is hard because of the long channels involved
- Control should focus on the below
  - Control over the whole distribution channel
  - Control over individual intermediaries

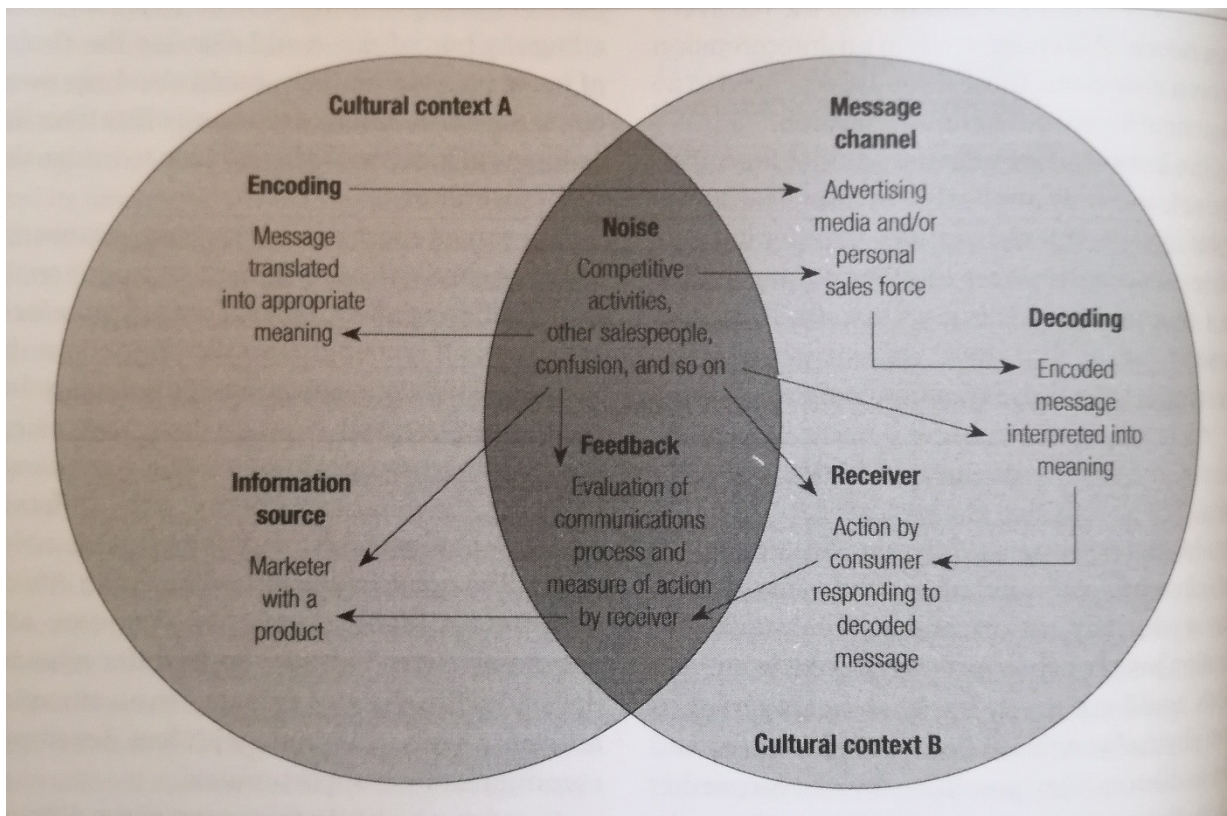
## **Study Unit Eleven**

### **International marketing communication**

#### **11.1. Introduction**

- For a firm to be effective in an international arena, good communication with potential and existing customers is key

#### **11.2. Role of marketing communication in international marketing**



- When a business put their customers and their needs at core of their business, this then may be referred as being customer centric.

### 11.2.1. The communication model in international business

- The marketing communication model has three components namely sender, a message and the receiver.
- Sender encodes the message in a form that the receiver is connected by the message channel
- Message channel is the path that the message goes from the sender to the receiver
- Includes face-to-face selling, through media such as mass broadcast media
- Receiver decodes the message to understand it

### 11.2.2. The multicultural communication process

- In an international context, one of the most common types of noise is cultural noise
- There are three variables that may potentially hinder the communication process
  - Source effect: when the receiver evaluates the message based on the status or image of the sender
  - Level of noise: result of different messages being transmitted at the same time,
  - Perception filter of the receiver: filter will block out messages that are not relevant to the receiver or inconsistent with the receiver's experience
- If there is a lack of information about the receiver culture then the sender may rely on their own cultural information based on their environment

### 11.2.3. Differences across cultures

- Culture is defined as an "integral system of learned behaviour patterns that are distinguishing characteristics of the members of any given society
- It is therefore, imperative for businesses to understand culture so that they can communicate to various markets all over the world
- The consumption of products can be viewed as four-phases:
  - Access: can the customer get access to the product not just physically but also economically? Country income patterns, affordability and infrastructure are important factors
  - Buying behaviour: how do customer make the decision to buy? Factors such as attitudes to business, loyalty and value and consumer orientation impact these decisions
  - Consumption characteristics: what factor influence the consumption patterns? Social class, urban/rural split of the population are factors that impact the patterns

- Disposal: what are the implications of disposal of the product? Environmental sensitivity of cultures and countries would be relevant
- Cultural layers
  - Biological culture layer: provides common reactions based on the same physical needs resulting from the same biological makeup and is common for humans
  - Personal culture layer: means by which the individual survives, operates and develops in society
  - Group culture layer: managerial or employee tool used to accomplish an organisational task or to protect the interest of the group, be it formal or informal
  - Organisational culture layer: management tool that uses professional communication to influence performance and is created or destroyed by the leaders
  - Regional culture layer: commodities based on the values of individual within a given region or nation
  - National culture layer: set of common understandings, traditions and ways of thinking, feeling, behaving and communicating based on the same variables that influence communication
  - Global culture layer: due to the increase in global economy.

#### **11.2.4. Non-verbal communication**

- This may be done through facial expression, gestures, and special distances
- Two factors impact on the ability to communicate across cultures
  - Empathy: process of trying to predict the psychological states of other people and to communicate successfully the communicator must be able to predict the receiver attitudes, values and feelings
  - Ethnocentrism: sense of superiority that members of a cultural group may feel in relation to other cultural groups

#### **11.3. Reasons for international marketing communication failure**

- Some of which include the following:
  - Inconsistent messages to customers by employees at different levels and from different cultures and countries
  - Different presentation styles and different corporate or brand messages from the different departments and country units, thus leaving customers confused
  - Lack of coordination of messages across various country markets
  - Failure to appreciate the differences in perception of the sender and receiver

#### **11.3.1. Factors beyond the control of the company**

- There are some cases whereby there are outside factors that affect communication
- Example are:
  - Counterfeit or patent/copyright infringements: could result in loss of profit or even permanent damage to the company's image
  - Grey goods: products or brands that are not brought into a country through official channels
  - Groups or competitors: could attempt to damage the image of the international marketer by accusing them of bad business practices

