

LECTURE NOTES

on

International Marketing

MBA, II Year III Semester

(JNTUA-R15)

Mrs.Y.P. Sai Lakshmi

Asst.Professor



DEPARTMENT OF MANAGEMENT STUDIES

CHADALAWADA RAMANAMMA ENGINEERING COLLEGE

CHADALAWADA NAGAR, RENIGUNTA ROAD, TIRUPATI (A.P) - 517506

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY ANANTAPUR
MBA IV Semester (14E00408)
INTERNATIONAL MARKETING
(Elective VI)

The objective of the course is to provide students with a perspective of International Marketing Management, its environment and complexities.

1. International Marketing: Scope and Significance of International Marketing, The importance of international marketing, Differences between international and domestic marketing International environment, International Social & culture Environment, the political legal environment and regulatory environment of international marketing. Technological Environment.

2. International Market Entry Strategies: Indirect Exporting, Domestic Purchasing, Direct Exporting, Foreign Manufacturing Strategies without Direct Investment, Foreign Manufacturing Strategies with Direct Investment. Entry Strategies of Indian Firms.

3. International product management: International product positioning, Product saturation Levels in global Market, International product life cycle, Geographic Expansion–Strategic Alternatives. New products in International Marketing, Product and culture, brands in International Market.

4. International Marketing Channels: channels –Distribution Structures, Distribution Patterns, Factors effecting Choice of Channels, the Challenges in Managing an international Distribution Strategy Selecting Foreign Country Market intermediaries. The management of physical distribution of goods, Advertising and Branding, Grey Market goods.

5. Export Marketing: Introduction to Export Marketing, Export Policy Decisions of a firm, EXIM policy of India. Export costing and pricing, Export procedures and export documentation. Export assistance and incentives in India.

References:

- International Marketing Analysis and Strategy, Sak Onkvisit, John J. Shaw, PHI.
- International Marketing, Michael R. Czinkota, Likka A Ronkainen, Cengage .
- Global marketing Management , Keegan, Green, 4/e, Pearson.
- International Marketing, Philip R. Cateora, John L. Graham, Prasanth Salwan,
- TMH.
- International Marketing, Vasudeva PK, excel.
- Global Marketing, Management, Lee, Carter, Oxford.
- International Marketing and Export management, Albaum , Pearson Education.
- Global Marketing, Johansson, TMH.

UNIT-1

Vtusolution.in

Introduction to International Marketing:

The modern world is organized on the theory that each nation state is sovereign and independent from other countries. In reality, however, no country can completely isolate its internal affairs from external forces. Even the most inward-looking regimes realized the limitations of their own resources as well as the benefits of opening up their borders. This major change in the orientation most regimes has led to an enormous amount of activity in the international marketplace. A global economic boom, in the last decade of twentieth century has been one of the drivers for efficiency, productivity and open, unregulated markets that swept the world.

1. Never before in world history have businesses been so deeply involved in and affected by international global developments. Powerful economic, technological, industrial, political and demographic forces are converging to build the foundation of a new global economic order on which the structure of a world economic and market system will be built.

2. Whether or not a company wants to participate directly in international business, it cannot escape the effect of the ever-increasing number of domestic firms exporting, importing, and/or manufacturing abroad; the number of foreign-based firms operating in most markets; the growth of regional trade areas; the rapid growth of world markets; and the increasing number of competitors for global markets.

Of all the trends affecting global business today, five stand out as the most dynamic and as the ones that are influencing the shape of international business:

1. The interdependence of the world economies.
2. The rapid growth of regional free trade areas such as EU, NAFTA, ASEAN and APEC.
3. The increase in wealth and growth in most parts of the world, causing enhanced purchasing power.
4. The evolution of large emerging markets such as Brazil, China, India, Malaysia, Russia, Hungary and Poland
5. Availability of advanced methods of communication and transportation due to developments in information technology.

These forces affecting the international business have led to a dramatic growth in international trade and have contributed to a perception that world has become a smaller and interdependent place.

If we look at the Swiss Multinational Company, Nestlé, 'The Food Company of the World', it claims its products are sold in every country in the world. It has factories in more than 80 countries and it has many brands that are recognized all over the world.

Toyota and its subsidiaries sell their cars in more than 170 countries, giving it a presence in more countries than any other auto manufacturer.

, Today most business activities are global in scope. Finance, technology, research, capital and investment flows, production facilities, purchasing and marketing and distribution networks all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic environment, and all business people must be aware of the effects of these trends when managing a multinational conglomerate or a domestic company that exports. As one international expert noted, 'every company is international, at least to the extent that its business performance is conditioned in part by events that occur abroad.

Even companies that do not operate in the international arena are affected to some degree by the success of the European Union, the post 9-11 political economy and the economic changes taking place in China and India. The aftermath of 9-11 and the war in Afghanistan and Iraq have changed the political as well as economic scene. The interdependence among the nations and markets has however not been affected. Companies have become even more aggressive to capture new markets to compensate recessions at home or in their traditional markets. As competition for world markets intensifies, the number of companies operating solely in domestic markets is decreasing. Or, to put it another way, it is increasingly true that the business of any business is international business. The challenge of international marketing is to develop strategic plans that are competitive in the intensifying global markets. These and other issues affecting the world economy, trade, markets and competition will be discussed throughout this text.

International Marketing

International marketing is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. The only difference in the definitions of domestic marketing and international marketing is that the marketing activities take place in more than one country. This apparently minor difference accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes and principles are to a great extent universally applicable, and the marketer's task is the same whether doing business in Amsterdam, London or Kuala Lumpur. The goal of a business is to make a profit by promoting, pricing and distributing products for which there is a market. If this is the case, what is the difference between domestic and international marketing? The answer lies not with different concepts of marketing, but with the environment within which marketing plans must be implemented. The uniqueness of foreign marketing comes from the range of unfamiliar problems and the variety of strategies necessary to cope with different levels of uncertainty

encountered in foreign markets. Competition, legal restraints, government controls, weather, fickle consumers and any number of other uncontrollable elements can, and frequently do, affect the profitable outcome of good, sound marketing plans. Generally speaking, the marketer cannot control or influence these uncontrollable elements, but instead must adjust or adapt to them in a manner consistent with a successful outcome. What makes marketing interesting is the challenge of molding the controllable elements of marketing decisions (product, price, promotion and distribution) within the framework of the uncontrollable elements of the marketplace (competition, politics, laws, and consumer behavior, level of technology and so forth) in such a way that marketing objectives are achieved. Even though marketing principles and concepts are universally applicable, the environment within which the marketer must implement marketing plans can change dramatically from country to country. The difficulties created by different environments and culture are the international marketer's primary concern.

The International Marketing Task

The international marketer's task is more complicated than that of the domestic marketer because the international marketer must deal with at least two levels of uncontrollable uncertainty instead of one. Uncertainty is created by the uncontrollable elements of all business environments, but each foreign country in which a company operates adds its own unique set of uncontrollable. Figure 1.1 illustrates the total environment of an international marketer. The inner circle depicts the controllable elements that constitute a marketer's decision area, the second circle encompasses those environmental elements at home that have some effect on foreign-operation decisions and the outer circles illustrate, each foreign market in which the company does business can (and usually does) present separate problems involving some or all of the uncontrollable elements. Thus, the more foreign markets in which a company operates, the greater the possible variety of foreign environmental uncontrollables with which to contend. Frequently, a solution to a problem in country market A is not applicable to a problem in country market

Marketing Controllable

The successful manager constructs a marketing programme designed for optimal adjustment to the uncertainty of the business climate. The inner circle in Figure 1.1 represents the area under the control of the marketing manager. Assuming the necessary overall corporate resources, the marketing manager blends price, product, promotion and channels-of-distribution activities to capitalise on anticipated demand. The controllable elements can be altered in the long run and, usually, in the short run, to adjust to changing market conditions or corporate objectives.

The outer circles surrounding the market controllable represent the levels of uncertainty that are created by the domestic and foreign environments. Although the marketer can blend a marketing mix from the controllable elements, the uncontrollables are precisely that and there must be active adaptation. These are the elements that are outside the control of the managers but need to be handled. That effort, the adaptation of the marketing mix to the uncontrollables, determines the ultimate outcome of the marketing enterprise.

Domestic Uncontrollables

The second circle, representing the domestic environment in Figure 1.1, includes home-country elements that are outside the control of the manager and that can have a direct effect on the success of a foreign venture: political forces, legal structure and economic climate. A political decision involving domestic foreign policy can have a direct effect on a firm's international marketing success. For example, most Western governments imposed restrictions on trade with South Africa to protest about apartheid. In this case the international marketing programmes of such companies as Shell, IBM and British Petroleum (BP) were restricted by domestic uncontrollables. Conversely, positive effects occur when there are changes in foreign policy and countries are given favored treatment. Such were the cases when South Africa abolished apartheid and their bar go was lifted, and when the western governments decided to encourage trade with Libya as a reward for not pursuing weapons of mass destruction. In both cases, opportunities were recreated for international companies. The domestic economic climate is another important home-based uncontrollable variable with far-reaching effects on a company's competitive position in foreign markets. The capacity to invest in plants and facilities either in domestic or foreign markets is to a large extent a function of domestic economic vitality. It is generally true that capital tends to flow towards optimum use; however, capital must be generated before it can have mobility. Furthermore, if internal economic conditions deteriorate, restrictions against foreign investment and purchasing may be imposed to strengthen the domestic economy. Inextricably entwined with the effects of the domestic environment are the constraints imposed by the environment of each foreign country

Foreign Uncontrollables

In addition to uncontrollable domestic elements, a significant source of uncertainty is the number of uncontrollable foreign business environments (depicted in Figure 1.1 by the outer circles). A business operating in its home country undoubtedly feels comfortable in

forecasting the business climate and adjusting business decisions to these elements. The process of evaluating the uncontrollable elements in an international marketing programme, however, often involves substantial doses of cultural, political and economic shock. A business operating in a number of foreign countries might find polar extremes in political stability, class structure and economic climate— critical elements in business decisions. The dynamic upheavals in some countries further illustrate the problems of dramatic change in cultural, political and economic climates over relatively short periods of time. A case in point is the Soviet Union – a single market that divided into 15 independent republics, 11 of which re-formed in a matter of days as the Commonwealth of Independent States (CIS), leaving investors uncertain about the future. They found themselves asking whether contracts and agreements with the Soviet government were valid in individual independent states. Was the Republic of Russia empowered to represent the CIS, would the trouble survive as the currency of the CIS and who had the authority to negotiate the sale of property or the purchase of equipment? In very short period, the foreign investors' enthusiasm for investment in the former USSR and its republics turned to caution in the face of drastic changes as it transformed itself into a market economy.

Ever since its liberalization, Russia, the biggest market among the CIS, has had an inflation of 15 percent per month. This has caused enormous exchange variation as illustrated by Table 1.3. Such are the uncertainties of the uncontrollable political factors of international business.

Importance of international marketing:

Importance from the consumer's point of view:

- Consumption of unpronounced goods
- Consumption of goods at a low price
- Enjoying benefits of competition
- Consumption of new products

Importance from the producer's point of view:

- Export of surplus production
- Expansion of market in foreign countries
- Production of goods at a low cost
- Increase in production
- More profitable
- Reduce business risk
- Reduce cost

Importance from economic point of view:

- Increases total production
- Increases export earnings
- Challenging natural calamities
- knowledge and cultural progress
- Increases international peace and assistantship
- Extension of industry
- Export of unusual goods
- Optimum utilization of natural resources
- Progress in technological knowledge
- Image development.
- Increase in consumption

Difference between domestic and international marketing:

Difference between International Marketing and Domestic Marketing		
Basis	Domestic Marketing	International Marketing
Definition	“It is concerned with the marketing practises within the researchers or Marketers home country (domestic market).”	“It is the performance of business activities designed to plan, price, promote and direct the flow of a company’s goods and services to consumers or users in more than one nation for a profit.”
Role of Politics	Political factors are of minor importance.	Political factors play a vital role.
Languages & Cultures	One language and culture.	Many languages and difference in cultures.
Financial Climate	Uniform financial climate.	Variety of financial climate.
Risk Involved	Normal risk is involved.	Higher risks of different nature are involved.

Control of Marketing Activities	Control of marketing activities is easy as compared to international activities.	Control of marketing activities is difficult because of different factors like – regional, cultural, political, etc.
Payment	Minimum payment and credit risks.	Considerable payment and credit risks.
Familiarity	Well familiarity with domestic market.	Lack of Familiarity with foreign markets, research becomes essential.
Knowledge Requirement	Management knowledge is required.	Specific management knowledge and competence is required.
Product Mix	Product mix is decided keeping in view the satisfaction and more sales.	Product mix is decided according to foreign market.
Product Planning and Development	Product planning and development according to domestic market.	Product planning and development according to foreign market.
Focus	Focus of interest is on general information.	Focus of interest is on strategic emphasis.
Market Aspect	Market is much more homogeneous and different segments.	Different or diverse markets fragmented in nature

International Marketing Environment :

Social and cultural environment:

1. **Cross-cultural Marketing** Domestic and international companies are confronted with that ask of marketing products and services to diverse cultural groups. Understanding local culture around the world is becoming one of the most profitable ways of marketing products and services

2. Cultural Analysis

- Successful implementation of a marketing plan in one country does not mean it will be successful in another
- Cultural analysis is the study and classification of non-economic factors

- Being able to operate in a multi cultural environment it is important to know and be aware of the cultural differences
- The Self Reference Criteria enables firms to identify customer needs in foreign markets and not transfer the domestic ones

3. Criticisms of Hofstede's Five Cultural dimensions

- Used because of its popularity not it's accuracy
- Considered superior as it can be easily replicated
- Leads to laziness, as most research in the field is an extension

4. Cultural Orientation Variables

- 1) Time – perceptions vary in different cultures, high value of time (Germany, China), acceptable to be late (France)
- 2) Space – boundary during conversation, in the “West” men avoid touching, while in Asia & Latin America people get close.
- 3) Friendship – inter-personal relations is a product of culture, has a role in building international business relations
- 4) Status – material possessions mean different things in different cultures, and influence business attitudes (USA, Middle East)

5. Business Agreements• Rules for negotiation vary from country to country – 3 categories

- 1) Rules that are spelled out technically as law
- 2) Moral practices mutually agreed upon and taught to young as a set of principles
- 3) Informal customs to which all conform without being able to state the exact rule

6. Ethical Issues• Bribery- the payment of money, typically to a foreign official in exchange for him/her violating some official duty

- Pricing – includes unfair differential pricing, questionable invoicing
- Products/Technology –banned for use in the home country but permitted in the host
- Tax Evasion Practices - used specifically to evade tax such as transfer pricing

7. Illegal/Immoral Activities in the Host Country– practices such as: polluting the environment, maintaining unsafe working conditions; copying where protection of patents, trademarks or copyrights has not been enforced. Cultural Differences – between cultures involving potential misunderstandings related to the traditional requirements of the exchange process (e.g., transactions) may be regarded by one culture as bribes but be acceptable business practices in another culture.

8. Strategies for resolving ethical conflict: Avoiding: Strategy for the stronger of two parties. Forcing: One party forces its will on the other. Education and Persuasion: communicating the benefits of employee safety and human resources management policy. Infiltration: The spread of an idea or principle in a society. Another strategy Accommodation: when one party adapts to the ethic of the other. Collaboration & problem-solving: focus is on uncovering problems in the ethical relationship and solving those problems to mutual satisfaction.

9. International marketers must be aware of cultural differences when conducting international business must be able to adapt business strategies to cultural requirements of the country.

Questions:

- 1) What is the role of MNCs in the production of gender identities at global level?
- 2) How would you go about establishing a global business in a multi-cultural country, such as South Africa?

The political environment

Checks can be made on the legal/political system as to its ideology, nationalism, stability and international relations.

Ideology: A country's ideological leaning may be capitalism, socialism, a mixture or other form. In the last years remarkable changes have been taking place in the ideologies of many countries. The most dramatic example has been the collapse of the communist USSR and Eastern Europe and its replacement with market led policies and ideologies. Similarly, many African countries are abandoning their centrist leanings in favour of market led economies, for example, Zimbabwe and Tanzania.

Nationalism: Much was said about nationalism in the previous section. Whilst, primarily a phenomenon of the developing countries, Yugoslavia has shown it is not entirely so. Nationalism can lead to expropriation of foreign held assets.

Stability: Changes in regime, violence and cultural divisions based on language or other factors can lead to a very uncertain environment in which to conduct business. The current uncertainty in Liberia and Rwanda, the violence of Somalia and Yugoslavia increase the risk and diminish the confidence of doing business in these countries.

International relations: In general international relations have improved over the last twenty years. The development of GATT, NATO and the EU has gone a long way to reduce the element of "foreignness".

Expropriation

Expropriation is an extreme form of political action. It may occur for a number of reasons, including the desire to retain national assets, as a "hostage" situation in international disputes, for example the seizure of Union Carbide's assets after the Bhopal disaster in India. Other government activity, which affects capital investment includes joint venturing insistence and repatriation of funds. "Partnering" remains widespread (inward investment in tandem with a domestic company) as does restrictions on repatriation of funds. In Zimbabwe, for example, HJ Heinz, the multinational food agent, has entered into partnership with Olivine industries. Over time, even if initially the investment is not favourable, the Government may relax its conditions as it sees the benefits.

If expropriation is a real possibility then the investor should seek to minimize risk by:

- i) relatively rapid depreciation of assets and repatriation of funds by manipulated transfer prices
- ii) establish a local supply infrastructure so that any adverse action damages the host economy

- iii) raise as much investment capital in the country as possible
- iv) retain control of critical inputs and minimise local stocks of these.

However these measures may increase the risk of expropriation or reduce the potential success of the venture.

Incentives

Many countries try to reduce perceived risk by promoting inward investment through the provision of tax breaks, free ports, enterprise zones etc., which are not tied as in partnering. The key is to look at what the disadvantages are. If the government mainly wishes to attract the mobile investor, or overcome say poor local skills, one has to assess what would happen if the scheme was withdrawn once the capital had been committed. Similarly if viability depends on incentives rather than real return on investment, the question is, is the venture really worth it?

Assessing political vulnerability

Political vulnerability should be assessed by using a systematic checklist. Such a checklist should include the following:

- The firm's own country's relations with other countries
- Sensitivity of the product or industry
- Size and location of operation - the bigger the more vulnerable
- Visibility of firm - is it high profile say via advertising?
- Host country's political situation
- Company behaviour - is it a good corporate citizen?
- Contribution to host country, for example, employment
- Localisation of operations
- Subsidiary dependence.

Depending on the answers to these checkpoints, the amount of risk, real or perceived, can be assessed and fed into the investment discussion.

Marketing implications

Political factors give rise to a number of marketing implications. These include the following:

- Is the product ever subject to political debate regarding, say, adequacy of supply, for example, oil?
- Is the product a critical input for other industries, for example, cement?
- Is the product socially or politically sensitive, for example, food?
- Is the product of national defence significance?
- Is the product taking a disproportional amount of capital repayment?
- Is the product leading to the locus of control being held outside of the host country?

Again, the answers to these questions will enable the marketer to assess the degree to which the product being marketed has to be priced and resourced, so as to either avoid or reduce the risk of expropriation or other political reactions.

The legal environment

As indicated in the introduction to this section, the international legal framework is somewhat confused. Most controls or regulations revolve around export and import controls, transfer pricing, taxes, regulation of corrupt practices, embargoed nations, antitrust, expropriation and distribution of equity, patents and trademarks. The following touches on a number of these issues and in particular the import/export regulations (terms of access).

International law

To many, the supreme body is the International Court of Justice, situated in The Hague, Holland. Here a number of international disputes may be taken for ultimate adjudication. However, a series of other bodies and legislation exists.

