INTERNATIONAL MARKETING

MCOM

Semester - I

MCOM - 103

SHRI VENKATESHWARA UNIVERSITY

UTTAR PRADESH-244236

BOARD OF STUDIES

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Mr. Shakeel Kausar
Dy. Registrar

Authors

Raj Agarwal, Director, College of Management Studies,IILM Academy for Higher Learning, Noida
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Arun Kumar, Professor, NIILM Centre of Management Studies, New Delhi
N Meenakshi, Asstt. Professor, NIILM Centre of Management Studies, New Delhi
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Rajagopal PhD, FRSA (London), Professor, Department of Marketing, Business Division, Monterrey Institute of Technology and Higher Education, ITESM Mexico City Campus, Mexico
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Regd. Office: A-27, 2nd Floor, Mohan Co-operative Industrial Estate, New Delhi 1100 44
Website: www.vikaspublishing.com • Email: helpline@vikaspublishing.com

SYLLABI-BOOK MAPPING TABLE

International Marketing

Syllabi	Mapping in Book
Unit I Framework of International Marketing: Concept, scope its growing importance, factors affecting international marketing; Controllable and uncontrollable factors; International Marketing environment: cultural, political, geographical economic and legal requisitions trade clearance (tariff and non tariff behaviours).	**Unit 1:** Framework of International Marketing **(Pages 3–21)**
Unit II Market Selection-Market profiling, market segment selection. Market entry strategies: MNCs and World Markets. Market Agreements in Force-Free trade zones. Export Finance-EXIM Bank, Institutional Finance for import; IDBI ECGC and export credit insurance.	**Unit 2:** Market Strategies and Export Finance **(Pages 23–61)**
Unit III International Marketing decision; International product planning Product design strategy, new product development; branding packaging and lebeling. International pricing strategy. Pricing objectives, pricing methods dumping, transfer pricing, retrograde pricing, International Channels of Distribution International channel system direct exports, indirect exports, marketing environment and distribution strategies, international logistics. International promotion: determining advertising strategy, communication mix role of export organization, management of sales force.	**Unit 3:** International Marketing Decisions **(Pages 63–121)**
Unit IV Organization and Planning International Marketing. New perspectives on organization-corporate networking; dimensions of international planning and strategy. International marketing information system and marketing research.	**Unit 4:** Organization and Planning **(Pages 123–143)**
Unit V WTO and trade liberalization International Marketing institutions; Central advisory council; Export development councils, commodity boards, Export promotion council. Trade development authority; Trade fair authority, STC, MMTC, India's foreign trade and balance of payment position. Export procedure, export incentives and subsidies.	**Unit 5:** Trade Liberalization and Export Procedure **(Pages 145–169)**

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INTRODUCTION

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International marketing or Global marketing refers to marketing carried out by companies overseas or across national borders. In other words, international marketing is the application of marketing principles to expand trade across national boundaries. This implies an extension of the techniques used in the home country of a firm.

Advances in technology and communication have facilitated cross-border trade and business. For companies seeking to go global, however, there are a number of issues at stake. Doing business in a foreign location is not the same as doing business in one's home country. One needs to examine the international marketing environment in detail. There could be significant legal, cultural and political barriers as well. The same mix of products, marketing strategies and pricing that works so well in the home country may be a complete failure in a foreign market. Therefore, it is important that the potential market is studied and analyzed carefully. Product and market segmentation is an essential step in that direction. It is also important to know the standards and product rules and regulations followed in the country and the cultural habits prevailing in the target market.

This book, *International Marketing*, deals with the issues mentiond above and gives a new prespective on the emerging trends. It also looks at how liberalization has changed the global marketing scenario and the role of international marketing institutions. The book will give you an idea about India's froeign trade and balance of payment.

The learning material in this book, *International Marketing*, has been presented in the self-learning format, wherein each unit begins with an *Introduction* to the topic followed by an outline of the *Objectives*. The detailed content is then presented in a simple, structured and easy-to-grasp style interspersed with '*Check Your Progress*' questions to test the student's understanding. At the end of each unit, a *Summing Up* and a list of *Key Terms* have been provided for recapitulation.

UNIT 1 FRAMEWORK OF INTERNATIONAL MARKETING

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Structure

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1.2 International Marketing: Concept and Scope
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1.0 INTRODUCTION

Whether an organization markets its goods and services domestically or internationally, the definition of marketing remains almost the same.

However, the scope and importance of marketing is broadened when the organization decides to sell across international boundaries. This is primarily due to the numerous factors that the organization has to take into consideration – these include the geographical, economic, cultural, political and legal environment. It is important to understand that marketing environment plays a great role in all business matters.

In this unit, you will learn about the basic framework of international marketing, its importance and scope, the controllable and uncontrollable factors that include the 4 P's of marketing and the marketing environment in detail.

1.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the framework of international marketing
- Explain the international marketing environment and discuss its impact on international business
- Describe the tariff and non-tariff requisitions of international marketing

1.2 INTERNATIONAL MARKETING: CONCEPT AND SCOPE

International marketing includes the marketing activities or transactions that are carried out beyond the national borders of a country. However, not all business activities beyond the national border can be considered under international marketing. For

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example, an organization importing some raw materials or items from a foreign country that are not available in the domestic country cannot be considered an international business organization as the level of internationalization is very small. On the other hand, an organization importing input from a foreign country even though it is available domestically can be considered an international business firm. Therefore, as the environment and the purpose of business activities differ, so does the level of internationalization of firms. Organizations that import and export their inputs and outputs domestically and globally can also be considered international business firms.

This is because the decision of importing and exporting are a result of global sourcing. International business can occur in different modes, which can be exporting, licensing, contract manufacturing, foreign assembly, foreign production, joint venturing and others. A 'joint venture' refers to combining two or more parties to participate in financial activities. These parties create a new entity by contributing equally economically. The level of internationalization in an organization also depends on these modes. Many domestic products manufactured by organizations can also be considered international products if parts or components of these products are manufactured in foreign countries. The term 'international business' not only refers to international business transactions of goods and services but also foreign direct investments (FDIs). The term FDI consists of a parent firm and a foreign partner that combine to form a transnational corporation. A transnational corporation, also known as a multinational corporation (MNC), carries out its business activities in at least two countries.

1.2.1 Importance of Marketing

'Marketing consists of the strategies and tactics used to identify, create and maintain satisfying relationships with customers that result in value for both the customer and the marketer.' (*Source:* Marketing Management by KS Chandrasekar)

Let us examine this definition in a little more detail by focusing on a few key terms.

Strategies and tactics: Marketing strategies determine the direction of the marketing effort over some period of time. Tactics are complementary to strategies. These can be defined as actionable steps or decisions made in order to follow the strategies established. For example, if a company has evolved a strategy to enter a new market, the tactics may involve the marketing decisions made to carry this out. The right kind of marketing strategies and tactical planning activities in advance of taking action are considered critical for long-term marketing success.

Identify: In international marketing, the most important marketing function involves identifying and gaining knowledge of customers, competitors, and new and emerging markets.

Create: Competition creates marketing. Marketing forces marketers to be creative people. Creativity in marketing involves starting new ventures, such as building a new company, a new product, a new way to distribute a product and a new advertising approach. Innovation in marketing is a continuous process. Even after a new venture has been launched, innovation does not end. The marketer, who must respond by devising new strategies, continually feels competitive pressure and must bring out new tactics that will help the organization remain successful.

Maintain: Marketing is a long-term relationship with customers. Its success is displayed not only in terms of sales but is also determined by how long a marketer can retain

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good customers. Relationship marketing is the new buzz word, wherein marketers are trained to ensure that their customers return to purchase from them again. In most marketing situations today, relationship marketing emphasizes that marketers' attempts to attract customers do not end when a customer makes a purchase. In fact, they continue in various ways for a long time after the initial purchase.

Satisfying relationships: Customer Relationship Management (CRM) is now a strategic approach that ensures that everyone in an organization, not just the marketer, understands the importance of customers. A major objective of marketing is to provide products and services that customers really want. It is also to ensure that the customer and the marketer forge a good relationship with each other. In this way the customer is made to feel as if she/he is a partner in the transaction and not just a source of revenue for the marketer. In recent years, this has led to the concept of maintaining close and consistent relationships with customers. It is crucial to have all points of customer contact, but to achieve this is difficult. Technology is also important in carrying out CRM, so that whosoever in an organization comes into contact with a customer (e.g., sales force, service force, customer service representatives, and accounts receivable) has the necessary information and is well prepared to deal with the customer.

Value for both customer and marketer: Value contains perception of benefits received against the consideration of money that someone should give up. Customers' value is most often measured in proportion to money which is given in exchange for something that is satisfying to them. On the other side of the transaction, the marketer may measure value in terms of how much profit they are making for the marketing efforts and resources expended. For a successful marketing effort to take place, both the customer and the marketer must feel that they are receiving something worthwhile. Without a strong perception of value it is unlikely that a strong relationship can be built.

What Marketers Do

In international marketing, it is imperative to create a relationship that holds value for customers and for the organization. Marketers generally use the following approach in decision-making to achieve the desired goals:

- **Target markets:** These are generally identified as possessing needs which can be addressed by the marketer by making marketing efforts.
- **Products/services:** These are generally identified to be either tangible or intangible. These are provided by marketers on the basis of need.
- **Promotion:** This is an approach of communicating information about the marketing organization's solution to the market.
- **Distribution:** It can be described as a means used to allow the market to obtain the solution.
- **Pricing:** It is an approach by which the marketer adjusts the cost to the market for the solution.
- **Services:** This is a process by which additional value can be created.

1.3 FACTORS AFFECTING INTERNATIONAL MARKETING

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At its simplest level, international marketing involves the firm making one or more marketing mix decisions across national boundaries. At its most complex level, it involves the firm establishing manufacturing facilities overseas and coordinating marketing strategies across the globe.

According to J. M. Hess and P. R. Cateora, in their book *International Marketing*, 'International marketing is the performance of business activities that direct the flow of goods and services to consumers or users in more than one nation.'

According to L. S. Walsh, in his book *International Marketing*, 'International marketing is the marketing of goods and services across national frontiers.'

International marketing is the marketing function of multinational organizations.

The most relevant factors for a firm affecting marketing abroad are the following:

1. **Social factors**
    - Culture of the country
    - Language of the country
    - Environment and climate of the country
    - Marketing infrastructure
    - Financial system
2. **Economic factors**
    - Currency restrictions of the country
    - Government policy
    - Taxation
    - Internal demand management policies
3. **Opposition**
    - Opposing organizations in the importing country
    - Opposing organizations in competing countries
    - Opposing organizations in own country
4. **Logistics**
    - Costs of planning and controlling the movement of goods
    - Transportation required
5. **Risks**
    - Political and commercial risks
    - Risks from enemies, thieves and piracy

1.3.1 Controllable and Uncontrollable Factors

Controllable factors are often called as marketing mix. We remember these factors as the 4 P's of marketing. Marketing mix is a particular combination of product, its price, the methods to promote it, and the ways to make the product available to the customer. A company develops its marketing mix based upon its understanding of customers. The elements of the marketing mix are intricately related to each other. All the elements

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have to reinforce each other to enhance the experience of the customer. Even after a change has been made, it is important to check if the changed element still fits and reinforces other elements or if it is contradicting other elements and therefore making the marketing mix less effective in serving customers. It is the responsibility of the managers to manage these 4Ps in such a way that customer satisfaction level is higher than the competitions. Let us look at the 4P's of marketing —Product, Price, Promotion and Place.

1. Product

Product decision involves deciding what goods or services should be offered to customers. The product or service serves the basic need of the customer and provides primary value. A customer must have got interested in the company mainly because of the product or service it was providing or proposed to provide. All other elements should reinforce the value proposition of the product. New product development is an important element of product strategy. Products become out-of-date and go out of competition due to changes in technologies and taste. Due to this, the companies must replace them with new designs and features that are liked by the customers. The challenging task is to include the latest available technologies and solutions into the latest needs of the customers. Product decisions of the customers depend on brand names, warranties, packaging and services which a product might.

2. Price

Price is the cost that a customer is willing to pay for a product that is made available to him. Price represents a unit basis that a company receives for the product it markets. Marketers should be careful about pricing objectives, the methods to arrive at a price and also about the different factors that help to fix a price. The company must also take into account the necessity to give discounts and allowances in some transactions. If there is a need to extend discounts and concessions in certain transactions then the list price should have a negotiation margin built in it. The real price received in any transaction is also affected by payment periods and credit terms. These kinds of decisions can affect the perceived value of a product.

Price can be changed easily in comparison to other elements of the marketing mix. An ill-considered price change can change the perceptions of the customer about the value of the marketing mix. A customer builds a strong association between price and quality in the absence of any objective knowledge about the quality of a product. If the price of a product is reduced, then there are chances that customers may start regarding the product as inferior. If a company raises the price, customers may consider it a high quality product, but there is also the risk that customers may regard the price too high for the value that they are getting from the product. Price change, though easy to make, should always be done taking into consideration the effect the change will have on the attractiveness or of the marketing mix.

3. Promotion

Decisions have to be made regarding advertising, personal selling, sales promotions, exhibition, sponsorship and public relations with respect to promotional mix. These help the target audience to be aware of the product and its benefits.

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The type of promotional tool used has to complement other elements of the marketing mix. An expensive product, like machinery, with limited number of customers should be promoted through personal contacts between buyers and salespersons. Advertising in the mass media will be wasteful in such cases as the number of customers is far too small. It would also be ineffective as the customers will not buy an expensive product based on limited information provided in an advertisement. In such cases customers require extensive information to be able to make a choice. On the other hand an inexpensive product bought by the mass market can be advertised on the mass media. The media used, the celebrity chosen to endorse the product, the training provided to the salesperson etc. should reflect and reinforce other elements of the marketing mix.

Normally a company makes its first contact with customers through promotional efforts. Customers normally do not buy products unless they have formed certain expectations about it. Promotions help to shape the expectations of customers about the product. Promotion can raise the expectation of the customers if rightly used. This also helps to drive sales. On the other hand, if a product is hyped and unrealistic, then the customers might get disappointed when they actually use the product. Such disappointments will create negative word-of-mouth complaints and a permanent dent in the reputation of a company.

4. Place

Place involves decisions on the distribution channels to be used, location of outlets, methods of transportation and the inventory levels to be held. Product should be available in the right quantity, at the right time and place. Distribution channels are comprised of independent intermediaries such as retailers, wholesalers, and distributors through which goods pass to reach the end users. These intermediaries provide cost-effective access to the marketplace. It will be extremely costly and cumbersome for the manufacturers to arrange the entire infrastructure needed for the transfer of goods to the customers. To have a smooth system it is important for the manufacturers to manage and structure relationships with the intermediaries so that the interests of both are served.

Distribution channels perform three distinct functions. Products are transferred from the manufacturer to the customers through the different distribution channels. They pass information from the manufacturer to the customers, and they collect payment from the customers on behalf of the manufacturers. It is possible to segregate these three functions as alternate means of delivering products, passing information and collecting money. Information is provided on the manufacturer's website in case of internet marketing. The product is sent from the stores of the manufacturers to the customers through different courier services and payment is collected by banks through credit cards. A company should have an open mind while designing its distribution strategy. The three functions have to be performed but it is not essential that all the three functions are performed by one channel. Each of the three channels can perform a different function individually depending on the efficiency of the channel and its effectiveness in carrying out the function.

Uncontrollable factors include the marketing environment: the political, legal, cultural, geographical and economic factors which are discussed in unit 1.4.

Check Your Progress

1. What are the modes of international business?
2. State the controllable factors of international marketing.
3. What does FDI consists of?

1.4 MARKETING ENVIRONMENT

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A key challenge for international marketers is to develop a good understanding of the international business environment. To identify the key environmental factors that are of importance to the success of international marketing and discuss their impacts on international marketing decisions is important. In order to be successful at international marketing, it is vital that marketers attain a thorough understanding of these factors as they impact the international business environment and take them into account when carrying out decisions on marketing activities.

Let us discuss these environmental factors in detail:

1. Cultural Environment

International marketing encompasses people from different cultures and thus every business activity in another country is subject to cultural challenges. The extent of cultural influence varies in accordance with the nature of industrial and consumer products and services. Consumer products, by virtue of their marketing process such as mass advertising, sales promotion and personal selling tend to require a strong degree of cultural awareness since this knowledge relates to the human communication that is indispensable to the selling process. On the contrary, industrial products may have lesser requirements for cultural awareness, as sometimes the negotiation in business-to-business or the industrial marketing segment is based on a situation and does not depend on the cultural adaptation process. For example, the technical specifications for an industrial ceramic automotive component might be the same in New York as they are in Tokyo or Moscow. Under such circumstances what is important to make this sale, is the price of the component and how it fits the specifications required by the component.

The traditional high esteem for the word in Europe is reflected for instance in their elaborate business correspondence. Europeans not only love to talk extensively in negotiations, they also draw up long minutes of meetings and letters of confirmation. They strive to put the progress of their business in exact words in order to keep going. Japanese enterprises, on the other hand, are not especially fond of correspondence. Compared to European business letters, Japanese letters tend to be brief and, in the European view, sometimes not sufficiently precise. Even differences in detail of communication may cause problems in business relationships.

In Europe, contracts as a principle are put in writing, and written contracts are minutely drafted. In this way one tries to provide for all conceivable problems of the contractual relationship in advance. In Japan, a 1987 survey revealed that in practice 71 per cent of business contracts were concluded only orally. But even if Japanese contracts are put in writing, they are often only of a summary nature. In Europe, such summary contracts will be of little use. For example, a German labour contract typically comprises 10 pages. A Japanese company followed Japanese practice in Germany and concluded a 1-page employment contract with a German employee. For this reason alone, the Japanese company stood no chance of winning when it was sued by the employee before a German labour court. Sometimes there is the impression that Japanese enterprises do not readily enter into written contracts because they want to retain their freedom of action and flexibility in the future. According to traditional

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Japanese thinking, a good personal relationship between the parties reinforced by *giri* obligations is more important than a written contract. *Giri* is a moral obligation to loyalty incurred by a special favour which is borne by the beneficiary until he has satisfied it by a definite but unspecified act of gratitude.

Corporations of any kind cannot escape the social environment that surrounds their activities in the host countries. With the ever-increasing internationalization of companies the role of national culture in business is unquestionable. It has been observed that some multinational companies experience serious culture shocks because of their cultural ignorance. However, the most efficient ones are well prepared to make good use of the cultural differences within the organization.

Defining Culture

'Culture' refers to the distinctive way of life of a group of people—their complete 'design for living'. Culture seems to be the master concept of American anthropologists. For ethnologists, folklorists, anthropological linguists, archaeologists and social anthropologists, culture is always a point of departure or a point of reference if not invariably the point of emphasis.

Accepted Propositions on the Theory of Culture

- Culture is learned
- Culture derives from the biological, environmental, psychological, and historical components of human existence
- Culture is structured
- Culture is divided into aspects
- Culture is dynamic
- Culture is variable

Culture exhibits regularities that permit its analysis by scientific methods. Culture is the instrument whereby the individual adjusts to his total setting and gains the means for creative expression Culture consists of patterns, explicit and implicit of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on one hand, be considered as products of action, on the other, as conditioning elements in a future action. Culture has many complex dimensions to define in simple terms. It seems that each anthropologist has defined culture from his own perspective. However, certain anthropological thinkers had agreed on fundamentals, as may be seen from the description provided by Hoebel – 'Culture is the integrated sum total of learned behavioural traits that are shared by members of a society.' Culture may be described in reference to three basic concepts. First, culture is a total pattern of behaviour that is consistent and compatible in its components. It is not a collection of random behaviours, but behaviours that are related and integrated. Second, it is a learned behaviour and not biologically transmitted. It depends on environment, not heredity. It can be called the man-made part of our environment. Third, culture may be manifested in the behaviour that is shared by a group of people or a society. It can be considered as the distinctive way of life of a people. Accordingly,

a marketing manager of an international firm is supposed to be familiar with the reference groups, social class, consumption systems, family structure and decision-making, adoption and diffusion, market segmentation, and consumer behaviour in order to understand the cultural environment in the host country.

Facets of Culture vis-à-vis International Business

- Technology and material culture
- Language
- Aesthetics
- Education
- Religion
- Perceptions and Attitudes
- Social Values and Life Style (VALS)
- Social organization
- Political life

Culture is an essential dimension of business development. Business solutions should be tailored to locally relevant traditions and institutions and these activities should make use of local expertise and knowledge. The international company entering the host country should ensure that people, their cultures and society, and their organizations and institutions are taken into account in formulating business goals and operational strategies. Such development coordination with local culture improves the lives of people, especially the poor, and builds the social capital for a company to sustain long in the host country.

Culture contributes to core business development objectives by:

- Providing new opportunities for local communities to share skills and generate incomes from their own cultural knowledge
- Catalyzing local-level development through communities using their diverse social, cultural and economic resources
- Conserving and generating revenues from existing assets, that is, reviving city centres, conserving natural resources and generating sustainable tourism revenues
- Strengthening social capital by providing marginalized groups a basis to pursue activities that enhance their self respect and efficacy, and to strengthen respect for diversity and social inclusion
- Diversifying strategies of human development and capacity building for knowledge-based dynamic societies e.g., through support to local publishing, library and museum services.

The influx of women and the increasing ethnic and cultural diversity in the workforce yield exciting challenges and significant opportunities. Included among these is the need to combine the best of the leadership styles of both men and women for a firm's benefit and to identify ways to facilitate contributions from all the employees of the firm.

An example of a firm attempting to do this is Avon. Four out of the eleven members of the board are women, and more than 40 per cent of its global managers

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are women. Some companies now provide training to nurture the leadership potential among women and ethnic minorities. Changes in organizational structure and management practices are often required so as to eliminate subtle barriers that may exist.

Learning to manage diversity in the domestic workforce can increase a firm's effectiveness in managing a globally diverse workforce, as it acquires more international operations. This kind of commitments to promote and manage diversity enhances a company's performance. Firms must also have a reasonable understanding of the different cultural and institutional attributes of global markets in which they operate or hope to operate. For example, a firm operating in South Korea must understand the value placed on hierarchical order, formality, self-control, and on duty rather than rights.

Furthermore, Korean ideology places emphasis on communitarianism, a characteristic of many Asian countries. The Korean approach differs from that of Japan and China with its focus on *Inhwa* or harmony. *Inhwa* is based on respect for hierarchical relationships and obedience to authority.

Alternatively, the approach in China is focused on *Guanxi* or personal relationships and in Japan on *Wa* or group harmony and social cohesion. The institutional context of Korea suggests a major emphasis on centralized planning by the government. The emphasis placed on growth by many South Korean firms is the result of a government policy to promote economic growth in South Korea.

The cultural and institutional contexts in which firms must operate in global markets can be critical. For example, in India, there was a nationalist campaign which led to the closure of a KFC outlet on grounds of health after inspection. However, executives of several US food companies blamed political posturing related to an upcoming election as the reason for the closure.

Also, those who opposed the opening of KFC are often those who lobby against meat eating. KFC was one of the first major fast food giants to open a facility in India. Furthermore, it has been quite successful in Asia with more than 2,200 restaurants operating in that region. Still, even a firm that has been as successful as KFC must carefully and thoroughly analyze the institutional and cultural environment of its global markets.

With the takeover of Hong Kong, China offers potential opportunities but also threats to a number of firms with domestic headquarters outside its borders. Moreover, with Hong Kong a part of China, the latter's growing economic prowess transforms its firms into potentially significant competitors, particularly in labour-intensive industries. As a result, firms operating in such industries worldwide must view the development of Chinese entrepreneurial operations as an environmental threat.

Alternatively, firms that can invest in China may be able to take advantage of the lowcost labour; and China also offers a huge and growing market for products, as evidenced by the success of Procter and Gamble's (P & G) products there. P&G sells approximately 50 per cent of the shampoo used in China, and its nationwide distribution system may be best in that country.

P&G owes its success to being an early mover in China, and its aggressiveness has paid dividends. It has been successful even though its prices are sometimes 300

per cent higher than those of the local brands. The development of the Chinese economy is one that must be analyzed carefully by firms operating in many industries regardless of their home country.

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2. Political Environment

Government decisions affect many aspects of business. Governmental influence may seem a macro, and thus remote issue, but it has substantial effects on businesses and their staff.

Companies seek stability in the political environment and need home and host governmental approval to manage risk in international markets.

Type of Constitutional System and Government

A starting point is to determine the type of constitutional system and government in the home and the host country. India, Germany and the US are democratic federal states; the UK is a constitutional monarchy, but the monarch has little power; France is a republic and has a parliamentary democracy and Iran is a fundamentalist Islamic republic. Some nations are dictatorships, and others are police states, but both these forms of government may change suddenly.

- **Government stability**

Government stability may come from economic conditions such as debt levels, unemployment levels, inflation levels, as well as from the popularity of policies or from the strength of cultural issues—such as separatist movements (e.g. Catalans and Basques in Spain). In some countries, stability may be directly related to the power and presence of a leader, such as the king (as in Jordan or Saudi Arabia).

- **Government ideology**

The government's political stance whether socialist, liberal, capitalist, democratic or communist will affect government policies in many different areas. For example, socialist countries may be attractive markets for suppliers of goods and services to welfare sectors. Capitalist governments may encourage free competition and access. Even subtle changes in governments have substantial effects on profitability and trading conditions for international companies.

- **Political parties**

The number of political parties and the type of electoral system influences political stability. Basically, single party systems tend to indicate stability. Countries with the one party system include Swaziland. Many countries operate a dual party system (for example the US Democratic and Republican parties); but multiple party systems also exist (as in India). Multiple party systems often mean coalition governments, which in turn may result in limited government stability. Typically, elections may be called mid-term, and policies may change with each government change. Currently, India and Italy are typical multiple party governments, which have had many short-lived coalition governments

The political environment is the arena in which organizations and interest groups compete for attention and resources and the body of laws and regulations guiding these interactions. Essentially, this segment represents how organizations try to influence

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the government and how government entities influence them. Constantly changing, this environment influences the nature of competition. Because of this, firms must carefully analyze a new administration's business-related policies and philosophies. Policies like fiscal, monetary, commercial, export and import, etc affect the marketing decisions at international level. These policies are made by the government and are known as regulatory policies of the government.

Anti-trust laws, taxation laws, industries chosen for deregulation, labour training laws, and the degree of commitment to educational institutions are areas where an administration's policies can affect the operation and profitability of industries and individual firms. Deregulation and privatization in the retail industry will force many firms to restructure their competitive practices. Deregulation of telecom and the power sector can also save substantial government money. As electric power can be such a huge operating expense, a large savings in this category could enhance corporate profitability substantially. Of course, this is the 'great nightmare' for utilities with high-cost, inefficient generating plants. 'Who will pay the cost of these stranded assets?' Consumers? Electric utilities? These issues are determined by the interactions occurring in the political environment.

3. Geographical Environment

Many international companies organize worldwide operations on the basis of geographically determined regions like South East Asia, East Asia, eastern, central and western European countries, and Pacific and Caribbean countries. The proximity of the countries in such regions helps in establishing functional trade blocs, allowing activities to be monitored and controlled from predetermined locations. All countries in the Latin American region can be well managed by locating the business headquarters in Brazil on account of its centralized location and proximity of other countries in the group, which offers obvious locational advantages in terms of better transport and communication networking. Regional trade agreements are also made largely on the basis of the geographic locations of the countries, prime examples being APEC, ASEAN, NAFTA, CAFTA, MERCOSUR. These organizations possess regional economic characteristics and lead to common business arrangements.

4. Economic Environment

The economic environment of a country consists of various factors such as economic conditions, economic policies and economic system. In order to plan a business strategy, the economic conditions such as nature of economy of the country and the level of income of the people of the country must also be kept in mind.

India is a developing economy and the level of income of people in the country is generally very low. The income of the people determines the level of demand for a product. If the income is low, then the demand for the product will be low; and if the level of income is high, the demand for the product will obviously be high. Therefore, in order to increase the purchasing power of the people, organizations have to devise various strategies so that the demand for a product can be increased. An organization may reduce the price of a product in order to boost the sales of the product or otherwise it may develop low-cost products that may be suitable to that level of people belonging to low-income groups.

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The business of organizations is also greatly affected by the economic policies of the government. For example, if the government imposes very high rates of import duties on imported products, then the importers will find it very difficult to import goods from foreign countries.

Economic factors affecting demand

The various economic factors that affect the demand of a product are:

- Price of the product
- Price of related goods or products
- Consumer's income
- Consumer's tastes and preferences
- Consumer's expectations
- Population of the country

(i) Price of the product

The price of a product is one of the most important determinants of demand. The price and quantity demanded are inversely related to each other. The demand for a product decreases when there is a rise in the prices of products and likewise, the demand for a product increases when there is a reduction in the prices of products.

(ii) Price of related goods or products

The demand for a good is also affected by the change in the price of its related goods. The related goods may be substitutes or complementary goods. Two goods are said to be substitutes of each other if a change in price of one good affects the demand for the other. For instance, goods X and Y are considered as substitutes for each other if a rise in the price of X increases demand for Y, and vice versa. Tea and coffee, hamburgers and hot-dog, alcohol and drugs are some examples of substitutes.

A good is said to be a complement for another when it complements the use of the other or when the two goods are used together in such a way that their demand changes simultaneously. For example, petrol is a complement to car and scooter, butter and jam to bread and milk and sugar to tea. Two goods are termed as complementary to each other if an increase in the price of one causes a decrease in demand for the other.

(iii) Consumer's income

Consumer's income is the basic determinant of the demand for a product since it determines the purchasing power of a consumer. Therefore, people with higher income spend a larger amount on goods and services than those with lower income.

(iv) Consumer's tastes and preferences

Consumer's taste and preference play an important role in determining demand for a product. Taste and preference depend on the changing lifestyle, social customs, religious values, habits of the people, the general levels of living of the society and age and sex of the consumers. Any change in these factors changes consumer's taste and preferences. As a result, consumers reduce or give up the consumption of some

goods and add new ones to their consumption pattern. For example, following the change in fashion, people switch their consumption pattern from cheaper, old-fashioned goods to costlier goods.

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(v) Consumer's expectations

Consumers' expectations regarding the future prices, income and supply position of goods play an important role in determining the demand for goods and services in the short run. If consumers expect a rise in the price of goods, they would buy more of it at its current price with a view to avoid the possibility of price rise in future. On the contrary, if consumers expect a fall in the price of certain goods, they postpone their purchase with a view to take advantage of lower prices in future. This behaviour of consumers reduces the current demand for goods whose prices are expected to decrease in future. Similarly, an expected increase in income increases the demand for a product. For example, announcement of dearness allowance, bonus and revision of pay scale induces an increase in current purchases.

(vi) Population of the country

The total demand for goods of mass consumption depends also on the size of the population. Therefore, the larger the population, the larger will be the demand for a product. On the other hand, if the size of the population is small or moderate, the demand for the product will obviously be low.

5. Legal Environment

The legal environment comprising local laws, civil and criminal laws and trade regulations also influences the operations of a foreign firm. It is important for a foreign firm to know the regulatory provisions in each market; as such legal environment constitutes the 'rules of the game'. At the same time, the firm must know the political environment because it determines how the laws are enforced and indicates the direction of new legislation. Thus the legal environment of international marketing has a dyadic relationship with political and regulatory systems in a country. Accordingly, it is necessary for an international firm to acquaint itself with host country laws, international law, and domestic laws in each of the firm's foreign markets. Multinational enterprise in its global exercise must cope with widely differing laws. The legal barriers in most of the countries include antidumping laws, tariff structures, horizontal price fixing among competitors, market division by agreement among competitors, and price discrimination. Hence, international firms should also understand the arbitration procedures as an alternative to legal recourse. Traditionally, two types of legal systems may be distinguished: common law and code law. *Common law* is based on precedents and practices established in the past and interpreted over time. Common law was first developed in England, and most of the commonwealth countries follow this system. *Code law* is based on detailed rules for all eventualities. Code law was developed by the Roman empires and is popularly practiced by a number of free world countries such as Italy, France, Germany, Mexico and Switzerland. The distinction between common law and code law may be best illustrated with an example in context to the right to proprietary issues such as trademarks. A country exercising common law would largely depend on the chronological use of the property. Under common law, the judicial decision would go in favour of the party actually using the trademark on its package and in its advertising campaign, despite not having formally registered the trademark. On the contrary,

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according to code law, the right of property would rest with the party which has actually registered the trademark.

Business firms may encounter major problems when a country respects more than one legal system and generates conflicting values. If a business contract contains a clause specifying the jurisdiction, stipulating which country's legal system should be used to settle disputes, the matter can be settled accordingly. However, in absence of any such a provision, disputes cannot be settled choosing a legal system of any country in particular. An example could be that of an accidental leak of the poisonous gas methyl isocyanate that occurred in a chemical plant at Bhopal (India) belonging to Union Carbide, a company of United States of America, causing over 2,000 casualties in 1984. In this situation, the Indian government would have preferred to settle the issue of compensation to the survivors in the US court of law than in Indian courts as the decision in Indian courts would consume more time. On the other hand, the American judiciary is considered to be liberal in awarding such strictures on humanitarian grounds. Simultaneously, the Union Carbide management might have preferred to get the issue settled in the Indian courts in its own economic interest. However, it took over a decade to settle the compensation issues to the survivors of the Bhopal tragedy. An out-of-court compromise was worked out between the Government of India and the company.

Tariff Barriers

Host country laws affect the business operations of a foreign firm. Such regulations may adversely affect the entry of a firm into the host country and may appear in many forms, including tariff, anti-dumping laws, export/import licensing, investment regulations, legal incentives and restrictive trading laws. A tariff may be defined as government levies on exports and imports. The tax on exports may be determined as export duty while the tax on imports is known as import duty or customs duty. The objective for a country of imposing an export duty is to discourage selling overseas so as to maintain adequate supply at home. Heavy import duty is levied in order to protect home industry from penetration by cheap imports, to gain a source of revenue for the government, and to prevent the dilution of foreign exchange balances.

Reasons to impose tariff barriers

- Control the outflow of national money
- Protect home market products and services
- Equalize the cost of production
- Discourage low cost imports that affect market stability and quality of goods and services in the home market
- Ensure better home products and services with available technology and manpower
- Protect wages and employment
- Implement anti-dumping measures
- Bargaining and retaliation on tariff
- Protecting the infant industry and national security in the home country
- Seeking adjustments in terms of trade and fiscal deficits through optimal tax levies

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The main important tariff barriers are as follows:

1. **Specific Duty:** Specific duty is based on the physical characteristics of goods. When a fixed sum of money, keeping in view the weight or measurement of a commodity, is levied as tariff, it is known as specific duty.
2. **Ad valorem Duty:** These duties are imposed according to value. When a fixed percent of value of a commodity is added as a tariff it is known as ad valorem duty.
3. **Combined or Compound Duty:** It is a combination of the specific duty and ad valorem duty on a single product.
4. **Sliding Scale Duty:** The import duties which vary with the prices of commodities are called sliding scale duties.
5. **Countervailing Duty:** It is imposed on certain imports where products are subsidized by exporting governments.
6. **Revenue Tariff:** A tariff which is designed to provide revenue to the home government is called revenue tariff.
7. **Anti-dumping Duty:** At times, exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping.
8. **Protective Tariff:** In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports.

Tariffs can be also levied on the basis of international relations. This includes single column duty, double column duty and triple column duty.

A country may have a single tariff system for all goods from all sources, which may be termed as unilinear or single column tariff. Another category of tariff may be described as general-conventional tariff, which applies to all the countries in general except the nations that have signed special tax treaties with a particular country or a group of countries. A tariff that is determined on the basis of a tax permit may be classified as special duty and a fixed percentage of the value of invoices may be levied as ad valorem duty. It may sometimes happen that both special and ad valorem duties are levied in a country as a combined duty. The ways to control the penetration of foreign goods and services into the home country without imposing the financial compensation or taxes may be categorized as non-tariff barriers. Such non-tariff barriers include quotas, import equalization taxes, road taxes, laws giving preferential treatment to domestic suppliers, administration of anti-dumping measures, exchange controls, and a variety of invisible tariffs that impede trade. These measures are comprehensively discussed as:

- Specific limitations on trade comprising quotas, licensing, proportionate restrictions on foreign goods to domestic goods, minimum price limitations on imported goods, and embargos that ban the import of specific products from restricted countries.
- Customs and entry procedures include valuation of imports, anti-dumping measures, tariff classifications of imported goods, imposing complex and lengthy documentation procedure involving bureaucratic requirements, comprehensive service by service fee structure.
- Standards include undue discrimination towards health, sanitation, hygiene, safety, and imposing higher standards on imported goods than on domestic products.

Also applying packaging, labelling, and marketing standards of the country to imported goods in an excessively stringent and discriminatory way.

Besides the above non-tariff barriers, a country may directly intervene in trade activities with the objective of comprehensively discouraging imports as well as participation of foreign firms in the home country, in any manner. Under such measures, the government involves itself indirectly in trade activities through procurement policies favouring the products of the home country over the products of other countries. The government may also impose export subsidies in terms of tax incentives to the domestic firms and levying countervailing duties that may be described as taxes designed to protect domestic products from low-priced imported products that had been given export subsidy by the exporting country's government. A country may also proceed to levy various types of other charges on imports to make them less competitive against domestic goods. Such non-tariff measures include prior import deposit requirement, administrative fee, supplementary duties and other variable levies.

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1.5 SUMMING UP

- International marketing includes the marketing activities or transactions that are carried out beyond the national borders of a country.
- International business can occur in different modes, which can be exporting, licensing, contract manufacturing, foreign assembly, foreign production, joint venturing and others.
- The term 'international business' not only refers to international business transactions of goods and services but also Foreign Direct Investments (FDIs).
- In international marketing, it is imperative to create a relationship that holds value for customers and for the organization.
- At its simplest level, international marketing involves the firm making one or more marketing mix decisions across national boundaries. At its most complex level, it involves the firm establishing manufacturing facilities overseas and coordinating marketing strategies across the globe.
- Controlling factors are often called as marketing mix. We remember these factors as the 4 P's of marketing. Marketing mix is a particular combination of product, its price, the methods to promote it, and the ways to make the product available to the customer.
- Government decisions affect many aspects of business. Governmental influence may seem a macro, and thus remote issue, but it has substantial effects on businesses and their staff.
- Many international companies organize worldwide operations on the basis of geographically determined regions like South East Asia, East Asia, eastern, central and western European countries, and Pacific and Caribbean countries.
- The proximity of the countries in such regions helps in establishing functional trade blocs, allowing activities to be monitored and controlled from predetermined locations.
- The economic environment of a country consists of various factors such as economic conditions, economic policies and economic system. In order to plan a business strategy, the economic conditions such as nature of economy

Check Your Progress

4. What does the Korean concept of Inhwa mean?
5. How are regional trade agreements made?
6. How can consumer's income be seen as the basic determinant of the demand for a product?

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of the country and the level of income of the people of the country must also be kept in mind.

- The legal environment comprising local laws, civil and criminal laws and trade regulations also influences the operations of a foreign firm. It is important for a foreign firm to know the regulatory provisions in each market.
- Host country laws affect the business operations of a foreign firm. Such regulations may adversely affect the entry of a firm into the host country and may appear in many forms, including tariff, anti-dumping laws, export/import licensing, investment regulations, legal incentives and restrictive trading laws.

1.6 KEY TERMS

- **Common law**: Common law is based on precedents and practices established in the past and interpreted over time.
- **Code law**: Code law is based on detailed rules for all eventualities.
- **Countervailing duty**: It is an import tax imposed on certain goods in order to prevent dumping or counter export subsidies.

1.7 ANSWERS TO 'CHECK YOUR PROGRESS'

1. International business can occur in different modes, which can be exporting, licensing, contract manufacturing, foreign assembly, foreign production, joint venturing and others.
2. The controllable factors of international marketing are: product, price, promotion and place.
3. The term FDI consists of a parent firm and a foreign partner that combine to form a transnational corporation.
4. The Koran concept of *Inhwa* is based on respect for hierarchical relationships and obedience to authority.
5. Regional trade agreements are made largely on the basis of the geographic locations of the countries, prime examples being APEC, ASEAN, NAFTA, CAFTA, MERCOSUR.
6. Consumer's income is the basic determinant of the demand for a product since it determines the purchasing power of a consumer. Therefore, people with higher income spend a larger amount on goods and services than those with lower income.

1.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What approach do the marketers use in decision-making?
2. What is the importance of CRM in international marketing?
3. What are the logistics and risks of international marketing?

Long-Answer Questions

1. Discuss the factors affecting international marketing.
2. 'Controlling factors are also called 'the 4 P's of marketing'. Elaborate.
3. Discuss the factors that affect the marketing environment?

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1.9 REFERENCES AND SUGGESTED READINGS

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UNIT 2 MARKET STRATEGIES AND EXPORT FINANCE

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Structure

2.0 Introduction
2.1 Objectives
2.2 Market Selection
 2.2.1 Market Profiling
 2.2.2 Market Segment Selection
2.3 Entry Strategies of MNCs
 2.3.1 Developing an Entry Plan
2.4 Free Trade Zones
2.5 Export Finance
 2.5.1 EXIM Bank
2.6 IDBI
2.7 Services of Export Credit Guarantee Corporation (ECGC)
 2.7.1 Export Credit Insurance Covered by ECGC
2.8 Summing Up
2.9 Key Terms
2.10 Answers to 'Check Your Progress'
2.11 Questions and Exercises
2.12 References and Suggested Readings

2.0 INTRODUCTION

Effective marketing starts with a considered, well-informed marketing strategy. A good marketing strategy helps you define your vision, mission and business goals, and outlines the steps you need to take to achieve these goals. Arranging adequate export finance is also an integral part of marketing. Unless there is enough finance, marketing cannot be conducted.

This unit will help you understand the role of market strategies in international marketing. It also introduces the various finance institutions and their functions in brief. Market agreements in force-free trade zones are also discussed in detail.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Analyse the steps involved in market profiling and market segment selection
- Describe the market entry strategies of MNCs
- Identify the market agreements on force free trade zones
- Explain the functions of EXIM bank and IDBI
- Recognize the importance of ECGC and export credit insurance

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2.2 MARKET SELECTION

Selecting the right market is an important step in expanding international business to ensure business success. Determining foreign marketing strategies, proper market profiling and market segment selection are some of the primary concerns.

2.2.1 Market Profiling

Customer-centric organizations create a culture that exudes care and concern for the customer. Such organizations manage a pool of information about their customers to enable them to serve customers better than their competitors. The information is shared with every employee in the organization so that at every point of interaction with the company, the customer feels fulfilled.

