Chapter three
Market Entry Decisions
3.1 Market Analysis and Entry strategy

- Gross National Product /GNP/capital
- Gross Domestic product-
- country's population
- Income of the citizen
- How the income is spent
- Geographical /customer concentration.

Cont'd

- ✓ Market potential economic growth
- ✓ Political risk
- ✓ Available natural resources
- ✓ Available labor
- ✓ Trade barriers

Which strategy should be used?

- ***It depends on:***
  - Vision
  - Attitude toward risk
  - How much investment capital is available
  - How much control is desired

Decision criteria for choosing mode of entry (external factors)

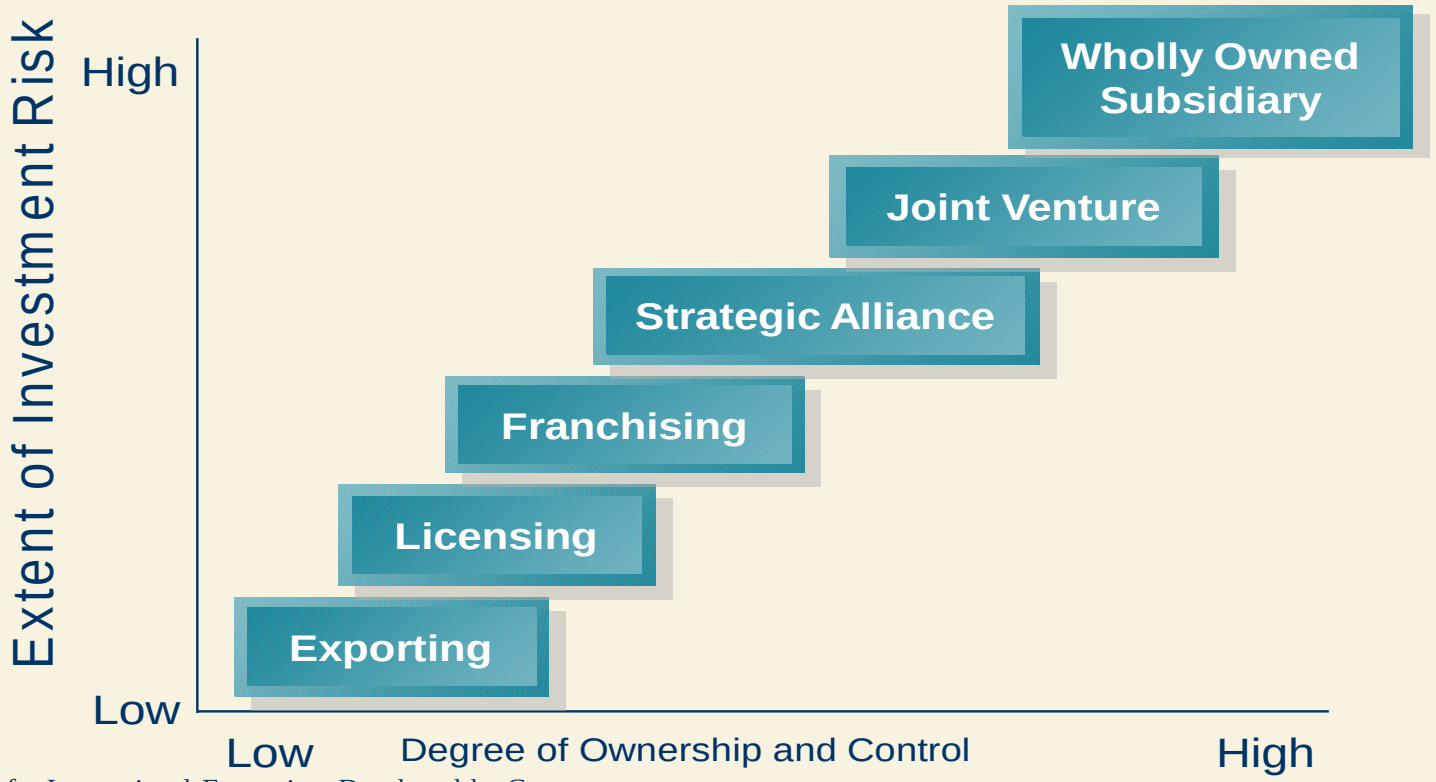
- **Market size and growth-** Large markets justify major resource commitments in the form of joint ventures or wholly owned subsidiaries.
- **Risk factor**: Risk relates to the instability in the political and economic environment that may impact the company's business prospects.
- **Government regulation (Openness)-** government regulations heavily constrain the set of available options. Trade barriers.
- **Competitive environment-** If domestic firms or foreign firms that are highly competitive in host country market (partnership/joint venture).
- **Local infrastructure:** Poorer the local infrastructure, the more reluctant the company is to commit major resources.