- a) FCN (Friendship, Commerce and Navigation) and Tax Treaties primarily US based and concerned with giving protection of trading rights and avoiding double taxation.
- b) IMF and GATT already discussed in the previous section and concerned with member nations international trade restrictions and dumping.
- c) UNCITRAL (UN) international trade law commission set up with the intent to provide a uniform commercial code for the whole world, particularly international sales and payments, commercial arbitration and shipping legislation. Works with international chambers of commerce and Governments.

d) ISO (International Standards Organisation) often works with ILO, WHO etc. and contains technical committees working on uniform standards.

e) Patents and trademarks there is no such thing as international patent. The most important patent agreement is the International Convention for the Protection of Industrial Property, first signed in 1883 and now honoured by 45 countries. The treaty provides that if a filee files in a signatory country within one year of the first filing, the filee will be afforded the date of the first filing for priority purposes.

A patent cooperation treaty (PCT) and a European Patent Convention are also in effect. The PCT has 39 countries including the USA, Japan and Brazil. The EU convention covers 15 countries and gives patent protection in all 15 if signified in one.

f) Air transport is covered mainly by IATA (International Air Transport Authority), ICAA (International Civil Aviation Authority) and ITU (International Telecommunication Company).

g) Codes of conduct, like those in the OECF, are not technical law but important. Member countries produce guidelines for multinational enterprises covering aspects of general policy, disclosure of information, competition, financing, taxation, employment and industrial relations.

h) Recourse arbitration is an attempt to reduce disputes by consultation. Some of the most widely used are the International Chamber of Commerce, the American Arbitration Association, the London Court of Arbitration and the Liverpool Cotton Exchange.

Marketing implications

The implications of international law on marketing operations are legion. The principle ones are as follows:

- Product decisions - physical, chemical, safety, performance, packaging, labelling, warranty
- Pricing decisions - price controls, resale price maintenance, price freezes, value added systems and taxation
- Distribution - contracts for agents and distribution, physical distribution, insurance
- Promotion - advertising codes of practice, product restriction, sales promotion and,

- Market research - collection, storage and transmission of data.

Other areas affected are obviously in currency and payments but these will be dealt with in later sections.

Terms of access

One particular area where legal/political effects are felt by international marketers is in the terms of access, so the rest of this section will be given over to a discussion of these. The phrase "terms of access" refers to all the conditions that apply to the importation of goods from a foreign country. The major instruments covered by this phrase include import duties, import restrictions or quotas, foreign exchange regulations and preference arrangements.

Tariff systems

Tariff systems provide either a single rate of duty for each item applicable to all countries, or two or more rates, applicable to different countries or groups of countries. Tariffs are usually grouped into two classifications:

Single-column tariff: The single-column tariff is the simplest type of tariff and consists of a schedule of duties in which the rate applies to imports from all countries on the same basis.

Two-column tariff: Under the two-column tariff, the initial single column of duties is supplemented by a second column of "conventional" duties which show reduced rates agreed through tariff negotiations with other countries. The conventional rates, for example those agreed upon by "convention", are supplied to all countries enjoying MFN (most favoured nation) treatment within the framework of GATT. Under GATT, nations agree to apply their most favourable tariff or lowest tariff rate to all nations who are signatories to GATT, with some substantial exceptions.

Preferential tariff

A preferential tariff is a reduced tariff rate applied to imports from certain countries. GATT prohibits the use of preferential tariffs with the major exceptions of historical preference schemes, such as the British Commonwealth preferences and similar arrangements that existed before the GATT convention; preference schemes that are part of a formal economic integration treaty, such as free-trade areas or common markets; and the granting of preferential access to industrial country markets to companies based in less-developed countries.

Types of duty

Customs duties are of two different types. They are calculated either as a specific amount per unit or specific duty, or as a percentage of the value of the goods or ad valorem, or as a combination of both of these methods.

Ad valorem duties: This duty is expressed as a percentage of the value of goods. The definition of customs value varies from country to country. Therefore an exporter is well advised to secure information about the valuation practices applied to his product in the country of destination. A uniform basis for the valuation of goods for customs purposes was elaborated by the Customs Cooperation Council in Brussels and was adopted in 1953. In countries adhering to the Brussels convention on customs valuation, the customs value is landed CIF cost at the port of entry. This cost should reflect the arm's-length price of the goods at the time the duty becomes payable. Major trading nations that are not members of the Brussels convention on customs valuation are the USA and Canada, which use FOB costs as the basis of valuation, and Japan, which uses CIF value.

Specific duties: These duties are expressed as a specific amount of currency per unit of weight, volume, length or number of other units of measurements; for example, fifty US cents per pound, one dollar per pair, twenty-five cents per square yard. Specific duties are usually expressed in the currency of the importing country, but there are exceptions, particularly in countries that have experienced sustained inflation. In the Chilean tariff, rates are given in gold pesos and, therefore, must be multiplied by an established conversion factor to obtain the corresponding amount of escudos.

Alternative duties: In this case both ad valorem and specific duties are set out in the custom tariff for a given product. Normally, the applicable rate is the one that yields the higher amount of duty, although there are cases where the lower is specified.

Compound or mixed duties: These duties provide for specific plus ad valorem rates to be levied on the same articles.

Anti-dumping duties: The term dumping refers to the sale of a product at a price lower than that normally charged in a domestic market or country of origin. To offset the impact of dumping, most countries have introduced legislation providing for the imposition of antidumping duties if injury is caused to domestic producers. Such duties take the form of special additional import charges designed to cover the difference between the export price and the "normal" price, which usually

refers to the price paid by consumers in the exporting countries. Anti-dumping duties are almost invariably applied to articles that are produced in the importing country.

Other import charges

Variable import levies: Several countries, including Sweden and the European Union, apply a system of variable import levies to their imports of various agricultural products. The objective of these levies is to raise the price of imported products to the domestic price level.

Temporary import surcharges: Temporary surcharges have been introduced from time to time by certain countries, such as the UK and the USA, to provide additional protection for local industry and, in particular, in response to balance of payments deficits.

Compensatory import taxes: In theory these taxes correspond with various international taxes, such as value-added taxes and sales taxes. Such "border tax adjustments" must not, according to GATT, amount to additional protection for domestic producers or to a subsidy for exports. In practice, one of the major tax inequities today is the fact that manufacturers in value-added tax (VAT) countries do not pay a value added tax on sales to non-VAT countries such as the USA while USA manufacturers who pay income taxes in the USA must also pay VAT taxes on sales in VAT countries. For example, EU imposition of a tax on imported horticultural products.

Adaptation to meet local requirements: The impact of adaptation to conform to local safety and other requirements can be crippling. For example, a Jaguar car made in the UK and sold in Japan would be three times its UK value. An alternative approach to the Japanese market would be to begin with the Japanese customer to identify the customer's wants and needs and to design a product for that market or to adapt the design to a world design that would fit the needs and wants in both the domestic and the Japanese markets. The implementation of such a program would involve major marketing investments by the Jaguar Motor Company in establishing distribution, advertising and promotion, training and developing organisations to market the car in Japan. It would also involve significant expenditures in designing the car to appeal to the needs of the Japanese customer.

Technological environment:

The increasing computing and processing capabilities of personal computers is enhancing the efficiency and effectiveness of businesses. Advances in information technology has made it

possible to plan truly global supply chains, in which manufacturing and warehousing are distributed throughout the world depending on where these activities can be performed best.

Companies will be able to make better products at lower cost, and will be able to distribute them economically when supply chains become global. An economy's ability to generate wealth will be largely dependent on the speed and effectiveness with which they invent and adopt machines that improve their productivity.

Technologies for nations:

Economies will need to excel in both basic and applied research. Basic research attempts to expand the frontiers of knowledge but is not aimed at a specific problem. Economies which are well off should concentrate more on basic research because they can remain ahead of other economies only by creating new businesses through inventing new technologies by basic research.

Developed economies should be ready to relinquish businesses they are currently excelling in, because other economies will catch up with them and the developed economies will not be able to charge premium prices for their products and services.

America had to relinquish manufacturing as other nations were able to manufacture high quality products at lesser prices. It should be ready to relinquish services now as other economies are becoming more proficient at providing services. Less developed economies should focus more on applied research and develop better products and services with existing technologies.

Technologies for products and services:

New products and services are possible because of new technologies. These help to increase revenues and profits of companies. At different times in history, technologies have created new businesses like automobiles, railways, telephones, computers, etc. Currently we are seeing new products and services being developed by emerging technologies like internet, mobile connectivity, nanotechnology, genetic engineering, etc. These technologies are likely to fuel growth in the near future.

Technologies for business models:

Companies also use new technologies to do business differently and more effectively. Dell is able to sell its product directly to business customers because Internet enables it to be in contact with its

customers without incurring much expense. It gleans valuable information about its customers from the interactions it has with them. Dell uses this information to segment its market further and then focuses its attention on the most profitable customers.

Thus by using the Internet, Dell is able to earn greater profits by serving only the most profitable customers. There are companies in fragrance and other businesses which have equipped their customers with design tools. The customers design their own products and services, and the companies manufacture them.

Through such tools, these companies are able to lock their customers in long term relationships. Some other companies have used the power of Internet to create virtual design teams. The members of the team are experts in different technologies and they are stationed in different locations.

The team members interact through the new tools of information technology, like e-mail, chat rooms, video conferencing, etc. It has been found that these virtual teams are able to design better products because the best people can be put on these teams without constraints of location and lot of interpersonal conflicts of real teams are avoided in virtual teams. There are many other ways in which technologies like Internet are impacting businesses. Therefore when evaluating new technologies, companies should ask two questions – what new products and services can be produced by using these technologies, and how the technologies can be used to run businesses better?

UNIT-2

DIRECT AND INDIRECT EXPORTING:

Direct Exporting	Indirect Exporting
1. Meaning: Export marketing is undertaken directly by the manufacturer.	The manufacturer exporter exports the goods through intermediaries.
2. First Hand information: The manufacturer exporter can get first hand information on the importer's requirement.	The manufacturer exporter may not get first hand information as he has to depend on intermediaries.
3. Control:	

<p>The exporter can exercise direct control over packaging, pricing, promotion, after sale service, etc.</p>	<p>The manufacturer may not be able to exercise direct control over packaging, pricing, promotion, etc.</p>
<p>4. Reputation:</p> <p>The direct exporter can earn goodwill in international markets.</p>	<p>The manufacturer may not earn reputation in overseas markets. The intermediaries gets the reputation.</p>
<p>5. Risks:</p> <p>There are more risks as the exporter has to assume production and marketing risks.</p>	<p>The risks involved are less as the manufacturer has to bear only the manufacturing risks.</p>
<p>6. Investment:</p> <p>It requires more investment for manufacturing as well as for distribution network.</p>	<p>The manufacturer requires less investment as he has to look after only the manufacturing aspects.</p>
<p>7. Incentives:</p> <p>The direct exporter can claim a number of incentives such as income tax benefits, duty drawback, special licences etc.</p>	<p>The manufacturer may not be able to claim various incentives unless the export documents are in his name.</p>
<p>8. Overheads:</p> <p>The manufacturer/exporter has to bear production and distribution overheads.</p>	<p>The manufacturer has .to bear only production overheads.</p>
<p>9. Specialisation:</p> <p>It requires concentration on both marketing and production aspects and as such lacks specialisation.</p>	<p>In indirect marketing, the manufacturer can specialise in manufacturing aspects.</p>
<p>10. Suitability:</p> <p>It is more suitable and feasible for large-scale exporters.</p>	<p>It is more suitable and feasible for small scale exporters.</p>

The Foreign Manufacturing Strategies with Direct Investment!

According to the International Monetary Fund's Balance of Payments Manual, "FDI is an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise". Foreign direct investments (FDI) in wholly owned manufacturing subsidiaries are considered by global firms for many reasons. It is done for acquiring raw materials, operate at lower manufacturing cost, for avoiding tariff barriers and satisfy local content requirements, and for penetrating the local market.

Manufacturing of FDI is very beneficial for market penetration. It helps in local production means price escalation caused by transport costs, local turnover cost custom duty fee can be either nullified or can be reduced. Generally the resellers are being assured for the availability of the product, minimizing the channel conflicts, eliminating delays for ultimate buyers. Location of the production may help the country which may lead to more uniform quality.

There are several problems or demerits to FDI in manufacturing, among which the main is the risk exposure that comes with the resource commitment on the scale usually needed. Joint ventures are also not free from this type of commitment and risks since most agreements stipulate heavy costs for one partner's withdrawal. There is potential problem in overseas manufacturing when country – of – origin effects are strong.

Companies entering foreign markets have to decide on more than the most suitable entry strategy. They also need to arrange ownership either as a wholly owned subsidiary in a joint venture or more recently in strategic alliance.

Foreign manufacturing strategies with direct investment include:

1. Joint Ventures
2. Strategic Alliances,
3. Merger,
4. Acquisition,
5. Wholly-Owned Subsidiary,
6. Assembly Operations, and

7. Integrated Local Manufacturing.

1. Joint Ventures:

A joint venture is any kind of cooperative arrangement between two or more independent companies which leads to the establishment of a third entity organisationally separate from the “parent” companies.

Whilst two companies contributing complementary expertise might be a significant feature of other entry methods, such as licensing, the difference with joint ventures is that each company takes an equity stake in the newly formed firm. The stake taken by one company might be as low as 10 per cent but this still gives them a voice in the management of the joint venture.

A joint venture may be the only way to enter a country or region if government contract negotiation practices routinely favour local companies or if laws prohibit foreign control but permit joint ventures. Besides operating to reduce political and economic risk, joint ventures provide a less risky way to enter markets with regards to legal and cultural issues than would be the case in an acquisition of an existing company. The strategic goals of a joint venture are focused on the creation and exploitation of synergies as well as the transfer of technologies and skills. The equity share of the international company can range between 10% and 90% but is generally 25-75%.

Joint venture is a very important foreign market entry and growth strategy employed by Indian firms. It is an important route taken by pharmaceutical firms like Ranbaxy, Lupin and Reddy's, etc. In several cases joint ventures, as in the case of foreign subsidiaries, help Indian firms stabilize and consolidate their domestic business, besides the expansion of the foreign business. Esser Gujarat's joint ventures in countries like Indonesia and Bangladesh to manufacture Cold Rolled (CR) steel have resulted from a strategy to create an assured market for its Hot Rolled (HR) coil mother plant at Hazira (HR coils are inputs for manufacturing CR steel products).

Essel Packaging has taken the joint venture route to expand its business abroad. The joint ventures abroad convert the laminate into tubes to be marketed in foreign markets. The centralization of the laminates production in India enables the company to reap enormous economies of scale.

The high cost of transportation of tubes over laminates makes the conversion at laminates into tubes in the foreign markets more profitable. Further, the establishment of tube production facilities in foreign markets helps to preempt competition.

The liberalization of policy towards foreign investment by Indian firms along with the new economic environment seems to have given joint ventures a boost. Not only the number of joint ventures is increasing, but also the number of countries and industries in the map of Indian joint ventures is expanding. Further liberalization, like enhancement of the investment limit of automatic clearance, is needed for a fast expansion of the Indian investment abroad.

Characteristics of Joint Venture:

- 1) **Critical Driving Forces:** There should be compelling forces which push the alliance together. Without these forces, there is no true reason for the alliance.
- 2) **Strategic Synergy:** There should be complementary strengths – strategic synergy – in the potential partner. To be successful, the two or more participants must have greater strength when combined than they would independently. Mathematically stated; “ $1 + 1 > 3$ ” must be the rule; if not, walk away.
- 3) **Great Chemistry:** There should be co-operative efficiencies with the other company. There should be a co-operative spirit. There must be a high level of trust so that executives can work through difficulties that will arise. Don't “sell” your company's “beauty”, it must be desired by the prospective partner, not sold.
- 4) **Win-Win:** All members of the Alliance must see that the structure, operations, risks and rewards are fairly apportioned among the members. Fair apportionment prevents internal dissension that can corrode and eventually destroy the venture.
- 5) **Operational Integration:** Beyond a good strategic fit, there must be careful co-ordination at the operational level where actual implementation of plans and projects occurs.
- 6) **Growth Opportunity:** There should be an excellent opportunity to place the company in a leadership position – to sell a new product or service, to secure access to technology or raw material. The partner should be uniquely positioned with the “know-how” and reputation to take advantage of that opportunity.

7) Sharp Focus: There is a strong correlation between success of a venture and clear overall purpose – specific, concrete objectives, goals, timetables, lines of responsibility and measurable results.

8) Commitment and Support: Unless top and middle management are highly committed to the success of the venture, there is little chance of success

Reasons for Joint Ventures:

1) Cost Savings:

A common rationale is the objective of saving costs by- achieving synergy benefits through rationalization of employment or other fixed costs or by sharing with a joint venture partner or partners the costs of Research and Development (R&D) or capital investment programmes (a particular feature given the magnitude of investment costs involved in many industries such as electronics, defense, pharmaceuticals, telecommunications and aero engines).

2) Risk Sharing:

A similar rationale behind many ventures is the wish to share with another party or parties the significant financial risks which may be involved in undertaking a speculative or capital intensive project. Projects of considerable size, such as power stations and other natural resource or infrastructure projects, are frequently undertaken as joint venture projects.

3) Access to Technology:

Joint ventures may provide a route for a party to gain access to and learn from, a co-venture's technology and skills and thus accelerate entry into a particular technology or market. Joint ventures are common in industries where technology plays a key role and where that technology is rapidly changing. Technical skills and experience often comprise “organizationally embedded knowledge” where the resource is inherently tied to the organization and cannot be easily extricated. In these cases, integration of the two organizational structures through a joint venture is necessary for the parties to gain effective access to their respective technical experience.

4) Expansion of Customer Base:

International joint ventures can provide the most effective route for a party to expand the scope of its customer base by utilizing a co-venture's strength in different geographic markets or by buying into a co-venture's distribution or sales network.

5) Entry into Emerging Economies:

Joint ventures may also provide the best and sometimes only realistic, route for gaining entry to new emerging markets in areas such as Eastern Europe or Asia where access to local knowledge, contacts or sponsorship is often a practical necessity.

6) Entry into New Technical Markets:

The rapid pace of technological change is itself producing new markets. Effective entry into those markets can often be accelerated by participation with another company which already has a technical start in that field or provides complementary skills; a "go-it-alone" strategy may simply take too long or cost too much.

7) Pressures of Global Competition:

On an international scale, the merger of similar businesses between two or more participants may be desirable in order to establish the economies of scale, global customer reach, purchasing power or capital investment resources necessary to meet the strength of international competition.

8) Leveraged Joint Venture:

Joining forces with a financial partner can be a method of financing an acquisition which would not otherwise be affordable – or, sometimes, structuring an acquisition in a way which can avoid consolidation of the acquired business as a subsidiary for balance sheet purposes.

9) Creeping Sale or Acquisition:

A joint venture may be first step in an eventual full disposal or acquisition of a business – with a further tranche of the disposal or acquisition being contemplated, but perhaps not specified, for a later time.

10) Catalyst for Change:

Sometimes there is a less obvious reason – perhaps simply a wish, by bringing in a partner, to create a catalyst for change or to stimulate more entrepreneurial activity in a particular area of a party's business.

Advantages of Joint Ventures:

- 1) Joint ventures provide large capital funds. Joint ventures are suitable for major projects.
- 2) Joint ventures spread the risk between or among partners.
- 3) Different parties to the joint venture bring different kinds of skills like technical skills, technology, human skills, expertise, marketing skills or marketing networks.
- 4) Joint ventures make large projects and turn key projects feasible and possible.
- 5) Joint ventures provide synergy due to combined efforts of varied parties
- 6) They have more direct participation in the local market and thus gain a better understanding of how it works
- 7) Companies entering joint ventures are able to exert greater control over the operation of the joint venture.

Disadvantages of Joint Ventures:

- 1) Joint ventures are also potential for conflicts. They result in disputes between or among parties due to varied interests. For example, the interest of a host country's company in developing countries would be to get the technology from its partner while the interest of a partner of an advanced country would be to get the marketing expertise from the host country's company.
- 2) The partners delay the decision-making once the dispute arises. Then the operations become unresponsive and inefficient.