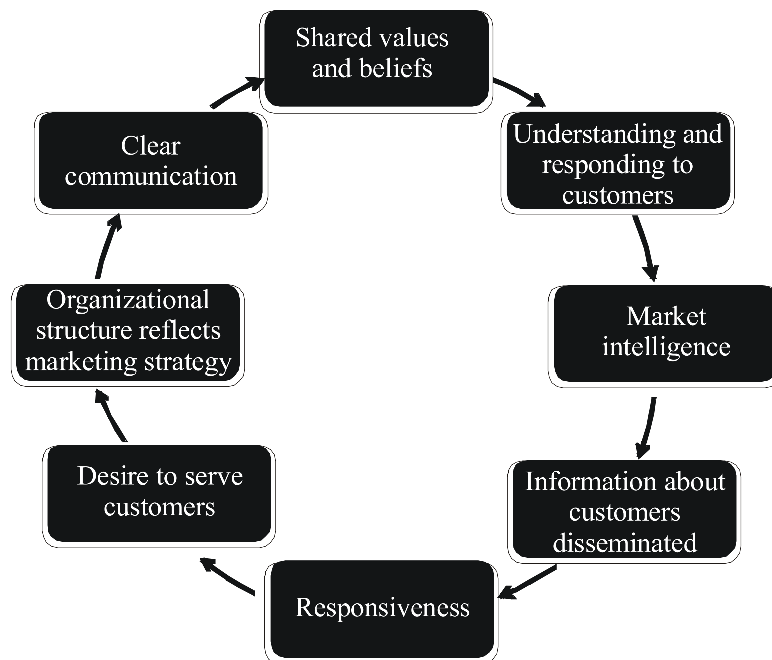

Fig. 2.1 Profile of Customer-Centric Organizations

- **Shared values and beliefs are necessary prerequisites for successful marketing orientation:** Every employee in every department believes that business goals can be achieved only through heightened awareness of customer needs and a tireless zeal to serve those needs. Customer orientation cannot be drilled in employees overnight. Fables extolling customer care have to be created and circulated. Top executives have to repeatedly demonstrate concern for customers in their strategic and operating decisions and their own behaviour. People should feel proud and good about themselves that they go out of their way to serve customers. This can be a problem for long established companies that did not put the customer first. Such companies have to be patient. They should not expect their employees to change overnight from ignoring customers to serving them.
- **Companies develop skills in understanding and responding to customers:** Getting across to and keeping close to customers is important. Every employee,

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especially the top management should spend as much time as possible with customers. Normally frontline employees, like salespersons, are in touch with customers. They are in the best position to decide what is best for customers. A company can empower frontline staff to take appropriate decisions in favour of customers. But even when frontline employees are empowered, the best they can do is to serve customers better on a case-to-case basis. But most customer problems are related to company practices and systems. Frontline employees do send feedback but they are diluted by the time they reach decision makers. Moreover, these employees cannot effectively transfer the anguish and frustrations that customers express over company's products, policies and practices. When decision makers stay in frequent contact with customers, they are able to experience the frustrations and anguish of customers first-hand. They can quickly take decisions to amend matters.

- **Market intelligence is important to understand customers:** Market orientation demands organization-wide market intelligence activities pertaining to current and future customer needs. The facts collected by market intelligence should be disseminated across departments. And there should be organization-wide responsiveness to such facts, especially if they are disturbing. Market intelligence studies customer requirements and choice criteria, and then goes on to analyse the factors that affect those requirements and choice criteria. It then keeps a track of these factors, because as soon as one of these factors changes, customer requirements and choice criteria are likely to change too. And since these factors are embedded in the economic, demographic, social and political environment of the customer, market intelligence cannot be done by the marketing department alone.

  All employees have to be entrusted with the task of market intelligence, and those employees who have active contact with the outside world have a special responsibility to bring the world to the company. It is always a good idea to have a team of scientists, sociologists, technologists, anthropologists, political scientists and marketers who come together periodically to discuss how the changes in the world outside the company are going to impact it.
- **Information about customers is disseminated throughout the company by formal and informal means:** The company lets everyone know what it knows about its customers. It uses all known means of communication to disperse knowledge of customers' needs and aspirations among all employees of the company. For example, a company developed and circulated a newsletter to facilitate the spread of information. Another company's manager disseminates information by storytelling.
- **Companies use its knowledge of customers to serve them better:** It selects target markets and designs and produces, prices as well as distributes products based on what it has learnt about customers.
- **A desire to serve the needs of the customers is sbetter than competition:** The reality of the marketplace should be aligned with assets and distinctive competencies of the company. When looking to enter new markets, companies should be aware of their inherent strengths and weaknesses, and requirements of the new market.

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- **Organizational structure must reflect marketing strategy:** As markets change, marketing strategy changes, and the structure and systems may require modifications to implement strategy. It will be futile to implement a new strategy reflecting greater customer concern with the old organizational structure. The vested interests of the old structure will thwart the initiative.
- **Implementation of the marketing strategy requires clear communication:** This has to be practiced so that it is not undermined by those who deal with the customer first hand (for instance, price concession given by salesperson for a premium product). It is important that the frontline employees fully understand the new concept. But such commitment can neither be built by force nor by inducements. Heightened awareness to customer needs and pride in serving them can be generated in employees only gradually by letting them observe and know about other employees doing it.
- **In a customer-centric organization, all the departments are tuned to sensing and serving customer desires:** From the customer's point of view, a product is nothing more than a tangible means for getting a service performed. Products derive meaning and value only from the uses to which customers put them. The product should be a company's most important tool to woo customers. In a customer-centric business environment, industries should be defined by consumption or use similarities rather than by methods of production.

Every business now is a fashion business. Companies must innovate in shorter cycles. To attract new customers and to retain the old ones, companies must design new and better products based on new technologies. To be customer-oriented, companies should worry about what they do not see yet. A company should worry about unfamiliar companies outside the industry possessing a technological capability that could be a threat if they started serving the same market in a new and better way. Companies need a long-term view of how R&D can serve latent demand even if the technology itself is not clearly defined. Hollywood acquisitions by Sony, is a futuristic move aimed to fuse audio and video hardware and software with the artistry of the entertainment industry. Most new products will be made by combining technologies which have got nothing to do with each other now.

Most companies are content with asking customers their opinions about products that already exist but real market-oriented companies will allow customers to set priorities for design. Market-oriented companies let customer desires drive the R&D agenda. The customer has to lead the innovation process. Instead of pushing their own technologies, market-oriented companies start with a product concept based on customer feedback. Then they blend technologies from previously separate fields to create new products.

The way a company organizes its functions, defines jobs and controls the system may detract from serving the customer. From company's point of view, uniformity and standardization are easiest to manage but in the process, they deny customers the power to demand variety and customization. Quality programmes should be focused on serving customer requirements in the best possible manner

2.2.2 Market Segment Selection

Market segmentation is one of the prerequisites for planning marketing activities for any product. Segmenting, targeting and positioning (STP) are the three basic components

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of strategic marketing in modern times. Segmentation of market is a process of identifying the agglomeration of buyers, their wants, purchasing power, geographical locations, their buying attitudes and behaviour, to facilitate the targeting and positioning of the products. It is essential to identify the segmentation variables and developing profiles of the resulting segmentation for making decisions and also for marketing planning. Broadly, it can be stated that the market segments are the large groups within the market while a niche is a more narrowly defined group seeking for additional marketing benefits. The territorial segmentation is done in terms of region-like countries, continents or sub-continent and the habitat identification is made as villages, towns, cities and metros spread geographically according to the size of the population. In the demographic category of segmentation the density of population, composition of population, family size, occupational distribution, level of education and population categories in terms of religion and other sects is considered. The psychographic variables of market segmentation consist of nationality of the consumers, their race whether black, white, Aryans, Dravidians or Buddhists. The social class of the consumers viz. forward, backward or aboriginal class, is also used as a variable of market segmentation.

Besides the above variables, the lifestyles of consumers and their personalities also provide ample information for segmenting consumer markets. In the behavioural variable category, apart from other variables, personal preferences have a substantial impact when it comes to identifying the consumer segments for the products. Personal preference can be categorized in the following three patterns:

- Homogeneous preferences for products or brands
- Diffused preferences showing greater variations for the brands across the regions
- Clustered preferences indicating localized preferences of consumers for the brands available

Conducting exploratory interviews and focus group analysis – in order to gain insights into consumer motivation, attitudes and behaviour – is another way of collecting information on the above-listed variable for purposes of market segmentation. The data may be collected through the structured questionnaires broadly covering the issues related to consumer behaviour, brand awareness and brand rating, product usage patterns, product-mix behaviour, demographic and psychographic variables. The factor analysis may be applied to the data collected to find out highly correlated variables and through the cluster analysis, specified numbers of different segments can be identified. The market segmentation procedure must be applied periodically, as consumer segments keep changing due to external influences and personal preferences.

The procedure for segmenting industrial markets is different from that used for consumer markets. However, the selected industrial market can be further segmented in terms of consumer goods. The major variables that need to be considered for the segmentation of industrial markets are listed in Table 2.1. The type of the industry, its size and location constitutes the physical variables required for segmenting the industrial markets. The type of existing technology in use, future prospects, production capabilities, the target group of customers for the products of the industry and the policy of transportation, warehousing and inventory may be the operational variables used in determining the industrial marketing segments.

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Table 2.1 *Bases and Variables for Segmenting Global Markets*

Physical	*Operational*	*Purchase*	*Situational*	*Personal*
Type of industry Size of industry Location	Technology Status of production Customer target Logistics policy	Purchase policy Lobby status Continuing relationship with supplier Purchasing criteria	Immediate need Specific order Size of order Legal binding New markets Substitute or complementary products need	Risk factor Brand loyalty Marginal difference in the product

Above all, the risk factor in penetrating into such market segment, involving the factor of brand loyalty among users, is also an important variable when it comes to decision-making for segmenting the market for industrial customers. In a given operational area for the company, the market for consumer goods and services can be segmented in five different forms as given below.

- One product in one market: micro consumer segmentation
- Different products in different markets: diffused segmentation
- All products in one market: specialized market segmentation
- One product in all the markets: product specialized market segmentation
- All products in all markets: absolute market segmentation or total coverage

The companies that are proposing for the global expansion may utilize these steps of segmentation determining the criteria for classifying the countries for its product and services, particularly those countries or regions that show high market potential. Multinationals typically optimize their operations on a global level by standardizing product characteristics, administrative practices, and even pricing, all of which can hamper their flexibility. Products designed for affluent consumers often aren't profitable at prices low enough to attract many buyers in emerging markets. The targeting and product positioning activities for effective planning and implementation of marketing plans should follow marketing segmentation.

Reasons for Market Segmentation

There are many good reasons for dividing a market into smaller segments. Accurate market segmentation helps a multinational company to perform better in its marketing activities. It is easier to address the needs of smaller groups of customers, particularly if they have many characteristics in common (e.g., seeking the same benefits, same age, gender, etc.). Companies may discover marketing niches for products and services by segmenting the markets according to buyer preferences, product attributes, non-price variables, technology, etc.

Box 2.1

Shanghai Jahwa, China's oldest cosmetics company, has thrived by astutely exploiting its local orientation – especially its familiarity with the distinct tastes of Chinese consumers. Because standards of beauty vary so much across cultures, the pressure to globalize the cosmetics industry is weak. Nevertheless, as in other such industries, a sizeable market segment is attracted to global brands. Young people in China, for

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example, are currently fascinated by all things Western. Instead of trying to fight for this segment, Jahwa concentrates on the large group of consumers who remain loyal to traditional products. The company has developed low-cost, mass-market brands positioned around beliefs about traditional ingredients. Many Chinese consumers, for instance, believe that human organs such as the heart and the liver are internal spirits that determine the health of the body. *Liushen*, or 'six spirits,' is the name of a traditional remedy for prickly heat and other summer ailments, and it's made from a combination of pearl powder and musk. Drawing on this custom, Jahwa launched a Liushen brand of eau de toilette and packaged it for summer use. The brand rapidly gained 60 per cent of the market and has since been extended to a shower cream, also targeted at the Liushen user. Unilever and other multinational companies lack this familiarity with local tastes; they have found their products appeal mainly to fashion-conscious city dwellers. Jahwa's strategy has allowed it to weather the initial opening of China's markets – a period when multinational companies often appear irresistible to consumers and local competitors alike.

Using 'niche marketing', segmentation can allow a new company or new product to target less contested buyers and help a mature product seek new buyers. The companies may make more efficient use of marketing resources by focusing on the best segments for offering – product, price, promotion, and place (distribution). Segmentation helps in various ways to avoid sending the wrong message, or sending one's message to the wrong people. The functional steps to be considered by multinational companies to determine the segmentation criteria are:

- A market taxonomy for classifying the world markets should be developed by the companies in reference to the SLEPT considerations in the host country.
- The countries to be clustered into homogeneous groups having common characteristics with reference to the dimensions of the market taxonomy.
- Most efficient method of serving each group should then be determined methodologically.
- The group in which the marketer's own perspective (its product/service, strengths) is in line with the requirements of the group may further be chosen.

This ideal classification has to be adjusted to the constraints of the real world (existing commitments, legal and political restrictions, practicality, etc.). Market segmentation should be considered any time when there are significant, measurable differences in the selected market. Marketing opportunities increase when customer groups with varying needs and wants are recognized. Markets can be segmented or targeted on a variety of factors including age, gender, location, geographic factors, demographic characteristics, family lifecycle, desire for relaxation or time pressures. Segments or target markets should be accessible to the business and should be large enough to provide a solid customer base. A business must analyze the needs and wants of different market segments before determining its niche. Market segmentation is dividing a larger market into sub-markets based upon different needs or product preferences.

Table 2.2 exhibits the corporate strategy to implement the segmentation process. A key factor in competitive success is focusing on little differences that give a marketing edge and are important to customers. Market segmentation matches consumer differences with potential or actual buying behaviour. It may prove more profitable to develop smaller market segments into a target segment. Primary market research is used to collect classification and descriptor variables for members of the target market. Segments are not defined until after collection and analysis of all relevant information.

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Multi-variate analytical techniques are used to define each segment and develop a scoring algorithm for placing all members of the target market into segments. The classification variables are used to classify survey respondents into market segments. Almost any demographic, geographic, psychographic or behavioural variable can be used to classify people into segments. Age, gender, income, ethnicity, marital status, education, occupation, household size, length of residence, type of residence, etc., constitute the demographic variables used for segmenting the market. The territorial determinants comprise city, state, pin code, census tract, district, region, metropolitan or rural location, population density, climate, etc. The psychographic variables include attitudes, lifestyle, hobbies, risk aversion, personality traits, leadership traits, magazines read, television programmes watched, and the brand loyalty. Reaction to marketing factors may be defined as behavioural variables that influence the market segmentation process by the multinational companies. The descriptors are used to describe each segment and distinguish one group from the others. Descriptor variables must be easily obtainable measures or linkable to easily obtainable measures that exist in or can be appended to customer files.

Table 2.2 *Constituents of Market Segmentation Process*

Constituents	***Attributes of Market Segmentation***
Large size	Market must be large enough to warrant segmenting. Don't try to split a market that is already very small.
Differences	Differences must exist between members of the market and these differences must be measurable through traditional data collection approaches (i.e. surveys).
Responsive	Once the market is segmented, you must be able to design marketing communications that address the needs of the desired segments. If you can't develop promotions and advertising that speak to each segment, there is little value in knowing that those segments exist.
Accessibility	Each segment must be reachable through one or more media. You must be able to get your message in front of the right market segments for it to be effective. If one-eyed, green aliens are your best marketing opportunity, make certain there is a magazine, cable programme or some other medium that targets these people (or be prepared to create one).
Multiple Benefits	Segments must not only differ on demographic and psychographic characteristics, they must also differ on the benefits sought from the product. If everyone ultimately wants the same things from your product, there is no reason to segment buyers. However, this is seldom the case. Even commodities like sugar and paper plates can benefit from segmentation.
Profitability	The expected profits from expanding your markets and more effectively reaching buyer segments must exceed the costs of developing multiple marketing programmes, re-designing existing products and/or creating new products to reach those segments.

Box 2.2

Cadbury Ireland Ltd. has been in existence since 1932. It is the leading confectionery manufacturer in Ireland with over 50 per cent of the chocolate market. Cadbury Ireland employs almost 1,600 people of which almost 300 are employed directly in the manufacture of *TimeOut*. Cadbury has invested over £20 million in

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the production plant and technology for this purpose in its Coolock plant in Dublin. Cadbury takes into account all these factors when producing a range of products. It targets different segments within the market, such as:

- *Break segment*: These are products which are normally consumed as a snatched break and often with tea or coffee, for example Cadbury's TimeOut and Snack range.
- *Impulse segment*: These products are most often purchased on impulse, being eaten there and then. They include products such as Cadbury's Twirl, Moro, Starbar, Crunchie, Fuse and Dairymilk.
- *Take-home segment*: This describes products that are normally purchased in supermarkets, taken home and consumed at a later stage.
- *Gift segment*: These are boxes of chocolates and other products purchased for gift occasions.

More than £110 million worth of Cadbury's chocolate produced in Ireland, is exported every year, bringing Ireland valuable earnings from abroad. Cadbury's Ireland has had many export successes and has made a spectacular transition from being a small-scale manufacturer for a protected home market to a substantial producer of brands consumed around the world today.

A conceptual scheme for analyzing economic environment may be drafted and implemented by the firm in order to evaluate existing and potential marketing opportunities in the host country. The conceptual scheme requires consideration of some of the following variables:

Financial Variables

- Capital acquisition
- Interest rates for commercial borrowings
- Payback tenure
- Cash inflow by period
- Cash outflow by period
- Returns on capital employed
- Exchange rate fluctuations
- Repatriation of funds status
- Projected investments linked to productivity
- Functional cost indicators in the business

Marketing Variables

- Market size and potential
- Distribution and logistics
- Competition mapping
- Promotional costs
- Socio-cultural and community factors

Product-market Engineering Variables

- Availability of raw material for building infrastructure
- Raw material for manufacturing

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- Physical and environmental factors
- Accessibility factors
- Local management factors
- Availability of labour (skilled/unskilled)
- Quality control and standardization
- Regional economic infrastructure
- Services management indicators

Economic and Political Variables

- Foreign investment policy of the host government
- Capital flow controls
- Inflation status
- Tax regulations
- Internal political stability
- International relations of host country
- Political ideology
- Civil/Labour unrest in the host country

Social and Legal Variables

- Education, religion and social behaviour of the people
- Demography and household status
- Community and culture
- Ownership restrictions
- Import/Export regulations
- Acquisition of immobile assets

Many of the classification variables can be considered as descriptor variables. However, only small portions of those classification/descriptor variables are readily available from secondary sources. The trick is to identify descriptor variables that effectively segment the market in the primary research effort, which are also available or can be appended to individual customer records in customer databases. This allows the marketer to execute the market segmentation scheme developed in the primary research effort by applying it to existing customer and market information. Decision Support System utilizes a number of proprietary procedures to achieve this important linkage. One way to segment markets is by examining the product or service benefit sought by the customer. What benefits are customers seeking? Quality? Low price? Convenience? Multinational companies must identify the benefits that customers want and create the product or service to meet the need. Sometimes it is difficult to accurately estimate the size of the customer group. Some customers are interested in two or three benefits, not just a single one. Knowing customers needs and wants is basic to successful marketing. Markets can be divided by customer use of products or services, such as: non-users, ex-users, potential users, first-time users and regular users of a product. Other markets may be segmented by usage rate. Each target group requires a separate marketing plan. One marketing effort will probably not cover all the bases. Potential users and regular users require different types of marketing efforts.

Check Your Progress

1. On what basis are markets segmented?
2. What are psychographic variables?
3. What are the three basic components of strategic marketing?
4. What are the three patterns of personal preference?

2.3 ENTRY STRATEGIES OF MNCs

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A firm, which would like to involve itself in international business, may look for its entry into the international market in several possible ways including:

- Exporting
- Licensing
- Franchising
- As a production firm with multinational plant locations
- Joint ventures
- Strategic alliances
- Wholly-owned subsidiaries

1. Exporting

A firm may organize indirect export through the intermediaries or export agents of the parent country. On the contrary, in direct exporting, foreign markets are reached by exporters through agents located outside their parent markets. Exporting is a low-risk, low-investment strategy wherein a company may minimize the risk of dealing internationally by exporting domestically manufactured products either by minimal response to inquiries or by systematic development of demand in foreign markets. Exporting activity requires small capital for a quick start. Exporting is also a good way to gain international experience. A major part of the overseas involvement of large firms is through export trade managed by the various channels involved in the process. The channels involved in direct and indirect exporting are listed in Table 2.3.

Table 2.3 *Export Channels*

Indirect Exporting	Direct Exporting
Broker	Representative
Manufacturer's Export Agent	Merchant Middlemen
Combination Export Manager	Company Sales Manager
Group Export Forum	Own Distribution Network
Domestic Middlemen	
Company-based Managers	

Indirect exporting

Some companies, which occasionally carry out export activities, use the services of the broker. Brokers are the middlemen who bring buyers and sellers in contact for a negotiated commission or by charging a brokerage fee. They are just the trade facilitators and do not take the ownership of the product. These brokers operate in international markets independently and do not belong to any firm.

The manufacturer's export agent (MEA) may be an exclusive agent engaged by the firm to offer services as desired by the firm. MEAs are vested with the right to take marketing decisions on behalf of the firm, arrange negotiations and trade agreements and the delivery of the consignment to the buyer.

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The Combination Export Manager (CEM) provides services over and above the broker and the MEA by way of taking over the entire export operations of a firm on a commission basis. The export operations involve a variety of activities like identifying the country, markets, analyzing consumer behaviour, product designing, technological improvements, competitive pricing, distribution, promotion, negotiations with the governments of countries, public relations and collecting marketing information.

Group export forums are associations of exporters who collectively manage exporting activities. These forums are recognized by the government of the parent country and provide admissible concessions on export activities like licensing, taxes and duties infrastructure.

Middlemen who have a base in the parent country of the exporting firm also function as one of the channels for indirect exports.

Company-based managers are the salaried personnel of the exporting firm and possess the responsibility of total export management.

Direct exporting

Direct exporting activities are where the firm appoints its own export representatives for conducting the export operations in the concerned markets or countries.

The merchant middlemen are a type of intermediaries based in foreign markets. They buy products on their own and resell them to the identified countries functioning with sales managers. They may also take up export activities without involving any indirect channel. Such offices may also be networked as an effective distribution channel for a region in order to cater to the identified countries.

Documentation

Firms opting to enter international markets through exporting activities may choose to engage the goods listed under open general license which does not involve a heavy documentation process. However, the goods that are not controlled, regulated or prohibited by other government departments need to be reported to customs prior to export by means of export declaration. On the contrary, regardless of their value, export of all goods that are controlled, regulated, or prohibited need to be supported by valid permits, licenses, or certificates required by the government departments or agencies that regulate the export of these goods.

Direct exporting is independent exporting

A firm also opts for direct exporting as a platform to enter into the destination country. This approach is the most ambitious and difficult as the exporting firm handles every aspect of the exporting process independently, from market research and planning to foreign distribution and collections. Consequently, a significant commitment of management time and attention is required to achieve good results. However, this approach may lead to maximum profits, higher control and long-term growth.

2. Licensing

This is one of the common tools of franchising a firm to set quality and operational control standards. It is, therefore, a contractual agreement too. In the past, multinational companies used licensing for many reasons. One of the major reasons could have

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been to use the trade mark of the company. Licensing may be understood as one of the varieties of contractual agreements whereby a multinational firm makes available intangible assets such as patents, trade secrets, know-how, trademarks, and the company name to foreign companies in return for royalties or other forms of payment. Transfer of these assets is usually accompanied by technical services to ensure their proper use. It also helps in regulating the import and export operations of firms in such countries or regions where trade restrictions prohibit the movement of products.

Advantages of licensing

- Licensing is a quick and easy entry tool with little capital investment in the foreign markets.
- Some countries offer licensing as the only means of tapping the market.
- Licensing is also considered to be an effective tool for life extension of products during their stage of maturity in order of their life cycle.
- Licensing is a good alternative to start foreign production and marketing activity in a destination country which has economic inflation, shortages of skilled-labour, increasing domestic and foreign governmental regulation and restrictions, and severe international competition.
- Under the licensing arrangement periodic royalties are guaranteed, whereas shared income from investment fluctuates and remains risky.
- The company which has a strong domestic base can benefit through a licensing arrangement to develop customized products without expensive research.
- Licensing provides an alternative when exports are no longer profitable because of intense competition.
- Licensing can reduce transportation costs and help promote exports in non-competitive markets.
- One of the major advantages of licensing is the immunity over stringent political intervention as expropriation.

The economic liberalization policy envisages the de-licensing of goods and services (notified) for mutual business growth. Under contract manufacturing, a firm gets its products manufactured by an independent local firm as per the agreement. Such an export mechanism is chosen by firms typically where the marketing potential seems to be low and tariff walls high. Assembling involves the import of raw material and mechanical parts for manufacturing any product. Such an operation is usually labour intensive, despite high capital investment in business. This mode of entry into international marketing is advantageous in countries which do not impose heavy import duties and which encourage free exports. Assembling firms take the benefit of low wage rates by shifting labour intensive operations to the foreign market that results in a lower final price of the product. Largely, local laws of a country play a big role in the decision-making for setting up an assembling unit in a foreign country.

Technology Licensing Arrangement

Technology licensing is a contractual arrangement in which the licensor's patents, trademarks, service marks, copyrights, trade secrets, or other intellectual property may be sold or made available to a licensee for compensation that is negotiated in

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advance between the parties. A technology licensing agreement usually enables a firm to enter a foreign market quickly, and poses fewer financial and legal risks than owning and operating a foreign manufacturing facility or participating in an overseas joint venture. In considering the licensing of technology, it is important to remember that foreign licensees may attempt to use the licensed technology to manufacture products in direct competition with the licensor or its other licensees.

3. Franchising

Franchising is not a business in itself, but a way of doing business. It is essentially a marketing concept introducing an innovative method of manufacturing and distributing goods and services. Franchising is a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to an independent entrepreneur (the franchisee) the legal right to manufacture, market and distribute the franchisor's goods or services using the brand name for an agreed period of time. The International Franchise Association defines franchising as a continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organizing training, merchandising and management in return for a consideration from the franchisee. Franchising has become popular because it allows a much greater degree of control over the marketing efforts in the foreign country. Franchising can offer people looking at self-employment a greater chance of success than starting their own businesses, but it is a path that many people are not aware is open to them. A franchisor's main ongoing commitment to his franchisees is to provide support. A support programme should be well-defined prior to joining a given franchise group and is likely to cover areas such as staff issues, marketing and system compliance.

Four models of franchising

- *Manufacturer-Retailer:* Where the retailer as the franchisee sells the franchisor's product directly to the public (e.g. Automobile dealerships).
- *Manufacturer-Wholesaler:* Where the franchisee manufactures and distributes the franchisor's product under license (e.g. Soft drink bottling arrangements).
- *Wholesaler-Retailer:* Where the retailer as the franchisee purchases products for retail sale from a franchisor wholesaler (e.g. Hardware equipment and automotive product stores).
- *Retailer-Retailer:* Where the franchisor markets a service, or a product, under a common name and standardized system, through a network of franchisees.

Product and trade name franchises

The first two categories cited above are often referred to as product and trade name franchises. These include arrangements in which franchisees are granted the right to distribute a manufacturer's product within a specified territory or at a specific location, generally with the use of the manufacturer's identifying name or trademark, in exchange for fees or royalties.

Business format franchise

The business format franchise, however, differs from product and trade name franchises. This method implies the use of the franchisor's format, or a comprehensive system

for the conduct of the business, including such elements as business planning, management system, location, appearance and image, and quality of goods.

There are many benefits of becoming a franchisee of which the major ones are listed as follows:

- The franchisor provides detailed consultation and training in operating the business as well as choosing locations for the business.
- The franchisee benefits from operating under the established brand image and reputation of the franchisor.
- The franchisees usually need less capital than they would if they were setting up a business independently because the franchisors, through their pilot operations and buying power, would have eliminated unnecessary expenses.
- The franchisor helps the franchisee obtain occupation rights to the trading location, comply with planning (zoning) laws, prepare plans for layouts, plan ergonomics and refurbishment, and provides general assistance in calculating the correct level and mix of stock for the opening launch of the business.
- The franchisee taps into the bulk purchasing power and negotiating capacity made available by the franchisor by virtue of the size of the franchised network.
- The franchisee has access to use of the franchisor's patents, trademarks, copyrights, trade secrets, and any secret processes or formulae.
- The franchisee has the benefit of the franchisor's continuous research and development programmes, which are designed to improve the business and keep it up-to-date and competitive.

Quality control is imperative

One of the drawbacks of franchising is the need for careful and continuous quality control. Such close supervision of the various aspects of distant operations requires well-developed global management systems and labour-intensive monitoring. Inevitably, the relationship between the franchisor and franchisee must involve imposition of controls. These controls will regulate the quality of the service or products to be provided or sold by the franchisee to the consumer. As a lot of managerial skills are required, international franchising has been successful largely among those enterprises which have already had long experience with franchising at home.

4. Joint Ventures

A joint venture involves a partnership between two or more business firms interested in pooling their resources and expertise to achieve a common goal. The risks and rewards of the enterprise are also shared. The reasons for forming a joint venture may include business expansion, development of new products or moving into new markets, particularly overseas. The joint venture may offer more resources, increased capacity of production, enhanced technical expertise and established markets and distribution channels. Entry into an international market would be possible either as a wholly-owned subsidiary of any firm or as a joint venture. Joint ventures provide the best partner-like manner of obtaining foreign trade income when a firm chooses to begin a business relationship with a firm in the host country. The two partners could agree upon a contract setting out the terms and conditions of how this will work. Alternatively,

joint ventures may be set up as a separate joint venture business, possibly a new company. A joint venture company can be a very flexible option wherein partners own substantial resources in the company, and agree on a managing strategy. Firms of any size can employ this concept to strengthen long-term relationships or to collaborate on short-term projects.

Benefits of a successful joint venture

- Access to new markets and distribution networks
- Increase in production capacity
- Risk sharing and controlling of process policies between business partners
- Working with specialized staff and technology

Pitfalls of joint ventures

Partnering in business may offer benefits but it can also be complex. It may take considerable time and effort to build the right relationship while operational problems may grow with the following ideological and functional discrepancies:

- The objectives of the venture are not clear and communicated among the partnering firms
- There exists an imbalance in levels of expertise, investment or assets set into the venture by the different business partners
- Coordination problems of cross-cultural issues and management styles affecting the functional integration and workplace co-operation
- Lack of sufficient leadership and support in the early stages

Cautionary steps

Success in a joint venture depends on thorough research and analysis of the aims and objectives. This should be followed up with effective communication of the business plan to everyone involved. International joint ventures are used in a wide variety of manufacturing, mining, and service industries and frequently involve technology licensing. The company looking for a joint venture invites foreign firms by issuing a regional or global invitation to share stock ownership in the new unit. However, the control of the unit depends on which company accepts a minority or a majority position. By and large, multinational companies prefer wholly-owned subsidiaries for effective control. A major potential drawback of joint ventures, especially in countries that limit foreign companies to minority participation, is the loss of effective managerial control. This can result in reduced profits, increased operating costs, inferior product quality, exposure to product liability, and environmental litigation and fines.

When firms decide to create a joint venture, the terms and conditions need to be set out in writing in a formal agreement, which should cover the following:

- Structure of the joint venture
- Objectives of the joint venture
- Financial contributions, liabilities, distribution of profit, and other matters related to corporate finance and accounts

- Protocol on transfer assets or employees in or out of the joint venture
- Ownership of intellectual property created by the joint venture
- Management and control of operational issues
- Responsibilities, tasks and processes to be followed in production and operations activities
- Protocol on managing liabilities, sharing of profits and losses
- Policy and process of settlement of disputes between the partnering firms in the joint venture
- Exit policies to bring the joint venture to an end, and cause and effect management at post-closure

Global preferences

Smaller firms often want to access a larger partner's resources such as a strong distribution network, specialized employees, and financial resources. The larger company might benefit from working with a more flexible, innovative partner or simply from access to new products or intellectual property (IP). Joint ventures offer mutual advantages for domestic and foreign firms to operate in a global competitive business environment, sharing both capital and risk and by making use of mutual technical potentials. Japanese companies, for example, prefer entering into joint ventures with American firms as such arrangements help them to cross possible trade barriers. American firms, on the other hand, like to venture with Japanese firms to explore product innovation at low-cost Japanese manufacturing technology, and move fast to enter a wide Asian market. The joint venture in this ways helps both the international firms to utilize established channels and to outperform potentially tough competitors in respective countries.

House Foods and Takeda Pharmaceutical signed a joint venture agreement on their beverage and food businesses. They established a new company, House Wellness Foods Corporation, with a capital of 100 million yen ($840,000), on April 2006. House Foods has a 66 per cent stake in the new company while Takeda Pharmaceutical retains the remaining 34 per cent. After the initial 18-month joint venture period, the new company will become a wholly-owned House Foods subsidiary. A joint venture serves as a centre of resource appropriation and makes a foreign firm's entry into a new terrain easier than other modes. However, it should not be viewed as a handy vehicle to reap money without effort, interest or additional resources.

5. Strategic Alliances

Another way for a firm to enter into a foreign market is by creating a strategic alliance. A global strategic alliance is an agreement among two or more independent firms to cooperate for the purpose of achieving common goals such as a competitive advantage or customer value creation. Strategic partnerships may emerge in many forms including research and development consortiums, co-production alliances, co-marketing partnerships, cross-licensing and cross-equity arrangements. Such alliances do not result in the formation of a separate corporate entity; equity joint ventures form new strategic allies as legal entities to do specified business within given time limits. This strategy is more advantageous than a joint venture. In this process, the business partners

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bring together the specific skills of production, marketing and control in order to maximize their profit and have a major stake in the international business scenario. Many organizations, particularly high-tech industries, have entered into strategic alliances with key players in the marketplace to maintain a competitive advantage. Strategic alliances are partial mergers, but have a comprehensive impact on the performance of the firm. They involve mutual dependence and shared decision-making between two or more separate firms. There are some important types of alliance that can be set up for optimizing business. These are as follows:

- Technology-based alliances
- Production-based alliances
- Distribution-based alliances
- Resource-based alliances

The emergence of strategic alliances in Canada and other industrialized countries are related to economies of scale or scope, resource pooling, and risk and cost sharing among alliance partners. They include globalization of the world economy, systemic technological change, and the growing acceptance of the view that competition, by itself, does not necessarily ensure optimum, innovation-led growth. While international alliances provide firms with strategic flexibility, enabling them to respond to changing market conditions, they can also be effective paths for achieving a global scale in enterprise operations along with mergers and acquisitions and green field investment. The driving forces behind international strategic alliances include cost economizing in production and research and development, strengthening market presence, and accessing intangible assets. In the recent trends of globalization, the practice of entering the international market through such alliances seems to be gearing up along with political support from developing countries. However, the companies having a larger share in the international market still reserve the right to entertain or not, any such alliances.

Advantages of strategic alliances

- Organizational efficiency improves with the flexibility and informality in strategic alliances
- Alliances developed strategically offer access to new markets and technologies
- Risks and expenses are shared among the allies, reducing the impact of risk on the participating members
- Alliance helps the partners to build their independent brands and manage retailing of goods and services
- Alliances can take various forms, from simple research and development deals to heavy budget projects

Suitable for emerging markets

Strategic alliances are especially useful for seeking entry into emerging markets. Foreign firms in emerging markets seek to optimize the market performance in global economies and strategic alliances appear to be the obvious solution for mutual benefit. Given this pattern of benefit, the strategic alliances of US and European manufacturing firms account for over half of the market entries into Latin America and Asia.

The convergence of business practices of the partnering firms often emerges as a major challenge because in the international business arena partnering firms belong to different socio-cultural environments. Alliance managers must make difficult decisions about when to partner and with whom, as well as how to structure and manage the partnership. Managers who can leverage information and knowledge across each stage of the alliance process will find that a knowledge-based approach is critical to the success of any partnership. In US-Japanese alliances in the past, for example, Japanese companies saw these partnerships as a way to learn from their partner, while their US counterparts used these alliances as a substitute for more competitive skills, ultimately resulting in an erosion of their own internal skills. Therefore, with companies that look on alliances as a way of learning from their partners, practices that enable knowledge sharing, creation, dissemination and internalization become critical. Cisco Systems and Polycom Inc. have a strategic agreement for joint development, licensing, and sales of internet protocol (IP) telephony solutions. The objective of the alliance is to deliver enhanced IP telephones to enterprise customers; this agreement combines Polycom's leadership in audio conferencing technologies and Cisco's industry-leading expertise in IP networking and IP telephony. Based on this agreement, Polycom and Cisco have brought a Voice over IP (VoIP) conference phone into the market that provides customers with industry-leading group conferencing capabilities within the Cisco IP Telephony environment.

6. Wholly-owned Subsidiaries

Multinational companies also plan to enter into a new international market establishing themselves in overseas markets by direct investment in a manufacturing or assembly subsidiary company. In view of the frequently changing economic, social and political conditions globally, these wholly-owned subsidiaries are highly risk averse. A wholly-owned subsidiary in manufacturing can involve investment in a new manufacturing or assembly plant or the acquisition of an existing plant (such as Coca-Cola Company purchases local bottling plants in developing countries). The presence of actual manufacturing operations helps support marketing activities. As manufacturing is established abroad through direct investment, parts and components are often exported from the home country.

Besides manufacturing subsidiaries, establishing a sales subsidiary requires relatively low levels of capital investment which leads to low risk. HP Financial Services emerged in 2002 as the parent company Hewlett Packard's (HP) new leasing and financial services subsidiary. HP Financial Services (HPFS) was designed to enhance the worldwide sales efforts of the parent company by delivering a broad range of financial services and asset management capabilities that could positively impact the customer and partner relationships and shareowner value of the parent company. The HPFS represents approximately 4 per cent of the total revenue of the parent company. This new subsidiary brought in a centralized business model for the financial services offered to customers as part of a total HP solution.

The parent ventures, which are managed by wholly-owned subsidiaries, are more successful than shared management ventures, where both companies, parent and subsidiary, contribute on operational strategies. Problems often arise in shared situations because managers of international ventures have communication problems

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and different attitudes regarding time, job performance and the desirability of change. Firms become multinational companies by setting up manufacturing or marketing subsidiaries overseas and transferring knowledge, which embodies its advantage from one country to another. That is, knowledge flows from headquarters to overseas subsidiaries. Venturing is serious business, requiring skill, patience and entrepreneurial flair. Most new ventures involve entering unfamiliar markets, employing unfamiliar technology, and implementing an unfamiliar organizational structure. An approach of particular promise is the new-style joint venture, in which a small company with vigour, flexibility, and advanced technology joins forces with a large company with capital, marketing strength and distribution channels. In order to determine the fit between the parent company and its subsidiaries, corporate strategists should evaluate the operational areas which include the critical success factors of the business, the parenting opportunities in the business, organizational attributes of the parent company, and the financial results.

2.3.1 Developing an Entry Plan

An international marketing plan is prepared considering various factors that determine marketing functions across various countries. However, the marketing plan primarily needs to be designed considering the principal business components as stated below:

- Selection of country or cluster of countries (trade region)
- Commitment on decisions taken by the marketing firm
- Mode of entry into the market
- Appropriate marketing strategy in tune to the marketing environment of the identified country or region.
- Building an effective marketing organization

The selection of a country is a critical exercise that involves the examination of all the above variables besides undertaking the demand analysis and financial estimates. The commitment of the firm to its trading decisions in the selected country, cost-benefit ratio study, and market operational methods largely determine the mode of entry of the firm into the international marketing avenue. The marketing strategy needs to be evolved assessing the objectives of the firm in the local markets in order to acquire differential advantage. Once the marketing-mix is critically analysed, an implementation strategy can be formulated by the marketing firm. However, to ensure effective implementation of marketing policies, the marketing organization needs to be strengthened first. The decentralized organizational structure at regional levels (like Central Asia, South-East Asia, Middle-East, Far-East.) would be appropriate for a marketing firm when planning for international marketing in more than one country. Such an organizational set-up would facilitate monitoring of demand, supply, price trend and political interventions more comprehensively. The centralized set-up would incur greater cost but would be less effective in exercising the marketing implementation and control measures.

How to select

A two-stage selection process is required for the firm to identify the product, market and services for international marketing.

- First, potential international markets need to be explored.
- Secondly, comparison of the domestic market of the firm with those abroad needs to be carried out in order to ensure that marketing at the international level has cooperative advantages over the domestic market.

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Identifying a marketing region is always better than being restricted to an individual country for the purpose of cost-effective distribution networking. In addition, the tariff walls at the border countries need to be studied carefully. The firm involved in international marketing should also make efforts to develop export markets in the initial stage. This would help in product specialization. International business firms have found that exporting is cheaper than manufacturing in overseas markets. There still remain some basic issues to be examined by the firm engaged in international marketing. These are:

- Size and growth
- Marketing potential of a country or region
- Similarities in host countries
- Free trade area, customs, common market
- Economic and political unions
- Appropriate economies of scale in managing business
- Accessibility, infrastructure and its cost
- Possibilities of decentralizing business activities
- Geographical boundaries of the markets
- Long-run market segmentation

Exporting firms should understand that the export operations are subordinate to the domestic market policies and that the policy of the business firm to market the surplus home produce in the international market, would largely be determined by the opportunities offered by the host country or regional markets. The factors to be considered would be (*i*) the firm's extent of awareness on varying requirements of consumers, (*ii*) market response to the design and packaging of the product, (*iii*) the impact of the pre-launch promotion among the focus groups, and (*iv*) the size of the market which influences the adaptation process of goods and services at the international markets level.

Check for provision of international subsidies

The firms preparing for international marketing should also keep track of the international subsidies provided to the developing countries. A strong political and economic information system would help the firms in preparing international marketing plans more effectively. The synthesis of these inputs for planning is essential in pursuing global strategies. Thus integration of this information with the border-country profiles is a prerequisite for sound plans. The selection of a marketplace at the international level is a critical process and is required to be filtered at many intermediate levels before the core business country is selected.

Check Your Progress

5. State two advantages of licensing.
6. What are the four models of franchising?

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2.4 FREE TRADE ZONES

Free zones have become increasingly popular as trade promotion policy instruments, especially in developing countries, to the point where in some developing countries a large proportion of their exports currently originates in free zones. In 1992, the World Bank defined export processing zones as 'fenced industrial estates specializing in manufacturing for exports that offer firms free trade conditions and a liberal regulatory environment.' This concept has evolved and rules on domestic sales and the physical delimitation of the zones have in some cases become more flexible. The objectives pursued by countries that use free zones are development of disadvantaged regions, generating income and employment, attracting investment – especially foreign direct investment and promoting technology transfer. The listed objectives are usually pursued through free zones by providing a series of incentives to companies and firms operating in those zones. These incentives are commonly of a fiscal nature (flexible rules on importation and labour), and infrastructural nature.