Decision criteria for choosing mode of entry (firm specific)

- **Company objective**: Firms that have limited aspirations will typically prefer entry options that entail a minimum amount of commitment (e.g., licensing).
- **Need for control**: To a large degree, the level of control is strongly correlated with the amount of resource commitment: the smaller the commitment, the lower the control.
- **Internal resources, assets and capabilities:** Companies with limited assets are constrained to low-commitment entry modes.
- **Flexibility:** Wholly owned subsidiaries are hard to divest and, therefore offer very little flexibility compared to other entry alternatives..

Risk, control & Involvement

Entry Modes of International Expansion



Entry Modes for International Expansion, Developed by Course owner

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Forms of Entry

1) Exporting

Exporting- International market expansion strategy for many small companies. Marketing of home produced goods and services in host countries.

Exporting takes two forms:

I. Indirect Export

II. Direct Export

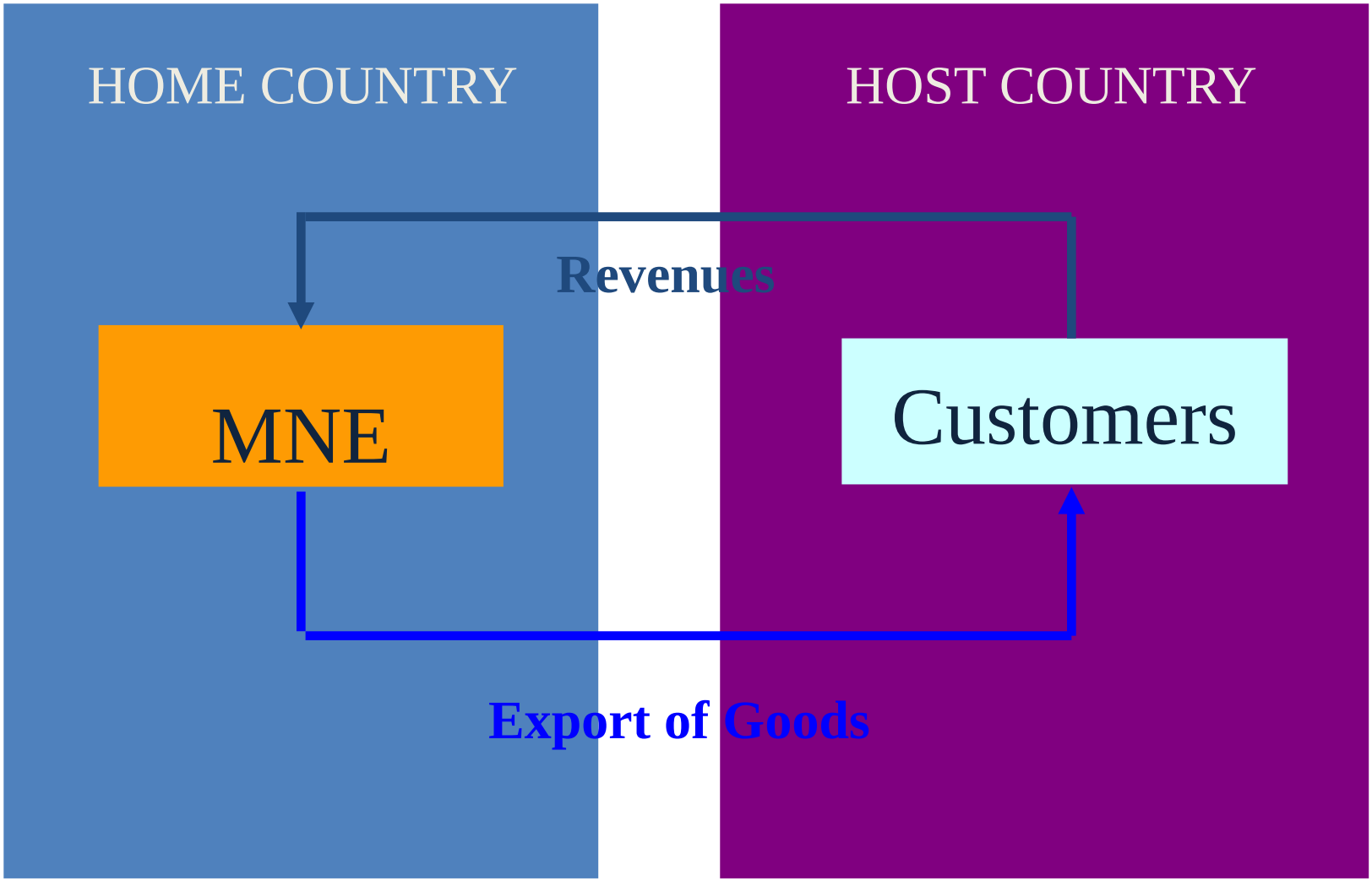
Forms of exporting

A. Indirect exporting - Firm uses middlemen to based on home market to handle exporting), selling products in FM through independent intermediaries.