#### **11.3.2. Translation problems**

- The commonly held view of the objective of translation is to break down barrier between cultures by trying to transfer ideas from one culture to the next
- The question is whether the communication will have the same message or effect in both cultures- which is termed 'equivalence'."
  - Functional equivalence: if the new medium can meet the needs of the old medium more effectively then it will, replace the old
  - Translation equivalence: translation delivers the same linguistic meaning between the source and the target
  - Back-translation: message is translated back from the target language by an independent translator to check if the meaning is the same

#### **11.4. Standardisation versus adaptation**

##### **11.4.1. Factors leading to standardisation**

- Standardisation assists the company to develop brand and company familiarity with their consumers
- This can help create loyalty and trust through consistency

##### **11.4.2. Factors leading adaptation**

- Environmental factors such as political and legal restraints may also support the adaptation approach.
- Meaning of words can change in the different countries due to the phonetic

### **11.4.3. Adaption/standardisation strategies**

- Six strategies have been identified for standardisation
  - Same product, same message: when target markets vary little for product use or customer attitudes
  - Same products, different message: product may satisfy a different need or be used differently
  - Product adaption, same message: product is basically still serving the same function but is adapted to different conditions
  - Product adaption, message adaption: both product and message are adapted for foreign markets
  - Different product, same message: some countries the product may be different due to economic factors
  - Different product, different message: both the product and the message is different

### **11.5. Developing an international marketing communication strategy**

- Organisation that marketing internationally may have to select which strategy to use when marketing its activities, and these strategies include the following:

- **Push strategy**

- Means that the marketer will emphasis pushing the product through distribution channels
- Means that personal selling is more important than advertising, making it costly
- Marketers must consider the complexity of the product

- **Pull strategy**

- Uses more advertising tool to generate demand at end-user level
- Economies of scale if consumer goods mean that they prefer to use pull strategies to pull product though distribution channel
- Characteristics of pull strategies include
  - Product is widely used by consumers
  - Distribution channel is long
  - Product is not very complex
  - Self-service is the predominant shopping behaviour
- Commonly accepted factors will affect the choice of marketing tools
  - Market or industry sector
  - Whether the consumer or business-to-business marketing is performed
  - Specific customer segment to be targeted
  - Number of participants in the purchasing process
  - Country/region, its culture, communications infrastructure and preferred ways of communicating
  - Resource made available by the company

### **11.6. Marketing communication tools**

#### **11.6.1. Personal selling**

- Occurs when the customer makes the representative of the marketing company face to face
- PS is very complex and requires salesperson that are highly skilled
- PS is used in countries where the labour rate is low
- Two basic skills needed are negotiation and persuasion skills, which are core selling activities but which must be applied to many different cultures
- Global selling is when salespeople meet directly with customers in many countries
- Local selling is when locals from a country are used to sell within that country

#### **11.6.2. Exhibition and trade fairs**

- Makes it easy to meet customers in a cost-effective manner
- Trade fairs allow you to monitor the competition and to answer questions relating to closing deals

- Benefits of the exhibition of trade fairs

- Strategic benefits: organisation can keep tabs on the competition and pick-up information on new technologies or trends
- Research benefits: low cost market research can be done at the fairs and exhibitions since there is focus and target in terms of theme of the exhibition
- Promotional benefits: give the organisation an opportunity to put the whole marketing package before specific audiences
- Selling benefits: contact can be maintained with current customers and to establish contact with potential new customers

### **11.6.3. Public relations/publicity**

- Attempts to benefit from unpaid media report
- Can be done through newsworthy stories or events that generate coverage

### **11.6.4. Trade missions**

- These are organised visits to a region or country by business executives from an industry in another company
- These missions are often export-orientated so good preparation is necessary

### **11.6.5. Sales promotion**

- Used to add value to a sale and should be effective and efficient
- Tries to encourage a specific response to the marketer's actions but may be subject to legal requirements and constraints
- Lotteries are sales promotion tool

### **11.6.6. Direct marketing**

- Traditional method is through use of direct mail, but now we have the Internet and telecommunications
- Key to DM
  - Accurate and up-to-date database
  - Purging the database of incorrect information
  - Merging the database with the promotional message

### **11.6.7. Sponsorship**

- Involves providing financial or other support for an event or a product or service in return for some advantage, such as exposure to the brand
- Specific marketing objective can be achieved
  - Brand awareness and exposure
  - Opportunities to entertain staff and customers
  - Creating associations between brands and events
  - Helping community relations by sponsoring community projects
  - Promoting the brand at events
- Sponsorship has direct and indirect benefits
  - Direct benefit: give the opportunity to meet the key customers and supplier in informal setting
  - Indirect benefit: supporting stakeholder group such as community or employees as well as enhancing and underlying the company's sense of social responsibility and corporate citizenship

### **11.6.8. Advertising**

- Objective is to have the biggest exposure of the product or brand to the largest possible audience
- Use of advertising means that legal and cultural factors are highly influential
- Some reasons why global or regional campaigns are effective
  - Scale economies: arise from standardising and use of single campaign
  - Consistent image: having one campaign across many markets can help to provide consistency in image, positioning and message
  - Global consumer segments: young and affluent are two segments where cross-cultural similarities exist, lending weight to the use of standardised approach for these segments

### **11.6.9. New media or digital channels**

- Technological changes have brought about new digital channels
- New media tools
  - Blogs: websites created and maintained by a person who is passionate about a topic and wants to tell the world about the specific area of expertise
  - Vlogs: video blogs that use a large amount of video. Video content is shot on a mobile phone and called moblogs
  - Social networking: websites built around people with similar needs or interest. Users create a profile and can join or create groups
  - Real simple syndication (RSS): set of web-feed formats that allow frequently updated materials, such as blogs and podcasts to be distributed over the web
  - Widgets: small applications that can be easily cut and pasted into any web page. Blog, or social networking site that allow that page to display the content
  - Podcasts: is audio content connected to a RSS feed that allows one to efficiently create and deliver audio content to those people who choose to receive it
  - Wikis: websites that allow users to update, delete, or edit the content on the site

- Online forums: websites that allow people to express their opinions online that include chat rooms, message boards, list servers, wikis and blogs
- Online media rooms: part of the organisation website created specifically for media, and should contain information in different formats, audio, video, photos, news releases, background information
- Mobile marketing: this is the use of the mobile phone as the communications and entertainment channel between a brand and an end user

## **Study Unit Twelve**

### **Pricing for international markets**

#### **12.1. Introduction**

- Pricing is the most complex of all tasks facing international markets
- Pricing, product, distribution and promotion are the critical elements of any marketing mix
- Together they determine the attractiveness of a company's offer

#### **12.2. Role of pricing in international marketing**

- The failure or success of a firm can be based on the setting of the right price for a product
- Even if the international marketer produces the right product, suitably promotes it and initiates the proper channel of distribution, the effort fails if the product is not correctly priced.
- Foreign and domestic buyers, balance quality and value with price in their purchase decisions
- Sales will be lost if pricing is too high compared to the perceived product quality and value
- Very low prices may result in an unprofitable business operation
- Pricing also dictate the product positioning strategy