The obligations in the Subsidies and Countervailing Measures (SCM) Agreement have direct impact on free-zone programmes of WTO members. Given the nature of the obligations in the SCM Agreement, this impact concerns mostly the type of free zones where there is some manufacturing activity, rather than just transit or commercial activities. In order to understand how the SCM Agreement affects free zones it is important to recall some of the basic definitions in it. Article 1.1 defines a subsidy as a financial contribution by a government that confers the concept of specificity and provides that only those subsidies that are specific are covered by the Agreement. Another important concept that is relevant in the context of the disciplines that regulate which kind of subsidies that members may use is the distinction between prohibited and actionable subsidies. Prohibited subsidies are those which are either contingent upon export performance or upon the use of domestic goods: these subsidies are commonly referred to as export subsidies and import substitution subsidies. The second category is actionable subsidies, which includes all subsidies that are not prohibited and which may cause adverse effects to the interests of other members. Regarding specificity, the Agreement provides that a subsidy may be considered specific if access to it is limited to a particular industry, enterprises or region.

Subsidies are also automatically deemed to be specific if they fall within the prohibited subsidies category. It is important to keep this in mind, because in some cases the type of benefits and the structure of some free zones might actually put them into the prohibited subsidies category. Prohibited subsidies, as the name implies, is the category that is more strictly regulated by the Agreement. The reason for this is that members consider that this type of programmes directly affect international trade and alter competitive conditions.

The SCM Agreement does not have rules specific to free zones. Therefore, the conformity of free zones cannot be analyzed as a single programme. Rather, it is the different incentives, benefits and requirements of a free zone, which have to be looked into in order to see how they fit within WTO rules. So, in order to find out whether free zone schemes can be considered to confer subsidies and, if so, whether those subsidies are prohibited or merely actionable, the benefits that companies receive when operating in a free zone have to be examined, as well as the conditions for establishment in a free zone.

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Although the general rule is that export subsidies are prohibited, developing countries and least developed countries (LDCs) benefit from special and differential treatment under Article 27 of the SCM Agreement. Among the flexibilities accorded to developing countries, Article 27.2 of the SCM Agreement provided a transition period of eight years from the entry into force of the WTO Agreement for the elimination of export subsidies.

This transition period expired at the end of 2002. However, some developing countries obtained an extension of the transition period under the rules in Article 27.4 of the SCM Agreement. The SCM Agreement in Article 27.2 also provides that for certain developing countries the export subsidy prohibition shall not apply.

Requirements

What does a member need to do to bring its free zones into line with the SCM Agreement? There are two ways to attend to this question, depending on whether the member wishes merely to turn those subsidies which are prohibited into actionable ones or whether the intention is to get rid of the subsidies altogether. In the first case, since free zones are not prohibited subsidies per se, members may keep these schemes in place, but they would need to get rid of all aspects that could make a free zone a prohibited subsidy. The aspects that may turn free zones prohibited include the following:

- Requirement to use domestic over imported goods
- Requirement to export certain amount of the production
- Limitations on sales and exports into the national customs territory (including the payment of certain taxes on those sales)

These requirements together with the benefits provided put free zones in the prohibited subsidy category of the SCM Agreement. Therefore, in order for the benefits granted in a free zone not to be considered prohibited subsidies one first step that must be taken is to eliminate the requirements listed. Even after this is done, free zones would continue to be considered specific subsidies and thus actionable multilaterally or potentially, subject to countervailing measures.

Another option available to members would be to turn free zone schemes into duty drawback and indirect tax exemption or remission systems for exports. Footnote 1 of the SCM Agreement provides that 'the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.'

Since the types of programmes covered by Footnote 1 of SCM Agreement are not even considered to be subsidies, there is no risk of multilateral dispute settlement procedures or countervailing measures on these. Nevertheless, members must be careful when using duty and tax exemptions as incentives because the illustrative list of export subsidies in Annexe 1 of the SCM Agreement has many nuances. Annexe 1 of the SCM Agreement in paragraphs (e) – (i) provides details on the circumstances under which direct tax, indirect tax, prior stage cumulative tax and import duty exemptions and remissions may be considered as export subsidies.

In this context, it is clear that any kind of direct tax or social welfare charge exemption, remission or deferral related to exports would be considered an export subsidy.

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These export-related incentives should, therefore, be eliminated for a free-zone scheme to be in conformity with the SCM Agreement. Direct tax exemptions from free zones may remain in place as long as they are not contingent upon export performance. In practice, this would mean that revenues from sales and exports into the national customs territory should receive the same treatment as foreign export sales, even if producers outside of the free zone do not enjoy the same type of tax benefits. In the case of indirect tax exemptions or remissions on the export sales of products manufactured in the free zones, the main principle is outlined in Footnote 1, mentioned above, and in Paragraph (g) of Annexe I. This means that exemptions or remissions from indirect taxes are not to be considered an export subsidy (or a subsidy of any kind) provided they are not in excess of the indirect taxes levied on sales of like products when sold for consumption in the national customs territory.

Exemption, remission and deferral of prior-stage cumulative taxes as well as remission or drawback of import charges and duties on goods and services used in the production of goods exported from free zones receive similar treatment under the SCM Agreement. The general principle is that any such exemption, remission, deferral or drawback shall not be in excess of the prior-stage cumulative taxes and import charges and duties on goods and services used in the production of like products when sold for domestic consumption. Moreover, Annexe I paragraphs (h) and (i) provide that only goods used or consumed in the production process of the exported product may be the subject of exemptions, remission, deferrals or drawback upon export from the free zone. Therefore, these rules do not provide coverage for exemptions and remissions of duties and indirect taxes on capital goods used in the production process of the exported product. Thus, any such type of incentive provided in a free zone would need to be phased out if the free-zone programme is to be brought into conformity with the rules in the SCM Agreement concerning export subsidies.

2.5 EXPORT FINANCE

The financing of foreign trade, especially export, has long been identified as one of the most challenging issues faced by new enterprises and SMEs in developing countries like India.

The issue of export financing is particularly important. Export financing is required not only for export itself, but also for the production of goods and services to be exported. Export financing may include imports of raw material or intermediate goods. Non-availability of financing at anytime during the production and/or the export process will result in a failed transaction.

Export finance has become an important tool of export promotion in countries like India. Even developed countries like the US, Germany and Japan are building comprehensive systems and institutions for providing finances to their exporters. The development of a suitable financing mechanism that provides not only adequate and timely credit but also at cheaper rate is the sine qua non for export promotion.

It is all the more necessary for a country like India where foreign trade constitutes a high percentage of its GNP. Foreign trade financing assumes added importance as our foreign trade accounts for high percentage of almost 15 percent of our GNP. The

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high volume of transactions in our export/import requires finance through the banks without which it is not possible to maintain and increase it for development of our economy.

Export finance is required by all-weather manufacturer- exporters or merchant exporters (including export/trading houses) irrespective of their scale of operation i.e. small, medium or large. It may be more for small or medium scale exporters and a little less for their large brethren. The former (small or medium) exporters' also known as second line borrowers face more difficulties in arranging finance and obtaining the credit, particularly when there is no L/C covering the export transaction.

The difficulties in obtaining finance for exports of new products to new or traditional markets or for new nontraditional export lines are comparatively more as the risk involved is more. The reason is not merely adequate security, but assessment of risk arising from non-availability of data/information on overseas markets and customers. This is more so in developing countries where banks and other financial institutions do not have an efficient infrastructure for collection of necessary information.

Hardly any export takes place on advance payment basis. The exporter has, therefore, to arrange his own finance for production as well as supply on credit to overseas buyers. Even his suppliers (whether finished products to merchant exporters or of inputs to manufacturer-exporters) hardly allow any credit on their supplies. Rather, they mostly work on advance payment system as there is a huge domestic market pull in countries like India. Hence, there is always a need for export finance.

To finance its operations, a new project requires liquidity to cover the cost of producing, selling and shipping the goods up to the point where payment is received. In fact, the most crucial problem for export projects is the funding of their operations. Current liabilities are the principal means of meeting those requirements in part or in whole. Certainly, the financing of current assets appears to create most of the problems experienced in exporting. Without enough liquidity for its short-term needs, an exporting firm is subject to work stoppages and possibly bankruptcy. It is therefore vital to review some aspects of the financing of current assets in the context of export projects.

Interest rates increase with the length of the borrowing time as a result of the rise in the uncertainty level. This risk can be best managed through the proper matching of short-term needs with short-term borrowings, and long-term needs with borrowings with maturity periods in line with those needs.

Current assets of a new project normally include cash, accounts receivable, and the inventory of raw material, and semi-finished and finished products. The funds corresponding to the current assets of a business are known as gross working capital, while net working capital is the difference between current assets and current liabilities.

The net working capital requirement is calculated in terms of the amount of credit essential for operations for the full period of the cash cycle (from cash to cash).

The length of the cash cycle will vary greatly depending on factors such as nature of the industry, destination of the finished goods, method of shipment, and method of payment. In certain cases, the cash cycle will be of a short duration (a week or less); in others it could be longer, but usually less than one year.

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Means of short-term financing

Short-term financing can be obtained by the following means, all of which would appear on the balance sheet under 'current liabilities'.

- Trade Credit
- Pre-shipment Finance
- Other Current Liabilities
- Post-shipment Finance
- Short-term debt Financing

(i) Trade credit

Trade credit is a form of short-term financing common to all businesses. Buyers are allowed a short deferral before payment becomes due. Thus, a credit is provided to the buyer at no additional cost for whom the credit falls in the category of accounts payable. In fact, accrual items figuring in the balance sheet, such as accounts payable and accrued expenses are means of financing the project interest-free if types of trade credit are customarily used; the open account, notes payable and trade acceptances.

(ii) Short-term debt financing

This is generally obtained from commercial banks, finance companies and, occasionally, from development finance institutions (DFIs). However, in many developing countries the experience of DFIs in financing the short-term requirements of the entrepreneurs has been negative owning to ineffective monitoring and control mechanisms. Two types of short-term debt financing are offered; unsecured and secured debt instruments. The former are made by commercial banks, while the latter can be obtained from finance companies as well as commercial banks.

Unsecured short-term debt instruments

An unsecured short-term debt is used to fund the operations of the fund, which is expected in return to generate sufficient cash flow to reimburse the loan within one year. These debt instruments are mainly used to finance working capital requirements. They generally take the form of a line of credit, a revolving-credit agreement or a short-term loan on a transaction-by-transaction basis. In addition, commercial paper and bankers acceptances are issued by firms with a good financial standing, while deposits from the public are used in few cases.

Line of credit

A line of credit is an agreement between a financial institution and a borrower allowing the latter access to credit up to an agreed maximum amount. It is regarded as temporary financing and is usually unsecured and valid for a period of one year, subject to renewal. The expiry of the validity of the line of credit is usually set after end of the firm's financial year. This gives the bank time to receive the financial statements of the firm, review its financial position and discuss with the firm manager its future needs in the light of the results achieved. The amount of credit is based on an assessment of the creditworthiness of the firm as evidenced by its past performance, and future needs as

reflected by a projected cash budget for the following year. Should the need for borrowing peak at ₹ 8, 00,000 for instance, the company will usually request a line of credit for ₹ 10,00,000 to have a margin of safety. Often the lender will request the borrower to be out of the line of credit for a period of a month or two during the year to ensure his or her ability to reimburse. A major drawback for the borrower is that the line of credit does not constitute a legally-binding commitment on the part of the lender to extend the line of credit if requested. In fact, many borrowers are not granted extensions, especially if their creditworthiness deteriorates over the year.

Revolving credit agreement

Unlike the line of credit, a revolving credit agreement legally commits the bank to extend credit up to the agreed maximum amount. Revolving credit agreements carry a commitment fee, usually in the range of 0.5 per cent on the unused portion of the credit agreement. Revolving credit agreements may extend over one year.

Short-term loan

A short-term loan differs from a credit line and a revolving credit agreement in that it is generally sought to finance a defined need such as the completion of a specific job. In such cases, the bank evaluates each request of the borrower separately on its merits. The assessment is fundamentally based on the level of cash flow that is expected to be generated to pay the loan. The higher the expected cash flow, the higher the possible amount of the short-term loan. Under the terms of each agreement, the borrower signs a promissory note detailing the date of reimbursement and installment amount (including the interest charge).

(iii) Pre-shipment finance

There are normally two methods open to an exporter to obtain finance at the pre-shipment stage. These are:

- Anticipatory Letter of Credit or Red Clause Credit
- Packing Credit

Anticipatory letter of credit

Also known as Red Clause credit, it is a credit granted against L/Cs which contain a Red Clause. It is also called Anticipatory Credit as advance against payment is made to the exporter in anticipation of shipment of goods.

A Red Clause L/C is a normal L/C which contains a special clause (usually typed in red ink) authorizing the negotiating/advising or confirming bank to:

- Make immediate payment to the exporter in full or in part of the amount of the L/C, or
- Make payment to the exporter from time to time as per L/C terms and against specified document and/or fulfillment of specific conditions like:
    - o An undertaking from the export beneficiary to the effect that the amount drawn will be utilized for the payment of the cost of raw materials to be consumed by him.
    - o Presenting the relevant shipping documents to the bank for negotiation within a specified period.

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Thus, the main purpose of opening a Red Clause L/C is to enable the exporter to procure materials and execute the foreign buyers order without locking up his own funds. It contains clear instructions relating to the amount advanced, its time, mode of repayment, interest payable, etc.

Packaging credit—clean or secured

As discussed earlier, packaging credit can be clean or secured. However, any clean advance may be converted into secured advance soon after the goods are procured by the exporter for further processing manufacturing. A packaging credit may be extended against (a) pledge, or (b) hypothecation, or (c) against trust receipt.

(iv) Other current liabilities

Several other items falling under current liabilities can be a source of short-term financing. In fact, the normal operations of a company require working capital financed in part by this group of accounts. By judiciously operating these current liabilities, an important source of funds can be accrued to an exporting firm. These items can be classified as current liabilities of a known amount, of an amount dependent on operations, and of estimated amounts.

(v) Post-shipment finance

Post-shipment credit/finance means only any loan or any other credit provided by any institution to an exporter of goods from India from date of extending the credit after shipment of goods to the date of realization of export proceeds, and includes any loan or advance granted to an exporter, on consideration of or on the security of any drawback or any cash receivable by ways of incentives from the government.

2.5.1 EXIM Bank

Export-Import Bank of India is the apex bank which deals in providing project finance and direct finance. The EXIM Bank has taken over the operations of the International Finance Wing of the Industrial Development Bank of India (IDBI). It came into existence on 1 January 1982 and started its operations from 1 March 1982. The headquarters of the bank is situated in Mumbai and it has branches in India and abroad. The main purpose of the bank is to finance medium and long-term loans to the exporters and thus, facilitate international trade in the country. The main objectives of EXIM Bank are:

- To provide financial assistance (medium and long-term) to exporters and importers
- To promote international trade from the country
- To function as the principal financial institution for coordinating the working of institutions engaged in providing trade finance
- To deal with all the issues that may be considered to be incidental or conducive to the attainment of above objectives

The main functions of EXIM Bank are to provide fund based and non-fund based assistance. This can be summarized as follows:

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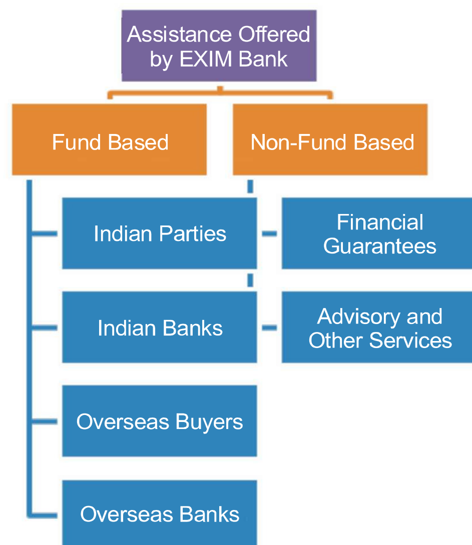

Fig. 2.2 *Functions of EXIM Bank*

The fund based and non-fund based assistance can be further explained as:

1. Fund based assistance

(a) Assistance to exporters in India

- Assistance in the form of deferred credit exports
- Credit facilities for deemed exports
- Financing of Indian joint ventures abroad
- Financial assistance to units located in EPZ/SEZ and EOUs
- Availability of pre-shipment finance in order to procure raw materials and other intermediate goods
- Financial assistance for exporting/importing machinery and equipment on lease
- Foreign exchange loans for computer software exporters subject to clearance from RBI
- Deferred credit financing facility for exports of consultancy, technology and other services
- Export financing assistance for undertaking export marketing activities through the export marketing fund
- The export development fund has been earmarked for undertaking technology and economic survey to develop Indian exports.

(b) Assistance to Indian commercial banks

- Refinance facilities to lend to Indian exporters who extend term credit to importers.
- Export bills rediscounting facility to commercial banks in India who have earlier discounted bills of exporters.

(c) Assistance to overseas buyers

- EXIM Bank offers 'Overseas Buyer's Credit' facility to foreign importers. This is offered for importing capital goods and related services. The repayment period is spread over a period of years.

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(d) Assistance to overseas banks

- The EXIM Bank extends lines of credit to provide finance to financial institutions overseas. These international financial institutions extend finance to importers to buy capital goods.
- The Bank also provides relending facilities to banks in foreign countries and makes available finance to the clients for import of goods into the country.

2. Non-fund based assistance

(a) Guarantees and bonds: EXIM Bank provides guarantees as a non-fund based assistance. These guarantees are usually in the form of bid bonds, performance guarantee, etc. The commercial banks also assist in providing these guarantees.

(b) Advisory services

- The Bank advises Indian companies abroad in order to find sources of financing abroad.
- The Bank also provides advisory services on international exchange control practices.
- It also offers financial and advisory services for constructions abroad.
- The small scale manufacturers are also advised on the feasible markets for exports and products.
- The bank also provides euro financing and global credit to Indian exporters.
- Forfeiting services are also offered for the exporters.

The EXIM bank also provides export financing programmes and promotes exports through direct financial assistance, term finance, overseas investment finance, pre-shipment credit, buyer's credit, relending facility, export bills rediscounting, lines of credit and refinancing schemes to commercial banks. In order to understand these facilities, let us analyze them in detail.

1. Loans to Indian entities

- **Deferred payment exports**: The exporters are offered term finance to further offer deferred credit to their overseas buyers. Commercial banks are also directly involved in undertaking and sharing risks.
- **Pre-shipment credit**: This finance is available from EXIM Bank for execution of export contracts and having a maturity of more than six months.
- **Term loan for production of exports**: The Bank also provides loans and deferred payment guarantees to Export Oriented Units (EOUs), Free Trade Zones and computer software exporters. Providing facilities for deemed exports and both funded and non-funded facilities.
- **Overseas investment finance**: Indian firms which have established joint ventures abroad are offered finance towards their contribution of equity in the joint venture.
- **Finance for export marketing**: The bank also helps in the implementation of export development plans.

2. Loans to commercial banks in India

- **Rediscounting of export bills**: Commercial banks have been granted the ability to rediscount short-term export bills with the EXIM Bank. These banks are

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authorized to deal in foreign exchange and the facility is provided for the unexpired usance period but less than 90 days.

- **Refinance of export credit**: These authorized dealers can obtain 100 per cent refinance of the deferred payment loans from EXIM Bank for exports of Indian goods.
- **Guarantees**: The EXIM Bank along with commercial banks issue guarantees required by Indian companies for various export contracts.

3. Loans to overseas entities

- **Overseas buyer's credit**: EXIM Bank offers credit directly to foreign entities for import of eligible goods and related services on deferred payment.
- **Lines of credit**: Finance is also available to financial institutions, governments and agencies abroad.
- **Relending facility to overseas banks**: The Bank offers relending facility to banks overseas and thus enables them to provide term finance. This term finance is offered to importers from India across the globe.

The EXIM Bank offers a range of services for exports to their clients. The Bank provides a range of information and services to aid in globalization of the Indian organizations. The services being offered include searching of overseas partners, identifying suppliers of technology, negotiating contracts and developing joint ventures abroad. The advisory services of the bank are depicted in Figure 2.3.

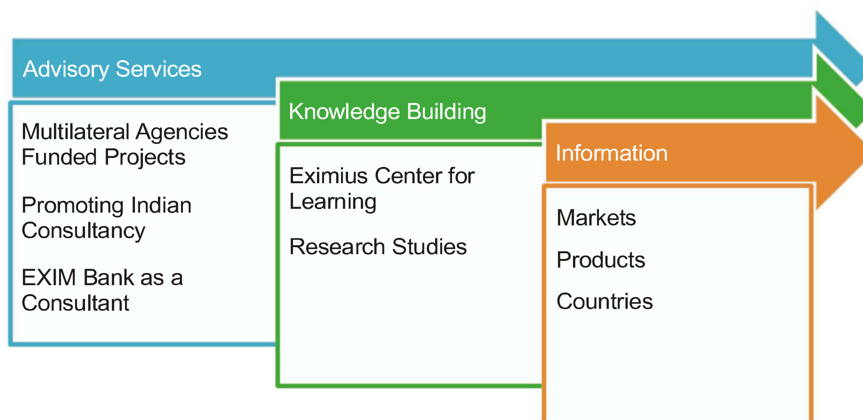

Fig. 2.3 *Advisory Services of EXIM Bank*

2.6 IDBI

IDBI Bank Ltd. is today one of India's largest commercial banks. For over 40 years, IDBI Bank has essayed a key nation-building role, first as the apex Development Finance Institute (DFI) (July 1, 1964 to September 30, 2004) in the realm of industry and thereafter as a full-service commercial Bank (October 1, 2004 onwards). As a DFI, the erstwhile IDBI stretched its canvas beyond mere project financing to cover an array of services that contributed towards balanced geographical spread of industries, development of identified backward areas, emergence of a new spirit of enterprise and evolution of a deep and vibrant capital market. On October 1, 2004, the erstwhile IDBI Bank converted into a banking company (as Industrial Development Bank of India

Check Your Progress

7. When did EXIM Bank start its operations?
8. What are the aspects that may turn free zones prohibited?

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Limited) to undertake the entire gamut of banking activities while continuing to play its secular DFI role. Post the mergers of the erstwhile IDBI Bank with its parent company (IDBI Ltd.) on April 2, 2005 (appointed date: October 1, 2004) and the subsequent merger of the erstwhile United Western Bank Ltd. with IDBI Bank on October 3, 2006, the tech-savvy, new generation Bank with majority Government shareholding today touches the lives of millions of Indians through an array of corporate, retail, SME and Agri products and services.

Headquartered in Mumbai, IDBI Bank today rides on the back of a robust business strategy, a highly competent and dedicated workforce and a state-of-the-art information technology platform, to structure and deliver personalized and innovative banking services and customized financial solutions to its clients across various delivery channels.

As on 31 March 2013 IDBI Bank has a balance sheet of ₹ 3,22,769 crore and business size (deposits plus advances) of ₹ 4,23,423 crore. As a Universal Bank, IDBI Bank, besides its core banking and project finance domain, has an established presence in associated financial sector businesses like Capital Market, Investment Banking and Mutual Fund Business. Going forward, IDBI Bank is strongly committed to work towards emerging as the 'Bank of choice' and 'the most valued financial conglomerate', besides generating wealth and value to all its stakeholders.

Role of IDBI

- As an apex financial institution, it coordinates the working of other financial institutions.
- It assists in the development of other financial institutions.
- It provides credit to large industrial concerns directly.
- It undertakes other activities for the development of industry.

The IDBI has been established to perform the following functions:

- To grant loans and advances to IFCI, SFCs or any other financial institution by way of refinancing of loans granted by such institutions which are repayable within 25 years.
- To grant loans and advances to scheduled banks or state co-operative banks by way of refinancing of loans granted by such institutions which are repayable within 15 years.
- To grant loans and advances to IFCI, SFCs, other institutions scheduled banks, state co-operative banks by way of refinancing of loans granted by such institution to industrial concerns for exports.
- To discount or rediscount bills of industrial concerns.
- To underwrite or to subscribe to shares or debentures of industrial concerns.
- To subscribe to or purchase stock, shares, bonds and debentures of other financial institutions.
- To grant line of credit or loans and advances to other financial institutions such as IFCI, SFCs, etc.
- To grant loans to any industrial concern.

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- To guarantee deferred payment due from any industrial concern.
- To guarantee loans raised by industrial concerns in the market or from institutions.
- To provide consultancy and merchant banking services in or outside India.
- To provide technical, legal, marketing and administrative assistance to any industrial concern or person for promotion, management or expansion of any industry.
- Planning, promoting and developing industries to fill up gaps in the industrial structure in India.
- To act as trustee for the holders of debentures or other securities.

2.7 SERVICES OF EXPORT CREDIT GUARANTEE CORPORATION (ECGC)

The government realized the need of covering the risk of exporting on credit. In order to provide export credit insurance support to Indian exporters, the Government of India set up the Export Risks Insurance Corporation (ERIC) in July 1957 which was transformed into Export Credit and Guarantee Corporation (ECGC) in 1964. In 1983, the Corporation's name was again changed to Export Credit Guarantee Corporation of India Limited. The various schemes of the ECGC facilitate the grant of short-term loans to the exporters through their various credit risk insurance policies and financial guarantees.

The major function of ECGC is to minimize the risk element in export business and to facilitate the flow of finance from the banks to exporters. The ECGC is a company wholly owned by the Government of India. It is essentially an export promotion organization.

Exporters need insurance cover even for their credits provided by commercial banks. This insurance cover to Indian exporters is provided by the ECGC. There are so many risks that are involved in international trade. This insurance cover provided by ECGC is against the risk of non-realization of export proceeds due to political or commercial reasons and to provide guarantees to financial institutions to facilitate the granting of credit facilities to exporters on liberal basis.

The major functions ECGC in reference to insurance cover are as follows:

- It offers insurance protection to exporters against payment risks.
- It provides guidance in export-related activities.
- It makes available information on different countries with its own credit ratings.
- It offers insurance protection to exporters against payment risks.
- It provides guidance in export-related activities.
- It makes it easy to obtain export finance from banks/financial institutions.
- It assists exporters in recovering bad debts.
- It provides information on credit-worthiness of overseas buyers.
- It provides a range of credit risk insurance covers to exporters against loss in export of goods and services.

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- It offers guarantees to banks and financial institutions to enable exporters obtain better facilities from them.
- It provides guidance to exporters in export-related activities as well as information on credit worthiness of overseas buyers in about 180 countries about which it maintains its own credit ratings.
- It also assists exporters in recovering bad debts.

The above are the normal risk policies of ECGC. ECGC also has some special schemes to assist the exporters. These special schemes include packing credit guarantee, post shipment credit guarantee and export production finance guarantee. To suit varying needs of the exporters, the Corporation provides different types of covers which may be divided into the following three broad groups:

- Standard policies issued to exporters to protect them against the risk of trading with overseas buyers on credit terms;
- Financial guarantees issued to banks against the risks involved in providing credit to exporters; and
- Special policies: Under its policies intended to protect the exporters against overseas credit risks, ECGC bears the main brunt of the risk and pays the exporter 90 per cent of his loss on account of 'commercial' risks and 'political' risks.

2.7.1 Export Credit Insurance covered by ECGC

The cover provided by ECGC is of four types:

1. SCR or standard policy

Shipments (Comprehensive Risks) Policy is a whole turnover policy designed to provide continuing insurance for regular flow of an exporter's shipment of raw materials, consumer goods, consumer durables, etc. This policy covers both commercial and political risks from the date of shipment. It is issued to exporters whose anticipated export turnover for the next twelve months is more than 50 lakh. The appropriate policy for exporters with an anticipated export turnover for next twelve months is less than 50 lakh is the Small Exporter's policy.

2. Risks covered under the standard policy

Under the Standard Policy, ECGC covers, from the date of shipment, the following risks:

- Commercial Risks
  - (a) Insolvency of the buyer
  - (b) Failure of the buyer to make the payment due within a specified period, normally four months from the due date
  - (c) Buyer's failure to accept the goods, subject to certain conditions
- Political Risks
  - (a) Imposition of restriction by the government of the buyer's country or any government action, which may block or delay the transfer of payment made by the buyer.

(b) War, civil war, revolution or civil disturbances in the buyer's country. New import restrictions or cancellation of a valid import license in the buyer's country.

(c) Interruption or diversion of voyage outside India resulting in payment of additional freight or insurance charges which cannot be recovered from the buyer.

(d) Any other cause of loss occurring outside India not normally insured by general insurers, and beyond the control of both the exporter and the buyer.

3. Risks not covered

The policy does not cover losses due to following risks:

- Commercial disputes including quality disputes raised by the buyers, unless the exporter obtains a decree from a competent court of law in the buyer's country in his favour;
- Cause inherent in the nature of the goods;
- Buyer's failure to obtain necessary import or exchange authorization from authorities in his country;
- Insolvency of default of any agent of the exporter or of the collecting banks;
- Loss or damage to goods which can be covered by general insurers;
- Exchange rate fluctuation;
- Failure of the exporter to fulfill the terms of the export contract or negligence on his part.

4. Packaging credit guarantee

Packaging credit refers to the credit granted by a bank to enable an exporter to pack the goods meant for exports. It includes the loan or advance or credit granted by a bank to an exporter for financing the purchase of raw materials and supplies required for processing or manufacture of the goods as well as for purchase of packaging and packing materials required to pack the goods to make them ready for their shipment to the foreign country.

Exporters may not, however, be easily able to obtain such facilities from their bankers for several reasons – the exporter may be relatively new to export business, the extent of facilities needed by him may be out of proportion to the equity of the firms or the value of collateral offered by the exporter may be inadequate. The bank is required to be co-insurer to the extent of the remaining loss.

What are the loans and advances eligible for packing credit guarantee?

Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods meant for export against a firm order or Letter of Credit qualifies for Packing Credit Guarantee. Pre-shipment advances given by banks to parties who enter into contracts for export of services or for construction works abroad to meet preliminary expenses in connection with such contracts are also eligible for cover under the Guarantee. The requirement of lodgement of Letter of Credit or export order for granting packing credit advances is waived if the bank grants such advances in accordance with the instructions of the RBI in that respect.

Check Your Progress

9. State two roles of IDBI.
10. What are the special schemes of ECGC?
11. What is an SCR policy?
12. What are the two functions performed by IDBI?

2.8 SUMMING UP

NOTES

- Customer-centric organizations create a culture that exudes care and concern for the customer. Such organizations manage a pool of information about their customers to enable them to serve customers better than their competitors.
- Most companies are content with asking customers their opinions about products that already exist but real market-oriented companies will allow customers to set priorities for design. Market-oriented companies let customer desires drive the R&D agenda.
- Market segmentation is one of the prerequisites for planning marketing activities for any product. Segmenting, targeting and positioning (STP) are the three basic components of strategic marketing in modern times.
- Segmentation of market is a process of identifying the agglomeration of buyers, their wants, purchasing power, geographical locations, their buying attitudes and behaviour to facilitate the targeting and positioning of the products.
- Using 'niche marketing', segmentation can allow a new company or new product to target less contested buyers and help a mature product seek new buyers.
- The companies may make more efficient use of marketing resources by focusing on the best segments for offering – product, price, promotion, and place (distribution).
- A firm, which would like to involve itself in international business, may look for its entry into the international market in several possible ways including: Exporting, licensing, franchising, joint ventures, strategic alliances and wholly owned subsidies.
- Identifying a marketing region is always better than being restricted to an individual country for the purpose of cost-effective distribution networking.
- The firms preparing for international marketing should also keep track of the international subsidies provided to the developing countries. A strong political and economic information system would help the firms in preparing international marketing plans more effectively.
- Free zones have become increasingly popular as trade promotion policy instruments, especially in developing countries, to the point where in some developing countries a large proportion of their exports currently originates in free zones.
- Any type of incentive provided in a free zone would need to be phased out if the free-zone programme is to be brought into conformity with the rules in the SCM Agreement concerning export subsidies.
- The EXIM Bank has taken over the operations of the International Finance Wing of the Industrial Development Bank of India (IDBI). It came into existence on 1 January 1982 and started its operations from 1 March 1982.
- It provides assistance to exporters in India, commercial banks, overseas buyers, and overseas banks as its fund based assistance.
- It provides guarantees and bonds, and advisory services as non-fund based assistance.

- IDBI Bank Ltd. is today one of India's largest commercial banks. For over 40 years, IDBI Bank has essayed a key nation-building role, first as the apex Development Financial Institution (DFI) (July 1, 1964 to September 30, 2004) in the realm of industry and thereafter as a full-service commercial Bank (October 1, 2004 onwards).
- The government realized the need of covering the risk of exporting on credit. In order to provide export credit insurance support to Indian exporters, the Government of India set up the Export Risks Insurance Corporation (ERIC) in July 1957 which was transformed into Export Credit and Guarantee Corporation (ECGC) in 1964.
- Any loan given to an exporter for the manufacture, processing, purchasing or packing of goods meant for export against a firm order or Letter of Credit qualifies for Packing Credit Guarantee.

2.9 KEY TERMS

- **Packaging credit:** Packaging credit refers to the credit granted by a bank to enable an exporter to pack the goods meant for exports.
- **DFI:** A development finance institution (DFI) is an alternative financial institution which includes microfinance institutions, community development financial institution and revolving loan funds.
- **Niche marketing:** Niche marketing is concentrating all marketing efforts on a small but specific and well-defined segment of the population.

2.10 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Markets can be segmented or targeted on a variety of factors including age, gender, location, geographic factors, demographic characteristics, family lifecycle, desire for relaxation or time pressures.
2. The psychographic variables include attitudes, lifestyle, hobbies, risk aversion, personality traits, leadership traits, magazines read, television programmes watched, and the brand loyalty.
3. Segmenting, targeting and positioning (STP) are the three basic components of strategic marketing in modern times.
4. Personal preference can be categorized in the following three patterns:
    - Homogeneous preferences for products or brands
    - Diffused preferences showing greater variations for the brands across the regions
    - Clustered preferences indicating localized preferences of consumers for the brands available
5. Two advantages of licensing are:
    - Licensing is a quick and easy entry tool with little capital investment in the foreign markets.
    - Some countries offer licensing as the only means of tapping the market.

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6. The four models of franchising are: Manufacturer-Retailer, Manufacturer-Wholesaler, Wholesaler-Retailer, Retailer-Retailer
7. EXIM Bank started its operations from 1 March 1982.
8. The aspects that may turn free zones prohibited include the following:
   - Requirement to use domestic over imported goods
   - Requirement to export certain amount of the production
   - Limitations on sales and exports into the national customs territory (including the payment of certain taxes on those sales)
9. The two roles of IDBI are:
   - As an apex financial institution, it coordinates the working of other financial institutions.
   - It assists in the development of other financial institutions.
10. The special schemes of ECGC include packing credit guarantee, post shipment credit guarantee and export production finance guarantee.
11. SCR stands for Shipments Comprehensive Risks Policy.
12. The two functions performed by IDBI are:
    - To grant loans and advances to IFCI, SFCs or any other financial institution by way of refinancing of loans granted by such institutions which are repayable within 25 years.
    - To grant loans and advances to scheduled banks or state co-operative banks by way of refinancing of loans granted by such institutions which are repayable within 15 years.

2.11 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What steps do the multinational companies follow to determine the segmentation criteria?
2. What is indirect exporting? How does it function?
3. How is an international marketing entry plan developed?
4. What are the functions performed by IDBI?

Long-Answer Questions

1. Define market profiling. What are the steps involved in market profiling?
2. Discuss in detail the entry strategies of MNCs. Which strategy do you consider the most suitable and why?
3. Discuss free trade zones. What does a member need to do to bring its free zones into line with the SCM agreement?
4. The main functions of EXIM Bank are to provide fund based and non-fund based assistance. Elaborate.
5. The major function of ECGC is to minimize the risk element in export business and to facilitate the flow of finance from the banks to exporters. Explain.

2.12 REFERENCES AND SUGGESTED READINGS

NOTES

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UNIT 3 INTERNATIONAL MARKETING DECISIONS

NOTES

Structure

3.0 Introduction
3.1 Objectives
3.2 International Product Planning
3.3 Product Design Strategy
3.4 New Product Development
3.4.1 Factors Obstructing Growth of New Products
3.4.2 New Product Development Process
3.5 Branding, Packaging and Labelling
3.5.1 Packaging and Labelling
3.6 International Pricing Strategy
3.6.1 Pricing Objectives
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3.9 International Logistics
3.10 International Promotion and Advertising
3.10.1 Promoting Product/Service in International Market
3.10.2 Advertising Decisions
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3.11 Summing Up
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3.15 References and Suggested Readings

3.0 INTRODUCTION

International marketing decisions involve decisions regarding the product—its marketing, planning, designing, its channels of distribution, advertising and promotional strategies. A product is a good, a service or an idea consisting of tangible and intangible attributes that satisfies consumers; it is received in exchange for money or some other unit of value. Product planning refers to the systematic decision-making related to all aspects of the development and management of the products of a company, including branding and packaging. It is essential for a firm to sell products which are essentially the choice of potential consumers.

The scope of production and marketing of products is decided by the marketer, based on its profitability and consumer recognition. However, it is the consumers who actually influence the products that stay in the range of marketing. Therefore, it is essential to plan for products in the market in such a way as to optimize the profit of the firm and, therefore, its efficiency.

In this unit, you will study about various concepts related to the decisions involving international marketing, product planning, pricing and distribution strategies in detail.

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3.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain international product planning and design strategy
- Discuss the functions of branding, packaging and labelling
- Interpret international pricing strategy and methods of pricing
- Assess the distribution strategies of international marketing
- Discuss the role of logistics and supply chain management
- Describe the components of international promotion

3.2 INTERNATIONAL PRODUCT PLANNING

It is normally accepted that a product has achieved success when all investments made for its commercialization and development have been recovered and the product is still capable of providing satisfaction to consumers. The product must be capable of earning substantial revenues to recover the full investment that the company has put into it. The investments broadly include the cost of design, manufacturing and inventory, market research, sampling and logistics and physical distribution. The product manager has to ensure that the marketing programmes are designed to attain faster recovery of investments. It is rather impossible to enter the global market in the existing era of competition without proper product planning. The product launch must be carried out in an energetic and creative style with effective promotional packages. In planning for the product markets, it is essential to understand clearly the combinations of the expected margins and turnover in terms of volume of the product. Quite often it is required to operate on volumes than looking for higher margins. This may provide the marketer the opportunity for wide coverage of the market at low margins to help him become the market leader because no competitors may be able to sustain at such low margins, due to economic problems associated with economies of scale. It is necessary to position the new products in the new segments carefully by building image of the brand, by means of a pre-launch publicity blitz, swamping the competitive pricing strategy would help the product to penetrate into the market against competing brands in the new segment. At the same time, it is required of the marketer to refresh the consumer behaviour periodically and reorient brand image in tune with the existing consumer segment by constantly building better communication strategies. The success stories of the product would help in carrying out such a process. Figure 3.1 exhibits the product planning strategy in the new and existing consumer segments.

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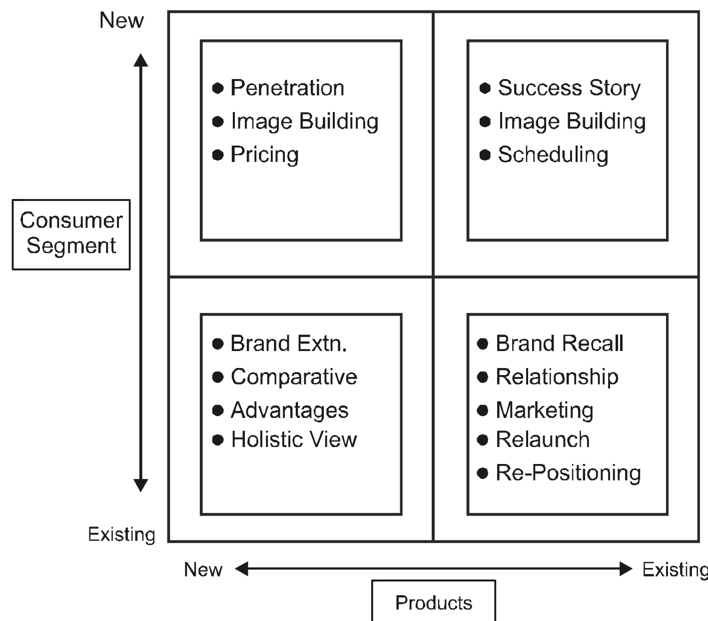

Fig. 3.1 *Product Planning Strategy*

The high margin and low volume strategy will precipitate a distribution crisis for the company and may generate irrecoverable brand loss by allowing the consumer to switch to other brands that may provide satisfaction, as close substitutes. Conversely, it would be difficult for the company to survive the competition if it decides to sell its products at low margin (to gain the brand acceptance) but is unable to meet the supply requirements in the market. Hence, while introducing the new products in existing consumer segments, the company needs to take a holistic view and offer competitive price and quality and new feature advantages to capture/enhance consumer preference for the brand. High profile companies enjoy the premium market of their product selling high volumes at higher margins. Companies aiming to be market leaders and believing in operating with large volumes of products or extensive product line should plan on low margins and high volumes, while the star companies may adopt the policy of high margin-high volume. To achieve a sustainable market share in the existing market, large companies build strong consumer relations, brand recall strategies and reposition their product and brand periodically.

3.3 PRODUCT DESIGN STRATEGY

The product and business strategies of a foreign firm should be developed in reference to the macroeconomic conditions of the host country. In other words, the definition of the product objectives should emerge from business definitions developed in accordance with the macroeconomic requirements of the host country. Foreign firms need to analyze whether the success of their product or product line can be replicated in a new market destination abroad and explore the factors that may lead the product approach in the host country success. A decision must be made about which is the more appropriate of two product design strategies—standardization or customization. Standardization refers to offering a common product on a national, regional, or world-wide basis, while customization signifies adapting a product by making appropriate changes in it, to match local perspectives. The trade-off for a firm—deciding on

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whether to opt for product customization or adaptation—largely depends on the size of the market for the identified product and off-take of the product over the short and long run. Customization of the product may be chosen over standardization in order to cater to the unique situation in each country. Yet, there are potential gains to consider in product standardization. Inter-national marketers must examine all the criteria in order to decide the extent to which products should vary from country to country. If there are no new needs to be catered to, to make the product offering ready for any market, a finding that would result in significant cost savings, the firm may decide to standardize its products. Though product standardization may be a risky proposition in the long run, as consumer behaviour is flexible and tends to change over time, some international companies have succeeded in standardization of products for offering in many countries. The General Electric Company's debacles in the small-appliances field in Germany and Polaroid's difficulties with the Swinger camera in France are classic examples of product standardization. At the same time, Volkswagen's success worldwide supports standardization.