- 3) Decision-making is normally slowed down in joint ventures due to the involvement of a number of parties.
- 4) Scope for collapse of a joint venture is more due to entry of competitors, changes in the business environment in the two countries, changes in the partners' strengths etc.
- 5) Life cycle of a joint venture is hindered by many causes of collapse.
- 6) The other disadvantages of this form of market entry compared to, e.g., licensing or the use of agents is that a substantial commitment of investment of capital and management resources must be made in order to ensure success. Many companies would argue that the demands on management time might be even greater for a joint venture than for a directly owned subsidiary because of the need to educate, negotiate and agree with the partner many of the operational details of the joint venture.

2. Strategic Alliances:

Whilst all market entry methods essentially involve alliances of some kind, during the 1980s the term strategic alliance started to be used, without being precisely defined, to cover a variety of contractual arrangements which are intended to be strategically beneficial to both parties but cannot be defined as clearly as licensing or joint ventures. Bronder and Pritzl have defined strategic alliances in terms of at least two companies combining value chain activities for the purpose of competitive advantage.

A Strategic International Alliance (SIA) is a business relationship established by two or more companies to co-operate out of mutual need and to share risk in achieving a common objective. Strategic alliances grew in importance over the last few decades as a competitive strategy in global marketing management.

SIAs are sought as a way to shore up weaknesses and increase competitive strengths. Opportunities for rapid expansion into new markets, access to new technology, more efficient production and marketing costs, strategic competitive moves and access to additional sources of capital are motives for engaging in strategic international alliances. Finally, there is some evidence that SIAs often contribute nicely to profits.

Strategic alliance is also sometimes used as a market entry strategy. For example, a firm may enter a foreign market by forming an alliance with a firm in the foreign market for marketing or

distributing the former's products. For example, Tata Tea had entered in to a strategic alliance with Tetley for marketing tea abroad. Later, Tetley was acquired by Tata Tea.

Types of Strategic Alliances:

1) Technology-based Alliances:

Many alliances are focused on technology and the sharing of research and development expertise and findings. The most commonly cited reasons for entering these technology-based alliances are access to markets, exploitation of complementary technology, and a need to reduce the time it takes to bring an innovation to market.

2) Production-based Alliances:

A large number of production-based alliances have been formed, particularly in the automobile industry. These alliances fall into two groups:

- i) There is the search for efficiency through component linkages that may include engines or other key components of a car.
- ii) Companies have begun to share entire car models, either by developing them together or by producing them jointly.

3) Distribution-based Alliances:

Alliances with a special emphasis on distribution are becoming increasingly common. General Mills, a U.S.-based company marketing breakfast cereals, had long been number two in the United States, with some 27 per cent market share, compared to Kellogg's 40 to 45 per cent share. With no effective position outside the United States, the company entered into a global alliance with Nestle of Switzerland.

Forming Cereal Partners Worldwide (CPW), owned equally by the two companies, General Mills gained access to the local distribution and marketing skills of Nestle in Europe, the Far East, and Latin America. In return, General Mills provided product technology and the experience it had acquired competing against Kellogg's. CPW was formed as a full business unit with responsibility for the entire world except the United States. In 2004, CPY reached sales of \$1 billion and a market share outside the United States of 25 per cent.

Advantages of Strategic Alliances:

The advantages or merits or strategic alliance are as follows:

1) Spread and Reduce Costs:

To produce or sell abroad, a company must incur certain fixed costs. At a small volume of business, it may be cheaper for it to contract the work to a specialist rather than handle it internally. A specialist can spread the fixed costs to more than one company. If business increases enough, the contracting company then may be able to handle the business more cheaply itself. Companies should periodically reappraise the question of internal versus external handling of their operations.

2) Specialize in Competencies:

The resource-based view of the firm holds that each company has a unique combination of competencies. A company may seek to improve its performance by concentrating on those activities that best fit its competencies and by depending on other firms to supply it with products, services, or support activities for which it has lesser competency. Large, diversified companies are constantly realigning their product lines to focus on their major strengths. This realigning may leave them with products, assets, or technologies that they do not wish to exploit themselves but that may be profitably transferred to other companies.

3) Avoid or Counter Competition:

Sometimes markets are not large enough, to hold many competitors. Companies may then band together so that they do not have to compete with one another.

4) Secure Vertical and Horizontal Links:

There are potential cost savings and supply assurances from vertical integration. However, companies may lack the competence or resources needed to own and manage the full value-chain of activities. Horizontal links may provide finished products or components. For finished products, there may be economies of scope in distribution, e.g., sales reps may be able to offer a full line of products, thereby increasing the sales per fixed cost for a visit to potential customers.

5) Gain Location-Specific Assets:

Cultural, political, competitive, and economic differences among countries create barriers for companies that want to operate abroad. When they feel ill-equipped to handle these differences, such companies may seek to collaborate with local companies that will help manage local operations.

6) Overcome Governmental Constraints:

Many countries limit foreign ownership. For example, the United States limits foreign ownership in airlines that service the domestic market and in sensitive defence manufacturers. Mexico limits foreign ownership in the oil industry. China and India are particularly restrictive, often requiring foreign companies either to share ownership or make numerous concessions to help them meet their economic and sovereignty goals. Thus, companies may have to collaborate if they are to serve certain foreign markets.

7) Diversify Geographically:

By operating in a variety of countries (geographic diversification), a company can smooth its sales and earnings because business cycles occur at different times within the different countries. Collaborative arrangements offer a faster initial means of entering multiple markets. Moreover, if product conditions favour a diversification rather than a concentration strategy, there are more compelling reasons to establish foreign collaborative arrangements.

8) Minimize Exposure in Risky Environments:

Companies worry that political or economic changes will affect the safety of assets and their earnings in their foreign operations. One way to minimize loss from foreign political occurrences is to minimize the base of assets located abroad – or to share them. A government may be less willing to move against a shared operation for fear of encountering opposition from more than one company, especially if they are from different countries and can potentially elicit support from their home governments.

Disadvantages of Strategic Alliances:

The Disadvantages or demerits of strategic alliance are as follows:

1) Adverse Selection:

One serious problem with alliances is the adverse selection of partners. Potential co-operative partners can misrepresent the skills, abilities, and other resources that they will bring to an alliance. The partner may promise to bring to the alliance certain resources that it either does not control or cannot acquire

2) Moral Hazard:

Partners in an alliance may possess resources and capabilities of high quality and of considerable value but fail to make them available to alliances partners. For example, a partner, in an engineering strategic alliance may agree to send only its most talented and best trained engineers to work in the alliance but then actually send less talented, poorly trained ones. These engineers may not be able to contribute a great deal to the success of the alliance, but may learn from more qualified and talented personnel sent by other partners.

3) Hold Up:

A hold up may take place even without an adverse selection. Once a strategic alliance has been formed, partners may make investments that have value only in the context of that alliance and in no other activities.

4) Access to Information:

Access to information is another drawback of strategic alliance. For collaboration to work effectively, one alliance partner (or both) may have to provide the other with information it would prefer to keep secret. It is often difficult to identify information needs ahead of time.

5) Distribution of Earnings:

This is the most serious problem between alliance partners. As the partners share risks and costs, they also share profits. This amounts to over-simplification of the issue. There are other financial considerations that can cause conflict

6) Potential Loss of Autonomy:

Loss of autonomy is another potential drawback of a strategic alliance. It was for this reason that the late Dhirubhai Ambani never countenanced the idea of an alliance. He bought technology for his PFY plant at Patalaganga from DuPont but refused their equity participation.

7) Changing Circumstances:

Changing circumstances may also affect the viability of a strategic alliance. The economic conditions that motivated the co-operative arrangement may no longer exist, or technological advances may render the alliance obsolete.

3. Merger:

Merger is an external strategy for growth of the organisation. A merger is a combination (other terms used: amalgamation, consolidation, or integration) of two or more organisations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both the organisations are dissolved, and the assets and liabilities are combined and new stock is issued. For the organisation, which acquires another, it is an acquisition. For the organisation, which is acquired, it is a merge) If both organisations dissolve their identity to create a new organisation, it is consolidation.

A merger is a combination of equals. Therefore it is usual for the Board of a merged company not to be dominated by the management of either of its predecessors. As a merger is necessarily an agreed (by the Boards) transaction, this is anyway likely as Directors are not likely to agree to a merger that would deprive too many of the Board of their jobs.

A merger is not likely to involve a payment of significant premiums to the shareholder of either predecessor company. This makes it less likely to destroy shareholder value. Like acquisitions, the synergies that provide the usual rationale for a merger may not actually happen, and integration is almost always difficult and costly.

Some mergers appear to be an attempt by Directors to scale-up sufficiently to deter acquisitions. Mergers often require clearance from competition regulators. In some case they are blocked, or only allowed subject to conditions (such as the sale of particular businesses).

Foreign investment by Indian companies was very limited until recently. The attractiveness of the domestic market, lack of global orientation, government regulations, etc., were responsible for this. Recently, however, there has been a substantial increase in foreign investments by the Indian

companies. Foreign investments may be for establishing wholly-owned subsidiaries, joint ventures, assembly facilities or marketing infrastructure. Foreign investments are also caused by cross-border Mergers and Acquisitions (M&As).

Mergers and Acquisitions (M&As) are very important market entry as well as growth strategy. M&As have certain advantages. It may be used to acquire new technology. M&As would have the effect of eliminating/reducing competition. One great advantage of M&As in some cases is that it provides instant access to markets and distribution network. As one of the most difficult areas in international marketing is the distribution, this is sometimes the most important objective of M&As.

A number of Indian companies have resorted to acquisition of companies abroad to gain a foothold in the foreign market and to increase the overseas business. For example, companies like Asian Paints and Essel Propack (earlier Essel Packaging) entered some of the foreign markets and substantially expanded their global business by acquisitions. M&As is a very important globalization strategy of a number of Indian companies.

Reasons for Merger:

A number of mergers, takeovers and consolidation have taken place in the recent times. The major reason cited, for such mergers, is the liberalization of economy. Liberalization is forcing companies to enter new business, exit from others, and consolidate in some simultaneously.

The following are the other important reasons for mergers:

1) Economies of Scale:

An amalgamation company will have more reasons at its command than the individual companies. This will help in increasing the scale of operations and the economies of large scale will be available. These economies will occur because of more intensive utilization of production facilities, distribution network, research and development facilities, etc. These economies will be available in horizontal mergers where scope of more intensive use of resources is greater.

2) Operating Economies:

A number of operating economies will be availed with the merger of two or more companies. Duplicating facilities in accounting, purchasing, marketing, etc., will be eliminated. Operating

inefficiencies of small concerns will be controlled by the superior management emerging from the amalgamation. The amalgamated company will be in a better position to operate than the amalgamating companies individually.

3) Synergy:

Synergy refers to the greater combined value of merged firms than the sum of the values of individual units. It is something like one plus one more than two. It results from benefits other than those related to economies of scale. Operating economies are one of the various synergy benefits of merger or consolidation. The other instances which may result into synergy benefits includes, strong R&D facilities of one firm merged with better organised facilities of another unit, enhanced managerial capabilities, the substantial financial resources of one being combined with profitable investment opportunities of the other.

4) Growth:

A company may not grow rapidly through internal expansion. Merger or amalgamation enables satisfactory and balanced growth of a company. It can cross many stages of growth at one time through amalgamation. Growth through merger or amalgamation is also cheaper and less risky. A number of costs and risk of expansion and taking on a new product line are avoided by the acquisition of a going concern. By acquiring other companies a desired level of growth can be maintained by an enterprise.

5) Diversification:

Two or more companies operating in different lines can diversify their activities through amalgamation. Since different companies are already dealing in their respective lines there will be less risk in diversification. When a company tries to enter new lines of activities then it may face a number of problems in production, marketing, etc., where some concerns are already operating in different lines, they must have crossed many obstacles and difficulties. Amalgamation will bring together the experience of different persons in various activities. So amalgamation will be the best way of diversification.

6) Utilization of Tax Shield:

When a company with accumulated losses merges with a profit making company it is able to utilize tax shields. A company having losses will not be able to set-off losses against future profits,

because it is not a profit making unit. On the other hand if it merges with a concern making profits then the accumulated losses of one unit will be set-off against the future profits of the other unit. In this way the merger or amalgamation will enable the concern to avail tax benefits.

7) Increase in Value:

One of the main reasons of merger or amalgamation is the increase in value of the merged company. The value of merged company is greater than the sum of the independent values of the merged company.

8) Elimination of Competition:

The merger or amalgamation of two or more companies will eliminate competition among them. The companies will be able to save their advertisement expenses thus enabling them to reduce their prices. The consumers will also benefit in the form of cheap goods being available to them.

9) Better Financial Planning:

The merged companies will be able to plan their resources in a better way. The collective finances of merged companies will be more and their utilization may be better than in the separate concerns. It may happen that one of the merging companies has short gestation period while the other has the longer gestation period. The profits of the company with short gestation period will be utilized to finance the other company. When the company with the longer gestation period starts eating profits then it will improve financial position as a whole.

10) Economic Necessity:

It may force the merger of some units. If there are two sick units, government may force their merger to improve their financial position and overall working. A sick unit may be required to merge with the healthy unit to insure better utilization of resources, improve and better management. Rehabilitation of sick units is a social necessity because their closure may result in unemployment, etc.

Types of Merger:

1) Horizontal Mergers:

Horizontal mergers take place when there is a combination of two or more organisations in the same business, or of organisations engaged in certain aspects of the production or marketing processes. For example, a company making footwear combines with another footwear company, or a retailer of pharmaceuticals combines with another retailer in the same business.

2) Vertical Mergers:

Vertical mergers take place when there is a combination of two or more organisations, not necessarily in the same business, which create complementary, either in terms of supply of materials (inputs) or marketing of goods and services (outputs). For example, a footwear company combines with a leather tannery or with a chain of shoe retail stores.

3) Concentric Mergers:

Concentric mergers take place when there is a combination of two or more organisations related to each other either in terms of customer functions, customer groups, or the alternative technologies used. Thus, a footwear company combining with hosiery firm making socks or another specialty footwear company, or with a leather goods company making purses, handbags, and so on.

4) Conglomerate Mergers:

Conglomerate mergers take place when there is a combination of two or more organisations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used. For example, footwear company combining with pharmaceutical firm.

5) Reverse Mergers:

Reverse merger, also known as a back door listing, or a reverse merger, is a financial transaction that results in a privately-held company becoming a publicly-held company without going the traditional route of filing a prospectus and undertaking an initial public offering (IPO).

Rather, it is accomplished by the shareholders of the private company selling all of their shares in the private company to the public company in exchange for shares of the public company.

While the transaction is technically a takeover of the private company by the public company, it is called a reverse takeover because the public company involved is typically a “shell” (also known as a “blank check company”, “capital pool company” or “cash shell company”) and it typically issues such a large number of shares to acquire the private company that the former shareholders of the private company end up controlling the public company.

Advantages of Merger:

1) Economies of Scale:

This occurs when a larger firm with increased output can reduce average costs. Different economies of scale include:

i) Technical Economies:

If the firm has significant fixed costs then the new larger firm would have lower average costs.

ii) Bulk Buying:

Discount for buying large quantities of raw materials.

iii) Financial:

Better rate of interest for large company.

iv) Organisational:

One head office rather than two is more efficient.

A vertical merger would have less potential economies of scale than a horizontal merger, e.g., a vertical merger could not benefit from technical economies of scale.

2) International Competition:

Mergers can help firms deal with the threat of multinationals and compete on an international scale.

3) Mergers May Allow Greater Investment in R&D:

This is because the new firm will have more profit. This can lead to a better quality of goods for consumers.

4) Greater Efficiency:

Redundancies can be merited if they can be employed more efficiently.

Disadvantages of Merger:

1) Integration Difficulties:

These include combining two disparate corporate cultures, linking different financial and control systems, building effective working relationships (particularly when management styles differ) and resolving issues concerning the status of the newly acquired firm's executives. An American manager, having learned that a friendly pat on the arm or back would make workers feel good, took every chance to touch his subordinates in a newly acquired firm. His Asian employees hated being touched and thus started avoiding him, and several asked for transfers.

2) Inadequate Evaluation of Target:

The failure to complete an effective due-diligence process (thorough evaluation of the target firm) often results in the acquiring firm paying an excessive premium (disproportionate to the performance gains).

3) Large Debt Burden:

Firms are often encouraged to utilize significant leverage to finance large acquisitions. The large debt burden may put the firm in a messy situation, especially when the returns are poor (e.g., India Cements acquisition of Raasi Cements, CCI, Visaka Cements in quick succession increased its debt burden to over Rs 1800 crore. It is now forced to sell all its prized acquisitions to stay in the business). It also prevents the firm from investing in Research and Development activities.

4) Inability to Achieve Synergy:

The acquisitions, often, fail to achieve intended synergy because of various reasons (managerial failures, non-cooperation from employees, skepticism, emotional doubts, etc.).

5) Too much Diversification:

Over diversification may be counter productive. The merger mania that gripped the 1980s did not yield any concrete gains to conglomerates. In fact excessive diversification forced many of these firms to divest the under performing units after some time.

6) Too Large:

Increased size has its own inherent limitations. Achieving consistency in terms of decisions and actions may be difficult. Formalized rules and policies may come in the way of flexibility and innovation.

7) Others:

i) Higher prices leading to allocative inefficiency.

ii) Lower Quantity and reduction in consumer surplus.

(iii) Monopolies are more likely to be productively inefficient and not produce on the lowest point on the average cost curve.

(iv) Easier to collude.

v) If there is less competition complacency amongst firms then it can lead to lower quality of products and less investment in new products.

vi) Fewer firm, therefore less choice for consumers.

vii) With increased supernormal profits, the firm can engage in cross subsidization or predatory pricing increasing barriers to entry.

viii) The new firm can pay lower prices to suppliers.

ix) Mergers can lead to job losses.

x) If the firm becomes too big it may suffer from diseconomies of scale.

xi) The motives for mergers are often poor, e.g., managers may prefer to work for a big company where they get higher salaries and more prestige.

4. Acquisition:

Acquisitions is acquiring or purchasing an existing venture. It is one of the easy means of expanding a business by entering new markets OT new product areas. An entrepreneur must be careful in structuring the payment so that he will not be financially overburdened. He must create a scope for phase wise payments so that the company generates funds to pay.

An acquisition strategy is based upon the assumption that companies for potential acquisition will be available, but if the choice of companies is limited, the decision may be taken on the basis of expediency rather than suitability.

The belief that acquisitions will be a time-saving alternative to waiting for organic growth to take effect may not prove to be true in practice. It can take a considerable amount of time to search and evaluate possible acquisition targets, engage in protracted negotiations and then integrate the acquired company into the existing organization structure.

The process of acquisition is a case of dominance of one company over the other. Here a bigger company will take over the shares and assets of the smaller company and either run it under the bigger company's name or might run it under a combined name.

An acquisition is a transaction in which a firm buys a controlling interest in another firm with the intention of either making it a subsidiary business or combining it with its current business or businesses. It is important to understand that for some firms, an acquisition is a "one-time only" event. For example, a firm using a differentiation business-level strategy might decide to acquire only one other company because it has truly specialized skills that the local firm requires to create unique value for its customers. It is rare, though, for a firm to complete only a single acquisition. Most firms involved with acquisitions form an acquisition strategy. An acquisition strategy is an action plan that the firm develops to successfully acquire other companies. An effective acquisition strategy enables significant firm growth.

Reasons for Acquisition:

1) Increased Market Power:

A primary reason for acquisitions is to achieve greater market power. Market power exists when a firm is able to sell its goods or services above competitive levels or when the costs of its primary or support activities are below those of its competitors. Market power usually is derived from the size

of the firm and its resources and capabilities to compete in the marketplace. It is also affected by the firm's share of the market.