### **12.3. Factors influencing international pricing**

- Several factors need to be considered into account for setting prices for international markets
- They are grouped into internal and external factors

<b>Internal organisational factors</b>	<b>External organisational factors</b>
- Company objectives and pricing policy	Industry related factors
- Nature of the product	- Customer demand conditions
- Location of the product facility and chosen system of distribution	- Market structure and levels of competition
- Production and marketing costs	Macro-environment factors
- Management attitudes and pricing capability	- Economic conditions: inflation rate, currency fluctuations
	- Government regulations: price controls, exchange controls

#### **12.3.1. Company objectives and pricing policy**

- When considering pricing, managers need to consider the strategic and marketing objectives associated with the product, brand or targeted market
- Company objectives are often related to profits/sales
- It specifies general rules for setting basic prices, using price reductions, selection of payment terms, potential use of countertrade as a pricing instrument
- Company can decide that prices will be set
  - Independently by each international unit
  - Independently by the parent company
  - Jointly by the parent company and its international units
- Parallel imports are goods that are imported into a country without the consent of the authorised dealer in that market

#### **12.3.2. Nature of the products**

- **Product uniqueness**

- Specialised product or one with technological edge, give the firm pricing flexibility
- Markets there is no local production of the product, government imposed import barriers are minimal, and importing firms face similar price escalation factors
- Firms can remain competitive with little adjustments in price strategies

- **Product image**

- Pricing can be used to enhance product image
- To build or maintain a consistent image internationally, international companies may confine their prices within a narrow band

- **Product life cycle**

- Products are in the PLC affects the level of pricing flexibility facing it
- PLC moved through four stages: introductory, growth, maturity and decline
- Products can be in different stages in different markets

#### **12.3.3. Location of production facility and chosen system of distribution**

- Channel of distribution a firm uses and level of cooperation between the producer and the exporters and its intermediaries influences the success of the pricing strategy
- Location of production facility and channel system of distribution also affect people through their impact on production and marketing costs

#### **12.3.4. Production and marketing costs**

- Factors such as production and marketing costs are imperative in determining international prices
- Costs are beneficial in setting a price floor or base price

- This is the minimum price below which prices are not allowed to fall

### **12.3.5. Management attitudes and pricing capabilities**

- Companies whose top management are concerned mainly with domestic markets and would use cost-based pricing over market-orientation to feel less need for being market responsive

### **12.3.6. Customer demand for product**

- Demand is a function of many factors of which price is one of these factors
- Other factors are customers' ability to pay, willingness to buy, availability of substitute products, and the place the product occupies in the customer mind

### **12.3.7. Market structure and competition**

- Nature of competition is a function of factors such as number of competition forms, relative sizes level of product differentiation and ease of entry
- International marketer entering a market where there are no competing firms will have lot of flexibility in pricing compared with others
- International competition in markets make it difficult to raise prices above the industry average
- Low prices can threaten the existence of a form in the market

### **12.3.8. Economic factors**

- Such as population income levels, inflation rates, exchange rates and fluctuations in exchange rates need to be considered in setting prices
- Income levels of country population affect levels of consumer demand for specific products through its impact on purchasing power
- GNP and GDP are used to measure the country population income levels
- When inflation is high, the cost of replacing goods increases

### **12.3.9. Government policy and regulations**

- Government regulations on packaging, labelling, quality standards, can force an international marketer to modify its products
- These modifications can intensify the firms cost structure and hence need to increase the price
- Government can implement price floors, price ceilings or put restrictions on price strategy
- Dumping is the selling of goods in international markets at a price less than the exporter's home market or at a price less than cost of production

## **12.4. International versus domestic pricing**

### **12.4.1. Export prices lower than domestic prices**

- This is due to the income levels in the export markets are lower than in the domestic market
- Lower export prices compared to domestic prices may ensure that products are affordable to customer
- Intense competition in export markets relative to the domestic markets can also force a firm to lower its export prices below domestic prices
- Lower export prices are to achieve increased sales volume and absorb fixed cost in the domestic market
- Firm that charges lower price in export market compared to domestic market stands to be accused of dumping

### **12.4.2. Export prices higher than domestic prices**

- Export related cost is a factor that contributes to the charging of higher export prices than domestic prices
- Initial cost may include in international business travel, international market research and modifications to the product, packaging and labelling to suit the export requirements
- Freight, insurance and storage cost, local taxes and foreign exchange risks when dealing in foreign currencies all add to the total cost of exporter
- Lack of competing firms with similar products may allow the exporter flexibility to price products higher than in domestic markets where competition may be tight

### **12.4.2. Export prices the same as domestic prices**

- Marketing manager does not have to gather much information on the competition and export market conditions are calculate different prices for different markets
- Proper strategy is to follow companies exporting to markets that may be part of a union that allows free movement of goods and services between member countries
- Policy is helpful when the firm is entering a new unfamiliar market
- Policy is ideal when working with FOB pricing as the importers will be responsible for all cost associated with moving the product from the domestic market to the export market

### 12.4.3. Differential pricing

- This can be used when firms are targeting different export markets
- This approach is used by demand orientated exporters of consumer products
- Exporter looks at the environmental conditions existing in the different countries to establish different prices for each product in each market,
- By customising prices a company can earn much greater profits than a single price
- Success of differential pricing depends on
  - **Differential elasticities of demand**
  - Elasticity of demand measure customer's responsiveness or sensitivity to changes on price
  - Elastic demand is when customers are highly sensitive to price changes that they buy more when the price decreases and less when the price increases
  - Inelastic demand is when customers are not highly sensitive to price changes and the price does not impact the volume
  - **Effective separation of markets**
  - This is aimed at preventing the problem of parallel or grey products
  - Unless reimporting costs are higher than the price differential or unless other restriction on free goods transfer across boundaries exist, product sold in lower priced markets will end up in higher priced markets
  - **Advantages**
  - Beneficial on economic grounds to set different prices in different markets, because of demand and supply
  - Companies objectives and strategies may vary from country to country
  - May be desirable due to product line considerations
  - Size of the exporter and its share on the market also have a bearing on the desirability of following differential pricing policy
  - Cyclical or seasonal variations in production and demand may also make differential pricing appropriate
  - Differential pricing may also be used on an occasional basis companies facing periodic overcapacity while operating in industries that require heavy fixed investment
  - Corporate objectives in different markets may vary

### 12.5. Price escalation in export marketing

- Because of added costs related with exporting, the retail price of most products is usually higher in export markets than in Tariffs, other domestic markets