Life Cycle of Products

The international markets are not always homogeneous and markets in different countries for a given product display different stages of development at the same time. This phenomenon may be explained through the product life cycle concept wherein products go through several life cycle stages over a period of time, and in each stage different marketing strategies are appropriate. There are four stages usually identified with this process: introduction, growth, maturity, and decline, even for the products distributed in markets overseas.

Customizing products for the local market

In developing market environments, firms should develop their product policies in accordance with the requirements of the local markets. If the customer needs are the basic ones and there are very few alternatives available to customers in the home market, it would be appropriate for a firm to offer standardized products from the existing product line. Under such circumstances, a firm may decide to offer a narrow range of choice in product selection at a local market level. This would help in confirming the cost effective and high profitability product offerings in the developing markets. However, the product adaptation to match local conditions involves consideration of many cost factors and it is necessary for a foreign firm to undertake a thorough cost benefit analysis prior to making firm decisions on product policy. These costs may relate to research and development; physical alteration of the product's design, style, features or changes in packaging, co-branding, performance guarantee, and the like. In contrast with customization, no research and development is required in the process of standardization, since manufacturing technology and quality control procedures have been established, and performance has been tested and improved. If a product is customized, presumably it will have greater appeal to the mass market in the host country. A cost benefit analysis would help in determining the cost to customize the odds in favour of reaping the benefits. The results of cost-benefit analysis on product customization should be compared using the same analysis as applied to standardization. The net difference indicates the relative desirability of the two strategies.

3.4 NEW PRODUCT DEVELOPMENT

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New products have to be developed by companies with utmost care. It is necessary to understand and accommodate the needs of consumers—counter competitive threats, ensure availability of post sales services and take into account the cost of marketing the product. Despite the risks involved, however, new product development is essential and companies need to make continuous efforts to develop new products, in order to beat competitors.

3.4.1 Factors Obstructing Growth of New Products

- Limited creativity and paucity of new (and eminently useful) product ideas
- Fragmented markets
- Social, economic and technological limitations
- Government policies and restrictions
- Cost effectiveness of the process of new product development
- Resource crisis at various levels in the process, extending from the state of product development to launching in the market
- Overly extended product development and launching time; and
- Short product life cycle—meaning either rapid technological obsolescence or being displaced by better copy-cat versions.

3.4.2 New Product Development Process

The companies should strengthen their marketing network simultaneously while launching the new products. It has been observed that the failure of new products is often due to the lack of organizational teamwork. Thus, it is required to inculcate team behaviour in developing the new products and popularizing them in the test market segments. The results of the test markets may be further tested in the larger segments. The process of new product development is exhibited in Figure 3.2.

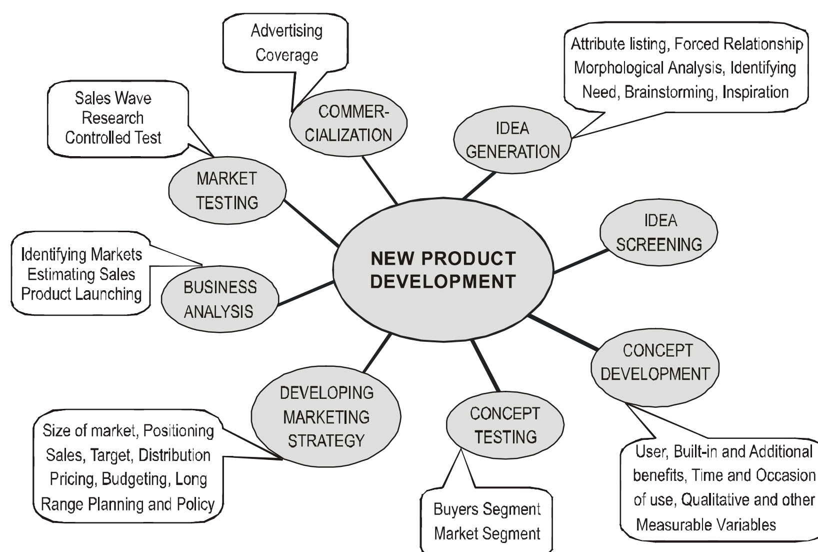

Fig. 3.2 *New Product Development Process*

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It is essential that a company conducts brainstorming exercises for understanding the basic and secondary needs for the product. These include listing the product attributes, and identifying the forced relationship of other goods and services with the new product. Idea generation in the process of new product development is a major exercise. This technique calls for listing of all major attributes of the existing product and the needed attributes in order to improve the same product. The forced relationship of the new product with the existing accessories also need to be studied, e.g., developing a new television set may be related with the consumer need of a clock-cum-timer, multi-channel viewing on one screen, microphone attachment and a built-in video game.

Such a forced relationship has to be identified by the company before launching the product. The morphological analysis calls for identifying the structural dimensions of a problem and examining the relationship among them. The need identification can be done by interacting with the potential and existing customers in a focus group meet. The industrial marketers can identify new product ideas working in association with the lead users of the product. However, brainstorming is also an important tool, which stimulates group creativity. In a brainstorming exercise, the following processes are developed:

- Welcome freewheeling and lateral ideas for better steering
- Encourage maximum number of ideas and categorize their utility
- Establish inter-relationship of ideas for an overall synergistic approach
- Understand that negative comments may be the stimuli for the birth of truly breakthrough ideas.

The basic purpose of this exercise is to generate a large number of ideas. These ideas need to be carefully screened in the interest of consumer satisfaction as well as the company's profit. In this process, the company should avoid the 'drop and go' errors. The former attempts dismiss potentially good but undeveloped ideas, while the latter allows poorer ideas to move into the mainstream of commercialization. Hence the purpose of screening the idea needs to be understood carefully. It is advisable that every company develops its own idea-rating matrix on the basis of emerging ideas and their usefulness. Product ideas have to be turned into concepts, and product concepts can be turned into a brand concept. Concept testing calls for testing of these competing concepts with an appropriate group of target consumers. Concepts can be presented physically or symbolically. The consumers' response may be summarized and the strength of the concept may be judged across segments. The gap between consumer need and product performance may be checked, and modified thereafter. Such concept testing and product development methodology applies to any product or service. Business analysis includes sales projections as applicable to one-time purchase, frequently purchased or regularly purchased products. Estimates should also be made in relation to the tendency of first purchase, replacement purchase or repeat sales. Besides, the company should also assess the marketing costs and the profits from commercializing the product. The statement of such estimates may stretch across the regions, and years of sales (spatial and temporal) based on the following variables:

- Sales revenue
- Cost of the goods
- Gross margin

- Development costs
- Marketing costs
- Allocated overheads
- Gross contribution
- Supplementary contribution
- Net contribution
- Discount contribution
- Cumulative discounted cash flow

Case Study: Godrej Pillsbury

According to Godrej Pillsbury, only 3 per cent of urban households in India own ovens. So all cooker cake mix, is bound to click. This product allows the Indian homemaker to 'bake' a cake at home in her pressure cooker. Available in a 150-gm pack which makes a 300-gm cake, it comes in two flavours—chocolate and sponge. With this product, Godrej Pillsbury also launched its national single-number toll-free helpline on which trained personnel are available to help out. Beginning with the top 25 cities, Godrej has rolled out the product to all major towns that have a population of over 100 thousand. Godrej Pillsbury is a joint venture (JV) between the Godrej group and The Pillsbury Co. (which is part of the $21 billion global food and drinks giant, Diageo, that also owns Burger King, Green Giant, Johnny Walker, Smirnoff and Bailey's, amongst others). In India, the JV has already launched Pillsbury *Atta* (wheat flour). According to a company spokesperson, the launch of traditional oven cake mixes in late 1998 had met with lukewarm response. The Pillsbury Cooker Cake Mix was designed to explode the category.

The marketing testing can be done by using sales-wave research and controlled test marketing method. The sales wave research enables the company to estimate the repeat purchase rate where consumers spend their own money and choose this product over other competing brands. The controlled test marketing is conducted in a given territory of consumers across segments. Retailers and consumers in the vicinity thereof are identified and the consulting firm conducting research delivers the product to the selected outlets with total package of promotion. The responses of the consumers at the outlets can be collected in a structured questionnaire or fed directly in the computer. Such controlled test marketing allows the company to test the impact of retail response as well as the buying behaviour of the consumers. Commercialization of the product is a strategic decision in which the company should look into the appropriate time, market and consumer segment to launch the product. The company has to derive the geographical strategy with a keen eye on the crucial logistics administration. The time of launch of the product may be considered looking into three common choice—maiden entry or first look in the market, parallel entry with the similar or identical product of the competing brand and late entry when the firm delays positioning its product in the selected segment. The process of commercializing the product also prompts the adoption behaviour of the consumers. In conclusion there are five stages in the adoption process—awareness about the product, interest generated in using or adopting the product, evaluation of the product, trial of the product from the point of perceived use value and perceived price and final adoption of the product for use.

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Check Your Progress

1. State two factors obstructing growth of new products.
2. What are the five stages of the adoption process?
3. Why is commercialization of the product considered a strategic decision?

3.5 BRANDING, PACKAGING AND LABELLING

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Brand is largely associated with the attributes of the product, benefits, user values, culture, personality and behaviour. Branding decisions, therefore, are very important for the company. In this process, the company should first take a decision on developing the brand name and its need. Branding is necessary to get the identification of the product and supplier, process supply orders, gain legal protection and good corporate image. Figure 3.3 exhibits the process of branding decision-making in a company. Branding also helps in building a loyal customer base for the product and organizing the seller segments for better operational efficiency.

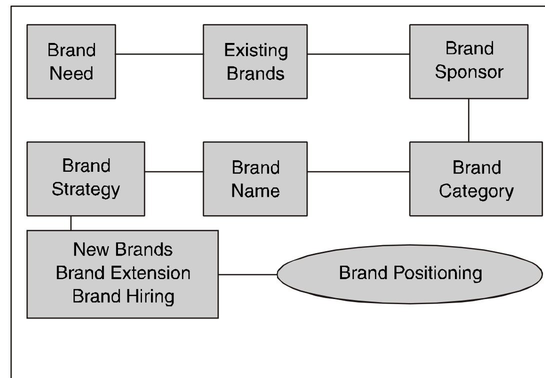

Fig. 3.3 *Process of Branding Decision-Making*

The company has to assess the strength and weaknesses of the existing brands in the market before taking the branding decision for their product. The manufacturing company may have several options on brand sponsorship. The product may be launched in the market as a brand, which is also known as national brand, a distributor brand (as happens in the case of edible oils, sugar, processed grains and in many products which need re-packing) or as a licensed brand name. The brand category may be chosen from the brand sponsorship in terms of national brand, private brand or licensed brand. Deciding upon the category of brand, an appropriate brand name may be selected. Brand names may reflect individual, blanket family name (umbrella brand) for all products, separate family names for all products, or a company trademark. The brand name should be short, easy to pronounce and convey proper meaning in the language of the country/region. Double entendres and undesirable connotations must be carefully avoided. The brand name should be such that it suggests some use, value or attribute of the product and is distinct from the existing market brands. The brand extension in the same company can be explained as *product-line.* It has been observed that the majority of new product activities consist of line extensions. The company may have four basic options in brand strategy—*line extension,* in which the existing brand can be extended to new attributes in the existing product category; *brand extension,* which enables the company to introduce new brand names to new product categories; *multi-brands* may be used if new brand names are provided to the same category of products; and, finally the *new brands* are obviously those where 'brand new' brand names are used for the new product categories.

The company may have low price and high consumer loyalty and also more trade leverage. It would be difficult to measure the brand equity of various brands in

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the market as the parameters are very subjective and the whole exercise may turn out to be arbitrary. The brand equity has four major variables, viz., awareness, acceptability, preference and brand loyalty and the integration of all these variables offer the high brand equity for the company. The brand equity further leads to brand personality of the company. The company may decide the brand personality strategy after analyzing the strengths and weaknesses of the existing brands in the market. The research on assessing the brand personality may be conducted by using the brand rating method to get quantitative measures. The methods of photo sorting (trademark), phrase writing and simulation games may be used for assessing the brand personality. The sample consumers for this purpose should be self-directed, principled, externally directed, status-oriented, action-oriented, consumers and non-driven consumers. The effective strategy for implementing the brand personality measures would be to go for aggressive advertising using the consumer reviews and comparative product advantages to good effect. However, the consistency in the message should be taken care of properly.

Once positioned by the company in the market, the brand may have to be repositioned over a period of time as the competitor may launch a brand close to the company's and cut into its market share. Shifts in consumer preferences may also necessitate repositioning of the brand in the market. The repositioning exercise has to be carefully done, analyzing the age and sex response to the company's brand, packaging and advertising response, revenue generation in the new market/consumer segment and strength of the competitors. The brand positioning map exhibited in Figure 3.4 shows that positioning the brand at A would be the most profitable where the consumer preference is good and is matched to the USP.

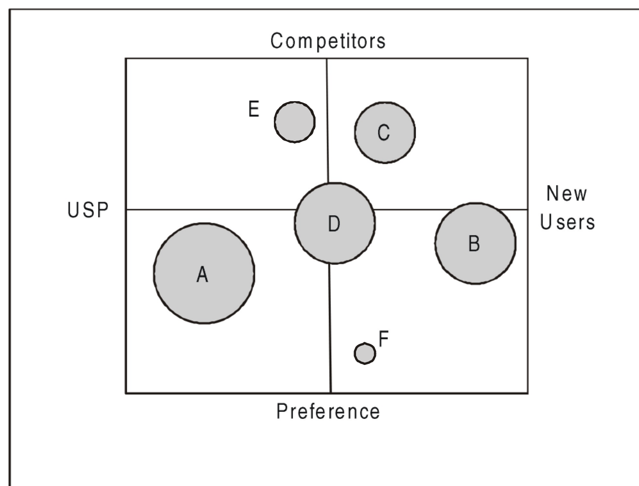

Fig. 3.4 *Brand Positioning*

Conversely, repositioning of the brand at E would not be favourable due to high marketing cost or overcoming the competitors and re-orienting the consumer preference for the brand. The brand promotion for the new users may generate good response for the product sales but may also pose threats of competitors entering in the (wide open) new segment. Hence, the decision on brand re-positioning should be made after comparing the likely revenues and costs of each repositioning alternative. To identify the best preference cluster and the most appropriate USP for positioning the brand and building image is a must for any company. Hence, the most ideal brand positioning would be at A with reasonably good USP and preference cluster for the product.

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However, the company may aim at repositioning the brand at B and C over a period of time.

The brand extension in the same company can be explained as product-line. It has been observed that majority of new product activities consist of line extensions. The company may have four basic options in brand strategy—line extension: in which the existing brand can be extended to new attributes in the existing product category: brand extension, which enables the company to introduce new brand names to new product categories; multi-brands may be used if new brand names are provided to the same category of products and, finally, the *new brands:* those where new brand names are used for the new product categories. The branding strategy can be viewed clearly as exhibited in Figure 3.5.

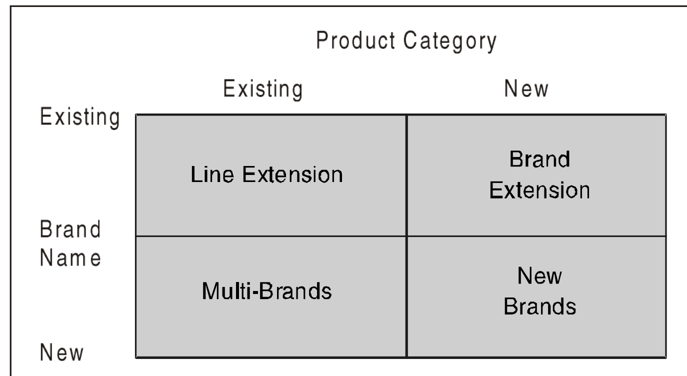

Fig. 3.5 *Branding Strategy*

3.5.1 Packaging and Labelling

Packaging

Packages have always served a practical function—that is, they hold the contents together and protect goods as they move through the distribution channel. Packaging is also a container for promoting the product and making it easier and safer to use.

Functions of Packaging

The critical functions of packaging include containing, protecting and promoting products as well as facilitating the storage, use and convenience of the products. A fourth function of packaging that is becoming more important now is to facilitate recycling and reduce environmental damage.

- **Containing and protecting products:** The most obvious function of packaging is to contain products that are liquid, granular, or otherwise divisible. Packaging also enables manufacturers, wholesalers, and retailers to market products in specific quantities, such as grams.

  Physical protection is another obvious function of packaging. Most products are handled several times between the time they are manufactured, harvested or otherwise produced and the time they are consumed or used. Many products are shipped, stored and inspected several times between production and consumption. Some, like milk, need to be refrigerated. Others, like beer, are sensitive to light. Still others, like bandages and medicines need to be kept

sterile. Packages protect products from breakage, evaporation, spillage, spoilage, light, heat, cold, infestation, and many other conditions.

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- **Promoting products:** A package differentiates a product from competing products and may associate a new product with a family of other products from the same manufacturer.

  Packages use designs, colours, shapes, and materials to try to influence consumers' perceptions and buying behaviour. Packaging has a measurable effect on sales. Appropriate packaging has been shown to improve sales by as much as 50 per cent.

- Facilitating storage, use and convenience: Wholesalers and retailers prefer packages that are easy to ship, store, and stock on shelves. They also like packages that protect products, prevent spoilage or breakage, and extend the product's shelf life.

  Consumers' requirements for storage, use and convenience cover many dimensions. Consumers are constantly seeking items that are easy to handle, open, and reclose, although some consumers want packages that are tamperproof or childproof. Consumers also want reusable and disposable packages.

  Some firms use packages to segment markets. Different size packages appeal to heavy, moderate and light users. Packaging convenience can increase a product's utility and therefore, its market share and profits.

- **Facilitating recycling and reducing environmental damage:** One of the most important packaging issues today is compatibility with the environment. Some firms use their packaging to target environmentally concerned market segments.

Labelling

The label is an integral part of a package. Labelling can be generally seen in the form of persuasive labelling or informational labelling. While persuasive labelling is mainly concerned with the theme for promotion or the logo, informational labelling focusses on providing information to the customer. Persuasive labelling does not give much importance to information whereas informational labelling ensures that the customers are more knowledgeable about the product and its usage after the purchase.

3.6 INTERNATIONAL PRICING STRATEGY

One of the challenges that international marketers face is trying to set prices for their products and services in foreign markets. There are many variable factors that influence international pricing, such as currency exchange rates, economic conditions, production expenses, your competitors and the consumers in your target market. International pricing strategies require careful planning and ongoing management in order to be effective.

Getting your international pricing strategies right is crucial to the success of your marketing efforts. The more you understand about your target market, the better you will be able to set your prices at a level that will appeal to consumers whilst still generating a positive return for your business. Let us discuss some of the pricing strategies:

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1. Value Pricing

Value pricing may be an appropriate strategy to practice with new products. Such a strategy is also known as 'skimming the market'. In this process, a high price is set for the product to 'cream off' all available demand. The price is maintained for some time, to allow the customers who regard the product as important to 'upgrade' them into the high price bracket. In a broad sense, it is but product segmentation.

The value pricing approach would prove advantageous only when enough product awareness is created among the consumers through advertisements, demonstrations and effective consumer services. In the long run, such an approach would create a specific group of customers or consumer segment for the product. For instance, the electronic products of some companies like BPL-Sanyo and Philips among the capital goods and some of the household consumable goods such as packed food and condiments coming from capital-intensive units constitute such consumer segments for their products.

The advantage of earning a high profit under the value pricing approach is anticipated in the long run when there is consumer segmentation for the product with a high recognition. However in this approach, the selling cost may shoot up reducing the profit margin in the initial stages. In value pricing, another important factor to be considered are the territorial characteristics—low purchasing power or high purchasing power consumer segments, or a broader classification in terms of 'rural' and 'urban'. In the former, where the marginal propensity of consumption and income level of consumers are low, value pricing, with a high product price and selling cost would not be a profitable approach. In such areas, where there are low-income group consumers, the product segmentation can be done formulating the 'dumping policy' i.e., a low price strategy. The price of the product can be raised to the maximum in coherence with the consumers' purchasing and paying capacity in the long run, after the product gets proper consumer recognition and makes headway in the market. Under such circumstances, the selling cost will be lower as compared to the overhead costs.

If the customer's economics are understood, it is possible to estimate the benefit of purchasing the product or service. Company management should be asking itself, 'What is the highest price that can be charged such that the customer is better off buying from us?' Value added pricing can be explained as a company provides transportation and disposal services for infectious medical waste from small generators, such as doctors and blood banks. As the regulatory and enforcement climates have stiffened, customers have become increasingly sensitive to the problems associated with proper disposal of this material. Unlike the competitors, who primarily price by the weight of material removed, the company may charge a fixed fee per container.

2. Skimming Strategy

Skimming pricing is the strategy of establishing a high initial price for a product with a view to 'skimming the cream off the market' at the upper end of the demand curve. It is accompanied by heavy expenditure on promotion. A skimming strategy may be recommended under the following business conditions:

- When the nature of demand is uncertain
- When a company has expended large sums of money on research and development for a new product

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- When the competition is expected to develop and market a similar product in the near future
- When the product is very innovative and the market is expected to mature very slowly.

Under these circumstances, a skimming strategy has several advantages. At the top of the demand curve, price elasticity is low. Besides, in the absence of any close substitute, cross-elasticity is also low. These factors, along with heavy emphasis on promotion, tend to help the product make significant inroads into the market. The high price also helps the segment market.

One may also turn to a penetration strategy with a view to achieving economies of scale. Savings in production costs alone may not be an important factor in setting low prices because, in the absence of price elasticity, it is difficult to generate sufficient sales. Finally, before adopting penetration pricing, one must make sure that the product fits into the lifestyles of the mass market. How low the penetration price should be differs from case to case. There are different types of prices used in penetration strategies: restrained elimination prices, promotional prices, and keep-out prices.

Box 3.1

Dow Chemical Company stresses penetration pricing. It concentrates on lower-margin commodity products and low prices, builds dominant market share, and holds on for the long haul. Texas Instruments also practices penetration pricing. Texas Instruments starts by building a large plant capacity. By setting the price as low as possible, it hopes to penetrate fast and gain a large market share. Penetration pricing reflects a long-term perspective in which short-term profits are sacrificed in order to establish sustainable competitive advantage. Penetration policy usually leads to above-average long-run returns that fall into a relatively narrow range. Price skimming, on the other hand, yields a wider range of lower-than-average returns.

3. Pricing with Demand Curve

This approach may be followed for pricing the products that already exist in the market and are mature with regard to sales realization in open market conditions. In this process, unlike getting customers to upgrade themselves and form segments, the pricing approach calls for widening the market and matching the product price with product demand. In this process, a high price may be set initially, but there is a judicious scaling down of the price and mopping up of all available demand at each price level.

The likely demand at various price levels is difficult to estimate but, the implications pertaining to the results of sample survey can be used in pricing. The sales estimates may represent the demand schedule and in a firm, even with these points the curve can be drawn. Some preconditions may be reviewed to estimate the demand of the product such as: (*i*) number of potential buyers, (*ii*) propensity to purchase, and (*iii*) product attributes conducive to attitude building. The demand curve has implications of these preconditions. If the price is changed there is a movement along with the demand curve and if any of the preconditions of demand is changed, there is a scope of shift in the demand curve to the higher or lower side. In case the demand for the product is elastic, the price should not be kept high for any product. Pricing strategies are subject to the very nature of the product. If it is a core product

made tangible without incurring scorching expenditure, it can be priced at higher margins, as any close competitor fails to match it. Marketing of such products depends on the pricing strategies suitable at every level of the distribution network.

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4. Penetration Pricing

This policy may be adopted to penetrate into the market as quickly as possible to secure cost advantages through pushing products in high volume. In case new products—of qualities similar to those already existing in the market—have to be introduced for crash sales in the market, the price may be derived in relation to its competitive products. The important issue to be kept in view is the anticipated selling cost and the volume of sales, to determine prices. The penetration price has to be a little lower than the price of the similar products already in the market. The penetration price is conceptually an artificial pricing approach to push the product into the market. The real price may be fixed later in the process, to assess the demand elasticity of the product in the primary and subsequent markets.

Penetration pricing is the strategy of entering the market with a low initial price so that a greater share of the market can be captured. This strategy is used when an elite market does not exist and demand seems to be elastic over the entire demand curve, even during early stages of product introduction. High price elasticity of demand is probably the most important reason for adopting a penetration strategy. It is also used to discourage competitors from entering the market. When competitors seem to be encroaching on a market, an attempt is made to lure them away by means of penetration pricing, despite lower margins. A competitor's costs play a decisive role in this pricing strategy because a cost advantage over the existing manufacturer might persuade another firm to enter the market, regardless of how low the margin may be.

5. Geographical Pricing

This strategy involves the exercise of a discriminatory pricing policy across the various territorial market segments. The marketer who serves a number of distinct regions can adopt this policy without creating psychological barriers either to the customers or distributors in purchasing and selling the products. Consumers are quite aware that—for whatever reasons—prices vary from country to country.

6. Dual Standards

This strategy is largely backed by the concept of 'skimming in' and 'skimming off' price setting. A marketer can choose a relatively lower price for the product in segments where customer density is high but purchasing power is low. As such, a higher price may be fixed in the segments of high purchasing power where 'skimming off' strategy can be implemented. In setting up both the price standards, the marketing objective should remain intact and the overall orientation of the marketing managers has to remain the same.

7. Conspicuous Pricing

The skimming approach also applies to this pricing policy, where the price of the product is kept higher than its substitutes in order to make it conspicuous, so the product may be recognized as a symbol of social status.

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8. Psychological Pricing

This approach makes the customer feel that he is paying a relatively lower price for the product. To stimulate such a view, the price is fixed in integral values very close to the round numeric values, *e.g.,* prices of Bata shoes @ ₹ 499/-, shirts in UK @ £3.99. Such a price structure gives the customer a materialistic satisfaction in buying the product.

9. Value-added Pricing

In this price-determining process, the company takes care of the value of its by-products in the principal product and prices them accordingly. Such approaches are generally applicable for evolving price strategies of semi-processed products like meat, oilseeds, milk, chemicals, etc.

10. Complementary Product Pricing

The prices of the principal products are dependent on the pricing pattern of associated products, and vice-versa. It is logical that the prices of complementary products should be lower, e.g., film for cameras, battery for camera, etc., or else the customers may withdraw the principal product from use. However, in the long run, manufacturers stand to gain substantially from the sale of such complementary consumables, provided they are their own brand, e.g., Kodak Cameras and Kodak film, HP Printers and HP printer (inkjet) cartridges.

11. Price Discounts

This is one of the most popular strategies adopted by private companies in order to attract the consumer towards their stocks and increase sales by offering a discount on the price of the products either on selected or all items, in accordance with the business state of the organization. The discounts are offered in terms of cash, kind or discount vouchers, encouraging customers to buy the products of the company for the amount discounted. Discounts offered by government supported organizations include:

- Cash discounts
- Quantity discounts
- Discount in kind
- Trade discounts
- Seasonal discounts
- Institutional discounts
- Grant-in-aid discounts
- Allowances
- Stock clearing discounts

A company may offer a discount either by making the customer pay less than the prescribed price of the product or set a strategy to provide additional quantity of products on the pre-set price. Such transactions refer to cash and quantity discounts. For example, the policy of discount of a firm in kind may be given to a customer, especially with a high technology principal product, e.g., memory storage device with the computer. Trade discounts are incentives to the distributors for the promotion of

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sales. The seasonal discounts on prices are related to the customers' demand for the product at a particular time. For example, during festivals, clothes are in high demand and are generally offered at seasonal discounts to boost sales. The handloom societies patronized by the Government of India, also offer seasonal discounts subject to the availability of grant-in-aid for sales from the Government. On the bulk procurement of products, an institutional discount on the set price is offered by the companies to keep up the customer relationship. The company, however, may decide to offer a clearance sale discount on prices to ease inventory blockade (clean old stocks) and liberate blocked cash. It also helps an organization to refill the product-line with products or demand at par with current fashion or demand. The sales personnel of the company also get some benefit as a token or recognition for the service rendered in terms of price discount on selected products to keep their morale high in the lean season.

12. Discriminating Pricing

A company modifies its pricing strategy for its products according to the customer segments, product forms, product image, location and time. These approaches are to be decided on the basis of the competition prevailing in the market. However, a marketing manager has to keep his corporate objectives in view before discriminating the price in several forms stated above.

13. Promotional Pricing

Under specific circumstances, companies will temporarily price their products below the list price to promote sales. In the process, companies often take the risk of quoting prices even below the cost. This can destroy the competitor who lacks the wherewithal to match such an offer and loses major market share in the process. How long can such a drastic price cut be sustained depends on how deep a company's pockets are, and how far it is willing to go down this road and yet avoid a pyrrhic victory.

Forms of Promotional Pricing Strategy:

- Loss leader pricing
- Special event pricing
- Low financing

Since there is always a threat of copy cat responses from strong competitors, such a policy should not be maintained for too long a period of time.

Pricing is a logical proposition keeping in view the competitive products in the market. A company has to determine the price on the basis of internal economics with reference to cost of production, business objectives, targets, marketing policies and profit targets, and external forces like market demand, and strategies of competitors with competitive products.

14. Mark-up Pricing

It is an elementary pricing method that is exercised by adding mark-up standards to the cost of manufacturing or sourcing the product. There are considerable variations in mark-ups among the different products. Thus, this methodology is not considered to be scientific. However, mark-up pricing remains popular for several reasons: (*i*) it is a cost-plus exercise and appears to be fairer for both customers and sellers (*ii*) sellers feel that this approach is simple and (*iii*) price competition is minimized. The mark-up price may be calculated using the formula as below:

where, P_m = Mark-up price, C_{pi} = Unit cost price, S_r = Expected returns on sales ...(i)

The unit cost of the product may be calculated from the following formula:

where, V_c = Variable Cost, F_c = Fixed Cost and S_c = Unit Sales ... (ii)

The expected return price on sales may be computed from the projection stated in the following equation:

where T_r = Target Returns and Y_c = Capital investment in marketing ... (iii)

The mark-up price can be calculated substituting the values of unit cost and expected returns drawn from equation (*ii*) and (*iii*) in equation (*i*).

15. Customer Expectation-based Pricing

Another approach is to price customer expectations. Experienced purchasers of products and services have set ranges and frames of reference for pricing expectations. Prices that are inconsistent with these expectations may be rejected without consideration. A low price may be associated with an inferior product or service, thereby being unacceptable to particular customers. A high price may be beyond what another buyer considers reasonable for his/her expectations of the product's benefits. Ultimately prices should be set according to what the market will bear. This will be influenced by competitive actions, customer expectations, and the company's cost structure. No final pricing decisions should be made until a breakeven analysis has been performed which considers fixed costs, variable costs, and volume.

3.6.1 Pricing Objectives

Price is a vital component of a marketing mix, also known as the 'four Ps' of marketing. The other components are product, place and promotion, all of which constitute costs. Price, on the other hand, generates a return as it supports the other marketing-mix elements. Although supply and demand drive pricing decisions, they're not the only factors. Any number of pricing objectives may come into play, but four in particular apply to most businesses.

Survival

Prices are flexible. A company can lower them in order to increase sales enough to keep the business going. The company uses a survival-based price objective when it's willing to accept short-term losses for the sake of long-term viability.

Profit

Price has both direct and indirect effects on profit. The direct effect relates to whether the price covers the cost of producing the product. Price affects profit indirectly by influencing how many units sell. The number of products sold also influences profit through economies of scale—the relative benefit of selling more units. The primary profit-based objective of pricing is to maximize price for long-term profitability.

Sales

Sales-oriented pricing objectives seek to boost volume or market share. A volume increase is measured against a company's own sales across specific time periods. A company's market share measures its sales against the sales of other companies in the

industry. Volume and market share are independent of each other, as a change in one doesn't necessarily spur a change in the other.

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Status Quo

A status quo price objective is a tactical goal that encourages competition on factors other than price. It focuses on maintaining market share, for example, but not increasing it, or matching a competitor's price rather than beating it. Status quo pricing can have a stabilizing effect on demand for a company's products.

3.6.2 Pricing Methods

Being merely a number, it might be tempting to believe that setting the price of a product must be an easy task for a company to perform. It is not. Many external and internal factors have to be considered together. The price should have some reference to its costs, as they must be recovered at least in the long run. Most companies cannot afford to sell at prices below cost for long periods. The price should be low enough to attract customers but high enough to bring reasonable profits to the company. A company might be tempted to maximize profits by charging higher prices, but the customers may not consider the products worthy of the higher prices being charged and may not buy at all. The price should match the positioning strategy of the company. The value of a premium brand will be eroded if its price is low. In most situations, all the above factors have to be considered simultaneously when prices are set.

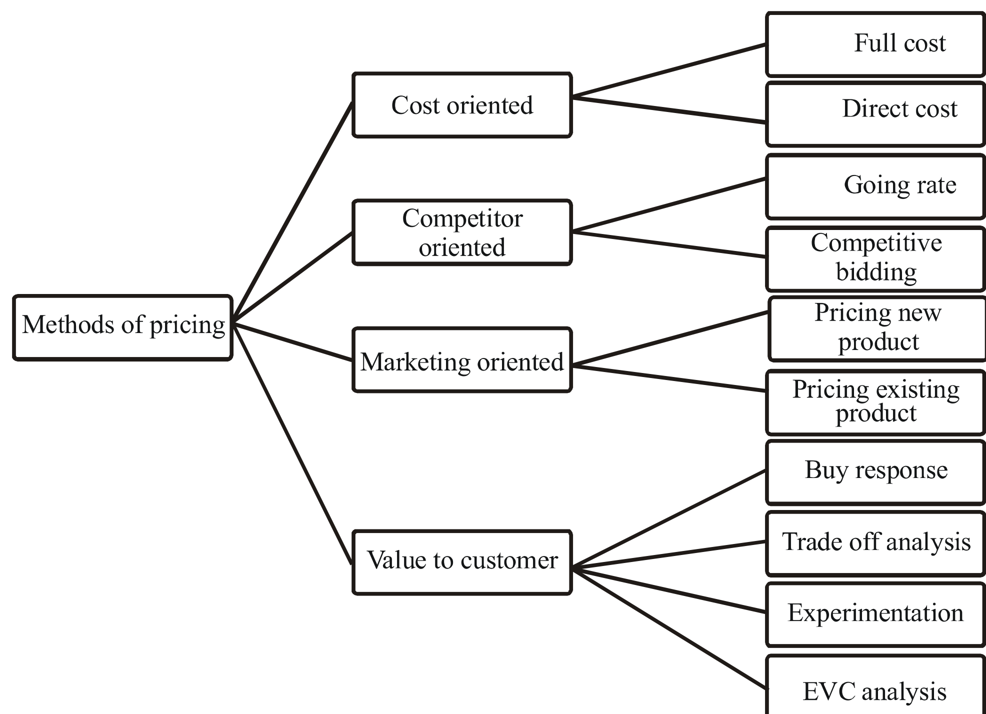

Fig. 3.6 Methods of Pricing

1. Cost-oriented Pricing

One of the methods of pricing a product is on the basis of its cost. The company can either set the price on the basis of the total cost of the product, or on the basis of its variable cost.

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Full cost pricing

Variable and fixed cost per unit is added and the desired profit margin is added to the total cost. This price is true for a given volume of sales/output. But if sales/output goes down, fixed cost per unit goes up, so price should go up. Therefore, there is an increase in price as sales fall. Sales estimates are made before a price is set which is illogical. It focuses on internal costs rather than customer's ability or willingness to pay. There may also be technical problems in allocating fixed/overhead cost in multi-product firms.

Inspite of its drawbacks, the method forces managers to calculate costs, so it gives an indication of the minimum price necessary to make a profit. Breakeven analysis can be used to estimate sales volume needed to balance revenue and costs at different price levels.

Direct cost pricing

The desired profit margin is added to the direct cost to obtain a price. Price does not cover full costs, and the company would be making a loss. The strategy is valid if there is idle capacity as margin is covering some part of fixed costs. It is useful for services in periods of low demand as they cannot be stored. But customers who have paid higher amount may find out and complain. Direct cost indicates the lowest price at which it is sensible to take business if the alternative is to sit idle. It does not suffer from 'price up as demand goes down problem', as it happens in full cost pricing method. It also avoids problem of allocating overhead charges. But when business is buoyant, it does not take into account customers' willingness to pay. It is not for the long term as fixed cost must also be covered to make profits. But it is a good short-term strategy to reduce impact of excess capacity.

2. Competitor-oriented Pricing

Another method of pricing a product is on the basis of the competitor's price. A company can operate at a competitor's price level if its products are undifferentiated. It may adopt a more aggressive stance by lowering its price to win bids, or to get a larger market share.

Going rate pricing

There is no product differentiation, i.e., there is some sort of perfect competition. All companies charge the same price and smaller players follow the price set by market leaders. This is not an attractive proposition for marketers. Marketers like to differentiate their offerings and have a degree of price discretion. Even for commodity products, differential advantages can be built upon for which premium prices can be charged.

Competitive bidding

The usual process involves drawing up a detailed specification for a product and putting it out for tender. Potential suppliers quote a price which is confidential and known only to themselves and the buyer (sealed bid). A major focus for suppliers are the likely bid prices of competitors.

Expected profit = Profit × Probability of winning

As the quoted price will increase, profits will rise, but the probability of winning the bid will fall. The bidder uses past experience to estimate a probability of clinching the deal at each price level. Expected profit peaks at a particular bid price.

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Table 3.1 *Competitive Bidding*

Bid price	*Profit*	*Probability*	*Expected profit*
2000	0	.99	0
2100	100	.9	90
2200	200	.8	160
2300	300	.4	120
2400	400	.2	80
2500	500	.1	50

The company would quote a price of $2,200 as it stands to make the maximum profit at this price with 80 per cent probability of winning the bid. But calculation of probability of succeeding goes haywire where competitors are desperate to win an order. Such competitors would quote very low prices to win the bid, as they are willing to take the lower profits. A successful bidder needs to be aware of competitors' motives and circumstances, and therefore it needs to install a competitor information system. It needs to be aware of competitors who have idle capacity because such competitors will quote low prices to win a bid, so that they can utilize their idle capacity.

Salespeople have to be trained to know details of past unsuccessful and successful bids. They should be trained to draw successful bid prices from customers and then to record these in a database mentioning order specification, the quantity of orders and successful bid prices. However, it needs to be kept in mind that not all buyers will inform true figures therefore the buyers should be graded for reliability.

3. Marketing-oriented Pricing

Prices have to be in tune with marketing strategy. Prices should be linked to strategic objectives, distribution, positioning, promotions, and product advantages. Pricing decision depends upon other decisions made earlier in the planning process. Price will be dependent on positioning strategy for new products and on strategic objectives for existing products.

Pricing new products

(i) **Positioning strategy:** For any new product there are planned potential target markets. For instance, the target market for calculators comprises scientists, engineers, bankers, accountants, students and public. Choice of target market is an important factor to determine the price that could be charged. If engineers are targeted, price would be higher. It would be lower for general public and the lowest for students. A company would slowly reduce its price to attract other segments, or it can continue to serve the segment which places higher value on its product, and hence continues to pay higher price.

Therefore, for a new product, a company must decide its target market, and estimate the value that customers place on the product. A new product is successful if the price that it sets reflects the value that the customers place on

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the product. When a company has multiple target markets, it introduces modified versions of the product in each one of its target markets, and prices each version in line with respective values that each target market places on the product. When a company decides to launch different versions of a product, at different prices, targeted at different target markets, it should check if the customers of the more premium version will trade down once cheaper versions are available. An engineer will buy a scientific calculator even if it is very highly priced in comparison to simpler calculators because the latter will not serve his purpose. If different versions cannot be sufficiently differentiated to be able to keep their customers, a company should desist from launching simpler and cheaper versions for as long as possible, because the customers who had hitherto bought the premium version will start buying the cheaper version, as these too will serve his purpose sufficiently.

(ii) A combination of high price and high promotion expenditure is called rapid skimming strategy. The high price provides high margins and heavy promotion causes high level of product awareness and knowledge. A slow skimming strategy combines high price with low levels of promotional expenditure. High price means big profit margins but high level of promotion is believed to be unnecessary, perhaps because word of mouth promotion is more important and product is already well-known, or because heavy promotion is thought to be incompatible with the product image as with cult products. This strategy, (i.e., skimming) is useful if there is patent protection.

A company practices rapid penetration strategy if it combines low prices with heavy promotional expenditure. Its aim is to gain market share rapidly, perhaps at the expense of a rapid skimmer. Slow penetration strategy involves combining a low price with low promotional expense. This strategy is used by own label brands. It is not necessary to promote to gain distribution and high profit margins can be obtained because of low promotional expenditure.

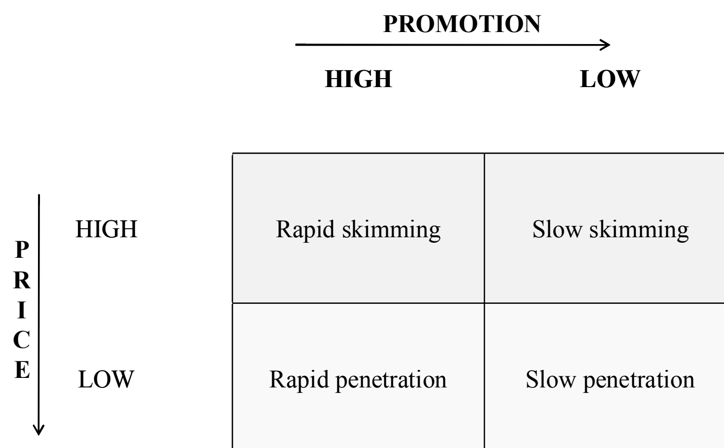

Fig. 3.7 *New Product launch Strategies*

(iii) It is important to understand the characteristics of market segments that can bear high prices. The segment should place a high value on the product which means that its differential advantage is substantial. Calculators provide high functional value to engineers and they will be willing to pay high prices for them. Perfumes and clothes provide psychological value and brand image is crucial

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for such products to be acceptable. High prices go well with premium brand image. High prices are also more likely to be viable where consumers have a high ability to pay.

A company can afford to price its products at higher levels if the consumer of the product is different from the person who pays for it. Products for children or stationery items for a company's employees come under this category. The user simply focuses on the suitability of the product and does not bother much about the price when selecting a product.

A company can also afford to charge a high price if there is lack of competition among supplier companies. The company does not fear that its customers will switch over to competitors because of its high prices.

A company can also charge a high price from its customers if there is high pressure on them to buy. A business traveller rushing to meet a deadline with a customer will be willing to pay a much higher price for an air ticket than a normal passenger who is not so hard pressed.