Therefore, most acquisitions that are designed to achieve greater market power entail buying a competitor, a supplier, a distributor, or a business in a highly related industry to allow the exercise of a core competence and to gain competitive advantage in the acquiring firm's primary market. One goal in achieving market power is to become a market leader.

2) Overcoming Entry Barriers:

Barriers to entry are factors associated with the market or with the firms currently operating in it that increase the expense and difficulty faced by new ventures trying to enter that particular market. Facing the entry barriers created by economies of scale and differentiated products, a new entrant may find acquiring an established company to be more effective than entering the market as a competitor offering a good or service that is unfamiliar to current buyers. In fact the higher the barriers to market entry, the greater the probability that a firm will acquire an existing firm to overcome them. Although an acquisition can be expensive, it does provide the new entrant with immediate market access.

3) Cost of New Product Development and Increased Speed to Market:

Developing new products internally and successfully introducing them into the marketplace often require significant investments of a firm's resources, including time, making it difficult to quickly earn a profitable return. Also of concern to firm's managers is achieving adequate returns from the capital invested to develop and commercialize new products. Acquisitions are another means a firm can use to gain access to new products and to current products that are new to the firm. Compared with internal product development processes, acquisitions provide more predictable returns as well as faster market entry.

4) Adequate and Easy Terms Working Capital:

Acquisition not only secures the necessary working plant and equipment more quickly than building up its own, but also helps the firm by making available desired amount of working capital. It means that by making available the much needed working capital, the problems of supply of inputs and distribution of final products are solved.

5) Access to Resourceful Management:

Management or managerial competencies play important role in running the business, in expanding it either by intensification or diversion and reaching new heights. The firms which have failed need both financial and managerial resources to repair the existing loss and achieving new heights of progress and prosperity. This is possible by acquisition

6) Increased Diversification:

Acquisitions are also used to diversify firms. Based on experience and the insights resulting from it, firms typically find it easier to develop and introduce new products in markets currently served by the firm. In contrast it is difficult for companies to develop products that differ from their current lines for markets in which they lack experience.

7) Reshaping the Firm's Competitive Scope:

The intensity of competitive rivalry is an industry characteristic that affects the firm's profitability. To reduce the negative effect of an intense rivalry on their financial performance, firms may use acquisitions to lessen their dependence on one or more products or markets. Reducing a company's dependence on specific markets alters the firm's competitive scope.

8) Learning and Developing New Capabilities:

Some acquisitions are made to gain capabilities that the firm does not possess. For example, acquisitions may be used to acquire a special technological capability. Research has shown that firms can broaden their knowledge base and reduce inertia through acquisitions. Therefore, acquiring a firm with skills and capabilities that differ from its own helps the acquiring firm to gain access to new knowledge and remain agile.

Types of Acquisition:

There are four types of acquisitions:

1) Friendly Acquisition: Both the companies approve of the acquisition under friendly terms. There is no forceful acquisition and the entire process is cordial.

2) Reverse Acquisition: One way for a company to become publicly traded, by acquiring a public company and then installing its own management team and renaming the acquired company.

3) Back Flip Acquisition: A very rare case of acquisition in which, the purchasing company becomes a subsidiary of the purchased company.

4) Hostile Acquisition: Here, as the name suggests, the entire process is done by force. The smaller company is either driven to such a condition that it has no option but to say yes to the acquisition to save its skin or the bigger company just buys-off all its share, their by establishing majority and hence initiating the acquisition.

Advantages of Acquisition:

The advantages of acquisition are as follows:

1) Assets Acquisition: While acquiring the buyer has an advantage of choosing exactly which assets to acquire (e.g., liquid assets, real estate or intellectual property), as well as which liabilities it can cover (leases, bank loans, mezzanine loans and so forth).

2) Gain Experience and Assets: One of the benefits of an acquisition is that the company can quickly gain the experience, goodwill and assets of the other business. If the acquired business can complement the business the company does, the merger can improve the overall efficiency. With the increase in staff and assets, the company can increase output and improve profits.

3) Excite the Shareholders: An acquisition can breed excitement among the shareholders. When shareholders of a public company hear of an acquisition, they tend to have a positive outlook on the value of (lie company as veil as the one for sale. Taking steps toward an acquisition often leads to an increase in the stock price and the equity of their investments.

4) Combining Organisation Cultures: One of the most important advantages of acquisition is that it combines the cultures of two different organisations.

5) Reducing Costs and Overheads: A company can reduce it costs and overheads through shared marketing budgets, increased purchasing power and lower costs.

6) Accessing Funds or Valuable Assets for New Development: Better production or distribution facilities are often less expensive to acquire than build. Look for target businesses that ate only

marginally profitable and have large unused capacity which can be bought at a small premium to net asset value.

Disadvantages of Acquisition:

The disadvantages of acquisition are as follows:

1) Cost: Purchasing a larger company is expensive. The company may not have the cash available to buy the second firm, and if it does have enough cash, it will not be able to use this cash on other projects. If the company has to row money to purchase the second firm, this increases the company's total debt burden. The company can also issue stock so it can afford the purchase, although the current stockholders will lose some control and ownership rights.

2) Employee Retention: In an acquisition, the company will have employees at both firms performing similar jobs after the purchase is complete. The buyer commonly fires excess employees if it has too many workers doing the same tasks after the buyout- Because employees are concerned about a future layoff, some employees will start looking for other jobs or quit after the company announces its acquisition plan.

3) Productivity: Combining two firms depends on the culture at each firm. A company that has a hierarchical and authoritarian structure may purchase a company which is much more flexible and allows workers more control over their job tasks. Workers may not be happy with the new management and productivity may decrease, if the purchaser makes many changes to previous workplace policies.

4) Letter of Intent: In an acquisition, the acquisition letter of intent is very important. Acquisition letters of intent often include a confidentiality agreement, because the buyer can otherwise ai.cel the purchase and use the seller's trade secrets to compete against it. The letter of intent may allow the buyer to take advantage of the seller if it is not written fairly.

5) Value: Valuation of the combination is important. The seller's assets include intangible assets such as brand strength and goodwill, which the buyer pays as part of the purchase price. The business acquisition itself can destroy some of these assets. If an oil company that is responsible for

a major oil spill purchases a solar panel manufacturer, the goodwill of the solar firm may become impaired because of the buyer's negative reputation.

6) Duplication: An acquisition can lead to unnecessary duplication. When two similar companies are combined, many of the positions held in one business will be at work in the other. This leads to two people or departments doing the same job.

5. Wholly-Owned Subsidiary:

For any firm the most expensive method of market entry is likely to be the development of its own foreign subsidiary, as this requires the greatest commitment in terms of management time and resources. It can only be undertaken when demand for the market appears to be assured.

In order to have complete control and ownership of international operations, a firm opts for foreign direct investment to own foreign operations. Tata Tea which entered into a joint venture with Tetley Group, UK, in 1994 acquired Tetley in 2000 to become one of the largest integrated branded tea companies in the world.

When a subsidiary is considered to be wholly-owned, this indicates that all of the outstanding common stock that is currently issued by the company is in the hands of a single holding company. Essentially, a wholly-owned subsidiary is a business that is completely owned by another entity. The subsidiary continues to operate with the permission of the holding company, either with or without direct input from the controlling entity.

There are several reasons why a company would choose to operate a wholly-owned subsidiary, rather than simply absorbing the acquired company into the central corporate operation. One of the most common reasons is a matter of location. The wholly-owned subsidiary may physically reside in a different country from the holding company. When this is the case, there may be compelling financial and regulatory factors that make it much more financially sound to allow the company to continue more or less autonomously.

Another common reason for the operating the wholly-owned subsidiary separately from the owner company could be name value. Often, a well-known and respected corporation is acquired by another entity that has no name recognition in that particular market.

Rather than spend huge amounts of time and resources to create a reputation, the holding company will simply decide to remain in the background. This allows the wholly-owned subsidiary to

continue to enjoy the current name recognition and market share, while being able to work with the resources of the parent company to find ways to enhance that reputation.

Tata Megraw Hill is one of the most popular marketing companies of India. It is the Indian subsidiary of the McGraw-Hill Companies and also the market topper in educational books encompassing books on variety of subjects and interest. Their main activity is reprinting, publishing and marketing of McGraw-Hill books. This company was founded in 1970.

Noted among the top Indian marketing companies, Godrej aims at innovation. It deals in fast moving consumer goods and operates in India and other cities across the globe. The company provides variety in the brands like cosmetics, toiletries, hair care, fabric care, baby care, household care and many others.

The ITC is undoubtedly one among the premier marketing companies of India. The company has a market capitalization of about \$19 billion and turnover of more than \$1.5 billion. It is also rated among the world's best big companies. It specializes in hotels, agri-business, FMCG products, personal care, and branded apparel. Their business motive is to create multiple drivers from corporate strategies. They have peerless distribution reach, great supply chain management, and effective brand building.

Tata International is considered as the gateway of Tata Group's business to the world. The company was founded in the year 1962. The global business units of the company are minerals, engineering, steel, chemical and bulk commodities. This marketing company also markets consumer products and IT services. It has offices in Thailand, India, UK, Singapore and across other countries of the world.

Advantages of Wholly-Owned Manufacturing Subsidiary:

- 1) No risk of losing technical competence to a competitor thus gaining a competitive edge.
- 2) It provides tight control over operations.
- 3) It provides the ability to realize learning curve and location economies.
- 4) Protection of technology can be well executed.
- 5) It provides ability to engage in global strategic coordination,

6) It provides ability to realize location and experience economies

Disadvantages of Wholly-Owned Manufacturing Subsidiary:

- 1) Company bears full cost and risk,
- 2) An effective supervision and direction is needed which increases rigidity.
- 3) It faces several hurdles in the forms of regulations and taxations in foreign countries.
- 4) Heavier pre-decision information gathering and research evaluation.
- 5) Political risk.
- 6) Country-of-origin effects can be lost by manufacturing elsewhere.

6. Assembly Operation:

A foreign owned operation might be set up simply to assemble components which have been manufactured in the domestic market. It has the advantage of reducing the effect of tariff barriers, which are normally lower on components than on finished goods. It is also advantageous if the product is large and transport costs are high, e.g., in the case of cars.

There are other benefits for the firm too, as retaining component manufacture in the domestic plant allows development and production skills and investment to be concentrated, thus maintaining the benefit from economies of scale. By contrast, the assembly plant can be made a relatively simple activity requiring low levels of local management, engineering skills and development support.

There is an argument that assembly plants do not contribute significantly to the local economy in the long-term. In initially attracting Nissan, Honda and Toyota assembly plants, the UK government claimed that many jobs would be created at relatively low cost but critics claimed that the number of jobs created in the assembly plants was not very significant and, unless the components were made locally, little transfer of technology would be achieved and the assembly plants could relatively easily be moved to a new location.

In practice as other car manufacturers withdrew from the UK market these Japanese manufacturers became the only major established firms. Both to counter threats such as this and also: to generate further employment, countries can take steps to develop the component supply business either by

interrupting the component Supply chain through imposition of import or foreign exchange rate restrictions or, as in the case of Czech Invest, the inward investment arm of the Czech Republic, by supporting local component manufacturer who can supply 'just in time'. For the international firm, of course, using the assembly option-presents an opportunity, to move plant from country to country in order to take advantage of lower wage cost and government incentives.

A manufacturer who wants many of the advantages that are associated with overseas manufacturing facilities and yet does not want to go that far may find, it desirable to establish overseas assembly facilities in selected markets. In a sense, the establishment of an assembly operation represents a cross between exporting and overseas manufacturing.

Having assembly facilities in foreign markets is very when there are economies of scale in the manufacture of parts and components and when assembly operations are labour intensive and labour is cheap in the foreign country. It is also popular when exporting the product as Completely Built Unit (CBU) makes transportation cost very high and there is import duty differential between CBU and CKD (Completely Knocked Down) or SKD (Semi-Knocked Down) imports.

Assembling the product meant for the foreign market in the foreign market itself has certain other advantages, besides the cost advantage. Assembly operations would satisfy the 'local content' demand, atleast to some extent. Because of the employment generation, the foreign government's attitude will be more favourable than towards the import of the finished product. Another advantage is that the investment to be made in the foreign country is very small in comparison with that required for establishing complete manufacturing facilities.

The political risks of foreign investment are, therefore, not much. Facilities for servicing of the product may also be established along with the assembly facility. Some Indian auto firms have such facilities abroad. The leader in establishing manufacturing bases abroad is the Aditya Birla group. Aditya Birla, whom the Forbes called India's only international businessman, made this strategic move as early as 1970s.

The Ballapore Industries of the Thapars are setting up a giant paper mill in Indonesia at an estimated cost of? 1800 crore A plantation put up on 2, 50,000 hectares of land will feed the mill. Any surplus pulp may be exported to India to feed Thapar paper mills here. The significance of this should be viewed against the possible wood and pulp shortage in future in India.

7. Integrated Local Manufacturing:

Establishing a fully integrated local production unit is the greatest commitment a company can make for a foreign market. Building a plant involves a substantial capital outlay. Companies do so only where demand appears ensured. International companies can have any number of reasons for establishing factories in foreign countries.

These reasons are related primarily to market demand or cost considerations. Often, the main reason is to take advantage of lower costs in a country, thus providing a better basis for competing with local firms or other foreign companies already present. Also, high transportation costs and tariffs may make imported goods non-competitive.

Although most manufacturing tends to shift from developed to developing countries, Mexican firms are moving production to the United States. The DuPont Company sold three plants to Alfa, SA. Alfa is refitting the former textile plants to produce plastics used in beverage containers and frozen-food trays. Since 1994 Mexico has moved from number thirty-three to the sixth largest investor in the United States.

Establishing Local Operations to Gain or Defend Market Position:

Some companies build a plant to gain new business and customers. Local production can represent a strong commitment to a market and is often the only way to convince clients to switch suppliers. This is of particular importance in industrial markets, where service and reliability of supply are main factors in the choice of product or supplier. In some developing countries, establishing local operations may be the only way to enter a local market, although this requirement is becoming more rare with the spread of trade liberalization and the impact of the World Trade organisation.

At other times, companies establish production abroad to protect markets already built through exporting. Such markets can be threatened by protectionist government policies or by relative changes in currency exchange rates. In the late 1980s, the surge in market share of imported Japanese cars prompted the United States to threaten Japan with import quotas if it didn't place voluntary restrictions on car exports to the United States. Also, the Japanese yen had begun to appreciate against the dollar, making Japanese imports more expensive. In response to these threats, Japanese car manufacturers began to build factories in the United States to protect their market share. In 1982, Honda became the first Japanese car manufacturer to set up production in the United States. By 1993, Japanese car manufacturers produced more cars in the United States than

they exported there from Japan. Japan's major producers are Toyota, Honda, Nissan, Mitsubishi, Mazda, and Suzuki.

Following an established customer can also be a reason for setting up plants abroad. In many industries, important suppliers want to nurture a relationship by establishing new offices near customer locations. When customers move into new markets elsewhere, suppliers move, too. Deutsch Advertising, a North America advertising firm, had worked with Novartis since 2002 on the anti-fungal drug Lamisil. Now Deutsch is following Novartis into Italy, Germany, the United Kingdom, and Switzerland.

Shifting Production Abroad to Save Costs:

Firms can shift production abroad to save costs in order to be competitive in the host market. When Mercedes-Benz was looking at new opportunities in the automotive market, the company targeted the luxury sports utility vehicle segment, in the United States, its major market, the company was suffering a 30 per cent cost disadvantage against major Japanese and U.S. competitors in this segment. Despite the fact that the company had never before produced cars outside Germany, Mercedes-Benz decided to locate a new factory to produce such vehicles in the United States, where total labour, components, and shipping costs were among the lowest in the developed world.

Some products may be too costly to transport long distances, and this makes them poor candidates for export. Fresh orange juice is one such product. Brazil is currently the top producer of orange juice in the world, whereas the United States consumes 40 per cent of all orange juice. The U.S. market has a strong demand for fresh, not from-concentrate orange juice that sells for higher prices.

This fresh product is particularly costly to ship because it consists mainly of water. During the 1990s, Brazilian orange juice firms bought land to develop orange groves in Florida. By 2001, multinationals with Brazilian ties accounted for about half of Florida's orange juice industry.

Sometimes, international firms with plants in Taiwan, Malaysia, Thailand, and other foreign countries may have little intention of penetrating these markets with the help of their new factories. Instead, they locate abroad to take advantage of favourable conditions that reduce the manufacturing costs of products that are sold elsewhere. This strategy has been employed by many U.S. companies in the electronics industry and has more recently been adopted by Japanese and European firms as well.

Morinaga, Japan's leading dairy company built a new powdered-milk plant in China not so much to enter the Chinese market as to establish a low-cost base from which to capture share in other Asian markets. Such decisions of a sourcing or production nature are not necessarily tied to a company's market entry strategy but may have important implications for its global competitiveness.

Comparison of Different Modes of Entry:

Related comparison of the various entry modes has been discussed in table given below.

Mode	Advantages	Disadvantages
1) Exporting i) Indirect Exporting ii) Direct Exporting	a) Free from all sales and credit risks. b) Beneficial to new entrants in the export fields c) Economical. a) Manufacturer has complete control. b) Better good will. c) Knowledge of customer's demands.	a) Manufacturer remains ignorant of the operations. b) Availability of export merchants. c) Lack of scope for product development. a) Requires large funds. b) Inventory costs are quite high. c) It involves risk.
2) Franchising	i) Low investment and low risks. ii) Franchisee does not have to bear the risk of product failure.	i) it is difficult to control international franchising. ii) Problem of leakage of trade secrets.
3) Contract Manufacture	i) Freedom from risk in foreign countries. ii) Reduces the cost of manufacturing.	i) Quality aspects may be difficult to maintain. ii) Sometimes there may be loss of potential profits from manufacturing.
4) Management Contracts	i) Quick technology transfer. ii) Fees for management services may be	i) Host country may leak the secrets of technology.

	easier to transfer.	ii) Spoiled brand image if the quality is not maintained by the host country's company.
5) Licensing	i) Low financial risk to licensor. ii) Rapid entry into foreign markets.	i) Lack of control over manufacturing and marketing. ii) Reduction in market opportunities for both the parties.
6) Turnkey Operation	i) Host country has the opportunity to build industrial complexes and train personnel's.	i) Overall high cost. ii) Limited flexibility to incorporate change.
7) Wholly Owned Subsidiary	i) Control over operations. ii) Protection of technology. iii) Global strategic coordination.	i) Company bears full cost and risk. ii) Political risk.
8) Merger	i) Economies of Scale. ii) Discount on bulk buying.	i) Easier to collude. ii) Lower quantity and reduction in consumer surplus.
9) Acquisitions	i) It costs lower than other methods. ii) Company benefits from the skills of existing employees.	i) Change in ownership often leads to depart of employees. ii) Adjustment problems.
10) Joint Ventures	i) JVs spread the risk among partners. ii) Synergy.	i) Potencies for conflicts. ii) Delays in making decisions.

UNIT-3

INTERNATIONAL PRODUCT POSITIONING

After the global market has been segmented and one or more segments have been targeted, it is essential to plan a way to reach the target(s). To achieve this task, marketers use positioning, a

process whereby a company establishes an image for its product in the minds of consumers relative to the image of competitors' product offerings. In today's global market environment, many companies find it increasingly important to have a unified global positioning strategy.

Can global positioning work for all products? One study suggests that global positioning is most effective for product categories that approach either end of a "high-touch/high-tech" continuum. Both ends of the continuum are characterized by high levels of customer involvement and by a shared "language" among consumers.