#### 12.5.1. Cost of exporting

Cost	Description
Tariffs	Tax imposed by government on goods entering its borders
Other taxes	Include values added tax and excise tax
Administrative cost	Includes costs associated with export documentation
Inflation	General rise in the price of products in each time
Exchange rates	Value of the currency of one country relative to the value of the currency of another country
Middlemen	Cost associated with the use of import and export agent, distributors, wholesalers and retailer
Transportation	Cost of transportation modes used to get products to the importing country and distributing it within the import country
Packaging and labelling	Cost associated with correct packaging and labelling of cargo for international shipping and meeting government and market requirements
Forwarding agent fee	Freight forwarder arrange transport and prepares documentation as an agent of the shipper
Marine insurance	It covers risk associated with the movement of goods from the exporting to the importing country

- **Tariffs, taxes and admin cost**
- Most countries impose local tax on imported products
- Common tax is customs duty and is a special form of tax charged on goods imported from another country
- It is usually charged based on the value and/or quality of the product of the imported goods
- VAT is an indirect tax on certain supplies of goods and services
- Tax is designed to be burdened on the consumer or purchaser but accounted for by the supplier of the products
- Excise tax is government charged on specific goods such as alcoholic drinks and tobacco

- **Inflation**

- Refers the general increase in price of goods and services over a period
- Inflation rates tend to fluctuate over time and differ from one country to another
- Inflation must be factored when it is worked out on a long-term contract
- Other strategies that companies follow is: FIFO approach for inventory, making constant price adjustments, giving incentive to customers to pay for their products immediately and charge penalties to customers who fail to pay within agreed time periods

- **Financial charges**

- Common for firms to borrow money to finance production and marketing of export products
- Until the products are sold and payment received, interest charges will accumulate on the borrowed money
- Even is borrowed money is not used, production of export goods may take months and goods may be sold on credit terms

- **Exchange rate fluctuations**

- Currency rate are the most unpredictable factors affecting prices in export marketing
- Exchange rates could have daily fluctuations and may be different to anyone to be certain on the future rate

- **Middlemen and transportation costs**

- Use middlemen to help with the distribution of their products
- Costs are mainly a function of channel length, margins and marketing function performed by the members
- Channel length is determined by the number of levels of intermediaries that exist
- Longer lengths of distribution are associated with higher cost due to mark-ups that must be considered
- Companies will use higher wholesalers and retail margins for foreign goods than similar domestic goods

When domestic currency is WEAK	When domestic currency is STRONG
Stress price benefits	Engage in non-price competition in improving quality. Delivery and after sales service
Expand product line and add more costly features	Improve productivity and engage in vigorous cost reduction
Shift sourcing and add manufacturing to domestic market	Shift sourcing and manufacturing overseas
Exploit export opportunities	Give priority to exports to relatively strong-currency countries
Conduct conventional cash-for-goods trade	Give priority to exports to relatively strong-currency countries
Use full-costing approach, but use marginal-cost pricing to penetrate new/competitive markets	Deal in countertrade with weak currency countries
Speed repatriation of foreign-earned income and collections	Trim profit margins and use marginal-cost pricing
Minimise expenditures in local, host-country currency	Keep foreign-earned income in host-country currency
Buy needed services in domestic markets	Maximise expenditures in local, host-country currency
Minimise local borrowing	Buy needed serviced abroad and pay for them in local currencies
Bill foreign customers in domestic markets	Borrow money needed for expansion in local market
	Bill foreign customers in their own currency

### 12.5.2. Strategic options to deal with price escalation

- To overcome challenges that rise with price escalation, the exporter can consider the following strategies:
  - Shortening distribution channels: by reducing or eliminating some of the middlemen
  - Lowering manufacturing costs: in the domestic market by looking for the optimal use of resources and the better management of processes
  - Modify the product to make it cheaper: by lowering the quality of the product or eliminating some features that are not critical to the sale
  - Lowering transportation costs: estimated that a 5% reduction in transport cost can have the same impact on profit and loss statement as a 30% increase in price
  - Taking special care with product descriptions and declarations for import tariff classification purposes: exporters must often declare the goods they are bringing into the country as this determines the tax and duties that will be charged
  - Using marginal cost pricing: can lower the landed cost of products but positively contributes to the benefits of the profits

- Persuading intermediaries to accept lower margins: easier to achieve when the intermediaries depend on the exporting organisation for most of their business
- Accepting a cut in export margins
- Adjusting marketing mix and position the product: as a premium product to be in line with price resulting from all the factors contributing to price escalation
- Shipping: unassembled products and reduce the landed value associated with import tariffs
- Company can give up exporting: viable option where there is enough profitable demand from domestic customers

### **12.6. Strategic pricing objective**

- The firm makes use of price to achieve a specific objective when prices are an active instrument.

The objectives include:

- Profit maximisation: will set prices to increase its revenue as much as possible relative to its cost
- Meeting target rate of return: use pricing to help them achieve a predetermined level of profitability and is in relation to the level of investment
- Sales maximisation: may set prices with the aim of maximising sales revenue or sales quantity without regard for much profit
- Maintenance or improvement of market share: pricing can be used to help defend the market share and/or to grow it
- Market price stabilisation: firm chooses to stay away from competing based on price to avoid retaliation from the market leader or competition
- Differentiation: difference in prices are not always linked to the cost of products, but may be designed to create different perceptions of product value
- Survival: price is set at levels that will allow a company to cover essential costs and stay in business

### **12.7. Pricing strategies for international markets**

- After selecting objectives, firm needs to determine how the objectives will be achieved

#### **12.7.1. Skimming pricing strategy**

- Set a high price relative to the competition
- Skimming refers to the idea of skimming the profits off the top of the market while the product differential advantage is high and competition is low
- As products move through PLC, prices are reduced to enter more segments
- Price skimming strategy advantages
  - When facing inelastic demand
  - When a new innovative product is introduced and there are no close competitors for it
  - When the differential advantage of the product is legally protected
  - When one of the objectives is early recovery of the funds invested in the product
  - When the company is a leader in the industry
  - When competitor's entry into a market is blocked
  - When product offered are unique or superior
  - When low sales volume because of high initial price is essential to allow the company time for expansion of production capacity and development

#### **12.7.2. Market penetration strategy**

- Involves setting lower prices in a market to stimulate sales growth and capture a large market share
- Market penetration strategy advantages
  - When demand is highly elastic and low prices will either attract new customers, or make existing buyers buy more
  - When low prices are an effective weapon to keep competition out of the market
  - When it is possible to realise substantial economies of scale from large sales volumes
  - When the company has the production and distribution capacity to meet anticipated demand
  - When the lower priced products can be used to stimulate sales of complementary or other company products that are priced with high mark-ups

#### **12.7.3. Status quo pricing strategy**

- Involves pricing products to meet competitor prices or to maintain existing ones
- Major advantage is that it requires very little planning
- Status quo pricing strategy advantages
  - When competition in the market is well entrenched or there is clearly a price leader
  - When a company does not have the capacity to compete based on price

- When the product being sold lacks distinctive advantage to warrant higher prices than competition and when lower prices will not help the company meet its other objectives
- When the cost structures of different competitors are relatively the same