(iv) Low price is used when it is the only feasible alternative. Product may have no differential advantage, customers are not rich and pay for themselves, have little pressure to buy and have many suppliers to choose from. A company cannot charge a premium price for such a product and it has to be content with charging a going rate price. But if a company wants to dominate its market, it has to price aggressively to attract customers from competing brands. Since the product does not have any meaningful differential advantage, the only way to increase market share is by lowering price. But such a strategy cannot work if it does not have a low cost structure. A company which seeks to dominate a market through aggressive pricing should use new technologies to produce and distribute its product at a lesser cost. It should always achieve economies of scale. A company can increase its price once it has garnered a satisfactory level of market share, but it may not always be a good idea since customers may feel that the product is not differentiated enough to deserve premium pricing. It should instead earn its money on after sales service and spare parts.

(v) Price sensitivity of customers may change over time. When products are novel, customers are willing to buy them at higher prices because it serves their unique requirements or provides self-esteem. But when the same product becomes widely used, customers start considering the price as important element in their choice criteria. Also when customers' income increases, products about which they were price sensitive are bought without much regard to its price.

Pricing existing products

Strategic objective for each product will have major bearing on pricing strategy. For example, if a company wants to develop a premium brand it will price its products higher, but if it wants to capture the mass market, it will have to price its products lower.

- **Build objective:** The company wants to increase its market share. In price sensitive markets, the company has to price lower than competition. If competition raises prices, the company should be slow to match them. But if competition reduces prices, it promptly matches or undercuts it further. For price insensitive

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products, price will depend on the overall positioning strategy appropriate for the product. If the product is positioned as premium, it will have to be priced higher but if the product is targeted at the mass market, the price has to be lower and competitive.

- **Hold objective:** The company wants to maintain its market share and profits. The company's pricing policies are essentially reactionary in nature. It maintains or matches price relative to the competition. The company reduces price if competition reduces price in order to hold sales or market share. If the competition increases price, the company also increases its price, as it does not want to compromise on its profitability.
- **Harvest:** The company is focused on increasing its revenues. It wants to maintain or raise profits even if sales fall. The company sets premium prices in order to achieve this objective. It does not match competitor's price cuts, but price increase is swiftly matched. The company is proactive in revising its prices upwards.
- **Repositioning strategy:** Price change will depend on the new positioning strategy. If the objective is to build a premium brand, the company will price its product higher, but if the company wants to reposition the product for the mass market, it will have to lower its price and make it competitive.

A company cannot set its price in isolation. The pricing policy of a company is instrumental in achievement of its financial and strategic goals. The pricing policies of a company also send strong signals to customers about the positioning plank of the company. Therefore price can be decided only after knowing the positioning strategy and strategic objective.

4. Value to the customer

Price should be accurately keyed to the value to the customer. The more value that a product gives compared to the competition, the higher the price that can be charged. There are four ways of estimating value to the customer:

Buy response method

A company asks customers if they would be willing to buy at varying price levels. Up to ten prices are chosen within the range usual for the product. Respondents are shown the product and asked if they would buy the product at, say $100. The first price quoted is near the average for the product category and other prices are stated at random. The percentage of respondents indicating that they would buy is calculated for each price and plotted to form the buy-response curve. The curve shows the prices at which willingness to buy drops sharply and give an indication of acceptable price range.

The methodology focuses on respondent's attention exclusively on price, which may induce an unrealistically high price consciousness. But the method gives the company a good idea of the value that the customers place on the company's product. Customers weigh price against product features and benefits of the company's products and competitors' offerings. If a competitor has launched a product with more features and benefits at a lesser price, customers will take into consideration the existence of a better product at a lesser price, and will value the company's product's lower.

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Trade-off analysis

A company creates product profiles, in which it describes product features and prices, and then asks respondents their preferred profile. When a customer evaluates product profiles, he sees price as just one part of the offering, and his choice reveals the trade-offs that he is willing to make between features and price. The company analyses customers' preferences for particular profiles, and is able to gauge the relative importance of each feature, and also its price. After knowing the customers' preference for product attributes and the price they are willing to pay for them, the company can create the right combination of product features and price.

A limitation of this method is that respondents are not asked to back up their preferences by being required to buy their preferred combination of features and price. They may not buy their preferred choice when they are actually making a purchase.

Experimentation

During experimental pricing research, a company sells the same product in different stores and at different prices. In a controlled store experiment, stores are paid to sell the product at different prices. For example, a company selects 200 stores to test two prices. It chooses 100 stores at random and allocates them the lower price, and the rest are allocated the higher price. The company compares the sales and profit between the two groups of stores, and it decides the price at which it will earn maximum profits. A variant of experimental pricing research tests the impact of price differences between the company's brand and a competitor brand. The company offers a price differential of say, ₹10 in one half of the stores and ₹ 20 in other half of the stores. The company analyses how the difference in price between its brand and the competitor brand impacts sales, and decides an appropriate price for its product.

In test marketing, a company sells the same product in two areas using an identical promotional campaign, but keeps the prices different in the two areas. The two areas should match in terms of target customer profile so that results can be compared, i.e., difference in sales in the two areas can be attributed to difference in prices. It needs to carry out the test for a long enough period so that trial and repeat purchase at each price can be measured. But it should be wary of competitors, who may act to invalidate the results. They may launch special promotional programmes in the test areas, making it difficult for the company to attribute its sales figure to the price it is charging. This distortion is especially possible, when product is not highly differentiated and therefore introducing a cheaper version would make a premium buyer buy that cheaper version.

Economic value to customer (EVC) analysis

Experimentation is more useful in consumer products. EVC analysis is used for industrial products. Economic value to the customer is the value that industrial buyer derives from the product in comparison to the total costs that he incurs in procuring and operating the product. A high EVC may be because the product generates more revenues for the buyer than competition or because its total cost of procurement plus operating costs are lower over the product's lifetime (Price = Setup costs, i.e., purchase cost + operating costs). If a company has an offering that has high EVC, it can set a high price and yet offer superior value compared to competition, as the operating cost of the customer is lower or the customer is able to derive greater value from the product.

The essential idea is that a company buys a product to enable it to earn revenues at as less an expenditure as possible. So a product with high EVC is preferred by industrial customers. The EVC analysis is particularly revealing when applied to products whose purchase price represents a small proportion of the lifetime costs to the customer.

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4. Dumping

Dumping occurs when goods are exported at a price lower than their normal value. Generally, this results in goods being sold in another country for less than their price in the original market or at less than production costs. This may mean that domestically produced goods are more expensive to buy than the imported and dumped goods, undermining the local economy and production sectors. To prevent this, a non-tariff barrier may be implemented, called an anti-dumping duty. This is a duty levied at a value equal to the difference between the goods' export price and their normal value.

Dumping is also the term informally used to describe what happens when a product is declared unfit for sale but is then sold at below cost. This can lead to goods banned in the exporting country because they are dangerous products being 'dumped' on another (often very much poorer) country.

5. Transfer Pricing

Transfer pricing is a profit allocation method used to attribute a multinational corporation's net profit (or loss) before tax to countries where it does business. Transfer pricing results in the setting of prices among divisions within an enterprise. Transfer prices are charges for goods and services between controlled (or related) legal entities within an enterprise. Legal entities considered under the control of a single corporation include branches and companies that are wholly or majority owned ultimately by the parent corporation. Certain jurisdictions consider entities to be under common control if they share family members on their boards of directors.

In principle a transfer price should match either what the seller would charge an independent, arm's length customer, or what the buyer would pay an independent, arm's length supplier. While unrealistic transfer prices do not affect the overall enterprise directly, they become a concern when they are misused to lower profits in a division of an enterprise that is located in a country that levies high taxes and raise profits in a country that is a tax haven that levies no or low taxes. Transfer pricing is the major tool for corporate tax avoidance.

6. Retrograde Pricing

When an export order is received, with the buyer specifying the price or when the exporter has to accept prevailing market price, retrograde pricing will help to find out its profitability. Retrograde pricing is the process of working backwards from a given market price to access whether the export will be profitable

3.7 INTERNATIONAL CHANNELS OF DISTRIBUTION

A firm may organize indirect export through the intermediaries or export agents of the parent country. On the contrary, in direct exporting, foreign markets are reached by

Check Your Progress

4. What is cost-oriented pricing?
5. What is psychological pricing?
6. What is the difference between persuasive labelling and informational labelling?
7. How can value to the customer affect pricing?
8. What is meant by dumping in international marketing?
9. State the full form of EVC.

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exporters through agents located outside their parent markets. Exporting is a low risk-low investment strategy wherein a company may minimize the risk of dealing internationally by exporting domestically manufactured products either by minimal response to inquiries or by systematic development of demand in foreign markets. Exporting activity requires small capital for a quick start. Exporting is also a good way to gain international experience. A major part of the overseas involvement of large firms is through export trade managed by the various channels involved in the process.

Indirect Exporting

Some companies, which occasionally carry out export activities, use the services of the broker. Brokers are the middlemen who bring buyers and sellers in contact for a negotiated commission or by charging a brokerage fee. They are just the trade facilitators and do not take the ownership of the product. These brokers operate in international markets independently and do not belong to any firm.

The Manufacturer's Export Agent (MEA) may be an exclusive agent engaged by the firm to offer services as desired by the firm. MEAs are vested with the right to take marketing decisions on behalf of the firm, arrange negotiations and trade agreements and the delivery of the consignment to the buyer.

The Combination Export Manager (CEM) provides services over and above the broker and the MEA by way of taking over the entire export operations of a firm on a commission basis. The export operations involve a variety of activities like identifying the country, markets, analyzing consumer behaviour, product designing, technological improvements, competitive pricing, distribution, promotion, negotiations with the governments of countries, public relations and collecting marketing information.

Group export forums are associations of exporters who collectively manage exporting activities. These forums are recognized by the government of the parent country and provide admissible concessions on export activities like licensing, taxes and duties infrastructure.

Middlemen who have a base in the parent country of the exporting firm also function as one of the channels for indirect exports.

Company-based managers are the salaried personnel of the exporting firm and possess the responsibility of total export management.

Direct Exporting

In direct exporting activities, the firm appoints its own export representatives for conducting the export operations in the concerned markets or countries.

The Merchant Middlemen are a type of intermediary based in foreign markets: they buy products on their own and resell them to the identified countries functioning with substantial sales managers. They may also take up export activities without involving any indirect channel. Such offices may also be networked as an effective distribution channel for a region in order to cater to identify countries thereof.

Documentation

Firms opting to enter international markets through exporting activities may choose to engage the goods listed under open general license which does not involve a heavy documentation process. However, the goods that are not controlled, regulated or

prohibited by other government departments need to be reported to customs prior to export by means of export declaration. On the contrary, regardless of their value, export of all goods that are controlled, regulated, or prohibited need to be supported by valid permits, licenses, or certificates required by the government departments or agencies that regulate the export of these goods.

Direct Exporting is Independent

A firm also opts for direct exporting as a platform to enter into the destination country. This approach is the most ambitious and difficult as the exporting firm handles every aspect of the exporting process independently, from market research and planning to foreign distribution and collections. Consequently, a significant commitment of management time and attention is required to achieve good results. However, this approach may lead to maximum profits, higher control and long-term growth.

3.8 MARKETING ENVIRONMENT AND DISTRIBUTION STRATEGIES

Distribution may be either direct from manufacturer to retailer or from manufacturer to customer or indirect, involving the use of one or more intermediaries such as wholesalers or agents, to reach the customer.

1. Channel Structure Strategy

The channel structure strategy is aimed at reaching the optimal number of consumers in a given time schedule at the lowest possible cost while maintaining the desired degree of control. In implementing this distribution strategy the company should make the comparison of direct versus indirect distribution on the basis of the following parameters:

- Cost
- Product characteristics
- Degree of control
- Other factors

The cost factor includes distribution costs, opportunity costs incurred in the process of distribution in case of non-availability of the product, inventory holding and shipping costs. The product attributes may be measured in terms of replacement rate, gross margin, service requirements and the time involved in search thereof. The degree of control is generally greater when direct distribution is followed. Other factors include adaptability, technological changes and social/cultural values. Efficient implementation of channel structure strategy will effectively result in performing direct distribution. However this may result in the high marketing costs and needs a large degree of control. Foreign firms need to consider the following issues for channel selection for effective distribution:

- Market access
- Multiple markets, seasonality, safety, channel length
- Value-added competencies

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- Resources, logistics and control, competitive skills
- Financial consideration
- Building distribution network, revenue-cost implications, operating capital requirements
- Flexibility and control conditions
- Channel network and participation, procedural control
- Channel strategy illustration
- Sales forecasting, selling approaches, cost factors, promotion and creativity, control

Customers receive comprehensive information about the product, company and distribution channel in this strategy and acquire strong image of the product and brand. This strategy would also help in building the indirect distribution vice-versa at lower marketing costs, less control and limited channel management responsibilities. The channel strategy decisions include deciding to manage or coordinate operations in the channel of distribution, becoming a member of a vertically coordinated channel, or of a conventional channel system. The following factors need to be assessed in the choice of the channel strategy:

- Market access
- Value-added competencies
- Financial considerations
- Flexibility and control considerations

2. Distribution Scope Strategy

Distribution scope strategy is advantageous for establishing the distribution of goods and services effective with the target customers. The company may choose to implement the exclusive distribution strategy wherein one retailer is granted sole rights in serving a given area or an intensive distribution approach, in which a product is made available at all possible retail outlets. The company can also prefer to have the selective distribution approach to serve many customers but not through all the retail outlets in a given area that distribute the product. This strategy should be followed with the objective to serve chosen markets at a minimal cost while maintaining the desired product image. The core issues associated with international distribution channels are listed below.

- Market considerations
- Selling capabilities
- Product know-how
- Credit-worthiness
- Business image or personality
- Geographical coverage
- Strategy building ability
- Inventory handling
- Customer service
- Successful track record

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3. Multiple Scope Strategy

Multiple channel strategy employs two or more different channels for distribution of goods and services. Multiple-channel distribution has two basic categories—complementary and competitive. In complementary approach, each channel handles a different non-competing product or market segment and two different and competing channels sell the same product in the competitive type of the multiple channel distribution strategy. This strategy may be followed to achieve optimal access to each individual market segment in order to increase business. Complementary channels are used to reach market segments otherwise left unserved, while the competitive channels are used with the hope of increasing sales. The requirements for implementing this distribution strategy are market segmentation and cost/benefit analysis. The complementary channels may be promoted by assessing geographic considerations, volume of business, need to distribute non-competing items, and saturation of traditional distribution channels in the given operational area of the company. However, the use of competitive channels can be a response to environmental changes. Figure 3.8 exhibits the channel management strategy that can be used for identifying the multiple distribution channels and developing a balanced strategy for effective implementation of distribution.

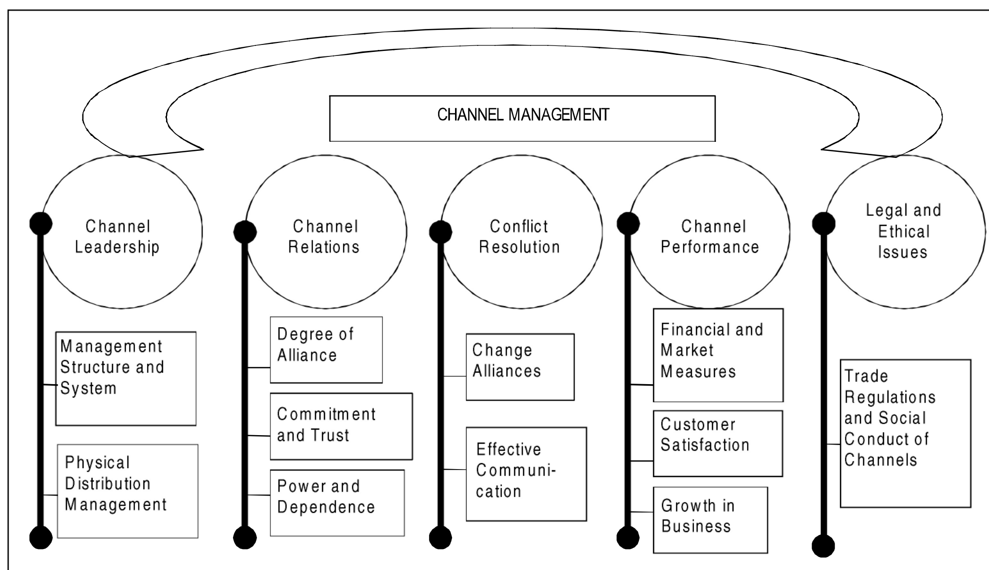

Fig. 3.8 *Channel Management Strategy*

Advantages of distribution strategy

- Different services, prices, and support provided to different segments
- Broader market base
- Increased sales
- Possible dealer resentment
- Control problems
- Possible over-extension

However, over-extension can result in decrease in quality/service and may have negative effects on long-run profitability. It is necessary to properly configure the

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channel for optimum goal realization. The major requirements for configuring the channel appropriately are:

- **Distribution intensity:** Number of client accounts, periodicity and extent of reordering, services and satisfaction
- **End user configuration:** Market segments, product information, company profile, guiding skills for decision-making
- **Product attributes:** Product line, lifecycle, application and value-added qualities
- **Manufacturer's capabilities and resources:** Brand strength, bargains, terms and conditions
- **Service functions:** Services offered, inventory and retail management
- **Skills of intermediaries:** Managing trade-offs, business correspondence, communication skills, developing effective sales plans

4. Channel Modification Strategy

In case the channels so configured are not responding to the distribution needs of the market, they may be modified. The channel modification strategy introduces a change in the existing distribution arrangements on the basis of evaluation and critical review in order to maintain an optimal distribution system, given a changing environment. Evaluation of internal/external environmental shifts is required to implement changes in consumer markets and buying habits in the retail lifecycle, in the manufacturer's financial strength, and in the product lifecycle. One of the requirements of the channel modification strategy is continuous evaluation of existing channels, cost/benefit analysis, consideration of the effect of the modified channels on other aspects of the marketing-mix and ability of management to adapt to the modified plan. This strategy may nudge the company towards adopting an optimal distribution system for dealers and customers by giving effect to the changes suggested.

An important step in selecting the distribution strategy is deciding how many levels of organizations need to be included in the vertical channel and the intermediaries to be selected at each level. The measurement of distribution intensity in the selected markets helps in deciding how many channel levels to use and the types of intermediaries to select. An industrial products manufacturer may choose either distributors or sales agents, which are independent organizations that receive commissions on sales to contact industrial buyers. It is important to know where the targeted end-users might be expected to purchase the products of interest. The selected intermediaries should provide convenient and easily accessible outlets to the market segments targeted by the producer. Analysis of buyer characteristics and preferences provides important information for selecting firms patronized by end-users. This in turn guides decisions concerning additional channel levels, such as the middlemen selling to the retailers that contact the market target customers. The complexity of the product, special application requirements, and servicing needs are useful in guiding the choice of intermediaries. Looking at how the competing products are distributed may suggest possible types of intermediaries. The breadth and depth of the products to be distributed are also important considerations because intermediaries may want full lines of products.

Large producers with extensive capabilities and resources have a lot of flexibility in choosing intermediaries. These producers also have a great deal of bargaining power

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with the middlemen, and they may be willing or capable to perform certain distribution functions. Such options are limited for small producers with constraints of capability and resources. The functions required to be performed in moving products from producer to end-user include various channel activities such as storage, servicing, and transportation. Studying these functions is useful in choosing the types of intermediaries that are appropriate for a particular product or service. Evaluation of the experience, capabilities, and motivation of the intermediaries and channel membership is also important in configuring the channels. The companies in particular or within the same industry often vary in skills and experience. The more complex the channel network, the more challenging it is to complete various distribution functions. The selected channel configuration typically takes into account several important trade-offs. However, the agents make it necessary for the manufacturer to perform several functions, such as inventory stocking, invoicing and service.

5. Channel Control Strategy

Administration by a member of the channel structure in order to establish control of the channel and provide a centrally organized effort to achieve common goals may be defined as the channel control strategy. This strategy has as its core objectives to increase control, to correct inefficiencies, to realize cost effectiveness through experience curves and to gain efficiencies of scale. Commitment and resources to fulfill leadership obligations are vital in implementing this strategy for distribution. Typically, the channel controller is a large firm with market leadership/influence. However it is not always observed. The implementation of channel audit is also one of the necessary tools for exercising the channel control. The core elements of channel audit include distribution and logistics, delivery cost, channel profit, selling capabilities, competitive strategies, etc. The successful implementation of this strategy would result in increased control, professional management, maximizing market impact and elimination of internal and external inefficiencies. The channel control strategy also helps in central programming and achieving the operating economies for increased profitability.

6. Conflict Management Strategy

The conflict management strategy would help in resolving conflict among channel members. This strategy may be followed to devise a solution acceptable to the conflicting members so that they cooperate to make it work. The choice of a strategy for solving the conflict needs reasonable bargaining by the affected parties and a give-and-take attitude. The bottom line must be favourable enough to both parties to induce them to accept the terms of the bargain. This strategy would however provide scope for frequent formal interactions with the other party to develop an appreciation of each other's perspectives and willingness to interact to solve problems. Sometimes it is required to bring a neutral third party to resolve the issue by means of conciliation, mediation, or arbitration (compulsory or voluntary). The effective implementation of this strategy of distribution would provide a clean platform for business by eliminating snags in the channel and revealing results that are mutually beneficial to the parties involved. However, there is also a need for management of time and effort and increase in costs while implementing this strategy. The strategy for developing effective distribution system is to focus on the collaborative planning, forecasting and replenishment (CPFR) approach. This strategy may be developed in association with leading distribution

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agencies and suppliers in the region. The company developing the CPFR with another distribution company should agree on the scope of collaboration and develop a joint business plan. It is preferable to work out a single forecast on the product and consumer demand in the operational market area. In this process the company may identify and resolve the exceptions related with the consumer forecast and develop single order forecast. The company may generate orders finally on the basis of constrained order forecast.

3.9 INTERNATIONAL LOGISTICS

The concept of logistics is understood as the integrated management of forecasting, inventory control, transportation, warehousing, and order entry and customer service product planning functions by a large number of companies in the contemporary business environment. Logistics and supply chain management is the art of managing the flow of materials and products from the source of production to the end user. This system includes the total flow of material right from the acquisition of raw materials to the delivery of finished products to the customers. The function of physical distribution is a component of the logistics system that involves the outward movement of the goods and services from the company or the source of production or supplies. On the contrary, physical supply refers to the portion of the logistics system concerned with the inward movement of the goods and services to the delivery points. The function of distribution is the combination of activities associated with advertising, sales and physical transfer of the goods and services to the retail and wholesale delivery points. It is therefore obvious that logistics management is an important function in the marketing process. Effective logistics management can improve both cost and customer service performance of the company. The components of integrated logistics management are tabulated in Table 3.2.

Table 3.2 *Logistics Management: The Integrated Pipeline*

Supply	***Operations***	***Distribution***
• Production/Source	• Production planning	• Forecasting
• Purchasing	• Scheduling	• Customer service
• Inward transportation	• Ad hoc inventory for production	• Finished goods inventory
• Raw material and ad hoc inventory		• Warehousing
		• Outward transport

In an increasingly competitive market, most companies are looking to streamline their operations in an integrated manner to manage the flow of materials from the production point to the sales outlets and end users. The integrated concept of managing the supply chain is an analytical exercise, one that is able to transcend internal operational problems. The implementation of the integrated pipeline of the logistics variables help achieve functional integration and operational effectiveness. It is also necessary for developing an appropriate supply chain. Managers have to think about their supplies, operations and distribution activities as a pipeline and as inter-related. The inter-functional linkages in the logistics management have further implications on the cost, service and time. The cost factor refers to the full cost of processing and moving goods from the source of production to the distribution points. The efficiency in the delivery of goods is a function of reliability, quick replenishment of stocks, minimizing the transit and

storage losses and maintaining the lead-time delivery of the goods to the use points. Time is an important factor in the management of logistics pipeline that may be viewed from the point of total consumption of time in moving the goods, through the pipeline from the source of production to the end user. The pipeline approach provides a mechanism for analyzing the impact of operational policy of each function, and identifying the conflicts and inconsistencies thereof. The advantages of the pipeline concept of logistics management are many.

Benefits of Pipeline Concept in Aiding Efficiency of Logistics and Distribution Strategies

- Determining the long term production lead time on the system inventory
- Impact on marketing promotions on the operating costs and effective net margins
- Budgeting transport operations—net cost and savings
- Storage and warehousing cost estimation for the movement of goods—buffer stocking, retail stores and transit distribution sheds.

The pipeline analysis provides the potential benefits of lower costs, better service and effective time management for the movement of goods and services. The logistics networking for the pipeline concept is exhibited in Figure 3.9. The process of decision-making in providing better logistic support begins from the stage of raw material supply. The second stage is managing the inventory at the manufacturing point and facilitating the outward movement of goods. The movement of goods to the intermediate storage points and retail points are also functions that require appropriate logistic decisions. The logistics management has greater bearing on just in time (JIT) system that requires a close coordination of various backward and forward functions. Through efficient supply chain management, companies can improve the efficiency of logistics operations. The supply chain needs to be managed for effective delivery of goods and services to all channel members including suppliers, manufacturers, distributors and customers. Supply chain management is beneficial in that all the above entities in the system behave as if they are part of the same company and attempt to significantly enhance performance across the board. Supply chain manager of the company should understand the following seven principles of efficient supply chain operations:

1. The manager should understand customer values and requirements. He should know that any seeker of information about the goods and services of the company is a customer and in this process, a wholesaler or carrying and forwarding agent is a customer of the manufacturer, a retailer is a customer of wholesalers and an end user of the goods and services is a customer of the retailer as well as of the manufacturer. The requirements of customers may be assessed in terms of satisfactory delivery of the goods, merchandising support and value-added services.

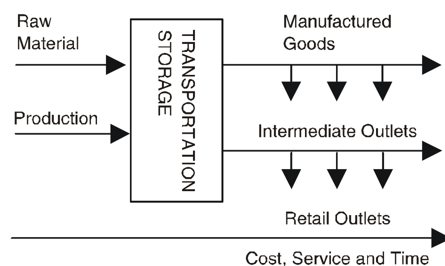

Fig. 3.9 Logistics Networking for Pipeline

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2. Effective logistic planning can be done by the manager through comprehensive mapping of the logistics assets across the operational area and not just in the company. The information on locations of distributors, storage and warehousing facilities, transporters, railway rake points, shipment and cargo movement points, intermediate outlets, retail outlets, franchisees or vendor managed outlets are helpful in making decisions on inventory deployment, distribution scheduling, transport and storage and other infrastructure facilities.
3. It is necessary for the manager to organize customers for easy flow of goods and information. This task requires aligning supplier's needs with the customer's buying process. This may be defined as single window policy of logistics management and can be pursued by the companies by providing electronic connectivity. For example, Torrent Pharmaceuticals Ltd. has a wide distribution network at regional, area and district levels for the distribution of the medicines through regional sales agents, area stockists and retail druggists and chemists. The regional sales manager in consultation with the area and district sales managers collects information of the stock replenishment requirement to various channels. The orders are placed with the company via electronic mail or fax that helps speedy movement of goods to the destinations. The electronic network helps Torrent Pharmaceuticals Ltd. not only to process the orders quickly but also to monitor the inventory at various points.
4. The manager should work for establishing a more responsive supply chain through integrated sales and operational planning strategies. The role of information flow in the business process is exhibited in Figure 3.10. This task requires sharing real time demand and forecast information both within the company and across the supply chain. Information is one corporate resource that enables the managers to make positive decisions. Information sharing helps in managing supply chain, sourcing and procurement and customer service. Such information inflow and dissemination assists in improving design and engineering aspects, research and development, exploration of new business areas, new product development and all marketing functions.
5. The company should consider leverage manufacturing and sourcing for flexible and efficient supply chain operations. Leverage manufacturing concept may be explained with an example of postponement or intentional slow down of production process to reduce the inventory at the source of production or developing multiple stock keeping points for storage in the lean season. The physical distribution in these units may be activated when required. Automatic replenishment programmes may be linked to the production sources and the stocking points. Companies can also use the demand signals such as point of sales data as a yardstick for marketplace activity.

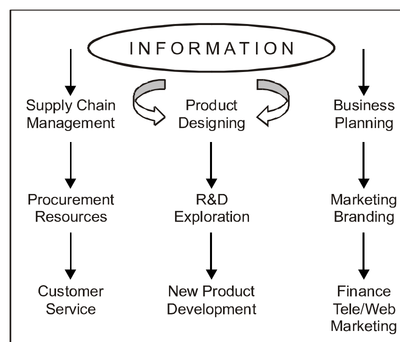

Fig. 3.10 *Role of Information Flow*

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6. Companies must develop customer-driven alliances and relationship management across all channels and customer segments. Such action strengthens the strategic partnership and supply chain management operations.
7. Companies must develop customer-driven performance measures to drive the behaviour of all channel members and customers. This would help in tracking the economic performance and extended supply chain to the new areas.

It is essential for companies to manage the demand chain for their product along with supply chain management. The rationalization of the product line, new product development, pricing, promotion and extolling the product's comparative advantages over competing brands needs to be taken up before starting production and commercialization. The framework of demand-supply chain management is exhibited in Figure 3.11. Customers need to be segmented according to product and tailor-made marketing policies followed for each segment. The value additions in the distribution of the goods need to look into the strategy issues such as product priorities, finance, display, point of purchase material, retailer's schemes, etc., to be assessed by the company to make the channel members proactive. This process integrates the supply chain management with the demand chain management. It takes close collaboration between manufacturers, distributors, and retailers to build demand through effective consumer marketing and merchandising.

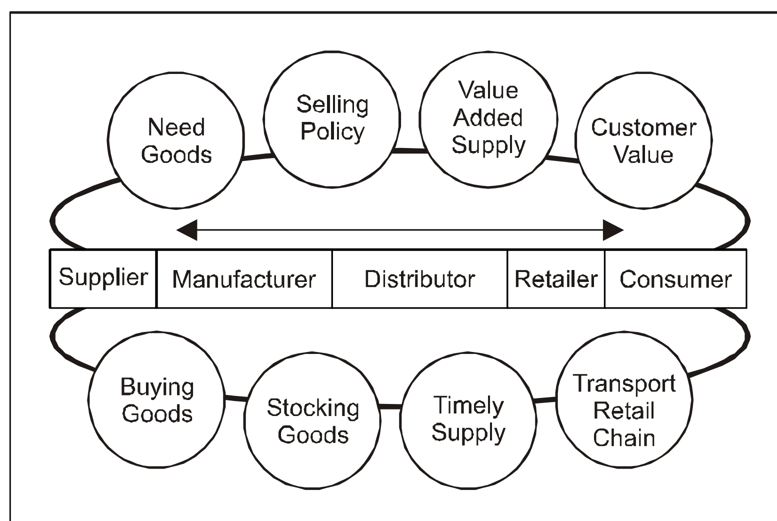

Fig. 3.11 *Framework of Demand-Supply Chain Management*

Manufacturers and suppliers are abandoning their traditional adversarial relationships characterized by price haggling and hedging bets on product orders in favour of collaborative-commerce model designed to be mutually beneficial. In order to bridge the path for new alliances, vendors are rolling out enhanced supply-chain planning and forecasting tools and supplier relationship management (SRM) technologies that provide real-time access to the demand, inventory, price, sourcing, and production data to be shared by manufacturers and their suppliers. Some companies have started collaborative effort with appliance vendors, but they plan to implement the system with other vendors.

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Ford Motor, in Dearborn, Michigan, USA is using supply-chain planning software from SynQuest to determine delivery-route schemes for each auto part at the lowest overall transportation cost while supporting just-in-time manufacturing requirements at Ford assembly plants. The software is designed to model Ford's complex inbound network, which includes transportation routes, cross docks, and plant and supplier operations. Ford has 46 manufacturing and assembly plants in North America and 500 suppliers, says Frank Taylor, Ford's vice president of material planning and logistics. The software allows Ford to simultaneously evaluate multiple sets of variables including transportation mode, frequency, and freight costs to orchestrate inbound parts movement. As a result of the deployment, Ford's inbound network has reduced errors such as missing a part at a plant, from thousands per million to single-digit errors per million. The suppliers of Ford Motors also benefit from this system.

Collaborative-commerce technology is designed to encompass a product's life from cradle to grave including product design, sourcing, procurement, supplier negotiation, demand planning and forecasting, and price and revenue optimization. These leading-edge applications can bring suppliers into the product design process and work in real time to support inventory levels for just-in-time manufacturing. The SAP and ERP applications use advanced-planning macros to enable collaborative planning, forecasting, and replenishment. Through collaborative planning, a company can communicate to the suppliers about inventory on a common site: suppliers can know instantly what is coming down the pipe and can change production. An enterprise does not have to communicate with each supplier. On the sales side, collaborative commerce helps manufacturers coordinate products from different business units and make better forecasts. For instance, a PC vendor could use collaborative commerce to build a purchase order, orchestrating all of the different purchase-order components out of different divisions.

Developing Logistics Strategy

Strategy-building for effective logistics management is a multi-functional concept and needs inter-disciplinary approach. This involves physical distribution, services, and cost and customer care in an integrated manner. The number of locations of distribution points, warehouses, modes of transport, cost-service factors, carrier selection, inventory positioning, inventory levels, order – entry and processing, delivery information, transit loss management, soiled stock replacement, replenishment schedule, time management, delivery and remittance collection schedule are the various functions associated with the strategy planning for logistics.

The cost-service curve of logistics strategy exhibited in Figure 3.12 reveals that a company may select a high service position (A) by providing a network of warehouses, use of premium transport mode that is safer and faster as compared to the existing modes, higher inventory levels and also high service. On the other hand, a company may select low-cost positioning (B) with minimum infrastructure support. However, most companies do not operate at maximum efficiency and they are positioned at the lower end of the curve. Such companies must develop suitable strategies for efficient delivery of goods and services at optimal cost.

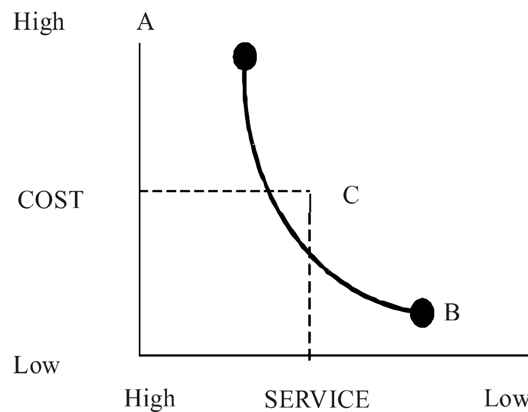

Fig. 3.12 *Cost-Service Curve of Logistics Strategy*

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Logistics play an important role in contributing to the value proposition of a company, as far as the customer is concerned. Customer value can be increased by reducing overweight inventories by way of continuous replenishment of stock at every level to keep the distribution chain active and moving. The structural decisions in developing the logistics strategy compel managers to think of the most suitable channel policy so as to route goods and services through routine channels or to reach the customers directly. Some of the companies do not have distributors, for example Eureka Forbes Ltd. The company deals in vacuum cleaners and water purifiers and reaches its products and services directly to the customer through its sales personnel. This helps the company in reducing the cost of distribution and analyzing the customer requirements more closely, and to augment customer value. Companies that are associated with multi-brands and wide operational areas on the other hand look for a distributor network. Such decisions are taken as structural plans in companies. Structural decisions are complex and require careful examination. However, amidst new technologies and new operating options available to the companies, these structural decisions provide opportunities to the companies to achieve more at fewer costs and create value in the whole process of logistics management. The logistics strategies also require functional efficiency in transportation, warehousing and materials management. The implementation of logistics strategy involves adequate data base, information flow, appropriate policies and procedures, organizational system and change management. The logistics managers thus, need to coordinate with various section personnel in the organization to prepare for better decision-making.

3.10 INTERNATIONAL PROMOTION AND ADVERTISING

Promotion is a form of corporate communication that uses various methods to reach a targeted audience with a certain message in order to achieve specific marketing objectives.

Like most marketing decisions, an effective promotional strategy requires the marketer to understand how promotion fits with other pieces of marketing especially in product distribution, pricing, and target markets. It is important to know that marketers should not work in a vacuum when making promotion decisions. Rather, the overall

Check Your Progress

10. What is a channel structure strategy?
11. What is direct exporting?
12. What is a collaborative-commerce technology?
13. State the benefits of pipeline concept in aiding efficiency of logistics and distribution strategies.

success of a promotional strategy requires input from others in impacted functional areas.

3.10.1 Promoting Product/Service in International Market

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Adopting the right kind of promotional strategy is the most crucial issue of entering markets of many countries. The prime objective of any promotion strategy is to make consumers aware of all features of the product or service in various market segments. The buying decisions of consumers are based on the awareness of product features and related characteristics. For most firms, an effective promotion strategy is an approach by which they can disseminate information about the products or services. Dissemination of the right kind of information will positively influence their decisions about buying the product or service and convince them to use its services. Promotion is an effective tool to achieve this goal.

Market promotion always requires an effective assessment of the international market. This can be done through careful planning. There is a need for detailed planning of the final product and services. Marketers have at their disposal a number of promotional strategies through which they can communicate with whomsoever they need to. The main promotional channels are:

- Advertising
- Sales Promotion
- Publicity and public relations
- Direct Marketing
- Personal Selling

Each of these has its advantages and disadvantages, and its relevance and effectiveness have to be analyzed in relation to a given set of circumstances. Promotion is more complex while operating across international boundaries, so it is not surprising that companies make mistakes. They make mistakes in domestic markets too!

- Coca-Cola made the mistake of launching 'New Coke' in the US, only to withdraw it soon after.
- Hoover lost its position as the No. 1 brand for vacuum cleaners in UK after a successful sales promotion and they struggled to deliver on their promises.
- Unilever had a problem with their 'Power' brand (Persil Power or Omo Power, depending on the market), which (according to their competitors), harmed clothes. Unilever never withdrew the product, but consumer confidence was lost.

Newspaper articles and textbooks often feature mistakes made by major companies in dealing with their promotional programmes in international markets. Here are some which have been reported. Please note, sometimes the company concerned denies these!

- McDonald's in the Netherlands used a photograph of a Michelin three-star French chef and a particular breed of chicken which comes from a region of France. The French considered this advertisement as insulting to French cuisine.
- Goodyear tyres used advertising which claimed superior performance over other competitors, when at that time; comparative advertising was against the law in Germany.

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- McDonald's had a problem with Ronald McDonald in Chinese markets, where the clown's white face was associated with death.
- Vidal Sassoon's Wash 'n' Go shampoo was advertised with the model taking a bottle of shampoo out of a locker, to go to a shower. In Western European markets, lockers are associated with sports centres; in Eastern Europe they are associated with work. Locals could not understand why people would want to wash their hair at work.
- UK's Marks and Spencer's had problems entering the German market. Locals found it difficult to accept that a clothing store also sold food products.
- Marks and Spencer's also got Christmas stock into their Amsterdam store too late for the present-giving period, which is at the start of December in Amsterdam unlike in UK, when it is on Christmas Day.
- Coca-Cola withdrew the 2 litre bottle from the Spanish market, because the fridges in Spain could not accommodate such a large bottle.
- Disney had a poor start to its European theme park, called Euro Disney, as it misunderstood the European leisure and holiday habits.

To rectify these mistakes it is advisable for firms to take the following steps in developing their promotional strategies in international market.

Planning Promotional Campaigns

- Promotional campaigns affect more than just the consumers who purchase the product or service. These could be suppliers, intermediaries, the government, local community, bankers and creditors, media organizations, shareholders, and employees.
- Research to determine a multi-market target audience is required as firms become more internationally involved.
- Corporate image advertising should be conducted.
- Umbrella campaigns must also be made.
- Global image campaigns must be done.

Campaign Objectives

- Global objectives
- General guidelines and control for broad-based campaigns (consistency of message)
- Regional objectives
- Local objectives
- Specific and measurable targets (awareness, image, market share) for individual markets
- The budget

Audience Characteristics

The strategy is to reach the intended target audience with the minimum of waste. Marketing strategist needs to know the following:

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- Media distribution (number of copies)
- Media audience composition
- Advertising exposure
- Advertising perception
- Consumer response

Based on current trends in international marketing, the following issues require focused planning for promotional campaign by any organization.

- **Establishing identity**

In developing a promotional image, the first requirement is developing identity. Identity and image are not similar in promotional strategies. Identity is what firms really are. Image is how others see the firm. Identity includes characteristics like facilities, location, price, and attractions.

- **Deciding on product**

Deciding on the product that has to be communicated through promotion is also an important part of the promotional strategy. A product theme should be derived from the identity of the product. Product themes can be defined as one main idea or message that the firm wants to communicate with promotional efforts.

- **Identifying target audience**

There is also the need to identify and contact target audience in promotion strategies. Target audience may be defined as the set of people that the firm wants to reach with its product/service information. The target audience may be identified as local or non-local visitors, repeat or first-time visitors, families or singles, and young or old. Different groups in the target audience have different needs.

For example, as a part of target audience we may say that senior citizens needs are different from those of young adults. When firms are developing their messages they should address some of these needs.

- **Establishing objectives**

There is also the need to establish specific objectives based on what a firm wants the outcome of its strategy to be.

- **Developing message content**

There are two types of information that firms can use:

- Informative
- Persuasive

- **Evaluation**

Promotion strategies need to be periodically evaluated. Otherwise creating and implementing a promotional strategy can drain a firm's resources. An evaluation should assess the progress that the firm has made towards meeting its established objectives. Generally, it is good to wait one year after implementing the strategy to see if it works because promotional effects can be cumulative. The firm should always be ready to make changes.

Firms should also focus on the following issues in their promotional strategies in international markets:

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1. **Market Segmentation**

The macro view of the number of markets the company wishes to serve provides the foundation for market segmentation process by defining the generic market promotion strategy options. However, managers should remember what Tom Peters said—'Markets never buy anything. Only customers buy'. In other words, selecting countries is a broad brush approach; choosing market segments is getting closer to understanding the details of market behaviour. Through market segmentation, the firm tries to get close to buyer behaviour to develop appropriate marketing programmes.

Accordingly, the first step in the focused market segmentation process is to identify and define groups of customers with common needs within their chosen markets. Segmentation in international markets is based on similar variables as in segmentation in domestic markets. Geography, demography and culture (the 'who they are' factors) have been important segmentation variables in international markets.

2. **Positioning**

Positioning is the process of creating and sustaining a unique, distinctive and favourable impression of a product or service in the minds of customers. This implies that companies position products. Actually, all they can do is help consumers to position them. Marketers cannot manipulate people's thinking.

There are two extremes of positioning which translate across international markets. These are high touch—based on image and service, and which are high involvement purchases. For example, American Express is well-known for their charge card and travel services. Their global positioning is based on high levels of customer service, especially in relation to credit cards. This indicates a solution to a common problem—most travellers fear that they will lose their money while travelling.