1) High Tech Positioning:

Personal computers, video and stereo equipment, and automobiles are examples of product categories where high-tech positioning has proven effective. Such products are frequently purchased on the basis of concrete product features, although image may also be important. Buyers typically already possess or wish to acquire considerable technical information. High-tech products may be divided into three categories: technical products, special-interest products, and demonstrable products.

i) Technical Products:

Computers, chemicals, tires, and financial services are just a sample of the product categories whose buyers have specialized needs; require a great deal of product information and who share a common "language."

ii) Special-Interest Products:

While less technical and more leisure or recreation oriented, special-interest products also are characterized by a shared experience and high involvement among users. Again, the common language and symbols associated with such products can transcend language and cultural barriers. Fuji bicycles, Adidas sports equipment, and Canon cameras are examples of successful global special-interest products.

iii) Products that Demonstrate Well:

Products that "speak for themselves" in advertising of features and benefits can also travel well.

2) High-Touch Positioning:

Marketing of high-touch products requires less emphasis on specialized information and more emphasis on image. Like high-tech products, however, high touch categories are highly involving for consumers. Buyers high-touch products also share a common language and set of symbols relating to themes of wealth, materialism, and romance.

The three categories of high-touch products are:

i) Products that solve a Common Problem:

At the other end of the price spectrum from high-tech, products in this category provide benefits linked to “life’s little moments.” Ads that show friends talking over a cup of coffee in a cafe or quenching thirst with a soft drink during a day at the beach put the product at the centre of everyday life and communicate the benefit offered in a way that is understood worldwide.

ii) Global Village Products:

Channel fragrances, designer fashions, mineral water, and pizza are all examples of products whose positioning is strongly cosmopolitan in nature. Fragrances and fashions have traveled as a result of growing worldwide interest in high-quality, highly visible, high-price products that often enhance social status. However, the lower- priced food products just mentioned show that the global village category encompasses a broad price spectrum.

iii) Products that use Universal Themes:

Some advertising themes and product appeals are thought to be basic enough that they are truly transnational. Additional themes are materialism (keyed to images of well-being or status), heroism (themes include rugged individuals or self-sacrifice), play (leisure/recreation), and procreation (image of courtship and romance).

Product saturation leves in global market:

Product saturation level is one of the most essential factor in global business and marketing world. We are going to disclose the nine points of product saturation with the view of time and

custom

zones.

1.Productdesign:-

Product design is the key factor of success in global market so it is need to keep in mind that single design may not be work same in globally .It needs modification due to change of time and customs changing level in internationally.

2.ProductPreferences:-

Product preferences depend on color and taste based because same color or taste may not be suitable for another customs or nation so product must give preference on the basis of particular custom or nation(s).

3.Productcost:-

Product cost is one of the major factor of global market so when it design must keep in mind to as much as cheapest cost either in manufacturing or selling matter.

4.ProductLaw&Regulation:-

Product design does never violet the law and regulation of any nation or international any treaty between the nations.If it violets then must bear great loss in globally.

5.LocalLikeDesign:-

Product design must bear the local made sign on it because on a days nationalism growing more and more for the capturing the capitalism.

6.SelfProduceDesign:-

Self produce design means that manufacturing unit must covers the nationals where it situated.If possible more and more local employees should keeps in hand to design.

7.NonTariffBarriers:-

Non tariff barriers means the product design have to cross the boundaries of many nations so it have to obey the local government and touches countries laws and policies which they apply on your design.

8.Communication Strategic Alternatives:-

Product design must have the alternative strategic source under the on time situation basis that is the demand of time and custom(s).

9.ProductCompatibility:-

Product design last issue is compatibility with the environment in which it is used. Simply any one can say that translate all things as manual, warranty card, electricity consume, repair diagram etc must be on the basis of local custom and tradition. Another thing is that climate which can maintain the withstandhumidity.

International product life cycle:

Product life cycle theory divides the marketing of a product into four stages: introduction, growth, maturity and decline. When product life cycle is based on sales volume, introduction and growth often become one stage. For internationally available products, these three remaining stages include the effects of outsourcing and foreign production. When a product grows rapidly in a home market, it experiences saturation when low-wage countries imitate it and flood the international markets. Afterward, a product declines as new, better products or products with new features repeat the cycle.

General Theory

When a product is first introduced in a particular country, it sees rapid growth in sales volume because market demand is unsatisfied. As more people who want the product buy it, demand and sales level off. When demand has been satisfied, product sales decline to the level required for product replacement. In international markets, the product life cycle accelerates due to the presence of "follower" economies that rarely introduce new innovations but quickly imitate the successes of others. They introduce low-cost versions of the new product and precipitate a faster market saturation and decline.

Growth

An effectively marketed product meets a need in its target market. The supplier of the product has conducted market surveys and has established estimates for market size and composition. He introduces the product, and the identified need creates immediate demand that the supplier is ready

to satisfy. Competition is low. Sales volume grows rapidly. This initial stage of the product life cycle is characterized by high prices, high profits and wide promotion of the product. International followers have not had time to develop imitations. The supplier of the product may export it, even into follower economies.

Maturity

In the maturity phase of the product life cycle, demand levels off and sales volume increases at a slower rate. Imitations appear in foreign markets and export sales decline. The original supplier may reduce prices to maintain market share and support sales. Profit margins decrease, but the business remains attractive because volume is high and costs, such as those related to development and promotion, are also lower.

Decline

In the final phase of the product life cycle, sales volume decreases and many such products are eventually phased out and discontinued. The follower economies have developed imitations as good as the original product and are able to export them to the original supplier's home market, further depressing sales and prices. The original supplier can no longer produce the product competitively but can generate some return by cleaning out inventory and selling the remaining products at discontinued-items prices.

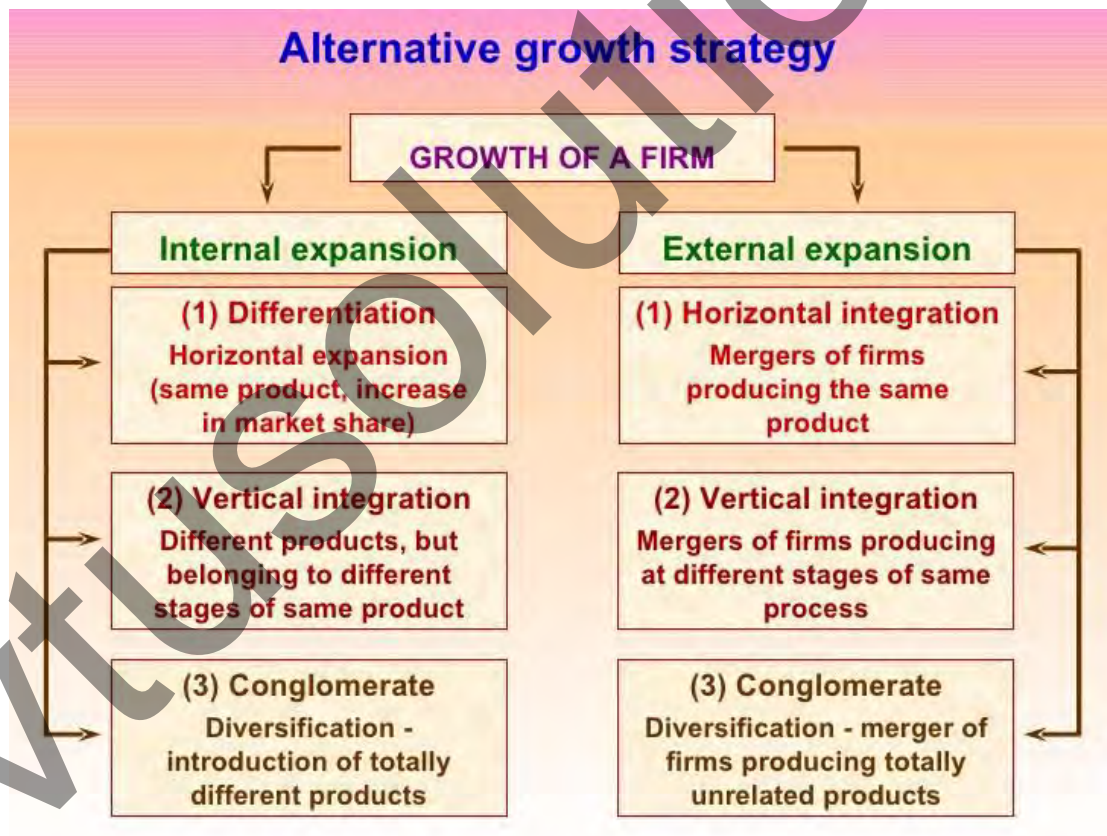


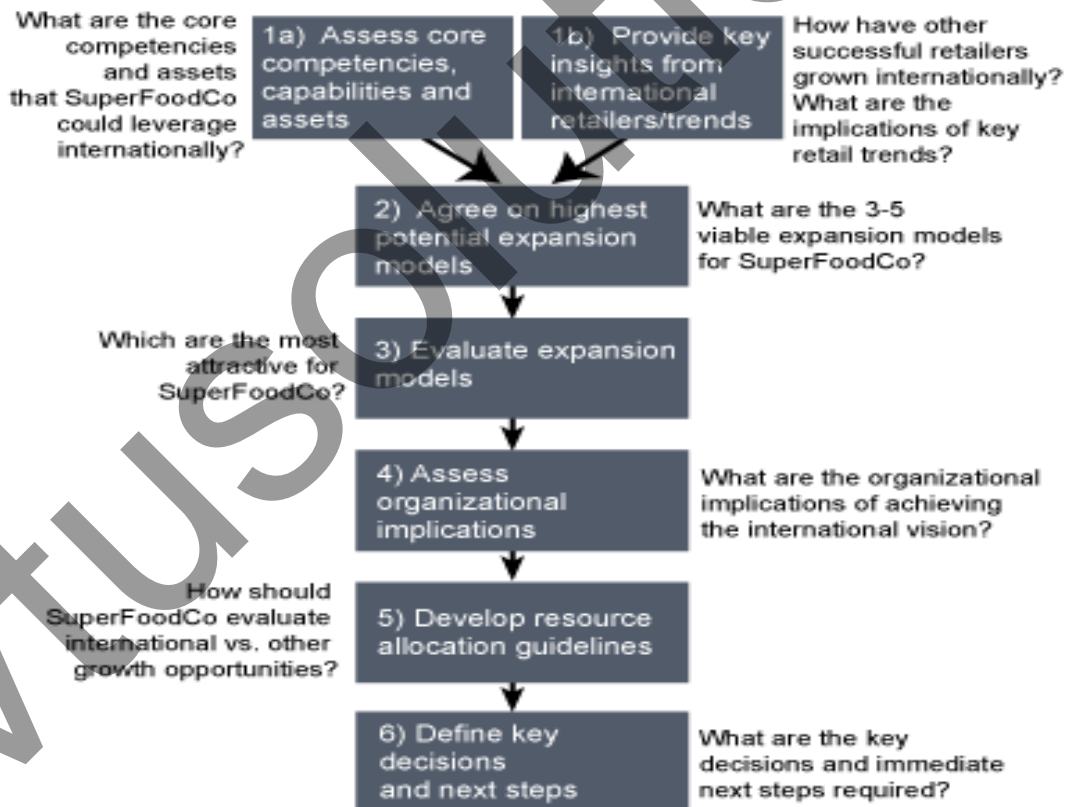
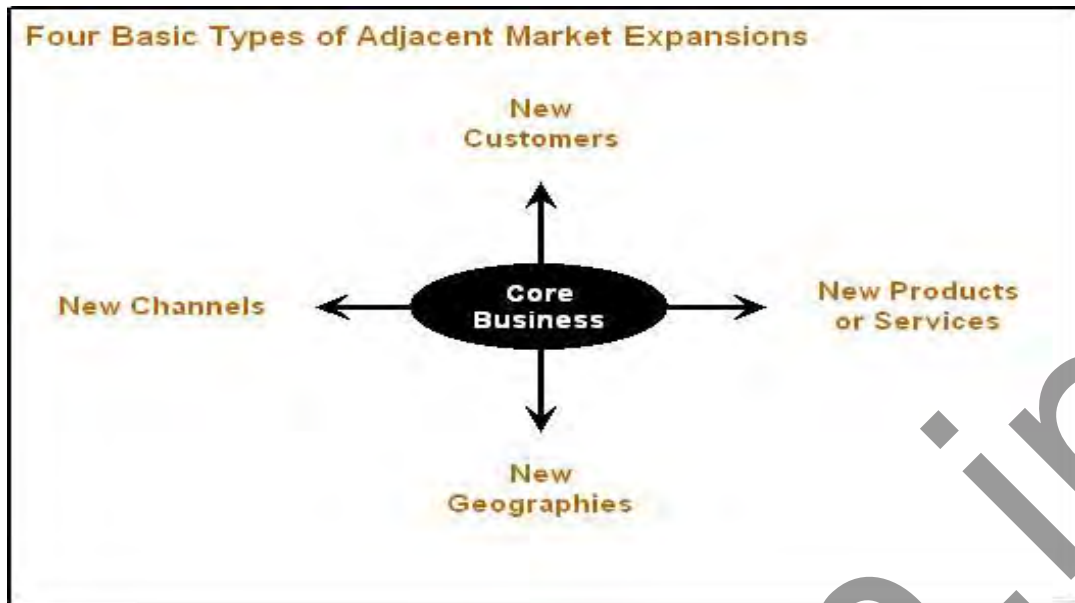
Geographical expansion and strategic alternatives:

Geographic Expansion-Strategic Alternatives

Communications	Different	Strategy 2: Product Extension, Communications Adaptation Example: Motorbikes	Strategy 4: Dual Adaptation Example: Greeting Cards
	Same	Strategy 1: Dual Expansion Example: Applications Software	Strategy 3: Product Adaptation, Communication Extension Example: Electrical products
		Same	Different
		Product	

Global Product Planning: Strategic Alternatives for Expanding into Global Markets





A Solution for Every Growth Need

A diversified growth strategy that incorporates the right combination of growth processes

- Geographic expansion
- Competitive Strategy
- Customer Strategy
- Geographic Expansion
- Distribution Strategy
- Vertical Market Expansion
- New Product Launches
- New Product Development
- Technology Strategy
- Mergers and Acquisitions

FROST & SULLIVAN

PRODUCT AND CULTURE:

Culture is the way that we do things around here. Culture could relate to a country (national culture), a distinct section of the community (sub-culture), or an organization (corporate culture). It is widely accepted that you are not born with a culture, and that it is learned. So, culture includes all that we have learned in relation to values and norms, customs and traditions, beliefs and religions, rituals and artifacts (i.e. tangible symbols of a culture, such as the Sydney Opera House or the Great Wall of China).

Values and Attitudes

Values and attitudes vary between nations, and even vary within nations. So if you are planning to take a product or service overseas make sure that you have a good grasp the locality before you enter the market. This could mean altering promotional material or subtle branding messages. There may also be an issue when managing local employees. For example, in France workers tend to take vacations for the whole of August, whilst in the United States employees may only take a couple of week's vacation in an entire year.

- In 2004, China banned a Nike television commercial showing U.S. basketball star LeBron James in a battle with animated cartoon kung fu masters and two dragons, because it was argued that the ad insults Chinese national dignity.

- In 2006, Tourism Australian launched its ad campaign entitled "So where the bloody hell are you?" in Britain. The \$130 million (US) campaign was banned by the British Advertising Standards Authority from the United Kingdom. The campaign featured all the standard icons of Australia such as beaches, deserts, and coral reefs, as well as traditional symbols like the Opera House and the Sydney Education

The level and nature of education in each international market will vary. This may impact the type of message or even the medium that you employ. For example, in countries with low literacy levels, advertisers would avoid communications which depended upon written copy, and would favor radio advertising with an audio message or visual media such as billboards. The labeling of products may also be an issue.

- In the People's Republic of China a nationwide system of public education is in place, which includes primary schools, middle schools (lower and upper), and universities. Nine years of education is compulsory for all Chinese students.
- In Finland school attendance is compulsory between the ages of 7 and 16, the first nine years of education (primary and secondary school) are compulsory, and the pupils go to their local school. The education after primary school is divided to the vocational and academic systems, according to the old German model.
- In Uganda schooling includes 7 years of primary education, 6 years of secondary education (divided into 4 years of lower secondary and 2 years of upper secondary school), and 3 to 5 years of post-secondary education.

Social Organizations

This aspect of Terpstra and Sarathy's Cultural Framework relates to how a national society is organized. For example, what is the role of women in a society? How is the country governed – centralized or devolved? The level influence of class or casts upon a society needs to be considered. For example, India has an established caste system – and many Western countries still have an embedded class system. So social mobility could be restricted where caste and class systems are in place. Whether or not there are strong trade unions will impact upon management decisions if you employ local workers.

Technology and Material Culture

Technology is a term that includes many other elements. It includes questions such as is there energy to power our products? Is there a transport infrastructure to distribute our goods to consumers? Does the local port have large enough cranes to offload containers from ships? How quickly does innovation diffuse? Also of key importance, do consumers actually buy material goods i.e. are they materialistic?

- Trevor Baylis launched the clockwork radio upon the African market. Since batteries were expensive in Africa and power supplies in rural areas are non-existent. The clockwork radio innovation was a huge success.
- China's car market grew 25% in 2006 and it has overtaken Japan to be the second-largest car market in the world with sales of 8 million vehicles. With just six car owners per 100 people (6%), compared with 90% car ownership in the US and 80% in the UK, the potential for growth in the Chinese market is immense.

Law and Politics

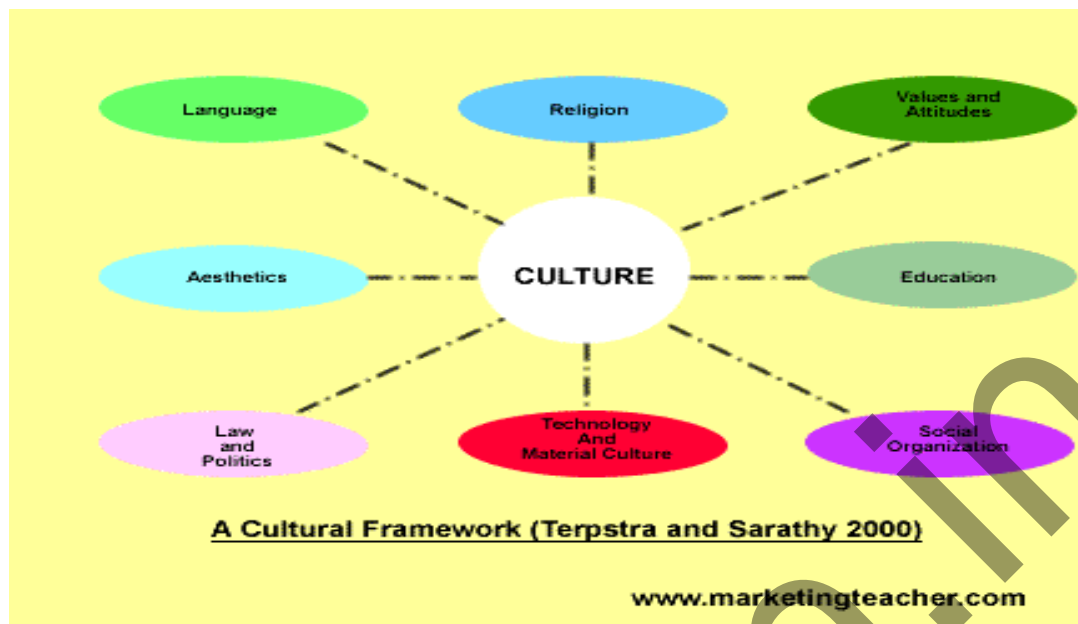
As with many aspects of Terpstra and Sarathy's Cultural Framework, the underpinning social culture will drive the political and legal landscape. The political ideology on which the society is based will impact upon your decision to market there. For example, the United Kingdom has a largely market-driven, democratic society with laws based upon precedent and legislation, whilst Iran has a political and legal system based upon the teachings and principles Islam and a Sharia tradition.