## **12.8. Pricing methods**

### **12.8.1. Cost-orientated pricing**

- Cost orientated pricing or cost plus pricing is the simplest and most used pricing method
- Firm calculates the cost of producing each unit of a product and adds this to the base cost as a percentage or absolute mark-up to determine the selling price

- **Full-cost pricing**

- Takes in account all variable and fixed costs directly connected to production and marketing of products and predetermined profit
- Usually used for industrial goods where it is often difficult to explain the perceived value to the customer
- Intended to achieve either
  - Specific return on investment
  - Ensure early cash recovery
- Main advantages
  - Easy to calculate meaning easy decision
  - Makes it easy to justify price increases to the customer
  - Market stability can be easily achieved assuming competitors have similar costs and use similar pricing methods

- Disadvantages

- Do not consider demand conditions
- Give less incentives to firms to control cost

- **Marginal-cost pricing / Variable-cost pricing**

- Marginal-cost as an additional expenditure required to produce additional unit output
- Technique divides all costs into fixed cost which in the short or long term remain unchanged regardless of the output achieved and variable cost which vary directly to the level of output
- Once firm has achieved an output that generates sufficient revenue to cover fixed and variable cost. They reach their break-even point
- Break-even point is when total revenue is equal to the total cost
- Any price per unit that exceeds the variable cost is profit
- Advantages
  - It is easy to calculate as the fixed and variable cost concepts are easy to understand
  - Domestic markets benefit by having its fixed cost spread over a larger production volume and helping to achieve economies of scale
  - By separating fixed and variable cost, marginal cost pricing helps ensure that product variations are not distorted with changes in fixed cost
  - Makes it possible to understand the effects of changes in production and sales policies on cost
  - Can be used as a survival technique in the short term especially when a firm is facing difficult economic times
- Disadvantages
  - It is not good to use this method as it does not consider the fixed cost in the long run
  - It is not always easy to properly classify cost into fixed and variable costs hence pricing decisions may be based incorrectly
  - If variable costs are much lower than fixed cost, marginal cost pricing may result in very low prices charged on products and make it hard to increase price
  - Marginal cost pricing methods fail to understand that fixed cost may become variable in the long run
  - Using marginal costing is common in some countries while applying full costing for the same products in other countries can result in existence of wide margins in prices

### **12.8.2. Competitor-orientated pricing**

- Using this method seeks to maintain a fixed relationship between their prices and their prices and this costs or market demand but they rather relate their prices to those of their competitors
- Prices can be set lower, higher or the same than competitors
- Going rate pricing is common in markets where products are standardised or not highly differentiated
- Advantages
  - Allow companies to select from several pricing strategies in pursuing its objective by lowering prices to help with market penetration, keeping prices to skim the market

- Makes customer more receptive to products as the prices are in line with those charged by competitors
- Makes distributors more receptive to the company products as they are priced within the range they are used
- Disadvantages
  - Focus on competitor prices can result in a company ignoring its own costs and this can negatively affect profitability levels
  - Success of strategy requires that a company knows its competitors and regularly conducts market research to check on their prices and this can be time consuming and add to company costs
  - Competitors following competitor-based pricing can easily match whatever price a company sets for its products resulting in price wars

### **12.8.3. Demand-orientated pricing**

- Pricing method in which prices are determined by how much customers are willing to pay for a product
- Pricing methods charge higher prices when product is in demand and lower prices when product demand is low
- Use this method to determine the various prices they can charge to achieve the highest acceptable price and quantity combined
- Demand orientated pricing is also referred to as value orientated pricing as the value placed on the product by purchasers sets the price ceiling
- Advantages
  - Helps to know what customers are prepared to pay for their products
  - Helps to identify groups of customers that are willing to pay more for their products and can help in the market segment
  - Offers greater opportunities for earning higher profits
- Disadvantages
  - Accurately estimating demand at different price levels may be difficult
  - Management needs to ensure that where differential pricing is used for the same products aimed at different customer groups, there are no opportunities to buy products at lower prices

### **12.8.4. Market-orientated pricing**

- Pricing methods that involves setting of pricings based on a good understanding of customers, focus on competitors and effective internal coordination
- Need to consider factors like cost, competitors, value to customer and marketing strategy
- Price analysis should be conducted with an assessment of the demand and the competitive situation in the market
- Advantages
  - Helps a business through market research to have a better understanding of customer needs and wants
  - Provides better opportunity to develop products that better serve the needs and wants of customers
  - Internal coordination help improve efficiency levels and lower organisational costs'

### **12.9. International price determination process**

- Most companies lack a methodical procedure for setting and revising international prices
- Given the complexities associated with international pricing, it is worthwhile to follow a formal decision-making process in determining prices

### **12.10. Export quotation**

- An export price quotation needs to be more comprehensive than a domestic price quotation since the importers may not be well acquainted with the foreign product, places and trade terms
- Trade terms must include
  - Exporters and importer names and addresses
  - Reference or invoice number
  - Product details: description of the product including packed dimensions, gross and net weight
  - Unit and total selling price for only the product itself
  - Terms of the sale
  - Other fees and charges that may be incurred
  - Total charges to be paid by the customer
  - Validity period for the quotation

#### **12.10.1 Terms of sale**

- In a sales agreement, it is important that there is a common understanding between the seller and the buyer

- On what is and what is not included in the price quotation as well as when ownership of goods will be passed from seller to buyer
- Incoterms clarifies the costs, risk and responsibilities of both exporters and the importers in the international delivery of goods
- Incoterms are applicable to any mode of transport and for waterway transport

- **Departure terms**

- Used when the seller makes the goods available to the buyer at sellers own premises
- EW outs the maximum burden on the buyer

- **Main carriage unpaid terms**

- Used when the exporter will be required to deliver the goods to a carrier appointed by the importer but is not responsible for transport charges
  - FCA (free carrier): to a named place
  - FAS (free alongside ship): at a named port of loading
  - FON (free on board): at a named port of loading

- **Main carriage paid terms**

- When the exporter will be required to arrange and oat for main international carriage
  - CFR (cost and freight): exporter includes the costs of transportation the goods to the named port
  - CIF (cost, insurance and freight): exporter includes the costs of transportation the goods to a point of debarkation from the vessel
  - CPT (carriage paid to): Sellers price covers carriage to the named point of the destination abroad
  - CIP (carriage and insurance paid): Seller price covers carriage to the named destination point abroad

- **Arrival terms**

- When the exporter must bear all costs and risk needed to bring the goods to place of destination abroad
  - DAT (delivery at terminal): Exporter's price includes the obligation to deliver the goods at the country entry terminal such as airport or sea
  - DAP (delivered at place): exporter's price includes to deliver the goods to at a named place in the country of destination but the goods are not cleared for importation
  - DDP (delivered duty paid): exporter pays for all the transportation costs and bears the risks until goods have been delivered to the buyer's premises duty paid