The other extreme is high tech positioning, which relies on product features, and the fact that buyers seek technical information on these attributes. Intel positions itself on the value that consumers derive from the Intel experience. Nokia and Ericsson have traditionally focused on these areas, but are increasingly moving towards high touch positioning. Nike is widely known as a global player. Its corporate strategy was always based on finding capital and cheap labour in other countries. It grew to national dominance in the US in the 1970s taking the share of Adidas and Puma, the previously dominant European companies. It developed its international sales in the 1980s and 1990s, based on the 'Just Do It' brand mantra, and a close link with high profile sports personalities. These were chosen for local relevance—each country features sports characters to whom local people can relate.

A second key player in this market was Reebok, which started as a UK-based company, which targeted women who used the shoes for aerobics. The owner of the Reebok brand in the US decided to expand into the male market. This was and subsequently done in other countries too.

Nike and Reebok rely on the link to sporting heroes. While Nike focuses on mass appeal sports, Reebok concentrates on tapping important, but more localized sports, such as cricket in the UK, handball in Scandinavia and baseball in Japan.

Nike thus went from a US domestic strategy, to a global strategy. Their target segment and position is consistent in all its markets, although it is locally interpreted. Reebok has changed target segments over time, in gender, geography and interests.

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Now, they do not target Nike in a head-to-head battle, as they have chosen to focus on smaller niches in various sports markets. Each, thus, has its own market space, and faces different competitors.

3. **Market Targeting**

Targeting is the process of selecting which and how many market segments should be served. This choice reflects company objectives and strengths, and reviews the attractiveness of segments, in terms of market growth, size, extent and intensity of competition. Keegan identifies three global targeting strategies which are consistent with his model of standardization and adaptation.

- **Standardized or undifferentiated global marketing**, which is the same marketing mix in a mass market worldwide.
- **Concentrated global marketing**, which involves selling the same product with the same marketing mix, but focused on a small segment of the market.
- **Differentiated global marketing**, which involves offering a range of different marketing mixes to two or more markets.

These targeting strategies reflect at a micro level the macro decisions on competitive strategy and market coverage which is at the heart of international marketing decisions.

3.10.2 Advertising Decisions

Advertising is an impersonal form of promotion that is delivered through selected media outlets that, under most circumstances, require the marketer to pay for message placement. Advertising has long been viewed as a method of mass promotion in that a single message can reach a large number of people. But, this mass promotion approach presents problems since many exposed to an advertising message may not be within the marketer's target market and, thus, may be an inefficient use of promotional funds. However, this is changing with new advertising technologies and with the emergence of new media outlets that offer more options for targeted advertising.

Advertising also has a history of being considered a one-way form of marketing communication where the message receiver (i.e., target market) is not in a position to immediately respond to the message (e.g., seek more information). This too is changing. For example, in the next few years, television viewers will be able to click a button to request more details about a product that they have seen on their favourite TV programme. In fact, it is expected that, over the next 10–20, years advertising will move from a oneway communication model and become one that is highly interactive.

Another characteristic that may change as advertising evolves is the view that advertising does not stimulate immediate demand for the product advertised. That is, customers cannot quickly purchase a product they see advertised. But as more media outlets allow customers to interact with the messages being delivered, the ability of advertising to quickly stimulate demand will improve. The importance of advertising can be judged by the spending on advertising. By one estimate, worldwide spending on advertising exceeds (US) $400 billion. This spending in many countries is mostly on media outlets, such as television, radio and newspapers.

Organizations differ on the role advertising. Some organizations may spend less on advertising and, instead, spend on other promotion options such as personal selling

through a sales team. For some smaller companies, advertising may be on a very small scale, consisting of occasional advertisements and small ads in the classified section of a local newspaper.

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Functions of Advertising Agencies

Professionals at advertising agencies and other advertising organizations offer a number of functions including:

- Account Management
- Creative Team
- Researchers
- Media Planners

Various Methods of Advertising

1. Product-oriented Advertising

Product advertising focuses on promoting a specific product to a targeted audience. Marketers can achieve this through a range of approaches starting from one that simply provides basic information about a product (informative advertising) or one that makes blatant appeals to convince customers to purchase a product (persuasive advertising) that may include direct comparisons between the marketer's product and its competitor's offerings (comparative advertising). The goal is to create curiosity in the market and interest when the product is launched.

2. Image Advertising

Image a dvertising is primarily done to enhance an organization's perceived importance to a target market. Image advertising also involves educating the targeted audience on some issue. For instance, image advertising may be used in situations where a merger has occurred between two companies and the newly-formed company has taken on a new name. In this situation, there is a need to educate customers about the merger of a company to maintain and enhance the image of that organization.

3. Advocacy Advertising

In advocacy advertising, most times organizations send a message intended to influence a targeted audience. For instance, an organization may take a stand on a political issue which it feels could negatively impact them and will target advertisements to voice their position on the issue.

4. Public Service Advertising

Sometimes advertisements directed at social causes, such as teenage smoking, illegal drug use and mental illness, may run on television, radio and other media without any cost to organizations sponsoring the advertisement.

5. Advertising Trends

Like most areas of marketing, advertising is changing rapidly. Some argue that change has affected advertising more than any other marketing function. The more important trends in advertising include:

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6. Digital Convergence

Digital convergence in advertising refers to a growing trend for using computer technology to deliver media programming and information. Convergence allows one media outlet to take advantage of features and benefits offered through other media outlets. The convergence of television and internet opens many opportunities for marketers to target customers in ways not available with traditional television advertising. Online marketing is a new concept which has developed on account of increased use of the Internet the world over. Consumers need not approach anyone. The goods or products can be selected from the comfort of home and a fixed order can be placed. The consumer receives the article at his doorstep and that too as per his choice and preference.

A firm may face the following four major difficulties in communicating internationally:

- Sometimes, there is a communication gap and the message may not get through to the intended recipient. This may be on account of lack of knowledge about the media.
- Again, because of diversity in cultural and social factors, the message may reach the target audience but may not be understood or may be misunderstood.
- Sometimes it may be understood but still may not induce the recipient to take the action desired by the sender.
- The effectiveness of the message can be impaired.

In the world of globalization, when peoples' preferences are similar, unifying advertising can be of great help. The international advertiser must make sure that advertisements are not inappropriately extended into markets. Decisions like media selection and selection of advertising agencies are crucial.

Standardization vs Adaptation of International Advertising

Most of the time, large and multinational organizations prefer to go for standardization in advertising. The reasons are as follows:

Merits of Standardization

- Allows multinationals to maintain a consistent image and identity throughout the world.
- Minimizes confusion among consumers who travel frequently.
- Allows a singly coordinated advertising campaign across different markets.
- Results in considerable savings in media costs, advertising costs, and advertising illustrative materials.

Products Suitable for Standardized Advertising

- Luxury products
- High-tech products
- Experiential products
- Favourable country image products

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The support for global advertising is threefold. First, it has significant economic advantages. Standardized advertising lowers the costs of value creation by spreading the fixed costs of developing the advertisements over a large number of countries.

For example, in the early 1980s, Levi Strauss paid an advertising agency $550,000 to produce a series of TV commercials. By reusing this series, the company enjoyed significant cost savings. Over a 20-year period, Coca-Cola saved $90 million by using certain elements of its campaign globally.

Second, there is the concern that creative talent is scarce and hence that one large effort to develop a campaign will produce better results than forty or fifty smaller efforts.

A third justification for a standardized approach is that many brand names are global. With a substantial amount of international travel today and considerable overlap in media across national borders, many international firms want to project a single image to avoid confusion caused by local campaigns that conflict with each other.

This is particularly important in regions such as Western Europe, where travel across borders is as common as travel across state lines in the US.

Media Decisions

The major channels that are involved in media decisions are as follows:-

- Print publications providing global coverage with regional language and content editions
- Pan-regional radio, television and the Internet.

The following are the important global media characteristics:

- Targetability
- Client-compatible editorial
- Editorial quality

Who advertises in the global media?

- Airlines, financial services as well as telecommunication, automobile, and tobacco companies

The promotional message

The following are the factors in developing the message:

- Diffusion of the product or service into the market
- Criteria on which customers evaluate the product
- The product's positioning
- The idea is to have a world brand
- A product that is manufactured, packaged and positioned the same way around the world
- Localize international symbols with regional or country area themes and personalities

The Media Campaign Approach

- What type of outside services to use?
- How to establish decision-making authority?

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- Outside services chosen by their quality of coverage
- The value of outside expertise
- Creative development skills
- Specialty marketing knowledge
- Conflict in the use of mega-agencies
- Conflict of interest when two competitors are represented by the same agency

Decision-Making Authority

- Centralized or decentralized decisions about advertising
- Centralization = scale, synergy, consistency
- Decentralization = proximity, flexibility, sensibility
- Overall organizational goal to continually improve advertising quality at the local level
- Coordinated decentralized approach to pan-regional campaign development
- Strong central control
- Knowledge of local markets

Measuring of Advertising Effectiveness through:

- Typical effectiveness-testing techniques
- Pre-testing of copy appeal and brand recognition
- Post-testing of product or brand recognition
- Measuring campaign's impact on sales
- Sales increases and sales pattern changes
- Increases in consumer awareness and recall

Most commonly, advertisements are placed through an appropriate advertising media. Each advertising media, has its own method of accepting advertisements. These are based on different advertising cost structures (i.e., what it costs marketers to place an ad), different requirements for accepting ad designs (e.g., size of the ad), the different ways placements can be purchased (e.g., direct contact with media or through third-party seller), and different time schedules (i.e., when the ad will be run). Understanding the nuances of different media is the role of a media planner, who looks for the best media match for a client and also negotiates the best deals.

Media planning is a process of selecting media time and space to disseminate advertising messages in order to achieve marketing objectives. Media planning facilitates firms to determine which media to use—television programmes, newspapers, bus-stop posters, instore displays or banner ads on the web. It also helps firms in deciding when and where to use media in order to reach the desired audience.

The media planner's role can be that of a brand contact. Instead of focusing solely on what medium is used for message dissemination, media planners also pay attention to the creation and management of brand contact. Brand contact is any planned and unplanned form of exposure to and interaction with a product or service. Television commercials, radio ads and product sampling are major examples of planned forms of brand contact. Word-of-mouth contact is generally regarded as an unplanned

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brand contact—advertisers normally do not plan for word of mouth contact. From the consumer's perspective, however, unplanned forms of brand contact may be more influential because they seem to lack the kind of manipulation that advertising is sometimes deemed to use.

The brand contact perspective shows how the role of media planners has expanded. First, media planners have moved from focusing only on traditional media to now focusing on integrating traditional media and new media. New media—cable and satellite television, satellite radio, business-to-business e-media, internet, movie screen advertising and videogame advertising—is playing an increasingly significant role.

Secondly, it has been observed that media planners are making more use of product placements, currently, in lieu of advertising insertions. Advertising insertions, like print ads or television commercials, are made separately from the content and are inserted into it. The ads are distinct from the articles or TV programmes, and not a part of them. As a result, the ads seem intrusive. In contrast, product placement (also called brand placement or branded entertainment) blends product information with the content itself. Whether content is a television programme, movie, video game or any other form of entertainment, product placement puts the brand message into the entertainment content.

Finally, the role of media planners has expanded as media planners have moved beyond planned messages to take advantage of unplanned messages as well. While planned messages are what advertisers initiate, like an ad, press release or sales promotion, unplanned messages are often initiated by people and organizations other than the advertisers themselves. Word of mouth, both online and offline, is one form of unplanned message. Although advertisers have little direct control over the flow of unplanned messages, they can facilitate such a flow.

Media objectives are also based on two key components: target audience and communication goals. The target audience component of the media objectives defines who the intended target of the campaign is. The communication goals component of the media objectives defines how much of the audience the campaign intends to reach and how many times it will reach them. In short, media objectives are a series of statements that specify what exactly the media plan intends to accomplish. The objectives represent the most important goals of brand message dissemination, and they are the concrete steps to accomplish marketing objectives.

3.10.3 Communication Mix

Marketers should consider the range of communication tools that they can mix to communicate their marketing and branding messages. Personal selling, direct marketing, sales promotion, and advertising are some examples of important marketing communication tools widely used in international marketing.

1. **Personal selling**: Personal selling consists of verbal communication between a salesperson or selling team and one or more prospective purchasers with the objective of making or influencing a sale. Many companies feel that personal selling is a better strategy to manage the interface of buyer and seller and therefore annual expenditures on personal selling are larger than advertising. However, advertising and personal selling strategies share some common features, including

Check Your Progress

14. What is the prime objective of any promotion strategy?
15. What is media planning?

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creating awareness of the product, transmitting information, and persuading people to buy. Personal selling is an expensive way of persuading the buyers as compared to most other ways of advertising. Salespeople can interact with buyers to answer questions and overcome objections, they can target buyers, and they have the capacity to accumulate market knowledge and provide feedback.

2. **Direct marketing**: Direct marketing includes the various communication channels that enable companies to make direct contact with individual buyers. The common direct marketing techniques are catalogues, direct mail, telemarketing, television commercials, radio, magazine, newspaper, electronic shopping and kiosk shopping, etc. The distinguishing feature of direct marketing is the opportunity for the marketer to gain direct access to the buyer. Direct marketing expenditures account for a large portion of promotion expenditures. Electronic shopping is one of the newer forms of direct marketing.
3. **Sales promotion**: Sales promotion is a marketing activity that provides extra value or incentive to the sale force, distributors, retailers or ultimate consumers, at the same time, stimulating sales. It is defined as 'a direct inducement that offers an extra value or incentive for the product to the sales force, distributors or the ultimate consumer with the primary objective of creating an immediate sale'.

All sales activities can be divided into two broad categories:

(a) Consumer-oriented sales promotion: These promotions are designed in a manner as to draw the attention of consumers and induce them to purchase the retailer's merchandize. It is also called pull strategy. Activities like samples, coupons, contests, rebates, event sponsorship, and sweepstakes etc fall in this category. The objectives of consumer-oriented sales promotion are to obtain trail and repurchasibility. Consumer-oriented sales promotion will also help in increasing brand value by increasing consumption. This strategy will also help in targeting specific markets which will in turn defend customers.

Let us take the example of coupons to understand the consumer oriented sales promotion better. Using coupons as a sales promotion strategy will come with both advantages and disadvantages. Vishal Mega Mart, VLCC, Shopper's Stop from time to time comes up with the discount coupons strategy to increase sales which offers price reduction on specific items. This is targeted towards price conscious customers. An added advantage is also that the customer does not have to rely on the retailer to avail the discounted coupon; it comes straight from the company. Most of the time coupons are given to pull the customer towards the store. Ones he receives the coupon he visits the store and is drawn to fresh arrivals. This leads to added revenue and increased sales of new products. Giving out of coupons is regarded as a great sales strategy with most retailers today. Coupons are given out in contests, television and radio shows, road rallies; beauty parlours etc. This encourages even non-users to try a brand or current consumer repurchasibility.

(b) Trade-oriented sales promotion: Trade-oriented sales promotions aim at kindling in-store merchandising which influences the different levels of stocks

held by the wholesalers and retailers. It also helps in expanding product distribution to new target areas in the country. It further creates a high level of excitement about the product among those responsible for its sale. Some of the objectives of trade-oriented sales promotions are to obtain distribution of new products in the market which helps in maintaining a trade support from the recognized brands in the country and abroad by opening up new sales areas. These are directed at the dealer network of the company so as to motivate it to sell more of the company's brand as compared to other brands. It rests on the basic assumption that if the dealer network is provided with large incentives, it is likely to push the company's brands on priority in comparison to the competitor's brand. It is also known as push strategy. Activities like dealer incentives, point of purchase displays (POP), training programmes and cooperative advertising are designed to motivate distributors and retailers to promote the brand.

3.10.4 Role of Export Organization

In 1965, a top body named the Federation of Indian Export Organizations (FIEO) was constituted with its registered office in Delhi. It was set up as a common and coordinating platform for different export organizations involving the commodity councils and boards and the service organizations and institutions.

The basic activities of the FIEO involve:

- Convening meetings, conference seminars and workshops to provide opportunity to all sectors of the exporting community and export promotion institutions in India to review, discuss and, wherever necessary, to formulate recommendations to the Government and other authorities, on problems, prospects and potentials of India's exports.
- Arranging 'round-table' conferences of business interests in India with trade missions and other business teams on a visit to India.
- Inviting leading business interests and economic and trade missions from abroad specially for a tour of industrial and commercial centres in India.
- Projecting Indian goods and services abroad through various media including films, exhibitions, advertisements and publications.
- Sponsoring outgoing multi-interest trade and economic missions and special teams of government recognized export houses, consultancy firms,small scale industries and individual study-cum-sales teams.
- Promoting trade, economic and technical cooperation between India and other countries by the way of international seminars and creating special infrastructure for follow-up.

3.10.5 Management of Sales Force

A large proportion of employees are engaged in sales activities. Efficiency and effectiveness of a sales force are very strong determinants of competitiveness of a company. Managing a sales force is an intricate task because most salespeople work away from the direct supervision of their managers.

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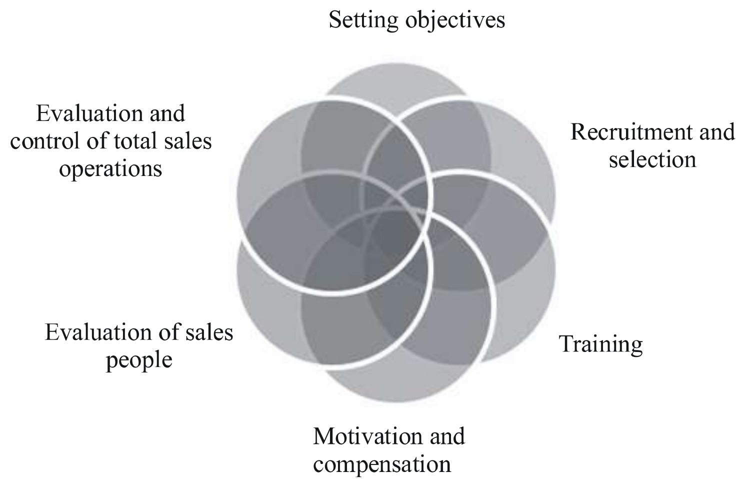

Fig. 3.13 Management of the Sales Force

Setting Objectives

Salespeople are given their individual sales targets. A sales manager consults with his salespeople, and gains their commitment to their individual sales targets. It is important that the sales manager monitors the progress of his salespeople, and removes any obstacles that may arise in the salespeople achieving their sales targets. Though a salesperson likes to be left alone, he does not mind a sales manager monitoring his work if his interventions help him achieve his sales target. A sales manager also sets input objectives such as time spent developing new accounts or time spent introducing new products. He may also specify the number of calls expected per day and the customers who should be called upon.

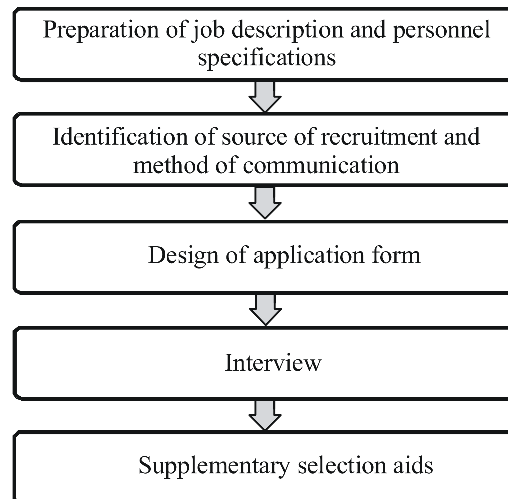

Fig. 3.14 Recruitment and Selection

High calibre salespeople should be recruited. If a company's most successful salespeople were put in a territory by replacing the average ones, 20 per cent increase in sales should be expected in two years. Work practices of the company and independence are more important than earnings, as the key attraction to a selling career. Sales managers need to discover the reasons why people want to become salespeople in their industry so that they can develop recruitment strategies that reflect those desires.

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Recruitment Process

The recruitment process follows five stages.

1. Preparation of job description and personnel specifications

Top ten qualities sought in sales people by sales managers of large companies are communication skills, personality, determination, intelligence, motivation, product knowledge, educational background, confidence, appearance, resilience and tenacity. Research has reduced the above ten qualities to two—empathy and ego drive. Empathy is the ability to feel problems and needs of the customer in the same way and with the same intensity that the customer does. Ego drive is the need to make a sale in a personal way, i.e., the salesperson will feel miserable if he is not able to make the sale, and not merely for money. Job description will include job title, duties and responsibilities, technical requirements, geographic area to be covered and degree of autonomy given to sales people.

2. Sources of recruitment and method of communication

A company asks for references from its employees, hires a recruitment agency, visits educational institutes, lures competitors' employees and even prospects employees of other industries. It reaches its prospective employees mostly through advertising—its advertisement should contain a headline which catches the fancy of prospective employees. It has been found that the size of advertisement correlates with the number of people who apply for the job.

3. Application and content

A prospective employee is asked to fill an application form, the contents of which allow the company to verify if a prospective employee is qualified in terms of educational qualification and relevant experience. A company uses the application form to shortlist candidates. Since the application form contains facts about the candidate, its contents act as a starting point for interviewers during the interview. A company refers back to a candidate's application form when it considers his employment.

4. Interview

Screening and selection interview is employed. Overall objective is to form a clear and valid impression of strengths and weaknesses of each candidate. An interviewer is interested in knowing if he is physically presentable, which he does by watching his appearance and listening to him talk. The interviewer wants to know about the candidate's achievements, which he does by probing his educational qualifications and successes in his previous jobs. He also wants to know if the candidate has personal qualities like perseverance and empathy, and asks the candidate to give examples of how he has demonstrated these qualities. He is also interested in knowing if the candidate possesses dispositions like maturity and sense of responsibility. It may also be worthwhile to know if the employee pursues any interests that may help him in his sales career. The interview should start with easy to answer questions that allow the candidate to talk freely and relax. Interviewer should be courteous and appear interested in what the candidate says. Open questions like 'can you talk about your experiences selling automobiles', encourage interviewees to express themselves. Probes can be used to prompt further discussions. At the end of the interview, the candidate should be told when a decision will be made and how it will be communicated.

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5. Supplementary selection aids

Psychological tests should be used only when it can be validated that test scores correlate with success in sales job. For example, a psychological test that is useful in selecting computer salespersons may be irrelevant when selecting automobile salespersons. Role playing is useful in estimating potential of applicants, but it is useful only in estimating a candidate's potential in making short term sales. It is not useful when a salesperson's major job responsibility would be to build long term relationships with customers.

Training

Training should include product knowledge and development of selling skills. A salesperson is successful when he performs his selling skills automatically—without consciously thinking about them. A training programme should include knowledge about the products of the company as well as those of competitors, selling skills, selling procedures, report preparation and customer relationship management. Training in management of long term customer relationship as well as context specific selling skills should be given. A training programme should include in-the-field training, where a salesperson can practice his selling skills under the tutelage of an experienced sales manager. Best sales people do not always make the best sales managers as other skills like teaching and motivating others are needed.

Motivation and Compensation

A company cannot design programmes to motivate its salespeople to excel unless it develops a comprehensive understanding of its salesperson as individuals, their personalities and their value systems. There is no single blanket programme to motivate all salespeople, and a company has to provide the enabling conditions in which a salesperson motivates himself.

Tasks of sales managers in motivating salespeople

- A sales manager learns what each salesperson values and what each one wants to achieve for himself and the company.
- He increases responsibility of salespeople who are willing to work harder.
- He understands that training improves a salesperson's motivations as well as capabilities by creating strong linkages between effort and performance.
- He provides targets that are challenging, but attainable—salespeople believe that they can attain them if they work hard.
- He rewards those performances that the salesperson wants to improve, i.e., if a salesperson wants to sign up new customers, his incentive is based on his opening new accounts.
- He provides both financial and non-financial rewards, and believes that both can motivate.
- He assures salespeople that they can be successful either by working harder or by working smarter, i.e., by employing effective selling skills and by developing more efficient call planning.
- He convinces a salesperson that he will sell more if he works harder and that he will be duly rewarded for his hard work. He takes care to find out what reward

an individual salesperson values and rewards him accordingly. And when he unilaterally decides the rewards that are to be given, he tries to convince salespeople that the rewards are worth their effort.

Types of salespersons

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- Some salespeople have decided the type of life they want. They try to maintain their standard of living by earning a predetermined amount of money.
- Some of them are satisfiers. They perform at a level just sufficient to keep their jobs.
- Some salespersons make trade-offs. They allocate their time based upon personally determined ratio between work and leisure that is not influenced by the prospect of higher earnings.
- Some of them are goal oriented. They prefer recognition as achievers by peers and superiors, and tend to be sales-quota oriented, with money mainly serving as recognition of achievement.
- Some of them are strictly money oriented. Their aim is to maximize their earning. Family relationships and leisure may be sacrificed in pursuit of money.

Managers must categorize their sales people before deciding their motivational and compensation plan. The first three will not be motivated by commission opportunities but the last two will be.

Three types of compensations plans

- **Fixed emoluments:** The salesperson gets fixed emoluments, i.e., they are not linked to performance. When a salesperson's salary is not linked to the amount of sales that he generates, he is likely to carry out tasks such as serving existing accounts and providing technical help to customers. It provides security, but he does not have the opportunity to increase income by increasing sales. The system may be perceived unjust if high performing salespeople are not paid more than low performing salespeople.
- **Only incentives:** The salesperson's emoluments are linked to the amount of sales that he generates. The salesperson has obvious motivations to make a sale, but sometimes he may become too overbearing with customers, and become too desperate to close a sale. He just wants to sell and does not want to carry out tasks such as serving existing accounts or providing technical help to customers. The system produces high turnover, as salespeople who are not able to sell, do not have any motivation to continue.
- **Salary plus incentive:** At times salesperson's emoluments are fixed and the rest are linked to the amount of sales that he generates—around 60 per cent of a salesperson's salary may be fixed. This system provides financial security, which most people need, but it also provides strong incentives for ambitious salespeople to put extra efforts so that they can earn more. This is the most popular method of paying salespeople. A company may also pay bonus for specific achievements like achieving a desired level of penetration or a desired level of customer satisfaction.

Evaluation of Salespeople

A sales manager needs to know how his salespeople are performing in terms of achieving their sales targets, and carrying out other tasks like providing technical backup

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to customers. He identifies the weak areas of performance of each salesperson, and then provides incentives to improve performance in those areas—if a salesperson is weak in opening new accounts, he is provided incentive for each new account that he opens. He tries to identify strengths and weaknesses of each salesperson. He assigns tasks to individual salespeople in ways that allow them to capitalize on their strengths. He arranges training programmes to take care of their weaknesses.

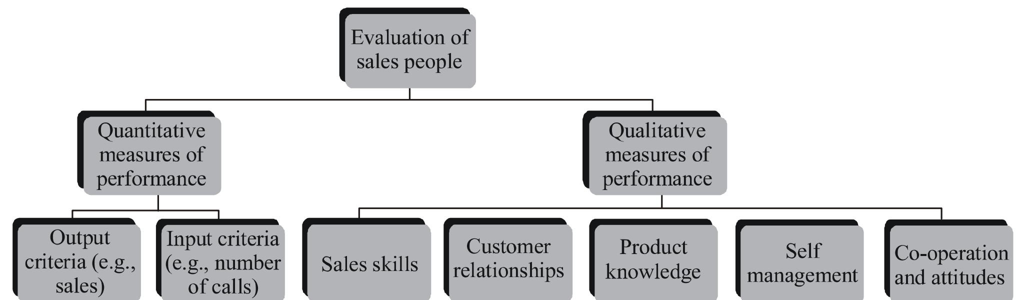

Fig. 3.15 *Evaluation of Sales People*

Quantitative measures of performance

- **Based on output:** Sales, profits, sales per customer and number of new customers signed up.
- **Based on input:** Number of calls made, calls per customer, calls on new customers and number of prospective customers visited.

Most companies fix targets for quantitative measures, and then they compare the performance of their salespeople against the targets. The process helps the companies to identify the weaknesses and strengths of each salesperson. Sales managers should probe deep to know as to why a salesperson is not achieving his targets, and then take appropriate corrective measures. For example, a salesperson may not be signing up enough number of new accounts because he is not making enough number of calls on prospective customers, and making too many of them on existing customers.

Qualitative measures of performance

A company should create linkages between quantitative and qualitative measures. For example, if a salesperson is generating low sales per customer, his sales manager should carry qualitative assessment of his selling skills and product knowledge.

A sales manager should be able to assess if an individual salesperson is likely to successfully close a deal that he has been pursuing. Such an assessment will enable him to pitch in if he concludes that the salesperson is unlikely to get the customer's order. One way to know whether a salesperson will win an order or not is to directly ask the salesperson whether he believes that he will be able to close the sale successfully. But, most salespeople do not let the sales manager know that they are faltering when they are asked directly about their chances to win an order. Therefore, a salesperson should ask a series of questions to delve deep into how the deal is progressing, and make a judgment from answers that he receives. A statement like 'the customer has asked for product demonstration' reveals that sales process is proceeding in the right direction, but a statement like 'the customer likes the product' does not reveal if the sales process is moving at all. A sales manager should seek specific and detailed

answers—a salesperson is likely to win an order if his responses are assured and credible, and he is likely to lose an order if his responses are thin and unconvincing. The sales manager will join the salesperson in soliciting the customer if he is convinced that the salesperson cannot do it alone. The sales manager will be more proactive and diligent in doing so if the customer is likely to bring large amount of revenues, and also if the salesperson is otherwise valuable to the organization.

The faltering salesperson should be counselled, and the sales manager should take him under his wings for some time till he regroups himself to be on the beat again.

Evaluation and control of total sales operations

Companies need to be in control of their sales operation. Sometimes they may have to take drastic actions to ensure that the sales organization is achieving its targets. One company which suspected that its sales people had become complacent moved every salesperson to a different territory, and sales increased.

3.11 SUMMING UP

- It is normally accepted that a product has achieved success when all investments made for its commercialization and development have been recovered and the product is still capable of providing satisfaction to consumers.
- The product must be capable of earning substantial revenues to recover the full investment that the company has put into it.
- The product and business strategies of a foreign firm should be developed in reference to the macroeconomic conditions of the host country. In other words, the definition of the product objectives should emerge from business definitions developed in accordance with the macroeconomic requirements of the host country.
- New products have to be developed by companies with utmost care. It is necessary to understand and accommodate the needs of consumers – counter competitive threats, ensure availability of post sales services and take into account the cost of marketing the product.
- It is essential that a company conducts brainstorming exercises for understanding the basic and secondary needs for the product. These include listing the product attributes, and identifying the forced relationship of other goods and services with the new product.
- Brand is largely associated with the attributes of the product, benefits, user values, culture, personality and behaviour. Branding decisions, therefore, are very important for the company.
- The company has to assess the strength and weaknesses of the existing brands in the market before taking the branding decision for their product. The manufacturing company may have several options on brand sponsorship.
- The product may be launched in the market as a brand, which is also known as national brand, a distributor brand (as happens in the case of edible oils, sugar, processed grains and in many products which need re-packing) or as a licensed brand name.

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Check Your Progress

16. When and why was FIEO constituted?
17. What are the quantitative measures of performance?

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- Once positioned by the company in the market, the brand may have to be repositioned over a period of time as the competitor may launch a brand close to the company's and cut into its market share.
- Packages have always served a practical function – that is, they hold the contents together and protect goods as they move through the distribution channel. Packaging is also a container for promoting the product and making it easier and safer to use.
- The label is an integral part of a package. Labelling can be generally seen in the form of persuasive labelling or informational labelling.
- While persuasive labelling is mainly concerned with the theme for promotion or the logo, informational labelling focusses on providing information to the customer.
- Pricing is a logical proposition keeping in view the competitive products in the market. A company has to determine the price on the basis of internal economics with reference to cost of production, business objectives, targets, marketing policies and profit targets, and external forces like market demand, and strategies of competitors with competitive products.
- Being merely a number, it might be tempting to believe that setting the price of a product must be an easy task for a company to perform. It is not. Many external and internal factors have to be considered together. The price should have some reference to its costs, as they must be recovered at least in the long run.
- A firm may organize indirect export through the intermediaries or export agents of the parent country. On the contrary, in direct exporting, foreign markets are reached by exporters through agents located outside their parent markets.
- Distribution may be either direct from manufacturer to retailer or from manufacturer to customer or indirect, involving the use of one or more intermediaries such as wholesalers or agents, to reach the customer.
- The concept of logistics is understood as the integrated management of forecasting, inventory control, transportation, warehousing, and order entry and customer service product planning functions by a large number of companies in the contemporary business environment.
- Promotion is a form of corporate communication that uses various methods to reach a targeted audience with a certain message in order to achieve specific marketing objectives. Like most marketing decisions, an effective promotional strategy requires the marketer to understand how promotion fits with other pieces of marketing especially in product distribution, pricing, and target markets.

3.12 KEY TERMS

- **Standardization**: It refers to offering a common product on a national, regional, or world-wide basis.
- **Customization**: It signifies adapting a product by making appropriate changes in it, to match local perspectives.
- **Skimming:** It is the strategy of establishing a high initial price for a product with a view to 'skimming the cream off the market' at the upper end of the demand curve.

3.13 ANSWERS TO 'CHECK YOUR PROGRESS'

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1. Two factors obstructing growth of new products are:
   - Social, economic and technological limitations
   - Government policies and restrictions
2. The five stages in the adoption process are—awareness about the product, interest generated in using or adopting the product, evaluation of the product, trial of the product from the point of perceived use value and perceived price and final adoption of the product for use.
3. Commercialization of the product is a strategic decision in which the company should look into the appropriate time, market and consumer segment to launch the product.
4. One of the methods of pricing a product is on the basis of its cost. The company can either set the price on the basis of the total cost of the product, or on the basis of its variable cost. This type of pricing is called cost-oriented pricing.
5. Psychological pricing makes the customer feel that he is paying a relatively lower price for the product. To stimulate such a view, the price is fixed in integral values very close to the round numeric values, *e.g.,* prices of Bata shoes @ ₹ 499/-
6. While persuasive labelling is mainly concerned with the theme for promotion or the logo, informational labelling focuses on providing information to the customer.
7. Price should be accurately keyed to the value to the customer. The more value that a product gives compared to the competition, the higher the price that can be charged.
8. Dumping occurs when goods are exported at a price lower than their normal value. Generally, this results in goods being sold in another country for less than their price in the original market or at less than production costs.
9. The full form of EVC is Economic Value to Customer.
10. The channel structure strategy is aimed at reaching the optimal number of consumers in a given time schedule at the lowest possible cost while maintaining the desired degree of control.
11. In direct exporting activities, the firm appoints its own export representatives for conducting the export operations in the concerned markets or countries.
12. Collaborative-commerce technology is designed to encompass a product's life from cradle to grave including product design, sourcing, procurement, supplier negotiation, demand planning and forecasting, and price and revenue optimization.
13. Benefits of pipeline concept in aiding efficiency of logistics and distribution strategies are:
    - Determining the long term production lead time on the system inventory
    - Impact on marketing promotions on the operating costs and effective net margins

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- Budgeting transport operations—net cost and savings
- Storage and warehousing cost estimation for the movement of goods—buffer stocking, retail stores and transit distribution sheds.

14. The prime objective of any promotion strategy is to make consumers aware of all features of the product or service in various market segments.
15. Media planning is a process of selecting media time and space to disseminate advertising messages in order to achieve marketing objectives. Media planning facilitates firms to determine which media to use—television programmes, newspapers, bus stop posters, in store displays or banner ads on the web.
16. In 1965, a top body named the Federation of Indian Export Organizations (FIEO) was constituted with its registered office in Delhi. It was set up as a common and coordinating platform for different export organizations involving the commodity councils and boards and the service organizations and institutions.
17. The quantitative measures of performance are:
    - **Based on output:** Sales, profits, sales per customer and number of new customers signed up.
    - **Based on input:** Number of calls made, calls per customer, calls on new customers and number of prospective customers visited.

3.14 QUESTIONS AND EXERCISES

Short-Answer Questions

1. How can we customize products for the local market?
2. What are the functions of packaging?
3. Differentiate between geographical and psychological pricing.
4. What are the objectives of pricing?
5. What are the advantages of distribution strategy?
6. How can a logistics strategy be developed?
7. What are the basic activities of Federation of Indian Export Organizations (FIEO)?

Long-Answer Questions

1. Discuss how product planning and product design strategy are integral to international marketing.
2. What are the functions of branding, packaging and labeling?
3. Discuss international pricing strategy and pricing methods.
4. What are the distribution strategies of international marketing?
5. 'Logistics and supply chain management is the art of managing the flow of materials and products from the source of production to the end user.' Discuss.
6. Adopting the right kind of promotional strategy is the most crucial issue of entering markets of many countries. Explain.

3.15 REFERENCES AND SUGGESTED READINGS

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UNIT 4 ORGANIZATION AND PLANNING

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Structure

4.0 Introduction
4.1 Objectives
4.2 New Perspectives on Organization: Corporate Networking
4.3 Dimensions of International Planning and Strategy
  4.3.1 Strategic Planning
  4.3.2 Marketing Planning
4.4 International Marketing Information System
  4.4.1 Types of Marketing Research
  4.4.2 Changing Perspectives in Marketing Research
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4.6 Key Terms
4.7 Answers to 'Check Your Progress'
4.8 Questions and Exercises
4.9 References and Further Readings

4.0 INTRODUCTION

Planning helps an organization to chart a course for the achievement of its goals. The process begins with reviewing the current operations of the organization and identifying what needs to be improved operationally in the upcoming year. From there, planning involves envisioning the results the organization wants to achieve, and determining the steps necessary to arrive at a successful position.

Strategic planning is an organizational management activity that is used to set priorities, focus energy and resources, strengthen operations, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes/results, and assess and adjust the organization's direction in response to a changing environment. In this unit you will study about such changing dimensions of international planning and strategy, marketing research, and marketing information systems. The effective role of corporate networking in an international environment is also discussed.

4.1 OBJECTIVES

After going through this unit, you will be able to:

- Recognize the role of corporate networking in present day business organizations
- Discuss the changing dimensions of international planning and strategy
- Explain the components of management information system
- Summarize the changing perspectives in marketing research

4.2 NEW PERSPECTIVES ON ORGANIZATION: CORPORATE NETWORKING

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Corporate networking is an effective low-cost marketing method for developing sales opportunities and contacts, based on referrals and introductions – either face-to-face at meetings and gatherings, or by other contact methods such as phone, email, and increasingly social and business networking websites.

'Networking' in marketing should not be confused with computer networking/ networks, which is different terminology, relating to connection and accessibility of multiple computer systems.

Corporate networking offers a way to reach decision-makers which might otherwise be very difficult to engage with using conventional networking methods.

In addition, corporate networking brings with it the added advantage of recommendation and personal introduction, which are always very helpful for developing business opportunities.

The traditional methods for driving organizational excellence in global organizations are not enough. The most effective organizations make smart use of employee networks to reduce costs, improve efficiency and spur innovation.

The role of the Information Technology is growing day by day. Chief Information Officers are given new and challenging roles almost every day to improve work force efficiency. Beyond providing an efficient operational support, top management expects the IT personnel to be a strategic business partner. They are required to forecast the impact of emerging technologies, lead the development of new IT-enabled products and services, and drive adoption of innovative technologies that make them different from the competitors.

Chief information officers are given the task to address these challenges by relying on the same managerial tools they use to pursue operational excellence— establishing well-defined roles, best practice processes and formal accountability structures. But the use of these traditional tools is not enough.

For delivering operational excellence and innovation it is important to design networks of informal collaboration. Within IT organizations in large global companies, innovative solutions often emerge unexpectedly through informal and unplanned interactions. This happens because two people solve an issue from entirely new perspectives. What we get is two different outlooks for a single problem. Successful execution flows from the networks of relationships which eventually help employees to handle situations that do not fit cleanly into established processes and structures.

Chief information officers learn to harness and balance both formal and informal structures to create efficient and innovative global IT organizations. Informal collaboration tend to be far less visible to senior leaders even though individual employees may be able to identify local patterns of collaboration, and broader configurations. Organizational network analysis offers a useful methodology to help executives to assess broader patterns of informal networks and then take steps to align networks with strategic imperatives.

Network survey and analysis software allow senior managers to gather a wide range of data from employees about their collaborations. Due to the deeper insights

available after the brainstorming session, the employees are asked to characterize the nature of their discussion—Was the talk session useful? Did it help them anyway in reducing the stress level or not?

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Apart from giving critical information about key network junctions, network analysis help senior managers to detect structural problems—such as hidden logjams or gaps that affects strategy execution. Senior leaders who understand employee interactions and know what makes for effective internal networks are in a position to reduce collaborative costs and network inefficiencies. They can work in the following four ways to improve performance:

- **Effective global collaboration:** Organizations can construct teams to leverage diverse expertise and drive adoption of new ideas across geographies.
- **Work force engagement and performance:** Evaluating the network characteristics of high performers can help employees to improve their own performance. It can help leaders identify individuals who are capable of energizing the organization.
- **Collaboration with business partners and external stakeholders:** By creating a detailed map of the existing cross-departmental relationships, chief information officers can evaluate the areas of innovations, the areas where sufficient support is being provided and the areas where investments should be made.
- **Check on costs and network inefficiencies:** Although collaboration is often seen as a virtue but too much of collaboration at too many organizational levels can be negative. Therefore it is important to reduce network connectivity at places where collaboration fails to produce any value.

IT organizations must check on the result of this interdependency – What happens on one project might have implications for related applications, infrastructure choices, business processes and data models. Therefore, IT employees tend to interact with colleagues to make sure that potential solutions do not create fresh problems. However, such collaborations can be costly and even counterproductive if too many people are involved in meetings, e-mail chains and decisions.

Corporate networks can have an enormous impact in transforming rigid organizations into flexible units that is capable of adapting and innovating. In making these changes, chief information officers and other business leaders have to let go some of their traditional management methods. They need to embrace a different and a more collaborative management model. Organizational charts and standardized processes are important but they are not flexible enough to support the types of internal and external collaborations and partnerships that companies need to maximize value.

Check Your Progress

1. How is corporate networking different from computer networking?
2. What is effective global collaboration?

4.3 DIMENSIONS OF INTERNATIONAL PLANNING AND STRATEGY

In the modern world each nation state is sovereign and independent from other countries. In reality, however, no country can completely survive in isolation. They are economically mutually dependent on each other. Even the most inward-looking regimes have realized

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the limitations of closed economies in terms scarcity of their own resources. They also realized the benefits of opening up their borders. These changes in the orientation of most economies have led to an enormous amount of activity in the international marketplace.