Aesthetics

Aesthetics relate to your senses, and the appreciation of the artistic nature of something, including its smell, taste or ambience. For example, is something beautiful? Does it have a fashionable design? Was an advert delivered in good taste? Do you find the color, music or architecture relating to an experience pleasing? Is everything relating to branding aesthetically pleasing?

Language

With language one should consider whether or not the national culture is predominantly a high context culture or a low context culture (Hall and Hall 1986). The concept relates to the balance between the verbal and the non-verbal communication.



In a low context culture spoken language carries the emphasis of the communication i.e. what is said is what is meant. Examples include Australia and the Netherlands.

In a high context culture verbal communications tend not to carry a direct message i.e. what is said may not be what is meant. So with a high context culture hidden cultural meaning needs to be considered, as does body language. Examples of a high context cultures include Japan and some Arabic nations.

Religion

The nature and complexity of the different religions an international marketer could encounter is pretty diverse. The organization needs to make sure that their products and services are not offensive, unlawful or distasteful to the local nation. This includes marketing promotion and branding.

- In China in 2007 (which was the year of the pig) all advertising which included pictures of pigs was banned. This was to maintain harmony with the country's Muslim population of around 2%. The ban included pictures of sausages that contained pork, and even advertising that included an animated (cartoon) pig.
- In 2005 France's Catholic Church won a court injunction to ban a clothing advertisement (by clothing designers Marithe and Francois Girbaud based upon Leonardo da Vinci's Christ's Last Supper).

Brand in international marketing:

Building a global brand requires more than just launching a web site that's accessible from almost anywhere in the world. From language missteps to misunderstanding cultural norms, veteran branding expert Barbara E. Kahn has seen it all when it comes to the missteps of launching a brand across borders. Here, she shares five tips to help entrepreneurs avoid the pitfalls.

1. Understand customer behavior.

Just because consumers have certain buying preferences or habits in one culture, doesn't mean that such preferences are universal. "It's astonishing how many retailers haven't made it because they haven't studied how consumers shop," she says.

2. Position yourself properly.

Good brand positioning includes truly understanding your competition and then looking at your competitive advantage. Who are the providers of similar products and services that you sell in this country? They may not be the same providers as in the U.S.

For example, if you sell athletic clothing, look at where people are buying their athletic clothing. It could be from specialty stores, online retailers, or sporting goods stores. If you have a high-end brand and you're going into a market where the preferred buying location is discount retailers, it may take a different strategy from the one you use in the U.S. "You need to understand how people shop and how your brand will fit into that mix," she says.

3. Know how your brand translates.

A clever brand or product name in one language may translate into an embarrassing misstep in another. For example, the French cheese brand Kiri changed its name to Kibi in Iran because the former name means "rotten" or "rank" in Farsi -- not exactly the association you want for cheese.

In addition to ensuring that your brand translates well into other languages, consider which colors are favored in various markets. In the U.S., blues and greens are favored, while reds and yellows are frequently used in some Latin American countries and may be appealing and familiar to audience members from those areas.

4. Think broadly.

Since your company may need to expand into offering new products based on regional market demands, it's important that your company name be broad enough to accommodate those changes.

"Boston Chicken changed its name to Boston Market because it had expanded into other foods," Kahn says. If your company name is Brian's Computers for example, consider whether that will be limiting in other markets if you also sell peripherals and services, she says.

5. Find good partners.

Work with your attorney to protect your intellectual property overseas, filing the appropriate trademark and patent protections in the U.S. and elsewhere, if applicable. Find trade representatives who come recommended from colleagues or state or federal trade offices, since they're more likely to be reputable.

If you decide to license your product or service name to a manufacturer or provider overseas, exercise tight controls to make sure that the provider is reputable and won't misuse or misappropriate your name and will adhere to your quality control standards. "When you put your brand name on [a product or service], you want a consistent experience so that every time, people have it, they understand the values of the brand," Kahn says.

UNIT-4

INTERNATIONAL MARKETING CHANNELS:

A channel is a passageway that allows the happening of certain processes. Marketing is understood to be an exchange process. Marketing channels help this exchange process to take place. A marketing channel can be defined as a group of exchange relationships, which create customer value in acquiring, consuming and disposing of products and services.

International marketing involves coordinating the firm's marketing activities in more than one nation. The international marketing strategy is effectively realized by choosing the suitable international marketing channel. The channel is the medium through which the firm's global marketing strategy is communicated among the customers scattered all around the globe.

Marketing Channels are set of interdependent organizations involved in the process of making a product or service available for use or consumption.

A major focus of channels of distribution is delivery. It is only through distribution that public and private goods and services can be made available for use or consumption. The emergence and arrangement of a wide variety of distribution oriented institutions and agencies, typically called intermediaries because they stand between productions on the one hand and consumption on the other can be explained in the following terms:

- 1) Intermediaries can improve the efficiency of the process.
- 2) They help in the proper arrangement of routes of transactions.
- 3) They help in the searching process.
- 4) They help in the sorting process.

Internationally operating companies have to partner with these distributors to gain access to their unique expertise and knowledge. Channel innovation depends on many factors like level of economic development of the country in which the firm is operating, local demographic/geographic factors, social norms, government actions and competitive pressures. A properly designed distribution channel will help a company achieve a sustainable competitive advantage. Channel structure varies depending on the customer.

Transactions between parties that do not involve the ultimate consumer are considered wholesale transactions. There are two types of wholesale intermediaries: merchant intermediaries and functional intermediaries. Merchant intermediaries buy products and resell them.

Functional intermediaries negotiate and just expedite exchange among producers and resellers. They charge fees and/or commission. An international firm must take adequate care when entering into agreements with distributors. This can make or mar its chances of success. A firm can choose direct or indirect channel based on requirements. It can similarly go for selective or intensive distribution depending on the need.

Distribution structures:

1. Objectives What is international distribution system What is indirect exporting What is direct export What are the types of foreign intermediaries Why the distribution system in the market is influenced by the business environment What is international logistics International Marketing Decision

2. Introduction Place, i.e., placing the product, is one of the four P's of marketing and it refers to the distribution of the product covering channels of distribution and physical distribution. The path traced in the direct or indirect transfer of title to a product as it moves from a producer to ultimate consumers or industrial users. International Marketing Decision

3. International Channel System The international distribution system consists of two subsystems, namely, the domestic system and the foreign system. There are broadly two ways of exporting, namely, direct exporting and indirect exporting. International Marketing Decision

4. Indirect Exporting The indirect method is more popular with firms which are just beginning their exporting activities and with those whose export business is not considerable. Two alternative channels for indirect exporting. 1. International marketing middlemen 2. Co-operative organizations. International Marketing Decision

5. Marketing middlemen Export merchants Export/trading houses Trading companies Export drop shipper Agents/brokers International Marketing Decision

6. Co-operative organizations the co-operative exporting organizations, which represents a cross between indirect and direct export, carries on exporting activities on behalf of several producers,

and is partly under the administrative control of the manufacturers.1. Piggyback marketing2. Exporting combinations International Marketing Decision

7. Direct Export As the name indicates, direct export refers to the sale in the foreign market directly by the manufacturer. Firms with considerable export business usually resort to direct exporting. International Marketing Decision

8. Types Of Foreign Intermediaries Importers Distributors Wholesalers Retailers Multiple channels Government Departments State buying organizations Joint-ventures and licensees/franchisees International Marketing Decision

9. Marketing Environment and Internal Distribution The nature of the distribution system in a market is generally influenced by the relevant business environment. A particular distribution channel best suited for a product in one market may be inappropriate in another market. Within-country channels of distribution vary considerably from country to country for consumer goods. International Marketing Decision

10. Factors Influencing Channel Selection 1. Product characteristics 2. Market and customer characteristics 3. Middlemen characteristic 4. Company characteristic and objectives 5. Competitor's characteristics 6. Environmental characteristics International Marketing Decision

11. International Logistics International logistics defined as 'the designing and managing of a system that contracts the flow of materials into, through, and out of the international corporation. It encompasses the total movement concept by covering the entire range of operations concerned with product movement. International Marketing Decision

12. Components Of Logistics Management Fixed facilities location Transportation Inventory management Order processing Materials handling and warehousing International Marketing Decision

13. Summary The international channel is affected by the method of exporting. Direct exporting and indirect exporting are the two ways of exporting Some important foreign intermediaries are; importers, distributors, wholesalers, retailers, multiple channels, government departments, state buying organizations, joint ventures and licenses. Logistics is a factor which affects the competitiveness of a firm. International Marketing Chapter-11 International Decision

Some of the factors influencing channel decisions in international market are as follows:

International marketing channels deal with channels within which goods and services pass to reach their foreign consumers. This implies that manufacturers and consumers must be located in either the manufacturers or consumers country or having presence in both countries.

The choice of the channel to use is a fundamental decision for the manufacturer where a number of factors and objectives have to be considered as a basis for such decision. The international marketer needs a clear understanding of market characteristics and must have established operating policies before beginning the selection of channel middlemen. The following points should be addressed prior to the selection process:

- 1) Identify specific target markets within and across countries.
- 2) Specify marketing goals in terms of volume, market share, and profit margin requirements.
- 3) Specify financial and personnel commitments to the development of international distribution.
- 4) Identify control, length of channels, terms of sale, and channel ownership.

There are a number of factors both objective and subjective and varying from company to company which govern choice or selection of channel of distribution. But there are some which stand out and influence channel of distribution choice in all cases. They are as follows:

1) Factors Relating to Product Characteristics:

Product manufactured by a company itself is a governing factor in the selection of the channel of distribution. Product characteristics are as follows:

i) Industrial/Consumer Product:

When the product being manufactured and sold is industrial in nature, direct channel of distribution is useful because of the relatively small number of customers, need for personal attention, salesman's technical qualifications and after-sale servicing etc. However, in case of a consumer product indirect channel of distribution, such as wholesalers, retailers, is most suitable.

ii) Perishability:

Perishable goods, such as, vegetables, milk, butter, bakery products, fruits, sea foods etc. require direct selling as they must reach the consumers as easily as possible after production because of the dangers associated with delays in repeated handling.

iii) Unit Value:

When the unit value of a product is high, it is usually economical to choose direct channel of distribution such as company's own sales force than middlemen. On the contrary, if the unit value is low and the amount involved in each transaction is generally small, it is desirable to choose indirect channel of distribution, i.e. through middlemen.

iv) Style Obsolescence:

When there is high degree of sty obsolescence in products like fashion garments, it is desirable to sell direct to retailers who specialize in fashion goods.

v) Weight and Technicality:

When the products are bulky, large in size and technically complicated, it is useful to choose direct channel of distribution.

vi) Standardized Products:

When the products are standardized, each unit is similar in shape, size, weight, colour and quality etc. it is useful to choose indirect channel of distribution. On the contrary, if the product is not standardized and is produced on order, it is desirable to have direct channel of distribution.

vii) Purchase Frequency:

Products that are frequently purchased need direct channel of distribution so as to reduce the cost and burden of distribution of such products.

viii) Newness and Market Acceptance:

For new products with high degree of market acceptance, usually there is need for an aggressive selling effort. Hence indirect channels may be used by appointing wholesalers and retailers as sole agents. This may ensure channel loyalty and aggressive selling by intermediaries.

ix) Seasonally:

When the product is subject to seasonal variations, such as woolen textiles in India, it is desirable to appoint sole selling agents who undertake the sale of production by booking orders from retailers and direct mills to dispatch goods as soon as they are ready for sale as per the order.

x) Product Breadth:

When the company is manufacturing a large number of product items, it has greater ability to deal directly with customers because the breadth of the product line enhances its ability to clinch the sale.

2) Factors Relating to Company Characteristics:

The choice of channel of distribution is also influenced by company's own characteristics as to its size, financial position, reputation, past channel experience, current marketing policies and product mix etc. In this connection, some of the main factors are as follows:

i) Financial Strength:

A company which is financially sound may engage itself in direct setting. On the contrary, a company which is financially weak has to depend on intermediaries and, therefore, has to select indirect channel of distribution, such as Wholesalers, retailers, with strong financial background.

ii) Marketing Policies:

The Policies relevant to channel decision may relate to delivery, advertising, after-sale service and pricing, etc. For example, a company which likes to have a policy of speedy delivery of goods to ultimate consumers may prefer direct selling and thus avoid intermediaries and will adopt a speedy transportation system.

iii) Size of the Company:

A large-sized company handling a wide range of products would prefer to have a direct channel for selling its products. On the contrary, a small-sized company would prefer indirect selling by appointing wholesalers, retailers etc.

iv) Past Channel Experience:

Past Channel experience of the company also influences the choice of selection of channel distribution. For instance, an old and established company with its past good experience of working with certain kinds of intermediaries will like to opt for the same channel. However, different will be the case in reverse situation.

v) Product Mix:

The wider is the company's product mix, the greater will be its strength to deal with its customers directly. Similarly, consistency in the company's product mix ensures greater homogeneity or uniformity and similarity in its marketing channels.

vi) Reputation:

It is said that reputation travels faster than the man. It is true in the case of companies also who wish to select channel of distribution. In case of companies with outstanding reputation like Tata Steel, Bajaj Scooters, Hindustan Levers etc indirect channel of distribution (wholesalers, retailers, etc.) is more desirable and profitable.

3) Factors Relating to Market or Consumer Characteristics:

Market or consumer characteristics refer to buying habits, location of market, size of orders, etc. They influence the channel choice significantly. They are:

i) Consumer Buying Habits:

If the consumer expects credit facilities or desires personal services of the salesman or desires to make all purchases at one place, the channel of distribution may be short or long depending on the capacity of the company for providing these facilities. If the manufacturer can afford those facilities, the channel will be shorter, otherwise longer.

ii) Location of the Market:

When the customers are spread over a wide geographical area, the long channel of distribution is most suitable. On the contrary, if the customers are concentrated and localized, direct selling would be beneficial.

iii) Number of Customers:

If the number of customers is quite large, the channel of distribution may be indirect and long, such as wholesalers, retailers, etc. On the contrary, if the number of customers is small or limited, direct selling may be beneficial.

iv) Size of Orders:

Where customers purchase the product in large quantities, direct selling may be preferred. On the contrary, where customers purchase the product in small quantities frequently and regularly, such as cigarettes, matches, etc., long (wholesalers, retailers, etc.) of distribution may be preferred.

4) Factors Relating to Middlemen Considerations:

The choice of the channel of distribution is also influenced by the middlemen considerations. They may include the following:

i) Sales Volume Potential:

In selecting channel of distribution, the company should consider the capability of the middlemen to ensure a targeted sales volume. The sales volume potential of the channel may be estimated through market surveys.

ii) Availability of Middlemen:

The company should make efforts to select aggressively oriented middlemen. In case they are not available, it is desirable to wait for some time and then to pick up. In such cases, the company should manage its own channel so long the right types of middlemen are not available.

iii) Middlemen's Attitude:

If the company follows the resale price maintenance policy, the choice is limited. On the contrary, if the company allows the middlemen to adopt their own price policy, the choice is quite wide. Quite a large number of middlemen would be interested in selling company's products.

iv) Services Provided by Middlemen:

If the nature of product requires after-sale services, repair services, etc., such as automobiles, cars, scooters etc, only those middlemen should be appointed who can provide such services, otherwise the company will adopt direct selling channel.

v) Cost of Channel:

Direct selling generally is costlier and thus distribution arranged through middlemen is more economical.

5) Factors Relating to Environmental Characteristics:

The environmental factors which include competitors' channels, economic conditions, legal restrictions, fiscal structure etc., as given below, affect significantly the channel choice.

i) Economic Conditions:

When economic conditions are bright such as inflation, it is desirable to opt for indirect channel of distribution because there is an all-round mood of expectancy, market tendencies are bullish and favourable. On the contrary, if the market is depressed (such as deflation), shorter channel may be preferred.

ii) Legal Restrictions:

The legislative and other restrictions imposed by the state are extremely formidable and give final shape to the channel choice. For example, in India M.R.TP. Act, 1969 prevents channel arrangements that tend to substantially lessen competition, create monopoly and are otherwise prejudicial to public interest. With these objectives at the backdrop, it prevents exclusive distributorship, territorial restrictions, resale price maintenance etc.

iii) Competitors' Channel:

This also influences the channel choice decision. Mostly, in practice, similar types of channels of distribution used by the competitors are preferred.

iv) Fiscal Structure:

Fiscal structure of a country also influences the channel choice decision. For example, in India, State Sales Tax rates vary from state to state and form a significant part of the ultimate price payable by a consumer. As a result, it becomes an important factor in evolving channel arrangements.

Differences in the sales tax rates in two different states would not only bring about difference in the price payable by a consumer but also in the distribution channel selected. Hence the company should appoint the channel in that state where the sales tax rates are quite low, such as in Delhi, and that would give price advantage to the buyers of those states where the sales tax rates are high.

Challenges in managing an international distribution strategies:

Many companies today distribute goods throughout their local region or across the country with considerable success, and some may be considering expanding into an international market to increase sales. The fact is that managing international distribution channels can be profitable and rewarding for many companies, but it can also be challenging on several different levels. By spending some time analyzing what is involved in managing international distribution channels, you may make a more informed decision about expansion that is right for your company.

The Right Market for Your Products

First, you should carefully consider the benefit associated with finding an international market that is similar to your own. Reaching into international markets can be difficult to do because your products may appeal to a different target audience, marketing messages may be skewed when they reach a foreign audience or are translated into a foreign language and more. Examples of similar international markets that may be compatible include New Zealand and Australia or Singapore, Malaysia and Hong Kong. Do your research and find out if the desired market does have a demand for your goods. Choosing the right international market is imperative for success as your company expands. Talk to local retailers and their customers to establish if the market is worth the investment.

Other Logistical Concerns

In addition to selecting the right international market to invest in, there are other logistical concerns to consider when managing international distribution channels. For example, you must consider if you will sell your goods online or through local retailers.

Selling Online to International Markets

Online distribution only requires you to ship goods overseas direct to the customer. But international freight can cause issues and lost stock can be a time consuming nightmare to deal with. Consider insurance.

Supplying International Retailers

While selling big orders to international retailers sounds good it also brings with it some administrative issues. The lack of transparency, trust and distance between you and the retailer can cause communication issues and in a lot of cases the retailer will ignore your account leaving you with little hope in recovering what's owed to you.

Get in front of you desired retailers as much as possible. Establish a good business relationship with them before entering into a risky business deal. Consider getting a local distributor. Someone who can go door knocking when it comes time to do the debt collection.

Managing Multiple Currencies

You must also navigate the challenges associated with working with multiple currencies. Fluctuating currencies rates are not manageable on spreadsheets. Consider a good cloud based inventory management and sales management system to handle this for you.

As you can see, there are many factors to consider when you are evaluating the pros and cons of managing international distribution channels. Thanks to innovations in technology, shipping services and more, expanding a company's operations into international areas is easier to do than ever before, and many companies are finding great levels of success from these efforts. However, you do want to carefully consider each of these points so that you make the best decision possible for your business.

Management of physical distribution of goods:

(1) Order Processing:

A company receives orders from other companies, middlemen, or directly from customers through mail, e-mail, fax, phone, or salesmen. Order processing is an importation component of the distribution system. It is considered as a key to customer service and satisfaction.

Order processing mainly includes:

1. Receiving order
2. Recording order
3. Filing order
4. Executing order or assembling of products for dispatch
5. Credit and collection.

Thus, it concerns with processing the orders quickly, accurately, and efficiently. The time period from the receipt of an order to the date of dispatch of products must be as short as possible. Ideally, the order recycle time should be completed within 8 days. But, the use of computer and computer networks, for speedy and accurate order processing, can save time, money and efforts for the company and increases customer satisfaction. It is often called as electronic data processing that minimizes possibility of error and omission. Every firm should establish the standard order procedure.

The physical distribution must be customer-oriented. It starts with customer order. Note that order processing affects customer service in two ways – reordering time (interval between two orders) and consistency of delivery time (delivering products within the fixed time). Rapid order processing enables a company to attain economy in other areas of physical distribution.