### 12.10.2 Selection of trade terms

- The selection of trade terms depends on several factors including the following:
  - The need for the exporter to gain a competitive advantage over competitors. This requires the exporter to find out the trade terms that customers prefer.
  - Where shipment will be made on domestic or foreign carriers. This is when domestic carriers are to be used it is easy for price negotiations
  - Availability of insurance cover. It may be difficult to get insurance and costs of the may be too high due to lack of competition
  - Need for cash. EXW allows exporters to access their payment faster as the same transaction does not include delivery of the products at other points other than exporter's premises
  - Currency convertibility problems. Exporters do not need to negotiate payment in local currency to pay for transport cost
  - Government requirements in the importing country

### 12.10.3 Cost in export pricing

The following elements need to be considered in an export costing sheet:

- Total production cost: to determine the total cost by determining the fixed and variable cost
- Marketing related costs: includes cost on foreign travel and accommodation, research, communication such as telephone calls and faxes
- Costs related to preparing the goods for shipping: includes costs related to bulk packaging, crating, labelling, preparing internal documentation required to accompany the shipment
- Pre-shipment inspection costs: importers may demand that the goods be inspected usually by a third party before leaving the exporters premises
- Loading and inland freight costs: goods may then have to be transported locally before getting to a terminal such as airport where they will put on the main carriage going to the intended destination
- Local terminal charges: goods arrive at the local terminal port, cost will be incurred in unloading the goods from the transportation them locally
- International freight and insurance costs: costs related to moving the goods on the main carriage across borders

- Costs incurred in the importing country: once the goods arrive on the entry point in the importing country and must pay customs or import duties
- Financing and other costs: exporter will consider the costs of working capital at each point in the export processing process and contingency costs that be caused by delays

### **12.11. Countertrade as a pricing tool**

- Countertrade covers various forms of trading arrangements where part or all the payment for goods is in the form of other goods or services and price setting financing are dealt with together in one transaction

#### **12.11.1 Reasons for countertrade:**

- Companies take part in countertrade for reasons
- The most common benefits are:
  - Overcome liquidity problems: allows companies r access international customers who would otherwise not be able to buy their products due to financials
  - Increase sales volume: firm with a large amount of overheads face pressure to increase sales, countertrade provides an opportunity to achieve full capacity utilisation
  - Dispose-off distressed inventory: can help companies facing excess or obsolete inventory derive more value from their products instead of discounting
  - Overcome foreign exchange controls or lack of hard currency: help companies avoid foreign exchange controls by government or lack of hard currency paying customers
  - Overcome low credit worthiness: often results in difficulties accessing credit financing and can help to reduce the need for credit financing
  - Enter new markets: can help a company get international partners who will help in selling a company's goods internationally
  - Building long-term customer relationships: involves extended negotiations between the buyer and the seller, to get to know each other

#### **12.11.2. Limitations of countertrade**

- Viewed as being in opposition
- Importers imposing countertrade obligations on their suppliers may pay more for their imports
- Countertrade can undermine a country's ability to repay foreign debt
- Lack of flexibility
- Negotiations may be difficult to conclude due to lack of guiding countertrade
- Products may not fit in with the trading objectives and may be difficult to sell

#### **12.11.3. Types of countertrade**

- Barter: goods and services are exchanged directly for other goods and services
- Compensation deals: payment for goods and services is made using a combination of cash and goods and services
  - Counter-purchase: involves sales of good and services to buyer who demands as a condition of the sale, that the seller buys goods from the buyer
  - Off-set: that a seller will in future off-set a hard currency purchase of a product by a nation
  - Buy-back: occur with the sales of technology, machinery or equipment. Seller provides the equipment and agrees to be paid by the product sales from use of the equipment
  - Switch-trading or swap deals: arise when goods received in countertrade are such that a company or country has no need for than company or country can swap the goods for other goods from another company or country

### **12.13. Transfer pricing strategy**

- Transfer pricing refers to the pricing of sales to members of a corporate family

#### **12.13.1 Benefits of transfer pricing**

- Lower custom duties: due to them lowering their price thus allowing it to declare a low value for the products
- Avoid quota restrictions: quotas are based on total value pf products, reduced transfer price can help
- Minimise income tax liability: charging higher prices for products transferred from low tax countries to units in high tax counties help to shift profits from high tax countries to the low tax countries
- Facilitate dividend repatriation: is restricted due to government policy, transfer pricing at high prices can help to expel dividends
- Reducing profit share with joint venture: selling to international joint venture operations can use high transfer prices to reduce the amount of profits to be shared with the partner

### **12.13.2. Approaches of transfer pricing**

- There are three common approaches used in establishing transfer prices namely:

- **Transfer at manufacturing cost**

- Price is set at the level of production cost and the international division is credited with the entire profit that the firms market

- Companies often transfer at cost if they believe the low prices will increase sales

- **Transfer at arm's length**

- Price is set to charge the international unit the same price as that charged to the domestic market

- It is favourable by most government as it reduces the transfer price as a device to avoid tax, export or import quotas, etc.

- **Transfer at cost-plus**

- Price is based on the cost plus profit margin

- Assessing the transfer price may vary, greatest chance of minimising executive time spent on transfer price agreement

## **Study Unit Thirteen**

### **Internet and international marketing**

#### **13.1. Introduction**

- Internet is well suited for international marketing as it brings companies and individuals around the world together within the confines of a single computer monitor

## **13.2. Defining the Internet**

- Internet is worldwide interconnected network of computer networks
- Internet enables a computer or network in one part of the world to communicate to network located somewhere else in the world using telephone line or special dedicated data line
- Internet Protocol (IP): represents a set of standards that allows different types of computers with different operating systems and different applications to communicate with each other and share data
- IP is therefore the language that computers in the Internet use to talk to each other
- Global system of interconnected computer networks facilitate international marketing in the following ways:
  - Provides an easy to use communications channel for millions of individual and corporate Internet users around the world
  - Information is available on these computer networks is now available to everyone
  - Internet infrastructure facilitates the conducting of various business activities such as advertising, account payment, data sharing, transacting sales and exporting

### **13.2.1. Internet and World Wide Web**

- Web can be defined as a way of looking at and organising information on the internet
- Web is a subset of the Internet and organises information according to web pages
- Web pages are linked interlinked with each other using hypertext or hyperlinks
- Web browser is a tool that is used to view web pages
- Web is easy to use and includes pictures, sounds, animations, photographs, video and other multimedia features, adding its attraction
- Following impacts the Internet
  - Trade should expand because sunk costs associated with trade are reduced
  - Development of global markets implies that historical linkages should be less important
  - Countries with the fewest past trade linkages have the most to gain from Internet
- Typical export-preventing issues which cannot be directly solved by the Internet
  - Poor quality
  - Insufficient production capacity
  - Too long and unreliable delivery deadlines
  - High costs (due to low production, poor transport capabilities, and complicated export procedures)
- Pitfalls associated with conducting international trade via the Internet
  - Contract information and e-signatures, it is important to be aware that countries may have different requirement regarding the formation of electronic contracts
  - Warranties, limitations and liability and other key terms and conditions
  - Privacy and data protection, some countries will apply more stringent or different policies in respect of privacy and data protection issues
  - Legal requirement, local language requirements may be enforced in some countries
  - Advertising requirements, website operators must consider local requirements applicable to advertising and other promotional activities
  - Jurisdictional issues, deciding on where jurisdiction will take place can be a daunting task, is it where you operate from or where your customer views the web