There was massive expansion of economic activities in the last decade of twentieth century. There is widespread realization that a global economic boom has been one of the drivers for greater efficiency and productivity. Never before in world history have businesses been so deeply involved in and affected by international global developments.

Current global forces are converging to build the foundation of a new global economic order. The structure of a world economic order is by and large governed by the market system. It has now become difficult for countries to escape the effect of the ever-increasing number of domestic firms exporting, importing, and/or manufacturing abroad. Today, five trends show up as the most dynamic that are influencing the shape of international marketing.

- Interdependence of the world economies
- Rapid growth of regional free trade areas such as EU, NAFTA, ASEAN and APEC
- Increase in wealth and growth in most parts of the world, enhancing the purchasing power
- Evolution of large markets such as Brazil, China, India, Malaysia, Russia, Hungary and Poland
- Availability of advanced methods of communication and transportation due to developments in information technology

These forces have led to an astounding growth in international marketing and have contributed to a perception that the world has become a smaller and interdependent place. If we look at Nestlé, a Swiss multinational company, claim that 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 have their presence in more than 170 countries making it the only auto company which has the largest presence in the world. The political and economic scene has dramatically changed after the 9/11 episode and the war in Afghanistan and Iraq. The interdependence among the nations and markets has however not been affected. Companies to beat recession have become even more aggressive to capture new markets.

With the increasing globalization, companies find they are unavoidably enmeshed with foreign customers, competitors and suppliers, even within their own borders. They face competition from domestic firms and as well as from foreign firms. Sony, Panasonic, Mitsubishi, Nokia, Fujitsu, Toyota and Nissan are formidable opponents in a competitive struggle for European and world markets though they have a significant presence and demand for their products in Europe and North America. Many familiar domestic companies are now foreign controlled. When you shop for groceries at A&P supermarkets or buy Alka-Seltzer, you are buying indirectly from a German company. Some well-known brands no longer owned by US companies are Carnation (Swiss), Brooks Brothers clothing (Canada) and the all-American Smith and Wesson handgun, is now owned by a British firm. Most countries are involved in international trade and investment.

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In fact, foreign investment in Western countries by other industrialized countries is quite common. Companies from Germany, Japan, the United States and the United Kingdom lead the group of investors, followed by companies from Switzerland, The Netherlands and France.

The international marketing planning task depends on the level of involvement of companies in the various marketing activities in a country. Exporting and licensing give minimum country involvement but joint ventures involve more in-country activity and give a greater degree of integration and control. Wholly owned subsidiaries give the organization almost total control. Because of the 'external uncontrollable' international planning is rather more difficult than domestic planning. Planning can be standardized, decentralized or interactive.

- **Standardized plans**

In this process of international marketing there are numerous advantages like cost savings on limited product range and economies of scale both in production and marketing, for example fertilizers and uniformity of consumer choice across the world. But standard plan may not be advantageous if different market characteristics make uniform products inappropriate, for example, fresh milk products and environmental obstacles disallow standardization; for example lack of refrigerated transport in developing countries.

- **Decentralized plans**

Decentralized plans take local conditions into consideration. Products which are offered are customized therefore there is scope of high cost and more resource consuming.

- **Interactive plans**

In this approach headquarters devises branch policy and a strategic framework, and subsidiaries interpret these under local conditions, for example Nestlè. Headquarters coordinates and rationalizes advertising, pricing and distribution. Planning can either be a long term or a shot term activity. Increasingly planning is becoming fairly routine. Most companies operate 'annual operating plans' although these are often 'rolled forward' to cover a few years hence.

Operation of Plans

To implement any kind of plan in international marketing perspective there is need to develop information system appropriate to plan. It has been noticed that there is need of three types of information:

- **Knowledge of the market:** This is one of the most vital information that requires implementing any marketing plan in international perspective. The major information of customers, competitors and government are essential to include in this category
- **Knowledge of the product:** There is also need to collect information related to the formal product, its technology and its core benefit
- **Knowledge of the marketing functions:** For effective implementation of the plan there is need to gather required information of various marketing functions

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In the formulation of international marketing plan there is also need to make distinction between domestic market plan and international marketing plan. The Table 4.1 summarizes major distinctions between domestic and international marketing plans.

Table 4.1 Domestic Marketing Planning vs International Marketing Planning

Domestic Marketing Planning	International Marketing Planning
1. Single or limited languages and nationality	1. Multilingual/multinational/multicultural factors
2. Relatively homogeneous market	2. Fragmented and diverse markets
3. Data available, usually accurate and collection is easy	3. Data collection a large task requiring significantly higher budgets and personnel allocation
4. Political factors relatively unimportant	4. Political factors frequently vital
5. Relative freedom from government interference	5. Involvement in national economic plans; government influences business decisions
6. Individual corporation has little effect on environment	6. 'Gravitational' distortion by large companies
7. Chauvinism helps	7. Chauvinism hinders
8. Relatively stable business environment	8. Multiple environments, many of which are highly unstable (but may be highly profitable)
9. Uniform financial climate	9. Variety of financial climates ranging from over-conservative to wildly inflationary
10. Single currency	10. Currencies differing in stability and real value
11. Business 'rules of the game' mature and understood	11. Rules diverse, changeable and unclear
12. Management generally accustomed to sharing responsibilities and using financial controls	12. Management frequently unautonomous and unfamiliar with budgets and controls

4.3.1 Strategic Planning

Often, complications arise out of situations that are ambiguous or are not routine. Such situations affect an organization's operations. In addition to managing the resources under their control on a daily basis, managers have to face such major challenges almost every other day. This is because managing operational tasks and responsibilities is different from managing strategies. Managers who are used to the former will find that in order to manage strategies, they need to be able to do much more. They need to develop the skills to look at the big picture; to conceive the situation faced by a business as a whole instead of smaller parts; and to make quick decisions on the basis of their conceptualization of situations or issues.

Importance of Strategy

Formulation of a good strategy helps a company attain its desired goals. A strategic plan provides an employee a clear vision of the purposes and objectives of the organization. The formulation of strategy forces the organization to analyze the prospects of change in the near future and prepare itself for change. Strategic formulation helps the organization plan its capital budgeting. So, even if organizations have limited funds to invest, they can allocate capital funds more effectively to attain a higher rate of return on the investments.

On the contrary, an organization without a clear strategic plan destroys its goodwill in the market. The organization becomes purely reactive to external pressures and less

effective at dealing with the change. In highly competitive markets, an organization without a rational strategy is likely to be defeated by its rivals and may face a declining market share or sales.

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The formulation of a reliable strategy can be executed through the following steps:

- A company must opt for the industry it desires to engage in – it needs to formulate its corporate strategy first.
- The organization should then formulate its 'mission statement' consistent with its business definition.
- The organization must develop its strategic objectives or goals and set performance objectives.
- Based on its objectives and analysis of both internal and external factors of the environment, the organization must form a specific business strategy that will fulfil its corporate goals.
- The organization should then implement the business strategies by taking specific actions such as reducing prices, forging partnerships and venturing through new distribution channels.
- Finally, the organization needs to review the effectiveness of its strategy along with the performance evaluation and change its policy as per the requirement by repeating the above steps.

These steps form the core of strategic management in the organization.

Functions

The main function of strategic management is to make crucial decisions about important issues facing the organization and also see to it that the strategies are implemented. The most important elements of strategic management are:

- Discerning the strategic position of an organization
- Implementing strategies
- Making strategic choices keeping the future in mind

Purpose of Strategic Management

The purpose of strategic management is enumerated in Table 4.2

Table 4.2 *Purpose of Strategic Management*

Strategic position	• Scanning the external environment • Meeting stakeholders' expectations • Utilizing resources and competencies
Strategic choice	• Identifying alternative strategies • Evaluating the alternatives • Selecting the strategies
Implementation of strategy	• Modifying the organization structure and design • Planning and allocating resources • Managing strategic change

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1. Strategic Position

The strategic position of a company is determined by the influences that the changes in the external environment may have. The strategic position is affected by the advantages that the resources within the organization may have, or the opportunities they may give rise to. It is also affected by the wants and expectations of the stakeholders, managers, shareholders and unions associated with the organization.

Scanning the external environment

The organization exists and functions in an environment that is far from simple. It exists in a continuously changing environment wrought with legal, technological, commercial, social as well as political complexities. These complexities impact some businesses more than others and that too in different ways. In some cases, these changes may lead to opportunities whereas in other cases, these may threaten the very existence of an organization.

Utilizing resources and competencies

The strategic capabilities of an organization largely depend on its competencies and internal resources. These form the internal influences. The organization should be able to identify the factors that are hindering the future strategic choices in order to deal with them accordingly. Some resources such as the core competencies may give rise to competitive advantages. The core competencies generally deal with skills, knowledge and activities.

Meeting stakeholders' expectations

The organization is influenced by a number of factors including the stakeholders' expectations. Some strategies designed by the management may not be approved by the stakeholders. If the stakeholders are more powerful, they will influence the management's strategy and even modify it to suit them. In case the management is more powerful, their strategy will ultimately be accepted by one and all. Another factor that influences the organization strategy is the culture followed within the organization as well as by the world outside. The strategic position of an organization can be evaluated and determined by the combined influence of its own capability as well as the political, social and cultural environment within and outside.

2. Strategic Choice

In order to make strategic choices, you have to first understand the corporate-level factors as well as the business unit-level factors that form the foundation of the strategic choices for the future. You also have to get an idea of the available options for developing strategies, that is, the technique to be followed and the channel or path to be adopted. You know that strategies are formed at various levels. At the corporate level, that is, the highest level, the strategy formulation mainly takes into consideration the various business units and how they can be improved with active contribution from the corporate centre. It is but natural that the small business units look up to the corporate centre as a parent for all their needs—channelizing the resources in the right direction, allocating finances appropriately, building brand image as well as marketing their products or services. Strategic choices at this level are made to provide the organization with a competitive edge based on a thorough study of the market and customers' demands and expectations.

3. Implementation of Strategy

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Putting the selected strategies into action is concerned with ensuring that the structure and design of the organization are conducive to implementation; the resources are planned, managed and allocated in a manner favourable to implementation; the processes are designed in a suitable manner; the relationship between the departments and units facilitates productivity, performance and action.

Once the organization is structured and designed suitably, the next step is to plan and allocate the limited resources available to facilitate strategy implementation and ensure optimum utilization with optimum profit. At the same time, the planning and allocation should adjust with the demands of the external environment in order to provide a competitive advantage.

Finally, strategy implementation also involves effective restructuring and re-engineering, that is, effective management of strategic change. Examples of managing strategic change involve how successfully an organization takes care of a restructuring or reengineering exercise carried out in the company and the fallout of the same. It can also involve how an acquisition process is integrated with the acquiring company.

Building Success through People, Purpose and Performance

The success of an organization is governed by the level of bonding it has with its customers; the techniques it employs to please them, give them value-added services and improve customer satisfaction. In addition, the organization should also stay focused on its strategic business plan and objectives for the future. In other words, it should stay connected to its people, customers as well as its corporate goals and ideas.

- Firstly, to connect, there must be an emotional link. Connecting implies building emotion.
- Secondly, to connect, we must create a strong feeling. Most of us do not feel especially connected with our casual acquaintances because we do not feel strongly about them.
- The third part of the definition of connect is to create a positive, uplifting relationship.

Unfortunately in business, people create strong emotional links but the relationship is neither positive nor uplifting. Success is built on the connections we make with people and ideas. Whether it is connecting with customers to improve their service experience, or connecting with the strategic business plan and objectives for the coming year, the foundation of success lies in connecting.

Great organizations foster the right kind of connection between the company, its mission and its employees.

What are strategic business units?

When a company possesses different businesses or portfolios of merchandise, the most common technique that a company adopts is to form strategic business units (SBUs). In order to segregate the units or segments, each performing a similar set of activities, many companies are organized on the basis of operating divisions. These divisions are also known as profit centres or SBUs.

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SBUs are generally formed when there exists a number of businesses, each unique in some way or the other, either in terms of merchandise or in terms of markets in which they operate.

There are various levels of strategy involved in the process of SBUs. At first, there is a corporate-level strategy and then there are SBU-level strategies. We also need to realize that there are differences in their functional areas in terms of marketing, finance, production and operations. Therefore, functional-level strategies are required at both the corporate and SBU levels.

Figure 4.1 shows the functional-level strategies at the corporate level.

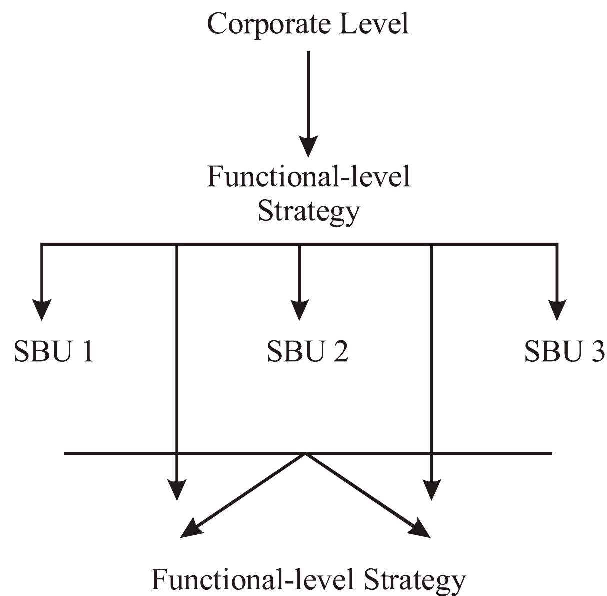

Fig. 4.1 *Functional-level Strategies*

Strategies for International Business

The field of study of global business strategies effectively addresses the interdisciplinary issues of organization theory, business strategy, marketing and international management for optimizing the firm's performance. Choosing an international strategy, be it adaptation or standardization, depends upon a firm's ability to match its marketing strategy with the external environment. An abstract contingency framework is often conceived between the business's critical variables like capacity utilization and high sales revenue and particular relationships between these variables and their successful implementation that leads to high performance levels. One of the important features impacting global business strategies is the World Trade Organization (WTO) rules on trade in goods and services, Intellectual Property Rights and Foreign Direct Investment.

Global business strategy can be defined as the strategies exercised by the companies, businesses or firms functioning in a global business environment and serving consumers worldwide. Global business strategies are closely linked to the strategic decisions of the businesses aimed at meeting their short and long-term objectives. The short-term objectives relate to the improvement of the company's day-to-day operations while the long-term objectives are usually targeted towards increasing profits, sales and the company's earnings ensuring growth and stability of the business and dominance over the international, national or regional markets

The fundamental strategic choice for a Multinational Corporation (MNC) is about the extent to which it opts for global integration and standardization or differentiation and responsiveness to national and local differences. The strategic decision of MNCs is influenced by the location of economic activities, need to coordinate subsidiaries and the extent of centralization/decentralization of the company.

An organization that is established in the international market may use some strategies to achieve success in the competitive world of international business. These strategies are as follows:

- International strategy
- Multi-domestic strategy
- Global strategy
- Transnational strategy

1. International Strategy

In an international strategy, a company strives to create its value in the international market. For this purpose, the company needs to produce those products and provide those services that are valuable in foreign countries and other local companies of the country face problems in producing and providing. Microsoft, for example, designs and develops a number of software in its country and establishes its subsidiaries in foreign countries to implement distribution strategies of the company for marketing its products. Its subsidiaries are also responsible for handling customers of foreign countries.

2. Multi-domestic Strategy

In a multi-domestic strategy, companies first concentrate on the domestic market of its country. Companies select a goal of achieving maximum responsiveness from its local customers. They often need to modify their marketing and distributing strategies for achieving their goal. For example, some companies may introduce many new activities related to production, marketing and developing of products for attracting customers in their local markets.

3. Global Strategy

In a global strategy, a company has to follow a low-cost strategy for its business process. This means a company which uses global strategy for its business always concentrates on specific markets. It is never concerned with the entire international market for its product distribution as in the international strategy. It mainly focuses on gathering profit through cost reduction in different markets, according to the experience curve. An experience curve determines the variance in the reduction of product cost. This variance is observed by a study of production and sale of the product. According to the observation, production cost of a product is based on two factors: learning effects and economies of scale. Learning effects refer to the cost saving that comes from doing a work again and again and thus, eliminating the need for special training to a person. Economy of scale refers to the reduction in the cost of a product that arises due to its large amount of production. Figure 4.2 shows an experience curve.

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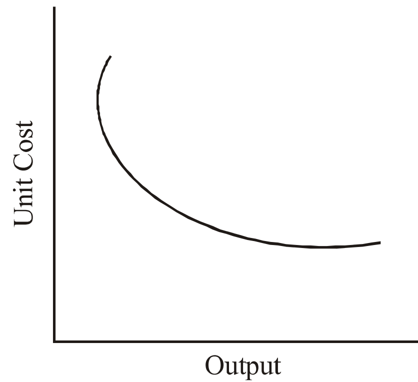

Fig. 4.2 Experience Curve

4. Transnational Strategy

In a transnational strategy, a company transfer's its services and products from one market to another, i.e., from home market to foreign subsidiaries' market and vice versa. It also transfers its services and product from one foreign subsidiary to another foreign subsidiary. Transfer of skills and products between different markets is known as global learning.

Advantages and Disadvantages of Different Strategies

All the strategies such as international, multi-domestic, international and transnational are aimed at enabling a company make profits in the international market. However, these strategies have their own advantages and disadvantages as shown in Table 4.3

Table 4.3 *Advantages and Disadvantages of Various Strategies*

Strategy	Advantages	Disadvantages
International	Allows the company to set up subsidiaries in foreign countries customized to local market conditions.	Forces the company to adapt its products so they can be introduced in an unfamiliar foreign market.
Multidomestic	Encourages innovations in product development and marketing according to response of local customers.	A very limited market.
Global	Focuses on the experience curve of a market for profit according to market status.	Requires the responsiveness of customers in the focus market.
Transnational	Involves transfer of skills and products from one market to another.	Requires greater effort and coordination

Competitive analysis and strategy

In formulating strategies for businesses, the management should consider the strategies of the firm's rivals. In industries with a high level of concentration, competitive analysis becomes an inevitable part while planning strategies. Competition in most global product/markets is intense. In the fertilizer industry for example, few companies dominate the market, including Norsk Hydro. Substitute competition has also become an

increasingly bitter battleground, with products being able to replace others as technology and tastes have changed.

4.3.2 Marketing Planning

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Marketing plans are important components of international marketing management. International marketing companies need to develop effective marketing plans. These plans vary by duration.

There are short-run marketing as well as long-run marketing plans.

Marketing plans should also include and focus on scope of plan. By clearly defining the scope of the plan, marketing managers fully understand the focus of international marketing in different part of the world.

The development of marketing plan may have a bottom-up or top-down approach. In case of bottom-up approach, each unit working in different countries develop their plan by taking into consideration demand, product, price, promotion, competitors, and environment factors etc. They submit their plan to their head-office further for suggestions and approval for implementation. Head office, by taking consideration of mission, vision and availability of resources provides suggestions for implementation. This approach is known as bottom-up approach. This is applicable in case of companies who have adopted decentralized approach and further mostly markets customized products according to cultural, social needs of different countries.

In top- down approach, strategic unit of company from top develop the marketing plan by taking into consideration mission, vision and availability of resources.

Marketing strategy is an important component to develop the objectives of the marketing plan. It includes selecting and analyzing the target market(s) and creating and maintaining an appropriate marketing mix that satisfies the target market and company. A marketing strategy articulates a plan for the best use of the organizations resources and tactics to meet its objectives. There is also need to adopt focused approach by developing marketing strategy that is consistent with the marketing plan. There is no need to pursue projects that are outside the companies' objectives or that stretch the companies' resources.

The plan includes executive summary also. In this summary critical points of the plan are summarized. There is also a comprehensive situational analysis by taking into account prevailing external and internal environmental factors. There is also SWOT analysis of the plan that analyses opportunities and threats, which are present in the international markets. There is also need to include specific objectives which marketing plan focuses to achieve.

The major elements of marketing strategies are target markets. A target market is group of persons/companies for whom a firm creates and maintains a marketing mix that specifically fits the needs and preferences of that group. Simultaneously there is also a need to develop a marketing mix to reach the target market. The marketing mix is designed around the buying motive-emphasizing the marketing concept. The marketing environment affects the marketing mix, which is only controllable to a certain extent. There is also need to determine the needs of the target market before developing the marketing mix. Along with marketing plan, there is also need to match target markets with financial projections, controls and further evaluation. Marketing control process

consists of establishing performance standards, evaluating the actual performance by comparing it with the actual standards, and reducing the difference between the desired and actual performance.

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Financial projections should be developed by including sales forecasting. The methods used in sales forecasting are judgmental and quantitative. The plan also involves where the organization would like to be and how to get there, which involves goal setting and strategy determination. Therefore, organization structure should be created before planning. The situational analysis, objectives, strategy and tactics which are vital components of any marketing plan should be developed by taking into consideration appropriate organizational structure.

The major advantages of marketing plan are as follows:

- Gives rise to systematic thinking
- Helps prepare for exigencies
- Gives activity continuity
- Integrates functions and activities
- Helps in a continuous review of operations

4.4 INTERNATIONAL MARKETING INFORMATION SYSTEM

Marketing information is formally gathered, stored, analyzed and distributed to managers in accordance with their informational needs at regular intervals on a planned basis.

The marketing information system is built upon an understanding of the informational needs of marketing, and it supplies that information when, where and how the managers require it. Data are derived from the marketing environment and transferred into information that marketing managers can use in their decision making.

MIS has four components:

- Collection of data from internal sources on continuous basis
- Collection of data from internal sources on ad-hoc basis
- Scanning of environment
- Marketing research

Check Your Progress

3. What are the two major advantages of marketing plan?
4. What are the important elements of strategic management?
5. Why is knowledge of the market important in international marketing?

1. Collection of Data from Internal Sources on Continuous Basis

MIS converts financial and transactional data like revenue of a product, customer or a distribution channel into a form that can be used by the marketing department to formulate its strategy. This is done by disaggregating the database of sales and assigning it to products and customers. Information like allocation of discounts, promotional and transport costs to products and customers are stored in the MIS. The detailed description of transactions with the customers and the associated costs allow marketers to carry out analysis of their marketing activities.

MIS can also be used to monitor the performance of salespeople. MIS keeps record of the revenues that a salesperson has generated and the profit that he has earned on his revenues. It also keeps a record of visits and calls he has made, and new

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accounts he has opened. It also records the revenues and profits that a salesperson has generated on each of the products and the customers that have been assigned to him. Such information helps managers in guiding the efforts of the salesperson, so that he is able to achieve company's targets. For example, a salesperson may be generating most of his revenue from his existing customers, but the company might be more interested in acquiring new customers. Therefore, the salesperson has to be directed to make more calls and visit more new customers than existing ones.

2. Collection of Data from Internal Sources on Ad-hoc Basis

The data of customer transactions and associated costs can also be used for specific purposes. Management may look at how sales have reacted to a price increase or change in advertising copy. Capturing data on MIS allows specific analysis to be conducted when needed.

3. Scanning of Environment

Environmental analysis whereby economic, social, demographic, legal and technological forces are monitored, is part of MIS. Economic, social, demographic, legal and technological forces govern the context within which the company, its suppliers and distributors and its competitors operate. A company should have a team of experts to scan the environment on a regular basis so that the company is not caught unaware when a change in the environment threatens to impact the company's operations adversely. It acts on an early warning system, and gives the company time to prepare to face the new future. For example, a company may learn about the government's intention to enforce new pollution norms, and it may set in motion a process that enables it to meet the new norms when they are finally enforced. Another company may see demographic changes of younger customers and dual-income families as huge opportunities and may set in processes to design new products and services for them. Environmental scanning gives time to companies to tackle their threats and harness their opportunities

4. Marketing Research

Marketing research is concerned with the provision of information about markets and reaction of these to various product, price, distribution and promotion actions. Marketing research helps in designing an appropriate marketing mix—each component of the market mix should correspond exactly with what the customers want to buy and how they want to buy, which only marketing research can reveal. There are two ways in which marketing research can be conducted:

- Data is collected from external sources on a continuous basis –television audience is monitored to find out the programmes they are watching, and consumer panels are formed to record household purchases over time.
- Data is collected from external sources on ad hoc basis—survey is conducted to find out why a product is not meeting its revenue goals; an advertisement is shown to prospective customers to find out its usefulness in triggering purchase, and a survey is conducted to find out if a brand meets its customers' emotional need of exclusivity.

We will discuss the 4th component of MIS

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4.4.1 Types of Marketing Research

There are two categories of marketing research: primary research and secondary research.

1. Primary Research and its Problems

When marketers collect original data it is referred to as primary marketing research. A major step of primary research involves designing a research plan, collecting information, inputting data, and producing and analyzing results. Primary research is often very expensive to undertake. But the selection of primary research always depends on the nature of the problem that marketer would like to test in the market.

There are two basic types of primary research methods—quantitative and qualitative.

- **Quantitative Research**

The process of gathering data by using quantitative means and then evaluating it by using statistical analysis, followed by a structured and well-controlled scientific research design, is known as quantitative research. This data can also yield numerical values that can be analyzed using statistics. There are many forms of quantitative research like surveys, tracking and experiments.

- **Qualitative Research**

Qualitative research gathers information that requires researchers to interpret the information being gathered, mostly without the benefit of statistical support. Researcher skills and competencies in interpreting respondents' comments and activities are most important in qualitative research. This form of research can offer very good information. But in the case of qualitative research, its relevancy is often associated with the data collection method. For example, a researcher may want to know more about how customers make purchase decisions.

A major problem with qualitative research is that it can be time-consuming and expensive and, consequently, only a very small portion of the total population generally participates in the research.

Quantitative Research is generally conducted through individual interviews, focus groups and observational research.

2. Secondary Research and its Problems

The most popular and widely used research method is collecting data through secondary research. This means that accessing information that others have already gathered. Secondary data, whether domestic or international, must be reviewed carefully to determine sources, research instruments, sample sizes, and regency. Further problems exist in using secondary sources of information, such as the reports' language. Source credibility is an issue-any organization, including national governments will distort information for political reasons making even official population data unreliable for some countries. Different sources may give apparently contradictory information, with no obvious reason for the differences, so it becomes difficult to determine the most reliable sources. Average figures, such as the population density or income may be

misleading, as these can be concentration of population in certain urban areas or wealth may be unequally distributed.

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Difference between classifications in data may cause problems in the comparison of results which means consistency of information between countries. The definition of a supermarket is smaller in some African countries than in European countries. Differences in classifications may reflect other differences in culture or demography. For example, comparisons of the 'youth' market need an understanding of the age that people graduate from high school or university. In Scotland, students can graduate from university by 20; in Germany they may be in their middle or late 20s before they graduate. This may also impact on other aspects, such as the age of marriage.

Cultural Differences, including the role of women within the home and the job market, and cultural influences on purchase choice preferences also may make it difficult to compare 'like with like'. Products may serve different functions between markets- for example, bikes can used principally for transportation or for leisure - which means it is important to appreciate such differences before comparing results across countries. It explains why customers would prefer different features on the bicycles. Finally economic differenced, such as buying power and exchange rates, may distort data.

It is rare that secondary data will provide the answers to all your marketing problems. The lack of reliability and limited range of secondary sources of information mean that gaps in research are even more likely in some international markets. Original research will be required even where valid secondary sources of information exist.

Managers must review research needs against the cost of gathering the information. Research costs (e.g. cost per interview) vary between markets. It is too expensive to gather all topics and all markets, so marketing managers with responsibilities across markets must set research priorities. Small markets, in particular, may not justify high research costs. Marketing managers must also coordinate original research when comparisons are being sought across markets. It is often difficult where it is being managed from a distance, for example from international or regional headquarters.

The marketing research process for international markets is identical to that in domestic markets. Essentially, this goes through the following stages:

- Identification and definition of the problem
- Development of the research plan
  - o Objectives
  - o Data collection instruments
  - o Samples
  - o Roles and responsibilities
- Implementation of the research plan
- Recording and analyzing the research results
- Reporting or communicating the results

4.4.2 Changing Perspectives in Marketing Research

Most companies do not use the results of the marketing research that they carry out. Marketing research has to be conducted differently if their results have to influence the way a company markets its products.

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Market researchers focus on finding out how a change in a variable impacts customer behaviour. They have developed a sophisticated understanding of how customers behave, and have also devised ways to measure their behaviour. But companies want to know as to what they should do to take benefit of a customer reacting in a particular manner to particular stimuli. Market researchers have advised marketers as to what they should do to prompt customers to buy their products. Optimization models have been successfully used in pricing, i.e., at what price the company earns the maximum profit. Similar optimization models need to be developed to help marketers decide advertising intensity, product portfolio, discounts and distribution intensity. Marketers want to know as to what they should do to attract and retain customers, and earn maximum profits from them.

Market researchers focus on the short-term. They want to find out how a proposed price change will affect sales. Such focus on the short term can have disastrous results. For example, a company found out that its sales increased substantially every time it sold its product on a discount. It was encouraged to offer deeper discounts, and also offer such discounts more frequently. The result was that its product was sold only when it was on discount, and within a few years its brand value declined dramatically. It is imperative that market researchers start focusing on the long term impact of a company's product, pricing, advertising and distribution strategies.

Market researchers focus on collecting data from secondary sources and carrying out controlled experiments. If marketing research has to produce actionable findings, such findings have to come from conducting experiments on real customers in actual buying scenarios—change price of products being sold in a store and see how it impacts sales. Market researchers have to learn to carry out experiments on large number of customers and find out ways to measure changes in customer behaviour when variables like pricing, number of salespeople or advertising intensity are changed. They have to develop the infrastructure to carry out such large research projects, and invest in technologies that will enable them to measure changes in customer behaviour. Then they have to ensure that they are heard and their recommendations are implemented.

4.5 SUMMING UP

- Corporate networking is an effective low-cost marketing method for developing sales opportunities and contacts, based on referrals and introductions - either face-to-face at meetings and gatherings, or by other contact methods such as phone, email, and increasingly social and business networking websites.
- The traditional methods for driving organizational excellence in global organizations are not enough. The most effective organizations make smart use of employee networks to reduce costs, improve efficiency and spur innovation.
- The role of the Information Technology is growing day by day. Chief Information Officers are given new and challenging roles almost every day to improve work force efficiency.
- Beyond providing efficient operational support, top management increasingly expects the IT personnel to be a strategic business partner — to forecast the business impact of emerging technologies, lead the development of new IT-

Check Your Progress

6. What are the four components of MIS?
7. What are the two ways of conducting marketing research?
8. How can MIS be used to monitor the performance of salespeople?
9. What are the two categories of marketing research?

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enabled products and services, and drive adoption of innovative technologies that differentiate the organization from competitors.

- With the increasing globalization, companies find they are unavoidably enmeshed with foreign customers, competitors and suppliers, even within their own borders. They face competition from domestic firms and as well as from foreign firms.
- The international marketing planning task depends on the level of involvement of companies in the various marketing activities in a country. Exporting and licensing give minimum country involvement but joint ventures involve more in-country activity and give a greater degree of integration and control. Wholly owned subsidiaries give the organization almost total control.
- Formulation of a good strategy helps a company attain its desired goals. A strategic plan provides an employee a clear vision of the purposes and objectives of the organization. The formulation of strategy forces the organization to analyze the prospects of change in the near future and prepare itself for change.
- Strategic formulation helps the organization plan its capital budgeting. So, even if organizations have limited funds to invest, they can allocate capital funds more effectively to attain a higher rate of return on the investments.
- The main function of strategic management is to make crucial decisions about important issues facing the organization and also see to it that the strategies are implemented.
- The field of study of global business strategies effectively addresses the interdisciplinary issues of organization theory, business strategy, marketing and international management for optimizing the firm's performance.
- Choosing an international strategy, be it adaptation or standardization, depends upon a firm's ability to match its marketing strategy with the external environment.
- Marketing plans are important components of international marketing management. For international marketing companies need to develop effective marketing plans.
- The marketing information system is built upon an understanding of the informational needs of marketing, and it supplies that information when, where and how the managers require it. Data are derived from the marketing environment and transferred into information that marketing managers can use in their decision making.
- Environmental analysis whereby economic, social, demographic, legal and technological forces are monitored is part of MIS. Economic, social, demographic, legal and technological forces govern the context within which the company, its suppliers and distributors and its competitors operate.
- Marketing research is concerned with the provision of information about markets and reaction of these to various product, price, distribution and promotion actions.

4.6 KEY TERMS

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- **Transnational strategy**: In a transnational strategy, a company transfer's its services and products from one market to another, i.e., from home market to foreign subsidiaries' market and vice versa.
- **Multi-domestic strategy:** In a multi-domestic strategy, companies first concentrate on the domestic market of its country. Companies select a goal of achieving maximum responsiveness from its local customers.
- **MIS**: Management information system (MIS) provides information that organizations require to manage themselves efficiently and effectively.

4.7 ANSWERS TO 'CHECK YOUR PROGRESS'

1. 'Networking' in marketing should not be confused with computer networking/ networks, which is different terminology, relating to connection and accessibility of multiple computer systems. Corporate networking offers a way to reach decision-makers which might otherwise be very difficult to engage with using conventional networking methods.
2. Under effective global collaboration organizations can construct teams to leverage diverse expertise and drive adoption of new ideas across geographies. By carefully studying collaboration challenges across functions and geographies, the team can identify gaps and enhance connectivity and best practice transfer in targeted ways.
3. Two major advantages of marketing plan are that a marketing plan:
   - Gives rise to systematic thinking
   - Helps prepare for exigencies
4. The most important elements of strategic management are:
   - Discerning the strategic position of an organization
   - Implementing strategies
   - Making strategic choices keeping the future in mind
5. Knowledge of the market is important because it is one of the most vital information that requires implementing any marketing plan in international perspective. The major information of customers, competitors and government are essential to include in this category.
6. The four components of MIS are:
   - Collection of data from internal sources on continuous basis
   - Collection of data from internal sources on ad-hoc basis
   - Scanning of environment
   - Marketing research
7. Two ways of conducting marketing research are: collecting data from external sources on a continuous basis and on ad hoc basis.
8. MIS can be used to monitor the performance of salespeople. MIS keeps record of the revenues that a salesperson has generated and the profit that he has earned on his revenues.

9. The two categories of marketing research are:
   - Primary Research and
   - Secondary Research

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4.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the difference between standardized plans and decentralized plans?
2. Discuss the steps involved in the operation of plans.
3. What are strategic business units?
4. How can environmental analysis be considered a part of MIS?

Long-Answer Questions

1. 'Corporate networking is an effective low-cost marketing method for developing sales opportunities.' Discuss.
2. Discuss the different strategies used for international business.
3. 'The marketing information system is built upon an understanding of the informational needs of marketing, and it supplies that information when, where and how the managers require it.' Discuss.
4. What are the changing perspectives in marketing research?

4.9 REFERENCES AND FURTHER READINGS

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UNIT 5 TRADE LIBERALIZATION AND EXPORT PROCEDURE

Structure

5.0 Introduction
5.1 Objectives
5.2 WTO and Trade Liberalization
 5.2.1 Liberalization and Indian Economics
5.3 International Marketing Institutions
5.4 India's Foreign Trade and Balance of Payments
 5.4.1 Trends in Balance of Payments
 5.4.2 Role of Services in Balance of Payments
 5.4.3 Non-Resident Inflows
 5.4.4 Allocation or Cancellation of Special Drawing Rights (SDRs)
 5.4.5 Double Entry System of Recording
 5.4.6 Balance of Payments and International Economic Linkages
5.5 Export Procedure
 5.5.1 Export Documentation and Procedure
 5.5.2 Export Incentives and Subsidies
5.6 Summing Up
5.7 Key Terms
5.8 Answers to 'Check Your Progress'
5.9 Questions and Exercises
5.10 References and Further Readings

5.0 INTRODUCTION

One of the most recurrent arguments for trade policy reform in developing countries was the debt crisis unleashed in the early 1980s. The World Bank and the IMF began to recommend development strategies based on market oriented reforms, which included as a basic component the reduction of trade barriers and the opening of international trade to foreign competition. In general, trade liberalization has been considered a more efficient instrument for promoting export diversification and growth than some of the earlier schemes used for this purpose. These include export subsidies and export incentives.

In this unit, you will study about India's foreign trade and balance of payments position, various marketing institutions that help in international marketing and also about the role of WTO in trade liberalization.

5.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the role of WTO in trade liberalization
- Classify international marketing institutions and discuss their objectives
- Explain export procedure and recognize the importance documentation
- Examine India's foreign trade and balance of payments position

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5.2 WTO AND TRADE LIBERALIZATION

World Trade Organization (WTO) is the only international body dealing with the rules of trade between nations. Its purpose is to help trade flow smoothly through a system based on rules and to settle trade disputes. It is a single institutional framework comprising of various agreements and commitments and a wide array of policy instruments affecting trade in goods, services and intellectual properties. It provides not only a forum for multilateral liberalizations on rule-making, but also a unique, advanced mechanism for the fair and objective resolution of trade issues. All arrangements and agreements arrived at come under the auspices of WTO.

It is usual to hold a ministerial conference once at least in two years. The operations of the ministerial decisions and agreements are regularly overseen by the General Council, which is further responsible for acting as the dispute settlement body and overseeing the Trade Policy Review Mechanism concerned with the complete set of trade issues dealt with by the WTO. Subsidiary bodies have also been established by it such as a TRIPs Council, a Services Council and a Goods Council.

The fundamental objective of WTO, as explained in its preamble, is to provide the maximum opportunity to the contracting parties for 'expanding the production and trade in goods and services, while allowing for optimal use of the world's resources in accordance with the objective of sustainable development.' (Final Act, 1994). Thus, WTO aims at improving the standard of living, level of employment and output and optimal utilization of the world's resources. It tries to ensure the preservation of environment all over the world. The thrust of its activities is to secure a better share of growth in international trade, especially for the least developed countries.

WTO aims to perform the following functions:

- Through various councils and committees, implement the twenty-eight agreements contained in the final agreement of GATT.
- Try to resolve trade disputes through a conciliation mechanism.
- Resolve unresolved disputes relating to trade between the member countries through the WTO's dispute settlement court.
- Keep all vital data relating to world trade in its data bank.
- Act as a watchdog of international trade by monitoring and examining the trade transactions of member countries.
- Implement the agreements relating to tariff and non-tariff cuts by the member countries.
- Treat all trading partners at par while settling trade disputes.
- Provide a platform to the member countries to negotiate freely on various issues relating to world trade.

In brief, the WTO is a very powerful body that attempts to ensure fair distribution of world resources through the provision of an uninterrupted and friendly trade environment to member countries.

There are a number of ways of looking at the WTO. It's an organization for liberalizing trade, it's a forum for governments to negotiate trade agreements, it's a place for them to settle trade disputes. It operates on a system of trade rules.

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5.2.1 Liberalization and Indian Economics

The results of excessively inward-looking trade strategy on one hand and the need for modernization and technology up-gradation of the Indian industry on the other, certain policy measures in the direction of trade liberalization were initiated. The trade policy cannot be viewed in isolation; it should be seen in the context of the overall economic policy. One of the important features of the new economic policy is a move towards a more open economy by liberalizing the foreign investment policy and imports. The redesigning of the policy covers some measures that have been taken. They can be broadly grouped as:

- Realization of exchange rate policy
- Import liberalization
- Export incentives
- Simplification of procedural formalities

Salient features of the new economic policy (NEP) of India

- Abridgement of the role of the public sector
- Substantial enlargement of the scope of the private sector
- Substantial enlargement of the private sector by de-licensing (with some exceptions) and removing the restriction under the Monopolies and Restrictive Trade Practices (MRTP) Act on expansion, mergers, amalgamations and takeovers
- Liberalization of the policy towards foreign capital and technology

Reform of the trade policy regime

- Exchange rate adjustment: To make the exchange rate more realistic and to encourage exports and discourage imports, the rupee was devalued.
- The role of subsidies in export promotion has been substantially reduced by abolishing the cash compensatory support (CCS). It was considered that the CCS was serious drain on the exchequer.
- Liberalisation of imports by substantially eliminating licensing, quantitative restrictions and other regulatory and discriminatory controls.
- Procedural simplification.
- Convertibility of the rupee: As a first step towards total convertibility of rupee, a scheme of partial convertibility of the rupee was introduced in March 1992. Accordingly, exporters got 40 per cent of the foreign exchange earnings converted into rupee at the official rate.

Export-Import Policy

The Export-Import Policy announced the Exim Policy, for the first time in March, 1992.

Objectives

The principal objectives of the Exim Policy are:

- To establish the framework for globalization of India's foreign trade.
- To promote the productivity, modernization and competitiveness of the Indian industry and thereby, to enhance its export capability.

- To encourage the attainment of high and internationally accepted standards of quality and thereby, enhance the image of India's products abroad.
- To increase India's exports by facilitating access to raw materials, intermediaries, components, consumables and capital goods from the international market.
- To promote efficient and internationally competitive import substitution and self-reliance.
- To foster the country's research and development and technological capabilities.
- To simplify and streamline the procedures governing exports and imports.

NOTES

Liberalization

To note the change in policy, a very important feature of the new Exim Policy is freedom. It substantially eliminates licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under the negative list, may be freely imported and exported.

Negative List

- Prohibited
- Restricted through licensing
- Canalized

Goods which are restricted through licensing may be exported or imported only in accordance, with a license issued in this behalf. A license may include such terms and conditions as may be specified by the licensing authority which may include:

- The quantity, description and value of goods
- Actual user condition
- Export obligation
- The value addition to be achieved
- The minimum export price
- The country of origin and destination of the goods

The policy of the government is to keep the negative list as small as possible under given circumstances and these lists would be pruned from time to time. The Exim Policy of 1992-97 acknowledges that trade can flourish only in a regime of substantial freedom. It also recognizes the need for reasonable stability of the policy, by making the duration of the policy five years. The new Exim Policy is quite in line with the economic reforms introduced in India. To give due recognition and to give the Indian trade a global orientation, is an important feature of the policy. The procedural simplification and minimization of quantitative, licensing and other discretionary controls are addressed by the new measures, which were long overdue. It needs to be clarified that liberalization of imports does not mean that there is an indiscriminate removal of import restrictions. Imports, on the whole, are still highly restricted. A salient feature of the liberalization is the elimination of the unnecessary procedural hurdles and simplification of procedures. Even though import duty on a number of items has been significantly reduced, the duty rates are still very high in comparison to many other countries.

Check Your Progress

1. What is the fundamental objective of the WTO?
2. State two principle objectives of India's 1992 Exim policy.

5.3 INTERNATIONAL MARKETING INSTITUTIONS

NOTES

It is important to identify and assess the contribution of the marketing institutions that play a major role in supporting international trade and investment. Let us study in detail some of these institutions.

1. Central Advisory Council

The Central Advisory council comes under the Industrial (Development and Regulations) Act, 1951.