The person in charge of order processing must be careful for following aspects:

1. Assembling product must be exactly as per demand of customers in terms of quantity, quality, features, and price.
2. Execution must be as quick as possible.

3. The dispatch must be in appropriate mode of transportation.
4. Credit discount and other allied benefits must be offered as per policy.
5. Assessing the effectiveness of order processing. That includes feedback and follow-up.

(2) Warehousing:

In today's context, production is made in expectation of demand. Therefore, products are to be stored or preserved safely for the future demand. And also, all the production is not sold directly. Warehousing plays an important role for balancing demand and supply. For example, most of the agricultural products are produced seasonally, but have demand throughout the year.

It facilitates both continuous production and continuous marketing of the production. Warehousing service can contribute to customer satisfaction. Be clear that storage and warehousing are not similar terms, though are closely related.

Storage is marketing activity that involves holding and preserving products from the time of their production until their sale. Warehousing embraces storage plus a broad range of functions, such as assembling, breaking the bulk, dispatching as per need of middlemen, sorting/classification, providing market intelligence, preparing product for reshipping, etc. Warehousing involves more activities.

Classification of Warehouses:

Warehouses may be classified on two bases, on the basis of commodity and on the basis of ownership. Let's have overview of different warehouses.

On the Basis of Commodity:

On the basis of commodity stored, there can be:

1. Special Commodity Warehouses provide facility for storing special types of commodities, e.g., cotton warehouses, potato warehouses, grain warehouses, tanks for liquid products, explosive product warehouses, etc.
2. Cold Storage Warehouses provide facility for storing perishable products, e.g., fish, flowers, vegetable, fruits, etc.

On the Basis of Ownership:

According to the ownership, there may be various types of warehouses, like:

1. Private Warehouses are owned by individual, or firms. They are owned by retailers and wholesalers, or by manufacturers. Retailers and wholesalers store finished products while manufacturers store raw materials, provision, tools-equipment's, and finished products.
2. Cooperative Warehouses are owned on cooperative basis by two or more private parties to utilize storage facility jointly.
3. Public Warehouses owned by local authorities such as municipality, or by the state and central governments. Such warehouses are used by public/traders as well as by government. Traders can use these warehouses on the rents fixed by the government. Government uses these warehouses to buy and maintain stock of certain essential commodities.
4. Household Warehouses are temporary in nature owned by household/family to store and protect furniture, paintings, furs, tapestry, etc.
5. Bonded Warehouses are used to store product until payment is made or documents are cleared. They are situated near the Port for export and import business.

Many companies set up their distribution centers in each of regions around the market and integrate its distribution network with them for smooth, safe, and speedy delivery of products. The latest technology is used for maximum consumer benefits. Warehouses offer a number of direct advantages to manufacturers and sellers, and indirect advantages to customers.

Benefits Offered by Warehouses:

Following are the important benefits offered by warehouses:

1. Protection of products from fire, sunlight, dust, theft, heat/cold, etc.
2. Modern warehouses enable to store or preserve perishable products, like milk, fruits, vegetable, flowers, and certain types of chemicals, for reasonably longer period.

3. Professional warehouses provide a lot of facilities, such as inspection, protection, records, displacement on demand, insurance, etc., at affordable charges. Such warehouses are well-equipped with human and mechanical devices.
4. Warehouses at different key centres can speed up order processing efficiently with less risk and costs.
5. Producers and sellers can avail loans on the product stored in warehouses.
6. Consumers have a number of indirect benefits like quick and continuous availability, low price, quality, etc. Producers, sellers, and users equally share all the benefits of warehousing.

Key Issues/Decisions in Warehousing:

The manager should consider following aspects while utilizing warehouses:

1. Type of product
2. Time to store the product
3. Rent charged and facilities available
4. Location
5. Working capital requirement
6. Ownership
7. Risk, etc.

(3) Transportation:

Transportation is one of the core components of distribution system. It consists of moving or transferring products from producers to final users. Transportation involves two parties, carriers and shippers. Carriers are those companies that provide transportation facilities to others, such as the Western Railway, Indian Airline, Indian Shipping Companies, and many other private carriers provide transportation services by road, rail, water, air and underground pipes.

Shippers are those organisations and individuals such as manufacturers, middlemen, customers, and others to whom the carriers provide transportation services. For different modes of transportation, various regulatory bodies deal with various issues related to transportation of products. The Central and the State Governments have formulated a lot of Acts or legal provision to regulate transportation activities in the country.

The main regulatory bodies may include:

- i. The Civil Aviation Department, for air carriers.
- ii. The Shipping Corporation of India, for water carriers.
- iii. The Oil and Natural Gas Commission, for pipeline carriers.
- iv. The Road Transport Corporation of the state, for land or road carriers
- v. The Railway Authorities, for rail transportation, etc.

Transportation plays a crucial role in today's global marketing. It creates the place utility. In brief, transportation has positive impact in every facet of economic, social, and cultural development of the society. The key issues in transportation are type, costs, time, speed, risk, suitability, and availability. Marketer should take transportation decision carefully.

Key Issues in Transportation Decisions:

A marketer needs to consider on following issues:

1. Mode of Transportation:

This decision relates with selecting an appropriate mode of transportation. Main modes of transportation are road, railway, water, air, and pipeline. As per financial capacity, need, time available and overall suitability, the appropriate mode of transportation should be selected.

2. Costs and Availability:

One should select such a mode of transportation that is the most suitable and low in costs. Similarly, the mode must be easily available.

3. Suitability and Credibility:

It is an important consideration. The mode of transportation must fit to the products and company's overall internal situation, and must be reliable.

4. Relations:

In the era of relationship marketing, the marketer must maintain long-term profitable relations with various transport agencies. A firm has to perform many activities to establish and maintain healthy and profitable relations with the transport agencies.

5. Legal Provisions and Restrictions:

A firm must take transportation decisions within limit of contemporary legal provisions. Knowledge of legal provisions is essential.

6. Ownership:

This issue concerns with whether a firm should own, contract, or hire transportation means. Depending upon a company's capacity and requirements, it may own its own means of transportation, may undergo the contracts, or may hire such facilities.

(4) Organizational Responsibility for Physical Distribution:

Physical distribution is an important decision in today's marketing management. It involves a wide range of activities. Therefore, an effective coordination of various activities, such as order processing, warehousing, transportation, inventory control, etc., is indispensable to contribute in overall success of marketing strategies.

The entire range of physical distribution must be systematic and even scientific for effective distribution of products to the ultimate users. For the purpose, the systematic structure of organisation should be created to take care of physical distribution activities. Organisation of physical distribution must be well-equipped and properly organised to serve the purpose over time.

Type, nature, formation, and activities of organisational structure for physical distribution depend upon various factors like type of business, size of operation, resource availability, management philosophy, and so on.

After proper analysis of various relevant variables, the suitable structure of organisation should be created and implemented. There may be practically two alternatives, physical distribution committee or physical distribution department.

Physical Distribution Committee:

In order to manage distribution activities effectively and efficiently, many companies formulate a permanent committee. The committee consists of a group of people who work jointly for attaining marketing goals. The number of members in committee depends on types of key activities in distribution system.

A physical distribution committee consists of experts on various areas of distribution like warehousing, transportation, communication, order processing, and so on. This committee is headed by distribution manager or marketing manager. Each of the experts in a committee has necessary skills and experience to handle specific group of activities.

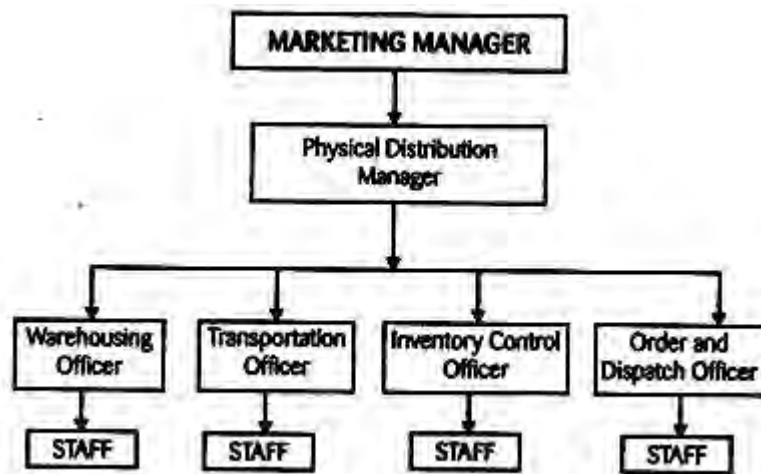
The committee, known as physical distribution committee, takes care of the entire range of activities related to distribution of products and is responsible for smooth distribution of products. The committee meets periodically and formulates policy to improve physical distribution system.

Physical Distribution Department:

Some companies treat physical distribution as a separate area of marketing management and maintain a separate physical distribution department. This department is headed by physical distribution manager. He is solely responsible for managing physical distribution activities.

He appoints needed experts in his department to assist him carrying different types of activities related to physical distribution. The physical distribution manager works under either production manager or marketing manager.

Mostly, the companies engaged in production and distribution activities, appoint physical distribution manager under marketing manager. He may be line administrator, a manager with staff responsibility, or the combination of both staff and line function. This type of organisation is typically portrayed in Figure 1.



Marketing Manager:

He, along with other marketing activities, also directs and controls physical distribution activities. Under him, the physical distribution manager is placed. Here, physical distribution is treated as a part of marketing. He takes care of marketing and distribution activities.

Physical Distribution Manager:

He is a direct authority responsible for physical distribution. He works under marketing manager. His functions involve storage and warehousing, inventory management, transportation, order processing and dispatching, communication, etc. He coordinates various activities needed for effective physical distribution. Various officers are appointed under him for each type of activities.

The officers who work under his direct supervision and control include:

1. Storage and warehousing officer
2. Inventory officer
3. Transportation officer
4. Order processing and dispatching officer
5. Communication officer, etc.

As per need, the required staff is appointed to assist each of these officers in performing their respective tasks. Sometimes, more officers are appointed for different types of works such as

accountant, packing officers, and so on. The entire department headed by distribution manager works as a team to deal with total distribution system.

(5) Inventory Management:

Inventory refers to stock of goods meant for the future sales. It can also be said as reservoir of goods held in anticipation of sales. Demand is fluctuating and exact prediction is not possible. So, the primary purpose of holding inventory is to meet market demand continuously.

The firm always maintains adequate stocks of products to meet customer orders immediately. It is considered as a link between ordering and production. Inventory management supports demand creation and consumer satisfaction.

Three types of costs are associated with inventory. The first is, holding costs (carrying costs), which include warehousing and storage costs, costs of capital tied up in inventory, costs of price decline, obsolescence, spoilage, pilferages, and taxes and insurance on inventory.

The Second is, costs of stock out or shortage, which include loss of sales, adverse impact on goodwill, losing customers permanently due to shortage of stocks, and administrative costs. And, the third is, replenishing or reordering costs (order processing costs), such as preparing and placing order; transportation, insurances and wastage during movement; and costs of receiving, inspecting, and handling materials. However, carrying costs and ordering costs are more important, and if they are balanced, the total costs can be effectively reduced.

A company has to decide on total annual need of inventory, ordering size, and level of inventory (called as ordering level) at which new order should be placed. It must determine maximum and minimum quantity that may be needed at any time. The main issues are ordering size – how much to order, and (reordering) ordering level – when to order.

Ordering and carrying costs are important considerations in inventory management. Ordering and carrying costs are adversely related. If more inventory/stock is maintained, carrying costs are high and ordering costs are low.

Quite opposite to it, when low level of inventory is maintained, carrying costs are low, and, due to more frequent order of smaller quantity, ordering costs go high. Therefore, the manager should decide on the optimum order size to reduce total cost of inventory. It is necessary to strike out balance between two types of costs to minimize total costs.

The most popular technique to determine optimum size of order is Economic Ordering Quantity, which can be determined by using following formula:

$$EOQ = \sqrt{2 AO/C}$$

Where,

A = Annual sales

O = Ordering costs

C = Carrying costs

Sometimes, ordering size or level is determined by trial and error or graphical method. The level of inventory at which costs are minimum, is taken as ordering size.

(6) Other Components:

In fact, physical distribution consists of a lot of decisions.

Some of minor decisions have been listed below:

- i. Material Management
- ii. Communication
- iii. Sorting and packing
- iv. Customer service, etc.

(7) Logistical Coordination or Market Logistics:

To distribute products from the point of production to the point of consumption (consumers) is traditionally called physical distribution. It starts from the factory and reaches the final destinations at the right time, in the right way and form, and at low costs.

Distribution is treated as a separate function of marketing, and the special independent arrangement is made for smooth distribution. Problem of physical distribution is thought of only after products

are produced. Thus, physical distribution concerns with systematically distributing products to final users.

It involves all activities necessary (like warehousing, transportation, communicating, insurance, banking, ordering processing, inventory management, and services of channel members) to avail the products conveniently to ultimate users.

Market logistics (often called as supply chain management) is the modern form of physical distribution. Simple distribution is expanded into a broader concept of supply chain management.

Supply chain management starts before physical distribution. Logistics means a detailed organisation of large and complex exercise. Here, distribution is not treated as an independent activity but as an integral part of the total business system.

Market logistics or supply chain management is a detailed programme attempting to procure the right inputs (raw materials, components, and capital equipment's); convert them effectively into finished products; and distribute them to the final destinations.

It can help a company identify superior suppliers and help improve its productivity. It leads to low costs and better quality products that ultimately results into better customer satisfaction and/or strengthening the competitive position.

Market logistics system is prepared by considering target market's requirements. Thus, study of target market's requirements, preproduction (production planning), production process, and distribution are integrated to form market logistics system.

Market logistics involves:

- (1) Estimating target markets requirements,
- (2) Procuring necessary inputs for producing the right products,
- (3) Converting inputs into finished products (production process), and
- (4) Systematically distributing the products to ultimate users

Advertising:

1. Global advertising encompasses areas such as advertising planning, budgeting, resource allocation issues, message strategy, and media decisions. Other areas include: local regulations, advertising agency selection, coordination of multi-country communication efforts and regional and global campaigns

2. Global Advertising and Culture

- Language Barriers – Language is one of the most formidable barriers in global marketing.

Three types of translation errors can occur in international marketing:

- Simple carelessness
- Multiple-meaning words
- Idioms

3. Setting the Global Advertising Budget

- Companies rely on different kind of advertising budgeting methods which include:

– Percentage of Sales

– Competitive Parity

– Objective-and-Task Method

First establish concrete marketing objectives, the advertiser determines how much it will cost to meet them.

4. Creative Strategy

- The “Standardization” versus “Adaptation Debate”

- Merits of Standardization: – Scale Economies – Consistent Image – Global Consumer Segments

5. Creative Strategy

- Barriers to Standardization: – Cultural Differences – Advertising Regulations – Market Maturity
- “Not-Invented-Here” (NIH) Syndrome

6. Global Media Decisions

- Media Infrastructure – Media infrastructure differs from country to country
- Media Limitations – The major limitation in many markets is media availability.

7. Global Media Decisions

- Media Infrastructure – Media infrastructure differs from country to country
- Media Limitations – The major limitation in many markets is media availability.

8. Global Media Decisions

- Recent Developments in the Global Media Landscape: – Growing commercialization and deregulation of mass media – Shift from radio and print to TV advertising – Rise of global and regional media – Growing spread of interactive marketing – Growing popularity of text messaging – Improved monitoring – Improved TV-viewership measurement

9. Advertising Regulations

- The major types of advertising regulations include: – Advertising of “Vice Products” and Pharmaceuticals – Comparative Advertising – Content of Advertising Messages – Advertising Targeting Children – Other Advertising Regulations: Issues of local languages, tax issues, and advertising rates.

10. Advertising Regulations

- Strategies to deal with advertising regulations: – Keep track of regulations and pending legislation – Screen the campaign early on – Lobbying activities – Challenge regulations in court – Adapt marketing mix strategy

11. Choosing an Advertising Agency

- In selecting an ad agency, the international marketer has several options:
 1. Work with the agency that handles the advertising in the firm’s home market.
 2. Pick a purely local agency in the foreign market.

3. Choose the local office of a large international agency.

4. Select an international network of ad agencies that spans the globe.

12. Choosing an Advertising Agency

- Criteria for screening ad agencies: – Market coverage – Quality of coverage – Expertise with developing a central international campaign – Creative reputation – Scope and quality of support services – Desirable image (“global” versus “local”) – Size of the agency – Conflicting accounts

13. Globally Integrated Marketing Communications (GIMC)

- Integrated Marketing Communications (IMC): – IMC coordinates different communication vehicles – mass advertising, sponsorships, sales promotion, packaging, point-of-purchase displays, so forth.

Grey market goods:

A **grey market** (sometimes called a **parallel market**), but this can also mean other things not to be confused with a black market or a grey economy is the trade of a commodity through distribution channels that are legal but unintended by the original manufacturer. The most common type of grey market is the sale, by individuals or small companies not authorized by the manufacturer, of imported goods which would otherwise be either more expensive or unavailable in the country to which they are being imported. An example of this would be the import and subsequent re-sale of Apple products by unlicensed intermediaries in countries such as South Korea where Apple does not currently operate retail outlets and licensed reseller markups are high.

Goods

Arcade games

Certain arcade games (with the same game play) are marketed under different titles (especially titles from Japanese companies), such as Carrier Air wing/US Navy, Mega Man/Rock man, and Police 911/Police 24/7. When certain arcade games (especially titles for Japan) are first powered on, a warning message is shown such as “[t]his game is intended only for sale and use in (country/region)” and often, such a message is occasionally displayed when the game is idle.

One reason for regional variations for the game title despite the same game play is trademark issues in different regions e.g. someone else could already own the rights a particular trademark in a particular country or region even though the particular game company owns the rights to the same trademark in their home country.

Another reason for regional variations for the game title is to help combat bootleg arcade games at one time, including those from Japanese versions.

Automobiles

Automobile manufacturers segment world markets by territory and price, thus creating a demand for grey import vehicles.

Although some grey imports are a bargain, some buyers have discovered that their vehicles do not meet local regulations, or that parts and services are difficult to obtain because these cars are different from the versions sold through the new car dealer network.

Also, ensuring service history and mechanical condition for a vehicle purchased at a distance can be a problem.

Many used cars come from Singapore or Japan, and are sold in other countries around the world, including United Kingdom, Russia and New Zealand. Japan and Singapore both have strict laws against older cars. The Japanese "Shaken" road-worthiness testing regime, requires progressively more expensive maintenance, involving the replacement of entire vehicle systems, that are unnecessary for safety, year on year, to devalue older cars and promote new cars on their home market that were available for low prices. This makes these well running cars seem reasonably priced, even after transport expenses. There are very few cars in Japan more than five years old.

New car arbitrage has become an issue in the US as well, especially when the US price is lower in the US than in countries like China.

Beyond cost issues, grey market cars provide consumer access to models never officially released. Before 1987, the Range Rover and Lamborghini Countach, both revolutionary designs, were grey import vehicles in the United States. The grey market provided a clear signal to these manufacturers that the United States had significant demand for these cars, and their present-day US model descendants remain popular. Years later, Nissan similarly decided to sell the GT-R in North America after seeing how many people were importing older Skylines. Although Mercedes-

Benz was also a beneficiary of the signals to US consumer demand that the grey market provided, their lobbying in Washington succeeded in virtually ending the US grey market in 1988.

In the UK, some Japanese domestic market models fetch a high price in the UK because of their performance, novelty or status. Popular types include - off road vehicles, people carriers, affordable sports cars like the Mazda MX5 / Eunos, very high performance sports cars like the, rally homologation based cars like the Subaru Impreza and Mitsubishi Evo, ultra compact key cars, and limited edition Japanese market designer cars like the Nissan Figaro.