## **13.3. E-Commerce doing business over the Internet**

- E-commerce is when business is done over the Internet
- E-commerce is more commercial view on online business
- E-business is more business-to-business side of online business

### **13.3.1. From e-commerce to e-trade**

- E-trade is doing international trade over the Internet
- E-trade includes all export marketing activities, including discovery of buyers, negotiation and contract via e-market places
- It also includes processing of all trade procedures after the contact has been finalised from commerce and trade, logistics, customer clearance to settlement over the Internet

### **13.3.2. Global e-commerce and the SA situation**

- Global influence and the Internet increase the volume if digital data and the power of networks and telecommunications and satellite infrastructure
- Global nature and Internet has benefits of conducting business, easy to use and relative low cost
- Internet is the most accessed by the respondent for reading email, general information, text chat, educational information, research and online banking

### 13.3.3. E-commerce helps overcome traditional barriers to trade

- One of main barriers to international trade is dealing with various environments that already exist
- These environments include social and cultural, economic, political, legal and technical environments
- Finding information about foreign markets, identifying potential importers and intermediaries and communicating with these companies are difficult in the global environment
- Another barrier is geographic and psychographic distance associated with international trade
- Internet enables the exporter to be better informed of and prepared to deal with risk associated with exporting

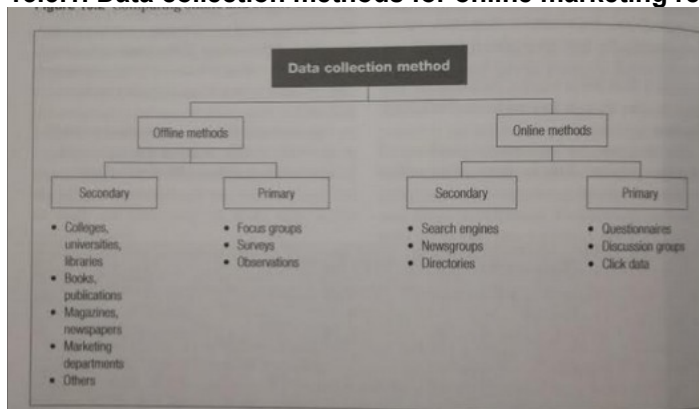
### 13.4. E-commerce as a method of entry onto the international market

- Entering the international market by electronic format, the Internet is different to the traditional entry methods of exporting, foreign distribution and direct investment
- E-commerce operates within a market-space, virtual work if possible
- Development of technologies advanced and efficient transport modes and the ability to more effectively handle the actual distribution process due to computers that facilitate the process
- Once a transaction has been made the goods can be speedily despatched to the customer and arrive within 24 hours if desired

### 13.5. Internet and international market research

- Using the Internet to access information makes the task of gathering secondary research easy
- All information is available on a computer screen and associated with online search facility, is the ability to communicate with companies, organisations, consultants, intermediaries, associations, chambers, etc.
- Internet makes it possible to identify buyers and communicate with these buyers immediately and directly, even though they are in a different country
- Internet can also be used to gather primary data by conducting online focus groups or surveys across borders
- Online research is still developing and need to ask the below questions
  - How do respondents view online research questionnaires
  - Are respondents more likely to answer them comprehensively online than in a personal
  - What are the characteristics of those that answer online questionnaires compared to those that do not?
  - Who should be measured?
  - How does one go out identifying and classifying a representative sample?
- Due to different cultures, language and needs, questions could be read differently at a basic level
- When conducting Internet research the researcher needs to consider three main points
  - Can a representative sample be obtained?
  - Is confidentiality important and can you guarantee confidentiality is required
  - Is the chosen research tool appropriate for Internet Research?

#### 13.5.1. Data collection methods for online marketing research



- Market research can now decide the best methods to collect online and offline data
  - **Online secondary data searches**
- Online environment is filled with pages of information to be found
- Three general secondary online sources
  - **Search engines:**
- To identify many leads to good information. Google

- Searches the web for all references linked to the key search terms you entered
- Researcher must be selective and identify the best information to meet the criteria
  - Newsgroups
- Are discussion boards where people comment on issues that influence them or news events that are the news of times
- Can provide valuable information on trends and opinions that happen on the market and impact purchasing behaviour
  - Portals
- Are gateways to information
- Usually created by a third party and may point the way to other online information or provide sources to information
- Main benefit is that someone else has done all the hard work in uncovering the relevant information
  - Aggregators
- Are online market places that aggregate the products of many businesses and make them available around the world. Alibaba
- International marketer can obtain a lot of information that can be useful
  - **Online primary data searches**
- Collection for primary data is expensive and time-consuming, reduced by the Internet
- One element of concern is reliability
- Three main categories of primary data collection
  - Questionnaires
- Type of questionnaire depends on the research being conducted - gathering qualitative data
- Online questionnaire must remain simple and does not take too long to complete and requires mainly ticks
- Interactive questionnaires are flexible due to responses of certain answer determine the next question posed
  - Discussion groups
- Range from the informal chat room discussion to the closely controlled and moderated online focus groups
- Chat rooms are limited to identifying basic ideas or indicators of a situation to be used for developing more formal studies
  - Click data
- Is the measuring of the number of times people log onto a website, amount of time they spend on the website and number of pages they viewed on the website and what they did on the website
- By obtaining this data the researcher can compile detailed report of used to identify what their needs and preferences are so marketing efforts can be specific
- Gathered information is stored in a customer databank and is updated as the user continues to browse the web overtime
- Web tracking is used to gather information on the users and the paths that they follow on a website between websites

### **13.6. International marketing and the Web**

- Internet is an enabling technology and only provides a new channel for businesses to reach their customers
- Customer needs still need to be satisfied (customer orientation), firm is still in business to make money (profit orientation) and to make effective and efficient use of all resources available to the firm to satisfy customer needs (systems orientations)

#### **13.6.1. Definition and adaption to the marketing mix**

- Use of new technology marketing programme of a business will result in changes that need to be made to the traditional marketing mix
- Move of technology forced the businesses to rethink their business models to include these new advancements under the threat of being left behind by competitors

#### **13.6.2. E-marketing**

- Business efforts to inform, communicate, promote and sell its services and products over the Internet
- Comprehensive meaning is the process of building and maintaining customer relationships through online activities to facilitate the exchange of ideas, products and services that satisfy the goals of both parties
- Building and maintaining refers to relationships with all customers

#### **13.6.3. Linking the Internet to international marketing**

- **Advantages**

- International company can establish a presence in the market place and in the process of build on its image that has been developed in the offline environment

- International company can provide the information that relates to its products, pricing, services, order tracking and other useful information to the browser that can be used in the purchase decision making process
- International company can interact with the customer in the form of queries, complaint handling and frequently asked questions
- E-marketing open a unique international distribution channel which is more cost-effective
- International company has the potential to advertise a product and then secure an immediate sale and receive payment all in matter of minutes