- ✓ Participation of IM through intermediary
- ✓ There is domestic or foreign middlemen involvement
- ❖ It has following advantages
- ❖ It involves less investment and
- ❖ It involves less risk

B. Direct exports - Company sets up its own export organization. Firm sets up its own exporting department. The investment and risk are somewhat greater. There is no domestic or foreign middlemen

Exporting



Export as International Expansion, Developed by Course owner

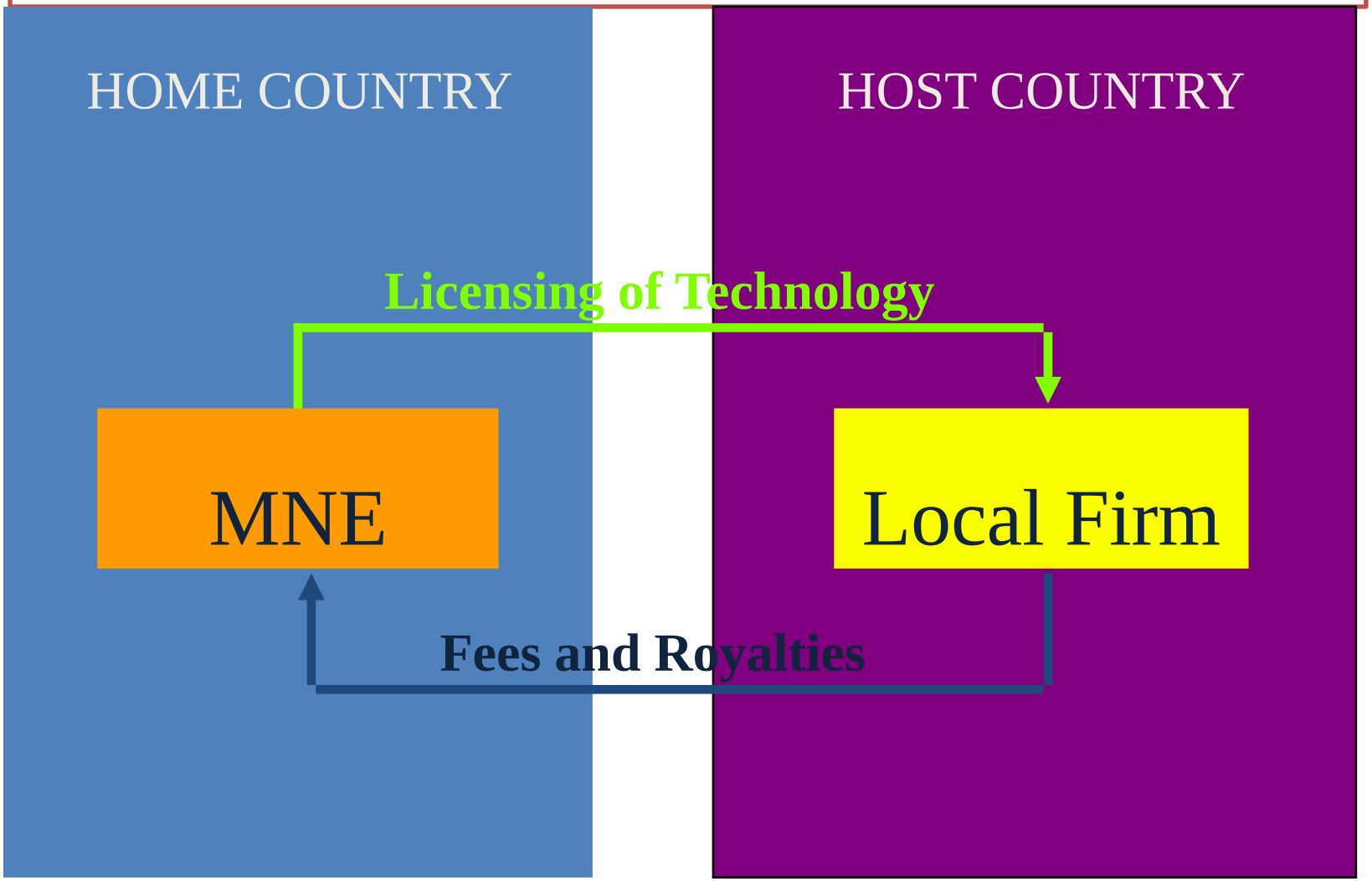
Exporting: **Advantages & Disadvantages**

Advantages	**Disadvantages**
✓ Less risk	✓ Potential costs of trade barriers
✓ Motivation for exporting ✓ Using Excess capacity ✓ Leveraging brand equity oversees ✓ Endearing attractiveness of FM	✓ Transportation cost ✓ Difficult to respond to customer needs well