Broadcasting

In television and radio broadcasting, grey markets primarily exist in relation to satellite radio and satellite television delivery. The most common form is companies reselling the equipment and services of a provider not licensed to operate in the market. For instance, a Canadian consumer who wants access to American television and radio services that are not available in Canada may approach a grey market reseller of Dish Network or DirecTV. There is also a grey market in the United States for Canadian satellite services such as Bell TV or Shaw Direct.

In Europe some satellite TV services are encrypted since they have only been authorized by content suppliers to broadcast films, sporting events and US entertainment programming in a certain country or countries, hence only residents of the UK and Ireland may subscribe to Sky Digital. In other European countries with large British expatriate populations, such as Spain, Sky is widely available through the grey market. Although Sky discourages the use of its viewing cards outside the UK or Ireland, and has the technology to render them invalid, many people continue to use them.

Parallel importing of "free-to-view" Sky cards from the UK to Ireland is often done so that Irish Sky customers can receive Channel 5 and some of the other channels not generally available via Sky in the Republic because of trademark and other licensing issues. Conversely, Sky viewing cards from the Republic of Ireland, which allow viewing of Irish terrestrial channels, are imported into the UK. Northern Ireland residents subscribing to Sky can watch RTÉ One and Two and TG4, although not TV3, which carries many of the same programs as ITV, a lot of the programs airing before ITV can show them.

It is also becoming increasingly common in the UK for some pubs to use satellite decoder cards from Greece, Norway, Poland or the Arab world to receive satellite TV broadcasting live English

football matches from those countries. Alternatively, they may use cards which allow pirate decryption of scrambled signals. Such cards are typically much cheaper than the cards available in the UK from Sky (who charge extra fees for public showing licenses). However, Sky has taken civil and criminal action against some who do this. Two recent cases involving grey cards have been referred to the Justice. The suppliers of grey cards and Karen Murphy have won their cases at the European Court of Justice. The judges have ruled that right holders cannot license their content on an exclusive territorial basis as it breaches EU Law on competition and free movement of goods and services. However, whilst this ruling allows domestic viewers to subscribe to foreign satellite services, pubs may still need permission from right holders such as the Premier League to broadcast content. This is because certain elements of the broadcast such as branding are copyrighted. The matter now rests on the High Court to incorporate the ruling into UK Law.

There have been two High Court judgments on this matter now. Mr. Justice Kitchen has ruled that QC Leisure and other suppliers of foreign satellite systems can carry on with their businesses if they can prevent copyright elements such as branding of football matches from being shown in a public place. The Premier League can pursue prosecutions of licensees who show branding of matches via foreign satellite systems. Karen Murphy has won her case in the High Court following the ruling from the European Court of Justice. The ruling from Justice Stanley Burnt on allows Ms Murphy to shop for the cheapest foreign satellite provider. However the ruling from Justice Kit chin prevents Ms Murphy from showing matches in her pub via foreign satellite systems because branding are copyrighted. It is no longer illegal though for a customer to purchase a foreign viewing card from an EU country and use it outside the territory.

Cell phones

The emergence of the GSM international standard for cell phones in 1990 prompted the beginning of the grey market in the cell phone industry. As global demand for mobile phones grew, so did the size of the parallel market. Today, it is estimated that over 30% of all mobile phones traded will pass through the grey market and that statistic continues to grow. It is impossible to quantify an exact figure, but sources suggest that as many as 500,000 mobile phones are bought and sold outside official distribution channels through their trading platforms every day.

The driving forces behind a heavily active mobile phone grey market include currency fluctuations, customers demands, manufacturers policies and price variations. It is not uncommon for grey market traders to introduce a product into a market months in advance of the official launch. This was evident with the launch of the iPhone 4, where international grey market traders bought large

quantities at Apple's retail price then shipped to countries where the product was not available adding a substantial margin to the resale price.

Computer games

Purchasing some games from online content distribution systems, such as Valve's Steam, simply requires entering a valid CD key to associate with an account. In 2007, after the release of *The Orange Box*, Valve deactivated accounts with CD keys that were purchased outside of the consumer's territory in order to maintain the integrity of region-specific licensing. This generated complaints from North American customers who had circumvented their Steam end-user license agreement by purchasing *The Orange Box* through cheaper, market retailers.

Due to regional lockout, videogame consoles and their games are often subjected to grey market trade and are chosen as the alternative to modding by some gamers. The reasons for this may range from the console being crippled in some markets to that of the desired game not being released for the market the potential consumer of the game is in.

PC Code Stripping is a process by which boxed PC product is bought in large quantities at cheap rates. Manual labor is then used to open the box, retrieve the activation code from the box and enter the code into a database. The activation code is then sold online as a download key and the physical product is discarded.

Electronics

There is a grey market in electronics in which retailers import merchandise from regions where the prices are cheaper or where regional design differences are more favourable to consumers, and subsequently sell merchandise in regions where the manufacturer's selling price is more expensive. Online retailers are often able to exploit pricing disparities in various countries by using grey-market imports from regions where the product is sold at lower costs and reselling them without regional buyer restrictions. Websites such as Taobao and Amazon.com enable customers to buy products designed for foreign regions with different features or at cheaper costs, using parallel importation. The grey market for photographic equipment and other such electronics is thriving in heavily taxed states like Singapore with dealers importing directly from lower taxed states and selling at lower prices, creating competition against local distributors recognised by the products' manufacturers. Grey sets, as colloquially called, are often comparable to products purchased from the manufacturer's preferred retailer. Lenses or flash units of parallel imports often only differ by

the warranty provided, and since the grey sets were manufactured for another state, photographic equipment manufacturers often offer local warranty, instead of international warranty, which will render grey sets ineligible for warranty claims with the manufacturer. Because of the nature of local warranties, importers of grey sets usually offer their own warranty schemes to compensate for the manufacturers' refusal of service. Grey sets do not differ particularly from official imports. They look and function identically. In the salad days of camera sales during the 60s and 70s, when lenses had amber coating, the bargain basements for Japanese equipment were Hong Kong and Singapore, through which goods were channeled to European shop windows bypassing the often substantial levy of the official importers. World-market pricing and the Internet have largely eliminated this. Canon gives their hard-selling DSLR cameras names like "Rebel" in the USA and "EOS xx0/xx00" outside it, aimed at preventing the competitively priced US-merchandise reaching Europe where sales are slower but achieve a higher profit.

Frequent-flyer miles

Trade or bartering of frequent-flyer miles is prohibited by nearly all major airlines, although an authorised medium exists for specific frequent flyer programs.^[16] Unauthorised exchanges of frequent flyer miles – of which several exist – are also major examples of grey markets.

Pharmaceuticals

Some prescription medications, most notably popular and branded drugs, can have very high prices in comparison to their cost of transport. In addition, pharmaceutical prices can vary significantly between countries, particularly as a result of government intervention in prices. As a consequence, the grey market for pharmaceuticals flourishes, particularly in Europe and along the US–Canadian border where Canadians often pay significantly lower prices for US made pharmaceuticals than Americans do.

Stock market securities

Public company securities that are not listed, traded or quoted on any U.S. stock exchange or the OTC markets are sometimes purchased or sold over the counter (OTC) via the grey market. Grey market securities have no market makers quoting the stock. Since grey market securities are not traded or quoted on an exchange or interdealer quotation system, investors' bids and offers are not collected in a central spot so market transparency is diminished and effective execution of orders is difficult.^[20]

Textbooks

College level textbooks have a grey market, with publishers offering them for lower prices in developing countries or sometimes the uk.

These books typically contain a disclaimer stating that importation is not permitted. However, the U.S. Supreme Court decisions *Quality King v. L'anza* (1998) and especially *Kirtsaeng v. John Wiley & Sons, Inc.* (2013, involving textbooks imported from Thailand by an eBay seller) protect the importation of copyrighted materials under the first-sale doctrine.

UNIT-5

ROLE OF EXPORT MARKETING IN INTERNATIONAL TRADE

TRADE Transfer of ownership of goods or services. Trade is sometimes loosely called commerce or financial transaction or barter. **INTERNATIONAL TRADE** International trade is the exchange of capital, goods, and services across international borders. **EXPORT** In International Trade, "exports" refers to selling goods and services produced in the home country to other countries. The seller of such goods and services is referred to as an "exporter". **IMPORT** In International Trade, "imports" refers to buying goods and services produced in a foreign country to other countries. The buyer of such goods and services is referred to an "importer". **EXPORT MARKETING**

Export marketing means exporting goods to other countries of the world as per the procedures framed by the exporting country as well as by the importing country. Export marketing has wider economic significance as it offers various advantages to the national economy. It has brought back several nations back from the dead. **DEFINITION** According to B. S. Rathor "Export marketing includes the management of marketing activities for products which cross the national boundaries of a country". "Export marketing means marketing of goods and services beyond the national boundaries".

FEATURES

1. Systematic Process – Export marketing is a systematic process of developing and distributing goods and services in overseas markets. The export marketing manager needs to undertake various marketing activities, such as marketing research, product design, branding, packaging, pricing, promotion etc.
2. Large Scale Operations – Normally, export marketing is undertaken on a large scale. Emphasis is placed on large orders in order to obtain economies in large scale production and distribution of goods.
3. Dominance of Multinational Corporations – Export marketing is dominated by MNCs, from USA, Europe and Japan. They are in a position to develop worldwide contacts through their network and conduct business operations efficiently and economically.

4. Trade barriers – Export marketing is not free like internal marketing. There are various trade barriers because of the protective policies of different countries. Tariff and non-tariff barriers are used by countries for restricting import.

5. Documentation – Export marketing is subject to various documentation formalities. Exporters require various documents to submit them to various authorities like bill of lading.

Need / Importance of Export Marketing at the National Level:

1) Earning foreign exchange – Exports bring valuable foreign exchange to the exporting country, which is mainly required to pay for import of capital goods, raw materials, spares and components as well as importing advance technical knowledge.

2) International Relations – Almost all countries of the world want to prosper in a peaceful environment. One way to maintain political and cultural ties and peace with other countries is through international trade.

3) Balance of payment – Large – scale exports solve BOP problem and enable countries to have favourable BOP position. The deficit in the BOT and BOP can be removed through large-scale exports.

4) Reputation in the world – A country which is foremost in the field of exports, commands a lot of respect, goodwill and reputation from other countries.

5) Employment Opportunities – Export trade calls for more production. More production opens the doors for more employment opportunities, not only in export sector but also in allied sector like banking, insurance etc.

Need / Importance of export marketing at Business / Enterprise Level

1) Reputation – An organization which undertakes exports can become famous not only in the export markets, but also in the home market. For example, firms like Phillips, , Sony, coca cola, Pepsi, enjoy international reputation.

2) Optimum Production – A company can export its excess production after meeting domestic demand. Thus, the production can be carried on up to the optimum product

3) Spreading of Risk – A firm engaged in domestic as well as export marketing can spread its marketing risk in two parts. The loss in one part (i.e. in one area of marketing) can be compensated by the profit earned in the other part / area.

4) Higher profits – Exports enable a business enterprise to earn higher prices for goods. If the exporters offer quality products, they can charge higher prices than those charged in the home market and thereby raise the profit margin.

A typical export marketing plan focuses on the following aspects :

1. Marketing Objectives- The first step in developing an export marketing plan is to establish export marketing objectives. These objectives should be attainable, realistic and should be communicated throughout the business firm. Since they will determine the business firm's direction and its activities, management will have to devote considerable time and effort to setting them.

2. Market Segmentation- An export marketing plan is not complete until the business firm has identified its target segment in the export market. Any large market would have different market segments that differ substantially from each other.

3. Market Research- To succeed in export trade, A business firm must identify attractive export markets and estimate the export potential for its products in them. Market research and forecasting are therefore, of great importance.

4. Product Characteristics- The business firm should next consider the products that it has to offer. An analysis should be any modifications required in the products, packaging changes needed labeling requirements, brand name and after sales services are expected.

5. Export Pricing- In setting an export price, the business firm should consider additional costs that do not enter into pricing for the domestic market such as international freight and insurance charges, product adaptation costs, import duties, commissions for import agents and foreign exchange risk coverage.

CHALLENGES TO EXPORT MARKETING

1. Technological differences- The developed countries are equipped with sophisticated technologies less developed countries, on the other hand, lack technical knowledge and latest equipments.
2. Reduction in export Incentives– Over the years, the Govt. of India has reduced export incentives such as withdrawal of income tax benefits for majority of exporters. The reduction in export incentives de-motivates exporters
3. Several competitions in global marketing– Export marketing is highly competitive. Indian exporters face three-faced competition while exporting.
4. Problem of product standards– Developed countries insist on high product standards from developing countries like India. The products from developing countries are subject to product tests in the importing countries.
5. Problem in preparing Documents– Export involves a large number of documents. The exporter will have to arrange export documents required in his country and also all the documents as mentioned in the documentary letter of credit. In India, there are as many as 25 documents.

IMPORTANCE OF EXPORT MARKETING

- 1)Increased Sales and Profits. Selling goods and services to a market the company never had before boost sales and increases revenues. Additional foreign sales over the long term, once export development costs have been covered, increase overall profitability.
- 2)Enhance Domestic Competitiveness Most companies become competitive in the domestic market before they venture in the international arena. Being competitive in the domestic market helps companies to acquire some strategies that can help them in the international arena.
- 3)Gain Global Market Shares. By going international companies will participate in the global market and gain a piece of their share from the huge international marketplace.
- 4)Diversification. Selling to multiple markets allows companies to diversify their business and spread their risk. Companies will not be tied to the changes of the business cycle of domestic market or of one specific country.

5) Lower Per Unit Costs. Capturing an additional foreign market will usually expand production to meet foreign demand. Increased production can often lower per unit costs and lead to greater use of existing capacities.

EXIM policy of india:

The Export-Import Policy (EXIM Policy), announced under the Foreign Trade (Development and Regulation Act), 1992, would reflect the extent of regulations or liberalization of foreign trade and indicate the measures for export promotion. Although the EXIM Policy is announced for a five-year period, announcing a Policy on March 31st of every year, within the broad frame of the Five Year Policy, for the ensuing year.

A very important feature of the EXIM policy since 1992 is freedom. Licensing, quantitative restrictions and other regulatory and discretionary controls have been substantially eliminated.

The Union Commerce Ministry, Government of India announces the integrated Foreign Trade Policy FTP in every five year. This is also called EXIM policy. This policy is updated every year with some modifications and new schemes. New schemes come into effect on the

first day of financial year, i.e., April 1, every year. The Foreign Trade Policy which was announced on August 28, 2009 is an integrated policy for the period 2009-14.

Export-Import (EXIM) Policy frames rules and regulations for exports and imports of a country. This policy is also known as Foreign Trade Policy. It provides policy and strategy of the government to be followed for promoting exports and regulating imports. This policy is periodically reviewed to incorporate necessary changes as per changing domestic and international environment. In this policy, approach of government towards various types of exports and imports is conveyed to different exporters and importers.

Export refers to selling goods and services to other countries, while import means buying goods and services from other countries. Now in the era of globalization, no economy in the world can remain cut-off from rest of the world. Export and import play a significant role in the economic development of all the developed and developing economies. With the growth of international organisations like WTO, UNCTAD, ASEAN, etc., world trade is growing at a very fast rate.

The principal objectives of this Policy are:

- 1) To facilitate sustained growth in exports to attain a share of atleast 1 % of global merchandise trade.
- 2) To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.
- 3) To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.
- 4) To provide consumers with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for the domestic produce.

Export costing and pricing:

In the era of Global Market Economy and fierce competition, importance of accurate costing of product need not be over – emphasized. In accurate costing can lead to either losing of orders or losing of profits. Export pricing is most important tool for promoting sales and contesting international competition. Exporter has to face domestic producers in the export market, producers in other competing supplying countries and domestic producer's in one owns country. Costs, Demand and Competition are the three important factors that determine price. The price for export should be as realistic as possible. The exporter has to exclude cost for domestic production which are not applicable for export and add those elements of costs which are relevant to export product. Exporter has to compete with manufacturers formal over the world. Hence, his price has to be realistic considering all export benefits and price in foreign market.

There is no fixed formula for successful export pricing. It differs from exporter to exporter depending upon whether the exporter is a merchant exporter or manufacturer exporter or exporting through canalizing agency. Exporter has to assess the strength of his competitor And anticipate the move of competitor in the market of operation. Exporter can still be competitive with higher prices with better delivery package or added advantage.

Following are few examples of such factors :

- Range of product offered
- Prompt deliveries and continuity in supplies
- Product differentiation and brand image
- Frequency of purchases
- Presumed relationship between quality and price
- Credit offered

Pricing Vs Costing :

There is a lot of confusion between the price and the cost. Many consider these synonymous. A few points to give you a mental pictures of these points are as under

- Price is what we offer to the customer. Cost is the price that we pay / incur for the product.
- Price includes our profit margin. Cost only gives the expenses we have incurred.
- Costing is the Cost Accountant's privilege. Pricing is the Marketing man's privilege.

Export Price :

Once the Ex- works / purchase price has been decided the additional expenses that have to be added are as under :

- Loading charges from work to truck/ rail/ air etc.
- Freight charges to port of shipment
- Clearing and forwarding charges
- Dock charges / wharf age/ terminal handling charges etc.
- Freight charges to the destination port
- Insurance charges
- Insurance (both to port of shipment and destination)
- Commission
- Interest charges
- Guarantee/Warrantee costs

In order to withstand international competition, the Government offers certain exemptions and incentives / benefits. These are additional realizations which tend to reduce the cost of your product. the following are few of them :

- There is no sales tax applicable on the final product

- There is no excise applicable on the final product
- Duty free import of raw materials, components and consumables is permitted under the advance licensing scheme.
- Income tax benefit under 80HHC
- Special import license
- Credit of duty under the duty Entitlement Pass Book Scheme
- Any other special subsidy announced by the government

Special Factors for Exporting Pricing :

There are many unique factors relating to goods to be sold abroad. These factors influence their determination in comparison to those having bearing on pricing for domestic products. These factors may be delivery schedules, terms of payments, motivation of pricing, size of order etc.

Factors that increase price of Export Products :

- Special packing, marking and labeling
- Additional supervision and effort for Export product
- Export Transaction cost
- Cost of Export Procedure
- Marketing cost
- Additional Insurance cost

Factors that reduce price of Export Products :

- Export Assistance and Facilities
- Refund or exemption from excise duty
- Lower price due to Imported components and spares
- Import of raw materials at International price
- Benefit of economy of scale
- Cheaper Export credit

Ascertaining Exact Benefits from Export Assistance Schemes :

In order to ascertain the exact benefits that can be derived from export assistance schemes it is necessary first to locate the exact clarification or SI. Number of the product under these schemes.

The problem is exacerbated for products carrying specific brand names, as the brand rate may differ from the all industry rate. This occurs for example, under the duty drawback credit scheme, which provides relief on the customs and excise duties paid on raw materials and components used in export production. The exporter should be aware of two types of drawback rates :

1. All industry rates : These are published in the form of a government notification every year and are normally valid for one year.
2. Brand rates : These are fixed at the exporters or the manufacturer request.

Components, spare parts, ancillary items : Finding out the rate of assistance for components, spare parts or ancillary items of the main product exported can be a problem. To determine the exact rate of assistance it is necessary first to determine the exact classification of the product which has to be priced. This is especially important as the classification of a primary or main product may differ than from those of its components or ancillaries. The rate of assistance may sometimes be the same for the primary items and the co – product. Furthermore, there are common or general rates applicable to products which are not classifiable under any of the SI. Numbers for which specific policies have been laid down. Where it is not possible for exporters to determine the classifications on their own, they may seek the assistance of the disbursing authorities or organizations set up to help them.

When approaching an organization like an Export Promotion Council, licensing authorities or the Drawback Directorate for a product classification, the exporter must present the details required to establish this classification. These include the technical and trade name of the product, its various uses and its essentials ingredients (raw materials, etc.).