Establishment and constitution of Central Advisory Council and its functions

1. For the purpose of advising it on matters concerning the development and regulation of scheduled industries, the Central Government may, by notified order, establish a Council to be called the Central Advisory Council.
2. The Advisory Council shall consist of a Chairman and such other members not exceeding thirty in number, all of whom shall be appointed by the Central Government from among persons who are in its opinion capable of representing the interests of:
   - owners of industrial undertakings in scheduled industries
   - persons employed in industrial undertakings in scheduled industries
   - consumers of goods manufactured or produced by scheduled industries
   - such other class of persons including primary producers, as in the opinion of the Central Government, ought to be represented on the Advisory Council.
3. The term of office of, the procedure to be followed in the discharge of their functions by, and manner of filling casual vacancies among members of the Advisory Council, shall be such as may be prescribed.
4. The Central Government shall consult the Advisory Council in regard to:
   (a) the making of any rules, other than the first rules to be made under sub-section (3);
   (b) [Omitted by Act 26 of l973]

   and may consult the Advisory Council in regard to any other matter connected with the administration of this Act in respect of which the Central Government may consider it necessary to obtain the advice of the Advisory Council.

2. Export Promotion/Development Councils

The basic objective of Export Promotion Councils is to promote and develop the exports of the country. Each Council is responsible for the promotion of a particular group of products, projects and services. The main role of the EPCs is to project India's image abroad as a reliable supplier of high quality goods and services. In particular, the EPCs shall encourage and monitor the observance of international standards and specifications by exporters. The EPCs shall keep abreast of the trends and opportunities in international markets for goods and services and assist their members in taking advantage of such opportunities in order to expand and diversify exports.

The major functions of the EPCs are:

- To provide commercially useful information and assistance to their members in developing and increasing their exports
- To offer professional advice to their members in areas such as technology upgradation, quality and design improvement, standards and specifications, product development and innovation
- To organize visits of delegations of its members abroad to explore overseas market opportunities
- To organize participation in trade fairs, exhibitions and buyer-seller meets in India and abroad
- To promote interaction between the exporting community and the government both at the central and state levels
- To build a statistical base and provide data on the exports and imports of the country, exports and imports of their members, as well as other relevant international trade data.

The EPCs are non-profit organizations registered under the Companies Act or the Societies Registration Act, as the case may be.

The EPCs shall be autonomous and regulate their own affairs. However, if the Central Government frames uniform bylaws for the constitution and/or for the transaction of business for EPCs, they shall adopt the same with such modifications as Central Government may approve having regard to the special nature or functioning of such EPC. The EPCs shall be required to obtain the approval of the Central Government for participation in trade fairs, exhibitions etc and for sending sales teams/ delegations abroad. The Ministry of Commerce and Industry/ Ministry of Textiles of the Government of India, as the case may be, would interact with the Managing Committee of the Council concerned, twice a year, once for approving their annual plans and budget and again for a mid-year appraisal and review of their performance.

In order to give a boost and impetus to exports, it is imperative that the EPCs function as professional bodies. For this purpose, executives with a professional background in commerce, management and international marketing and having experience in government and industry should be brought into the EPCs.

The EPCs may be provided financial assistance by the Central Government.

An exporter may, on application, register and become a member of an Export Promotion Council. On being admitted to membership, the applicant shall be granted forthwith registration-cum-membership certificate (RCMC) of the EPC concerned, subject to such terms and conditions as may be specified in this behalf.

3. Commodity Boards

Commodity boards play a constructive and positive role in the export promotion of primary and traditional commodities such as tea, coffee, rubber, handicrafts, handlooms and coir. These boards offer varied services to government as well as exporters of these commodities. Trade information and guidance is given to exporters. The boards participate in trade fairs and exhibitions and also sponsor trade delegations. Market surveys are conducted for the benefit of exporters and timely advice is given to

government on export matters. These services of commodity boards indicate the active interest which the boards take in export promotion and their positive role in promoting exports of traditional commodities. Along with exporters, services are also offered to growers, producers and cultivators of different commodities.

The functional areas of commodity boards are extremely board based. The functions/activities of commodity boards include market research, publicity, introduction of new methods of cultivation, introduction of new varieties and products for exports and so on……. They also act as connecting links between India manufacturers/exporters and foreign importers. All these functions are directly and indirectly useful for export promotion of agro-based production.

The activities of commodity boards are expanding in recent years. There is diversification in functions/activities and services offered by commodity boards. These boards have made substantial contribution in promoting exports of traditional Indian commodities. Their role is certainly unique and praiseworthy as export promotion organizations.

4. Trade Development Authority (TDA)

The TDA was set up by the Government of India in 1971 in pursuance of export policy resolution adopted by the Parliament. The important objective of TDA was the promotion of selective and intensive development of products with growth potential by technically and commercially viable units, by providing a package of services in the field of export production, marketing and elimination of procedural delays.

In its development, the TDA has laid greater emphasis on specific buyers and import houses in USA, Canada, the UK and Western Europe who are brought into contact with specific exporters.

The package servicing plan of the TDA helps mainly in the following fields:

- Selected raw-materials, import licences for inputs, machinery, etc., can be routed through the TDA, which will obtain them expeditiously.
- Priority consideration for an application for machinery on hire-purchase basis to the National small scale industries corporation will be accorded when sponsored through the TDA.
- Quick release of foreign exchange for travel.
- The TDA helps exporters in the quick establishment of duty drawback and realization thereof.

The TDA service is available only to its clients who, according to the TDA, are technically and commercially viable units. The membership fee is ₹ 2,000 per annum for units in medium and large scale industries and ₹ 500 per annum for small-scale industries.

The TDA was created at a time when exporters used to spend a great deal of time and energy in obtaining raw materials, licenses and foreign exchange for travel abroad. Since then, however, regulations have been liberalized to enable them to avail themselves of facilities with the least possible delays. Though more than fifteen years have passed since the TDA came into being, the time has come for an independent and objective assessment of its cost/benefit analysis. Government merged TDA with the Trade Fair Authority of India in 1992.

5. Trade Fair Authority

India Trade Promotion Organization (ITPO) is the nodal agency of the Government of India for promoting the country's external trade. ITPO, during its existence of nearly three decades, in the form of Trade Fair Authority of India and Trade Development Authority, has played a proactive role in catalyzing trade, investment and technology transfer processes. Its promotional tools include organizing of fairs and exhibitions in India and abroad, buyer-seller meets, visit of foreign trade delegations and information dissemination.

Functions of Trade Fair Authority

- Managing the extensive trade fair complexs, Pragati Maidan
- Organizing various trade fairs and exhibitions at its exhibition complex in Pragati Maidan and other centers in India
- Participating in overseas trade fairs and exhibitions
- Facilitating the use of Pragati Maidan for holding of trade fairs and exhibitions by other fair organizers both from India and abroad
- Establishing durable contacts between Indian suppliers and overseas buyers
- Encouraging micro, small and medium scale units in export promotion efforts
- Trade Information Services through electronic accessibility
- Organizing buyer-seller meets and other exclusive shows in India with a view to bringing buyers and sellers together

6. Government Trading Corporations

For supplementing the efforts of the private sector in the field of foreign trade, the Government of India has set-up a number of government trading corporations, namely,

- The State Trading Corporation (STC)
- The Minerals and Metals Trading Corporation (MMTC)
- Spices Trading Corporation Limited and
- Metal Scrap Trading Corporation (MSTC)

The State Trading Corporation itself has a number of subsidiaries, namely the Handicrafts and Handlooms Export Corporation, the Projects and Equipment Corporation, the Tea Trading Corporation of India and the Cashew Corporation of India. The Mica Trading Corporation is a subsidiary of the Minerals and Metals Trading Corporation.

These corporations have provided the essential base for developing and strengthening the efforts relating to specific commodities and products and diversifying the country's foreign trade. Their main objectives are:

- To arrange for exports where bulk handling and long-term contracts are advantageous.
- To facilitate exports of 'difficult to sell' items through various devices such as linking essential imports with additional exports under barter, link and parallel deals.

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- To organize production to meet export demands and to help production units overcome difficulties of raw materials and other essential requirements to meet export orders and develop lines of export by various methods
- To undertake import of such commodities where bulk purchase is advantageous.

The corporations handle actual transactions. They also maintain offices abroad and function like any commercial unit in the corporate sector. However, the government is now reducing its direct participation in trade and therefore number of items, which were earlier canalized through the government corporations have been removed from the canalized list. The new policies of the government would result in competition to the government corporations from private sector companies. As a result, the government is moving towards privatization of these corporations.

7. State Trading Corporation of India Limited (STC)

STC was set up on 18 May 1956, primarily for undertaking trade with East European Countries. The strong point of STC lies in handling exports/imports of bulk agro commodities. Recently, STC has diversified into exports of steel raw materials, gold jewellery and imports of bullion, hydrocarbons, minerals, metals, fertilizers, petro-chemicals, etc. Achieving record breaking performances year after year, STC has become successful in structuring and executing trade deals of any magnitude, as per the specific requirement of its customers.

8. Spices Trading Corporation

It is a subsidiary of STC. It was initially established in 1982 as Cardamom Trading Corporation Ltd., a Government of India undertaking under the Ministry of Commerce and Industry. The company later got transformed to Spices Trading Corporation Ltd. Spices Trading Corporation was renamed as STCL Ltd. In 1999, STCL Ltd. became a wholly owned subsidiary of State Trading Corporation of India Ltd. (STC). STCL Ltd. handles exports, imports and domestic trading of a variety of products including agricultural and non-agricultural.

9. MMTC Limited

It was established in 1963 as an individual entity after getting separated from STC with the primary function to deal with exports of minerals and ores and imports of non-ferrous metals. MMTC took over imports of fertilizer raw materials and finished fertilizers in 1970. Over the years, import and exports of various other items like steel, diamonds, bullion, etc., got added to the portfolio of the company. Keeping pace with the national economic development, MMTC has gradually grown to become the largest trading organization in India.

10. PEC Limited

The PEC Ltd (Project and Equipment Corporation of India) was carved out of STC in 1971-72 to undertake the canalized business of STC's railway equipment division, to diversify into turn-key projects especially outside India and to aid and assist in promotion of exports of Indian engineering equipment.

NOTES

11. Metal Scrap Trading Corporation (MSTC)

MSTC was set up on 9 September 1964 to act as a regulating authority for export of ferrous scrap with an initial investment of six lakh. The Government of India, Members of Steel Arc Furnace Association and members of ISS AI had contributed to this investment. MSTC became a subsidiary of SAIL in 1974. It was delinked from SAIL in 1982 and became an independent company under the Ministry of Steel. It was a canalizing agency for the import of ferrous scrap till 1992.

5.4 INDIA'S FOREIGN TRADE AND BALANCE OF PAYMENTS

In India, balance of payments compilation, concepts and techniques are almost similar to those followed by the International Monetary Fund (IMF). These are codified by the fund in the balance of payments manual given to member countries for their reference and guidance. Although the details of items and the mode of presentation may differ from country to country, the broad framework does not differ as between the member countries who submit periodically their balance of payments accounts to the funds for their consolidation, assessment and/or publication.

The usual classification of the accounts into current and capital items – the former of income nature and the latter of capital nature is followed by India as well. The concept of surplus or deficit as followed by the Ministry of Finance is the sum total of items namely, (1) external assistance utilized (2) borrowings from the IMF, if any, (3) changes in country's foreign exchange reserves. The rest of the items of current and capital nature appear above the line. In the presentation of data by the RBI, reserves and monetary gold appear as balancing items, leaving aside 'errors and omissions'.

In India, balance of payments had been showing consistent deficits which were designed to finance the plan expenditure. Thus, our imbalance in balance of payments is not really of a short–term disequilibrium nature but of a structural nature. Massive doses of foreign aid (official loans, grants and commodity assistance) have been used for financing a sizeable part of our import requirements for planned investment. So the measurement of the deficit is being made in terms of drawl on induced foreign official resources (loans and grants), borrowings from IMF and use of our foreign exchange reserves.

India's balance of payments data are presented in a way as to be amenable to Sectoral analysis. The details of short-term and long-term nature under both government and private sectors are presented separately. Thus, the contributions to the foreign sector represented by the balance of payments from the government, business and financial sectors are available from these data. In current account, imports and exports are given with breakdowns of government and private sectors separately. Under the category of invisibles, government receipts and expenditure and government remittances – inflows and outflows – and other items to extent possible, are presented separately for the government and the private business sector. The transfer payments are presented separately for government and private sector.

Check Your Progress

3. When was MMTC established?
4. When and why was STC established?
5. What role does the commodity board play?
6. What is the main role of the EPCs?

NOTES

5.4.1 Trends in Balance of Payments

In the post-independent India, regular balance of payments data have been maintained. During the First Plan period (1950s), the balance of payments position improved considerably and the overall deficit was brought down to a total of ₹ 348 crores over the period. It was only during the second plan period that the tempo of planned investment gathered momentum and the effect of this was felt as pressures on the balance of payments. Imports far surpassed exports and the deficit over the period 1955–56 to 1960–61 amounted to ₹ 2,135 crores.

In view of the continuous deficits in our balance of payments, it was often misunderstood as a symptom of disequilibrium. But these deficits being planned, no action was taken for corrective adjustment. During the third plan period, there was a progressive rise in imports on account of food grains scarcity and rising investment targets. The trade deficits amounted to ₹ 2,295 crores and the payment of deficit was ₹ 3,056 crores.

During the fourth plan period, 1969–74, the net positive balance in balance of payments amounted to ₹ 396 crore. This was made possible by a sizable utilization of foreign assistance (₹ 4,184 crore), a drawl on IMF by ₹ 62 crores and a positive balance in invisible trade of ₹ 1,664 crore due to remittances from Gulf countries. During the fourth and fifth plan periods there was a general improvement in the food situation and a sizable buffer stock was built up. During the latter part of the seventies, there was a continued inflow of remittances leading to a positive balance in current account, with the result that the foreign exchange reserves stood at a record of ₹ 5,220 crores at end March 1979. It was only in the Sixth Plan and Seventh Plan periods (1980–90) again that there were persistent current account deficits financed by large doses of foreign assistance and drawl on IMF. Of the various items of current account, the most significant are the merchandise transactions which account for about 70 percent of the total receipts and payments. Of the invisible items of current account, travel, transportation and transfer receipts constitute not only a positive balance but also account for a significant share in the total invisible account.

There have been significant improvements in the structure of India's balance of payments and the strength of the external sector since the economic crisis of June, 1991. The following are the observations:

- The export cover of imports rose sharply from an annual average of 62 per cent during 1980–81 to 1991–91 to 74 percent during 1992–93 to 1999–2000.
- The reforms of the 1990s facilitated India to move away from a closed economy framework towards a more open and liberal economy.
- The ratio of exports and imports to GDP rose from an annual average of 13.2 per cent during 1980–81 to 1991–92 to an average of 19.9 per cent during 1992–93 to 1999–2000.
- The current account deficit, as percentage of GDP, declined from an annual average of 3.9 per cent during 1980–81 to 1991–92 a well manageable level of 1.2 per cent during 1992–93 to 1999–2000.
- The capital account of BOP has also undergone a major structural change in favour of non-debt creating foreign investment flows.

- Foreign exchange reserves were built to a very comfortable level of about 8 months of imports from a critical level of about two months of imports in June 1991.
- External debt and debt service indicators marked sustained improvements. External debt, as a per cent of GDP, declined gradually from 38.7 per cent at the end of March 1992 to 21.9 per cent at the end of March 2000.
- Similarly, debt service payments on external debt, as a per cent of current receipts, declined gradually from 35.3 per cent in 1999-91 to 16.0 per cent in 2000
- The strength of the external sector has enabled India to withstand fairly well the Asian financial crisis contagion and the related adverse spill over.

There are, however, significant risks and uncertainties to the otherwise encouraging outlook in the external environment. They include the uneven pattern of growth of GDP and demand growth among the three major currency areas (US Europe and Japan), and the associated imbalances in their external current accounts; the apparent misalignment among major currencies particularly the EURO and the US dollar. The possibility that these imbalances may unwind in a disorderly fashion remains a risk to global expansion.

Overall India's balance of payments in 1999–2001 remained comfortable. The current account deficit in 1999–2000 was contained to 0.9 per cent of GDP, despite an unfavourable international trade and financial backdrop including a near two – third hike in India's import bill. This was made possible because of a strong recovery of exports, and a surge in net inflow of invisibles, reflecting sharp increases in software service exports and private transfers.

Exports, on BOP basis, during 1989–99 had faltered with a negative growth rate of 4.9 per cent in US dollar value, following sluggish growth rates witnessed in the previous two years. During 1999–2000, exports made a welcome recovery of 11.6 percent with the recovery being moderate in the first half and strong in the second half of the year. Total imports, on payment basis, expanded sharply by 16.5 per cent during this period.

At the end of March 2007, with outstanding foreign exchange reserves at US $ 199.2 billion, India held the fifth largest stock of reserves among the emerging market economies and sixth largest in the world.

5.4.2 Role of Services in Balance of Payments

In more recent years trade in services has come into greater focus for many reasons. Firstly, the comparative advantage for trade in goods has reached a limit in respect of many developing countries while the need for imports and exchange earnings continued to grow. It is in this context that these developing countries have to divert their attention to the promotion of services sector in international trade. As regards the quantum of world trade in services, the value of trade has grown enormously during the last two decades. Here, the term 'services' is defined to include all current account items other than merchandise trade and pure transfer payments. It is also interesting to note that this trade in services is more concentrated in industrialized developed counties than the trade in merchandise items, and it will take a long time before developing countries can capture any important segment of the world trade in this respect.

5.4.3 Non-Resident Inflows

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Under invisibles, a substantial inflow took place in recent years in non-official flows into India. Since 1982, the Government has been encouraging these inflows through higher rates of interest on non- resident rupee accounts with banks than on domestic deposits. The RBI has also kept the SLR (statutory liquidity ratio) requirements for these deposits lower at 25 percent as against the normal requirement against domestic deposits at 31–38 per cent. Such deposits are exempted for wealth tax purposes and interest income exempted for income tax purposes. The rates of interest on foreign currency non-resident account were, however, kept lower than on Indian deposits due to lower interest rates in the markets abroad for foreign currencies.

5.4.4 Allocation or Cancellation of Special Drawing Rights (SDRs)

The allocation or cancellation of SDRs by the IMF involves the creation or extinction by the IMF of reserve assets which form part of a country's holdings of official reserve assets. The allocation of SDRs results in increase (debit) in SDR holdings while cancellation results in decrease (credit). The SDR holdings are a component of official reserve assets. In the balance of payments, the offsetting entry to increase in SDR holdings is provided by the item allocation (credit) while cancellation (debit) serves as an offsetting entry to decrease in SDR holdings.

Unrequited transfers

The unrequited transfers cover gifts, grants, migrants, transfers, taxes, etc where one transistor provides something of an economic value to another without a quid pro quo, i.e., anything in return. The country receiving the grant or gift neither transfers nor promises to transfer anything in exchange. The lack of economic values on one side is compensated for by an entry which is referred to unrequited transfers. In India's balance of payments, the term 'transfers' is used in the same sense as of unrequited transfers.

5.4.5 Double Entry System of Recording

The balance payment is built on double entry system of bookkeeping, similar to that used in business accounting. This is an internationally accepted convention for balance of payments compilation. Transactions in a double entry accounting system are recorded in pairs of credit and debit entries of equal value. In an accounting sense, therefore, a country's balances of payments refer to transactions which have economic values, the counterpart entries for credits or debits are automatically paired.

Under double entry system, credit entries are used to record unrequited transfers, income receivable and financial transactions involving either a decrease in assets or increase in liabilities.

5.4.6 Balance of Payments and International Economic Linkages

The analytical framework that links the international flow of goods, services, and capital to domestic economic behaviour consists of a set of basic macroeconomic accounting identities. These basic identities linking national economic activity with balance-of- payments account shows that a nation that produces more than it spends

will save more than it invests, export more than it imports, and wind up with a capital outflow. A nation that spends more than it produces will invest more than it saves, import more than it exports, and wind up with a capital inflow.

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5.5 EXPORT PROCEDURE

Export procedure describes the documents required for exporting from India. Special documents may be required depending on the type of product or destination. Certain export products may require a quality control inspection certificate from the export inspection agency. Some food and pharmaceutical product may require a health or sanitary certificate for export.

5.5.1 Export Documentation and Procedure

Documentation plays a very crucial role in the execution of an export contract. In fact, the process of documentation begins when the order is placed by the foreign buyer with the exporter. The formalities as regards various documents relate to pre-shipment inspection, origin of the goods, central excise, and exchange control and customs clearance of the export shipment. The documentation in relation to negotiation of documents for realization of export proceeds is referred to as post-shipment export documentation.

An exporter is required to deal with various documents both at the pre-shipment and post-shipment stages to complete the export transaction. These documents are important as these are used

- as an evidence of shipment and title of goods, and
- for obtaining payment.

The shipment is represented by the set of documents once the goods have been cleared by the customs for their transportation to the importer. These documents are of vital interest to both the exporter and the importer. The importer needs them to claim peaceful and legal possession and delivery of the goods in his country; the exporter needs them to hand them over to him to claim payment for the shipment.

The documentary requirements are both regulatory and operational in nature, and the necessary documents should be prepared to comply with the rules and regulations of the exporting and the importing country. Moreover, these requirements are different for different types of products.

1. Letter of Credit

A letter of credit is a document issued by the importer's bank in the favour of the exporter giving him the authority to draw bills unto to a particular amount (as per the contract price) covering a specified shipment of goods and assuring him of payment against the delivery of shipping documents.

Consider again the example of the Indian exporter and the USA importer. The USA importer applies to his/her local bank; let's say the Bank of America, for the issuance of a letter of credit.

The Bank of America then undertakes a credit check of the importer. If the bank is satisfied with his/her creditworthiness, it will issue a letter of credit. However, the

Check Your Progress

7. What are unrequited transfers?
8. What is a double entry system of recording?

NOTES

bank might require a cash deposit or some other form of collateral from him/her first. In addition the Bank of America will charge the importer a fee for this service.

Typically, this amounts to between 0.5 percent and 2 percent of the value of the letter of credit, depending on the importer's creditworthiness and the size of the transaction. As a rule the larger the transaction, the lower the percentage.

If the bank is satisfied with the American importer's creditworthiness, it will issue a letter of credit to the importer. By the issue of this letter of credit, the Bank of America owns the responsibility to pay the Indian exporter for the merchandise so long as it is shipped in accordance with certain specified instructions and conditions.

At this point, the letter of credit becomes a financial contract between the Bank of America and the Indian exporter. The Bank of America then sends the letter of credit to the Indian exporter's bank; let us say the State Bank of India. The State Bank of India tells the exporter that it has received a letter of credit and he can ship the merchandise.

Contents of letter of credit

A letter of credit generally contains the following information:

- Complete and correct name and address of the beneficiary i.e., the exporter
- Complete and correct name and address of the applicant i.e., the importer
- Type of the letter of credit/documentary credit
- Amount of letter of credit
- How the credit shall be available e.g., by payment, deferred payment, acceptance or negotiation
- The name of the drawee of the draft and the tenor of the draft
- Description of goods, quantity of the items and the unit price
- List of document required to be submitted by the beneficiary
- Port of discharge and the place of final destination
- Terms of delivery i.e., FOB, CIF and CFR
- Status of transshipment i.e., whether allowed or not
- Status of partial shipment i.e., whether allowed or not
- The last date of sending shipment
- Time period for the presentation of documents for negotiation by the beneficiary after the dispatch of the shipment
- The date and place of expiry of the Letter of Credit
- Transfer of the Letter of Credit allowed or not
- Mode of advice of the Letter of Credit –by mail or tele-transmission

2. Bill of Exchange and Procedure of Issuing

A bill of exchange is the instrument used in international transaction to give effect to payment. Bill of exchange is known as 'draft'. A draft is simply an order written by an exporter instructing an importer, or an importer's agent, to pay a specified amount of money at a specified time.

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The maker of a bill is called 'drawer'; the person who is directed to pay is called the 'drawee' and the person who is entitled to receive payment is called the 'payee'. Drafts fall into two categories, sight drafts and time drafts. A sight draft is payable on presentation to the drawee. A time draft allows for a delay in payment, normally 30, 60, 90 or 120 days. It is presented to the drawee, which signifies acceptance of it by writing or stamping a notice of acceptance on its face.

Once accepted, the time draft becomes a promise to pay by the accepting party. When a time draft is drawn on and accepted by a bank, it is called a banker's acceptance. When it is drawn on and accepted by a business firm, it is called a trade acceptance.

Time drafts are negotiable instruments; that is, once the draft is stamped with an acceptance, the marker can sell the draft to an investor at a discount from its face value.

Going back to our example, imagine the agreement between the Indian exporter and the USA importer calls for the exporter to present the Bank of America (through the State Bank of India) with a time draft requiring payment 120 days after presentation. The Bank of Paris stamps the time draft with an acceptance. Imagine further that the drafts are for $100,000.

The exporter can either hold onto the accepted time draft and receive $100,000 in 120 days or he can sell it to an investor, let us say the State Bank of India, for a discount from the face value. If the prevailing discount rate is 7 percent, the exporter could receive $96,500 by selling it immediately (7 percent per annum discount rate for 120 days for $100,000 equals $3,500 and $100,000 – $3,500 = $96,500). The State Bank of India would then collect the full $100,000 from the Bank of Paris in 120 days.

The exporter might choose to sell the accepted time draft immediately if he needs the funds to finance merchandise in transit and/or to cover cash flow shortfalls.

3. Bill of Lading

When the carrier for transportation accepts the goods then he issues the transport documents called Bill of Lading. Bill of Lading (B/L) indicates:

- The title of the goods shipped
- Receipt for the goods shipped and admission to their apparent condition and quality at the time of shipment and
- An evidence of contract of affreightment

Bill of lading is a negotiable instrument and can be transferred by endorsement and delivery. Its possession is equivalent to the possession of goods.

Contents of a bill of lading

The usual form of a Bill of Lading includes the following information:

- Name of the shipping company
- Name of the shipper
- Name and address of the importer (consignee)
- Name and address of the party to be notified on arrival of the shipment, usually the importer. This applies only when the bill of lading has been made out 'to order'

- Name of the carrying vessel
- Names of the ports of loading and discharge
- Whether freight is payable and whether it has been paid
- Number of originals in the set of the bill of lading documents
- Marks and number of identifying the goods
- Brief description of the goods (possibly including weights and dimensions)
- Number of packages
- Signature of the exporter (or his agent) and his designation if applicable

In case the consignor wants to take the entire ship on hire for transportation of the cargo then the transport document issued by the shipping company is known as Charter Party. This is different from Bill of Lading which is issued when a particular cargo occupies part of the space on the ship.

Types of bill of lading

There are various types of Bill of Lading (B/L). Some of them are as follows:

- Shipped 'on board' Bill of Lading
- Received for Shipment Bill of Lading
- Through or Direct Bill of Lading
- Clean or Claused Bill of Lading
- Straight or 'To order' Bill of Lading

Shipped 'On Board' Bill of Lading is issued after the goods have been received on board the ship. It is the most secure type of B/L order from the point of view of the importer and the banks involved in the transactions.

'Received for Shipment' B/L merely confirms that carrier has received the goods for shipment.

'Though' B/L is issued when the transportation of goods involves various modes of transport namely ship and rail even a change of the ship. In case, there is no change of the ship then the Bill of lading is called the direct B/L.

A Bill of Lading would be clean or claused depending upon the condition of the cargo received. A B/L is clean if it states that the goods were received in apparent good condition and order. If it states that the goods were received in damaged condition, then the B/L would be claused B/L.

B/L could be straight or 'to order'. It is straight if the consignee can take the possession and delivery of goods from the shipping line. In case it is desired that the possession and delivery of goods be given to a party 'to the order' of the consignee then the B/L is marked 'to order' Bill of Lading.

Shipment documents: These documents are required for fulfilling the compliance of formalities under following laws:

- Foreign Exchange Management Act
- Foreign Trade (Development and Regulation) Act
- Central Excise Rules

- Export (Quality Control & Inspection)
- Custom Act and Major Port Trust Act

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Kinds of shipment commercial documents: There are two major kinds of shipping documents:

1. Principal documents primarily affect physical transfer of goods and title thereto from exporter to importer, and realization of export sale proceeds. Some of the principal commercial documents are:
    - Packaging List
    - Certificate of Inspection
    - Certificate of Insurance/Insurance Policy
    - Bill of Lading/Combined Transport Document/Air Way Bill/Multi Modal Transport Document
    - Certificate of Origin
    - Bill of Exchange
    - Shipment Advice
2. **Auxiliary documents**: They are supportive and are as well used as facilitator of principal documents. These are various commercial invoices (as the invoice prescribed by the importing country). The various auxiliary commercial documents used in shipments are:
    - Performa Invoice
    - Shipping Instructions
    - Insurance Declaration
    - Intimation for Inspection
    - Shipping Order
    - Mate's Receipt
    - Application for Certificate of Origin
    - Letter to Bank for Negotiation/Collection of Documents
3. **Regulatory documents**: They are used to fulfill the compliances of regulatory bodies. Some of the regulatory documents are:
    - Exchange Control Declaration Form (GR Form)
    - Freight Payment Certificate
    - Insurance Premium Payment Certificate
    - Shipping Bill/Bill of Export
    - Port Trust Copy of Shipping Bill/Export Application/Dock of Challan
    - Receipts for payment of Port Charges
    - Vehicle Ticket

Major Documents and Procedure in Exports

1. **Performa invoice**: This document indicates the details of the goods to be exported. It is an offer to sell made by an exporter to the importer. Once the offer is accepted by the importer, the performa invoice becomes an export order.
2. **Commercial invoice**: It is a document showing the value of goods exported. It may take the form of:

- Custom Invoice
- Legalized Invoice
- Consular Invoice

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3. **Packaging list**: This document describes the various boxes in which the goods have been exported. It is a vital document as it informs the buyer regarding the contents of various boxes.
4. **Intimation for inspection**: This is a prescribed form of notice by the export inspection agency. The exporter has to give notice for inspection in this prescribed form for of the export shipment.
5. **Certificate of inspection**: Export inspection agency issues the certificate called Certificate of Inspection. In case goods are not subject to the inspection by export inspection agency, or the buyer does not require inspection through the agency, then the exporter has to get the inspection done through private inspection agency or through any other arrangement for inspection agreed to between the exporter and the importer.
6. **Shipping instructions**: This document provides a check list for various instructions an exporter may like to give to the shipping agent.
7. **Insurance declaration:** This document is prescribed by the insurance companies wherein the exporter seeking insurance of the goods makes the declaration with regards to the insurance policy desired and the nature of goods.
8. **Insurance policy/xertificate**: This is a document indicating insurance of the cargo. It is issued by the insurance company. Insurance policy states the terms and conditions of insured goods.
9. **Application for certificate of Origin/GSP Certificate of origin**: This is an application form submitted to the Chamber of Commerce/authorized agency for the issue of certificate of origin/GSP Certificate of Origin.
10. **Certificate of origin and G.S.P. Certificate of origin**:

    The G.S.P. certificate of origin is issued by the following agencies:
    - Export Inspection Agency (for all products)
    - Textile Committee (readymade garments and other textile products)
    - Central Silk Board (Silk Items)
    - Development Commissioner (Handicrafts)
    - Coir Board
11. **Shipping order**: This is the reservation slip issued by shipping line at the time of reservation of shipping space for a particular export shipment. In case shipment is being sent by air then the reservation slip is known as carting order.
12. **Mate's receipts**: It is the receipt issued by the mate (chief officer of the ship acknowledging the loading of cargo on the ship. This receipt states the condition in which goods are received on the ship. It is used when goods are sent by sea only.
13. **Shipment advice**: This document is used to inform the exporter the details of shipment in advance. The required sets of documents are sent separately to the buyer through the bank.

14. **Letter to bank for negotiation/collection of documents**: This is a standard letter which gives all details that can possibly be given to the bank at the time of negotiation/collection of the shipping documents.

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Regulatory documents

15. **Exchange control declaration form**: Every exporter is required to declare to the Reserve Bank of India the full export value of the shipment and submit an undertaking that the full export proceeds shall be realized by him within a period of six months or due date of payment, whichever is earlier. This declaration is made in the prescribed exchange declaration forms.
16. **Freight payment certificate**: This is the certificate, which indicates that the freight has been paid. It is like a receipt for the payment of the freight.
17. **Insurance premium payment certificate**: This is like a receipt for the payment of the insurance premium.
18. **Shipping bill/bill of export**: This is the most important document required by the custom authorities for allowing exports. It contains all the details of goods shipped. The clearing and Forwarding Agent (also known as Custom House Agent), or the exporter has to fill the shipping bill. Shipping bill is used when the shipment is sent by the ship/air and the bill of export is used when the shipment is sent by road.

    There are different types of Shipping/Bill of Export used for particular shipments. These are as follows

    - Shipping bill for export of goods under claim for duty drawback (green bill)
    - Shipping bill for duty free goods (white bill)
    - Shipping bill for exports of goods under duty-entitlement pass book scheme (blue bill)
    - Shipping bill for export of duty free-goods ex-bond (yellow bill)
    - Shipping bill for export of dutiable goods (yellow bill)
    - The shipping bill is prepared in quadruplicate
19. **Port trust copy of shipping bill/export application/ dock challan**: An exporter has to pay the dock charges when the shipment is sent by sea. The amount of these charges is assessed on the basis of the nature of goods, volume and weight of the goods.
20. **Receipts for payment of port charges**: This receipt is issued by the Port Trust Authority when the shipper pays for the port and dock charges.
21. **Vehicle ticket**: This is an Entry Pass issued by the Port Trust Authority to the shipper to allow the latter to bring the export cargo to the port for their dispatch to the importer.

Other certificates/documents

- Antiquity certificate
- Bank certificate of export and realization: This certificate is required to comply with the requirements for the discharge of export obligations and issued by the bank.

- Bank realization certificate
- Black list certificate: This certificate would be required in those cases where the relations between the countries involved in the export-import have strained political relations.
- Language certificate: In the case of export of handloom products under the NIMEX Code 55.09 to the European Union countries, the importers require a certificate called the language certificate. This certificate is issued to an exporter by the Textile Committee.
- Certificate of chemical analysis
- Health/veterinary/sanitary certificates
- Phyto-sanitary certificate
- Certificate of measurement
- Mandatory certification of goods and services: Requirement of Russian Federation
- Kimberly process (KP) certificate: In order to check the entry of conflict diamonds, the scheme of certification of the export/import shipments of rough diamonds has been introduced as a result of negotiations among the nations participating in the trade.

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5.5.2 Export Incentives and Subsidies

Export subsidies are one of the most debated and controversial discussion in trade talks among nations in globalized setup and are basically payments made by the government in order to promote the export of specified products from the country. Like taxes, subsidies can be levied on a specific or ad-valorem basis. Export subsidies are given to a variety of product groups in developing countries but the most common product groups among developed countries are agricultural and dairy products. Export subsidies are basically the attempts made by the nations to encourage the exporters from their countries to export for reasons such as generating employments or bringing foreign exchanges and are interferences in the free flow of exports from the country. Export subsidies are payments to a firm or individual for making exports so that a country can earn foreign exchanges for servicing its imports, debts and using these foreign exchanges for speeding up the process of economic development of the nation.

There are two ways through which the government can give subsidies to exporters which are as follows:

1. By way of facilitating the exporters by providing them services which may help them export more – free of cost trade information, subsidized participation in trade shows, funding feasibility studies in areas of potential exports and arranging buyers, sellers meet at government funds, etc.
2. Government can offer 'cash subsidy' to exporters by means of rebating the imported raw materials to be used in exports – duty-free import of manufacturing equipment (called Export Promoting Capital Goods Scheme in India). Alternatively, it can also offer export subsidies by way of giving the 'duty drawback' as a percentage of the value of exports to exporters on FOB value of exports.

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World trade Organization in spite of recognizing that export subsidies are not fair trade practice and distort the free flow of goods and services in international system has not been able to define precisely what kind of assistance constitutes a subsidy.

Many developed nations like North American countries, Europe and Australia have income support programs for their nation's farmers. As a result, export subsidies are often used by government for national security or self-sufficiency considerations. Farmer's incomes in these countries are presumed by placing a restricted domestic supply, increased domestic demand, or a combination of the two. This is done by imposing price floors on particular commodities and whenever there is an exceeding supply at the floor price the government stand willing to purchase the excess. Governments in these countries often purchase such extra production and store it for future distribution if there is a scarcity of that item in the market at the floor price. Governments sometimes also face a problem of 'must purchases above floor prices' exceeding the available storage and warehousing capacity of the country. Under such circumstances; the government should either build more storage and warehousing facilities or alternatively devise some strategy to dispose off such surplus inventory with it. Thus, under such compulsive circumstances; governments in these countries offer export subsidies to farmers to encourage exports of these products from the country. By giving such export subsidies, governments in developed countries gain the ability to decrease the local supply of products and simultaneously abolish the requirement for the government to purchase this excess produce.

The quantum and size of export subsidies given to developed countries is enormous and one of such export subsidy programme in the US is known as the export enhancement programme (EEP). The US government offers billions of dollars as export subsidy to their agricultural farmers to withstand the competition against European competitors in foreign markets. The stated objectives of such United States of America export subsidy (EEPs) is to challenge the unfair trade practices; to expand US agricultural exports in foreign markets, and to encourage/compel other countries exporting agricultural commodities to undertake serious negotiations on agricultural trade problems at WTO. US offers one of the largest amount of export subsidy followed by the European Union. Some of the commodities which are eligible under EEP of United States of America are wheat, wheat flour, semolina, rice, frozen poultry, frozen pork, barley, barley malt, table eggs and vegetable oil.

On the other hand, developing countries offer subsidies on a variety of products and the stated objectives of such export subsidies are to encourage exports from the country, earn foreign exchange which is direly needed in order to service the country's imports and debts. Subsidies in India are also given to agri-farmers through Apeda, but usually to compensate the Indian farmers for high transactional and transport cost. One of such schemes is known as Transport Assistance to Horticultural Farmers from North East which is offered to neutralize the impact of high transport cost which the farmers from North Eastern states of India have to incur in order to ship their goods either from Kolkata port or from Delhi. Duty credit scrip is given to Indian farmers for exporting agricultural commodities under Vishesh Krishi and Gram Udyog Yojana which is more of an incentive than a direct subsidy to a farmer.

Check Your Progress

9. What are export subsidies?
10. What is the export subsidy programme of the US known as?
11. State any two auxiliary documents.

5.6 SUMMING UP

- WTO is the only international body dealing with the rules of trade between nations. Its purpose is to help trade flow smoothly through a system based on rules and to settle trade disputes.
- The fundamental objective of WTO, as explained in its preamble, is to provide the maximum opportunity to the contracting parties for 'expanding the production and trade in goods and services, while allowing for optimal use of the world's resources in accordance with the objective of sustainable development.'
- The results of excessively inward-looking trade strategy on one hand and the need for modernization and technology up-gradation of the Indian industry on the other, certain policy measures in the direction of trade liberalization were initiated.
- The trade policy cannot be viewed in isolation; it should be seen in the context of the overall economic policy.
- It is important to identify and assess the contribution of the marketing institutions that play a major role in supporting international trade and investment. Some of these institutions are: Central Advisory Council, Export Development Council, Trade Fair Authority, STC, MMTC and the like.
- In India, balance of payments compilation, concepts and techniques are almost similar to those followed by the International Monetary Fund (IMF). These are codified by the fund in the balance of payments manual given to member countries for their reference and guidance.
- In India, balance of payments had been showing consistent deficits which were designed to finance the plan expenditure. Thus, our imbalance in balance of payments is not really of a short-term disequilibrium nature but of a structural nature.
- Export procedure describes the documents required for exporting from India. Special documents may be required depending on the type of product or destination.
- Certain export products may require a quality control inspection certificate from the export inspection agency. Some food and pharmaceutical product may require a health or sanitary certificate for export.
- Export subsidies are given to a variety of product groups in developing countries but the most common product groups among developed countries are agricultural and dairy products.
- Export subsidies are basically the attempts made by the nations to encourage the exporters from their countries to export for reasons such as generating employments or bringing foreign exchanges and are interferences in the free flow of exports from the country.
- Subsidies in India are also given to agri-farmers through Apeda, but usually to compensate the Indian farmers for high transactional and transport cost.

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5.7 KEY TERMS

- **Balance of Payment** (**BoP**): BOP of a country is defined as, systematic record of all economic transactions between the residents of a foreign country.
- **International Monitory Fund (IMF)**: It is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29 member countries. The IMF's stated goal was to assist in the reconstruction of the world's international payment system post-World War II

5.8 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The fundamental objective of WTO, as explained in its preamble, is to provide the maximum opportunity to the contracting parties for 'expanding the production and trade in goods and services, while allowing for optimal use of the world's resources in accordance with the objective of sustainable development.'
2. The two principle objectives of the Exim policy are:
    - To establish the framework for globalization of India's foreign trade.
    - To promote the productivity, modernization and competitiveness of the Indian industry and thereby, to enhance its export capability.
3. MMTC was established in 1963 as an individual entity after getting separated from STC with the primary function to deal with exports of minerals and ores and imports of non-ferrous metals.
4. STC was set up on 18 May 1956, primarily for undertaking trade with East European Countries.
5. Commodity boards play a constructive and positive role in the export promotion of primary and traditional commodities such as tea, coffee, rubber, handicrafts, handlooms and coir.
6. The main role of the EPCs is to project India's image abroad as a reliable supplier of high quality goods and services.
7. Unrequited transfers cover gifts, grants, migrants, transfers, taxes, etc where one transistor provides something of an economic value to another without anything in return.
8. Transactions in a double entry accounting system are recorded in pairs of credit and debit entries of equal value.
9. Export subsidies are basically the attempts made by the nations to encourage the exporters from their countries to export for reasons such as generating employments or bringing foreign exchanges and are interferences in the free flow of exports from the country.
10. Export subsidy programme in the US is known as the export enhancement programme (EEP).
11. Two auxiliary documents are:
    - Shipping Instructions
    - Insurance Declaration

5.9 QUESTIONS AND EXERCISES

NOTES

Short-Answer Questions

1. State the objectives of the WTO.
2. How does the package servicing plan of the TDA help?
3. What is the role of services in balance of payments?
4. What are the contents of the letter of credit?
5. How can the government give subsidies to the exporters?

Long-Answer Questions

1. Discuss the role of WTO in trade liberalization.
2. Discuss how international marketing institutions help in the promotion of exports?
3. Describe in detail the documents required for a successful trade procedure.
4. In India, balance of payments compilation, concepts and techniques are almost similar to those followed by the International Monetary Fund (IMF). Discuss.

5.10 REFERENCES AND FURTHER READINGS

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