#### 13.6.4. Individualisation and interactivity

- **Individualisation**

- Web offers the international marketer three types of individualisation marketing strategy
  - Customisation: offering the opportunity for customers to design their own products
  - Personalisation: customer selects features or information that they would like to have included
  - Tailoring: the business pro-actively anticipates the customer needs and wants based on the customer interactions with the business or interaction of other customers

- **Interactivity**

- Refers to two-way communication flow that occurs between the business and customer
- Internet allows the opportunity to engage the customer by providing relevant information and advertising messages and then allows feedback in the form of queries, complaints and comments

#### 13.7. Adapting the International marketing mix to accommodate the Internet

- Strategies need to be adapted to the customer and business capabilities, especially when doing business across borders
- When dealing with service products, three additional P's can be added, physical evidence, processes and people
- Physical evidence is when the customer looks online and must judge the quality
- Process is the ability to take the order, processing of the order and despatching of the order to ensure the customer receives the order

##### 13.7.1. International product and the Internet

Individualisation	Interactivity
Easy to convey prices to individuals	Allows a larger buying and selling community
Allows more targeted price promotions	Facilitates dynamic pricing strategies
Dynamic pricing sites can be keep individuals informed	Allows prices to be changed easily
	Allows customers to easily check prices
	Easier to understand and measure customer's reactions to price promotions
	Easier to receive customer feedback on price, understand the customer's willingness to pay and implement price-discriminations strategies

- Two distinct categories of products sold via the Internet can be identified
  - Physical products: Items are ordered online and delivered to the customer. Books, CD, furniture
  - Digital goods and services: Services are offered in the old market place and have now included the Internet as the additional distribution channel, largely based online. Banking services and entertainment
- Individualisation implies that the marketer has information on the needs and preferences of the customer to tailor a product to meet the customer requirements
- Interactivity allows the marketer to provide the customer with information on the products through the website or online advertising and gather information from customers through product queries and comments
- This two-way communication process allows marketers to build relationship with customers and become knowledgeable to needs of specific customers
- Online marketing offers the opportunity to attend to each customer directly but also to sell core, supplementary and complimentary products
- Huge consideration is whether the products can be sold online and the benefits can be delivered to the customer
- Adding care instruction online may be added value to one customer whilst another customer may rather have guarantee and warranty information

##### 13.7.2. Online pricing

- Price if the products are the cost to the customer
- Offline environment the price that scans at a till point is the price the customer pays
- Online environment may have delivery and postage charges which the customer will have to pay for
- Difference between the offline and online pricing makes a difference to customers and influences their perception of value and future purchases
- Customers also demand lower prices and can shop online and compare the different prices, making decisions easily
- Dynamic pricing is identified as one of the most important contributions that the Internet has made to pricing strategy
- Dynamic pricing refers to the pricing environment where prices are not set to a specific price but vary to the situation, demand and supply
- Dynamic pricing is a viable option because of two aspects
  - Decreased menu costs: easy to change the price on an item online and when changed it is reflected world-wide. To change prices in retail stores, would take longer time to physically change each item in one shop and then country-wide
  - Interactivity: computers make it easier for sellers and buyer to negotiate or prices than if they had to physically travel to meet each other. This is both easier and quicker as the seller can negotiate prices throughout the day

### 13.7.3. Global distribution and the Internet

- Distribution has changed due to online based selling
- Internet is a shop front, communication tools and distribution channel linked directly to the customer
- Promotional website exist to communicate the existence of the product and its features
- They inform customers where to go to purchase the products
- Transactional websites seek to communicate the product to the market and then conclude the sale by taking the order, receiving the payment and despatching of goods to the customer
- Cyberdiaries are organisations that facilitate the transactions that are made online
- They include online payment facilities, postal services or private operators that physically collect the product from a designated point and deliver it to the customer and those responsible for the development of the website make it possible to browse the site again
- Disintermediation is the process of eliminating intermediaries from the distribution channel
- If an intermediary is eliminated from the value chain, their activities must be performed by another entity
- Reintermediation is the move of abandoning traditional intermediaries and moving to new virtual intermediaries – also called infomediaries
- Customers have the choice to purchase directly from the producer's website or through another website that sells a variety of related products
- Customer expect product availability, pick and pack accuracy and on time delivery
- Offline businesses moving online has an advantage as they have a warehouse/s and retail stores in international markets due to bricks-and-clicks businesses

### 13.7.4. International marketing communication online

- Online marketing has increased sales on the fraction of advertising
  - This can be due to the interactive nature of advertising online and the rapid growth on the number of users
  - Interactivity allows the marketer to create advertisements that encourage customer involvement and generate more excitement for the customer
  - This helps the marketer move the potential customer through the decision-making process quicker with their goal and sales
  - Active involvement with advertising can be used to collect customer information for future use and targeting future product to the customers
  - Benefit of individualised communication is that it targets specific individuals based on their characteristics, preferences and customers are likely to respond
- AIDA model can be used to reflect the process the marketer must lead the customer through to secure the sale
- **Attention**
    - Must attract the attention of the customer
    - This can be achieved by placing the website address on all offline communications
    - Other tools that can lead the consumer to your site includes search engines and links on other sites that transfer the user to your site
  - **Interest**
    - To keep users on your website you must be able to grab and keep their interest in the site
    - The homepage must grab the immediate interest of the user
    - Interactivity and individualisation begins at this point

- **Desire**

- Marketer must now try to prompt a response to purchase from the customer
- Individualisation is achieved using permission marketing and targeted mails
- Permission marketing is where the customer is given the option of deciding what can be sent to them

- **Action**

- Focus is on providing incentives to the customer to take some form of action
- Could be a purchase action or simply registering with the site which provides information for future targeting

### **13.8. Aligning online and offline international marketing strategy**

- Pure play business only has online international marketing strategy hence no alignment with an offline strategy required
- If brick-and-clicks business targets the same customers online than offline, it stands to reason that online international marketing strategy will be tightly aligned with offline international marketing strategy
- Positioning strategy will be the same and product line depth and width should be the same as offline
- Business may decide to only sell selected products online
- Decision may be based on market research that shows customers will only purchase certain products online or limited resources available to the business
- If bricks-and-clicks business targets new customers online in addition to existing customers, additional product may be sold online, and the positioning strategy will remain the same
- If bricks-and-clicks business target only a new market segment online, a new positioning strategy will have to be followed along with different products being offered
- If bricks-and-clicks international business implements a direct selling web site and offer lower prices online this may create conflict
- Members in the distribution channels may feel it is unfair to offer lower price online as the customer will want to purchase more online than from them
- Hence sell at the same price online and only sell at a lower price online where the direct selling website target customers that cannot be reached by other distribution channel members
- International marketer should consider integrating account information between the online and offline channel and customer loyalty programme
- Customer who purchase from the offline store would also like to gain loyalty points if they purchase from the online store