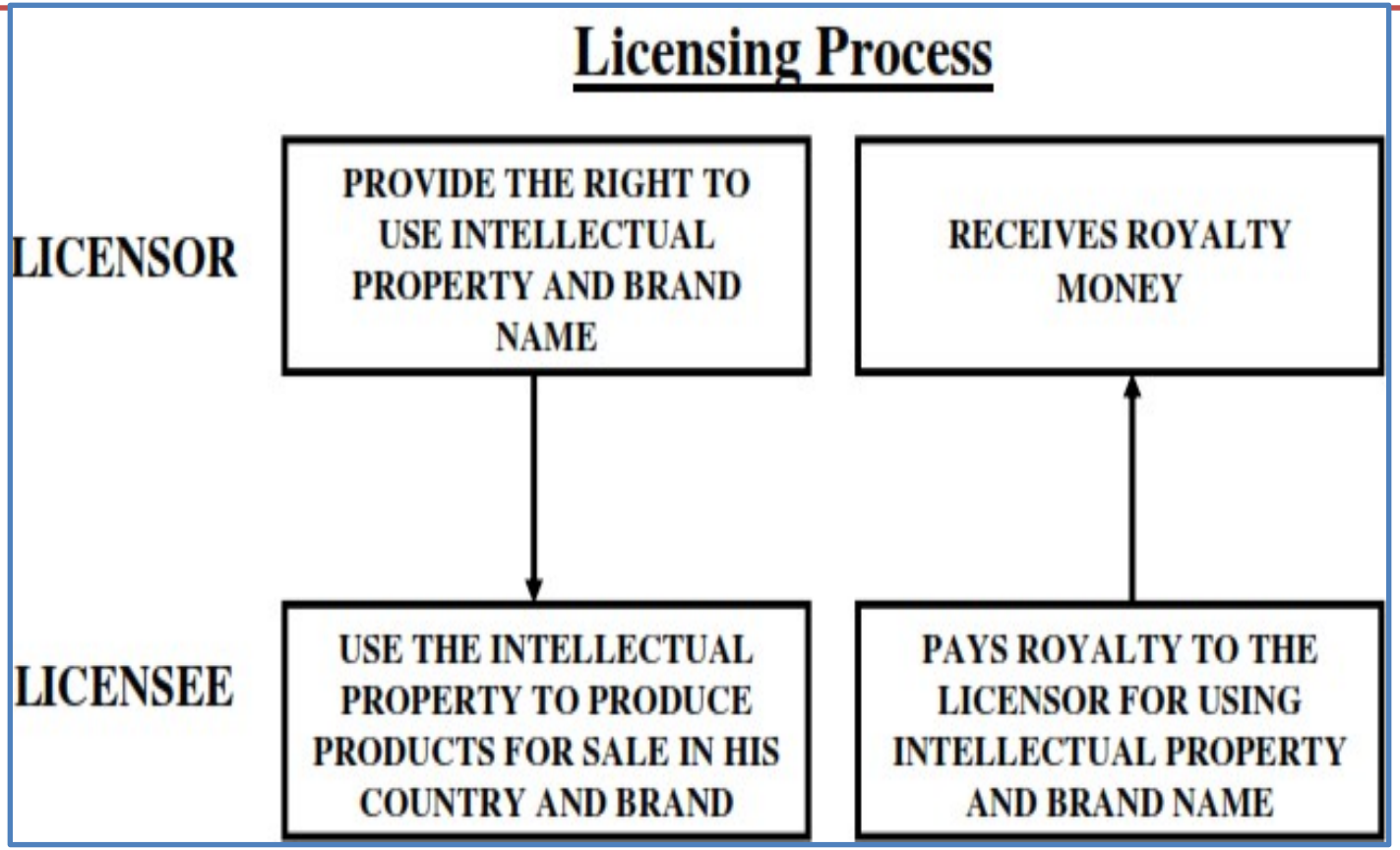
2) LICENSING

- Licensing is an agreement that permits a foreign company to use
- Industrial property (i.e. patents, trademarks, and copyrights)
- ***Technology and work methods, Patents and copy rights, Production processes brand names and trade marks etc.***
- Licensee pays fixed sum and sales royalties (2%-5%)

Licensing


HOME COUNTRY
HOST COUNTRY
Licensing of Technology
MNE
Local Firm
Fees and Royalties

Licensing


Licensing Process
LICENSOR
PROVIDE THE RIGHT TO USE INTELLECTUAL PROPERTY AND BRAND NAME
RECEIVES ROYALTY MONEY
LICENSEE
USE THE INTELLECTUAL PROPERTY TO PRODUCE PRODUCTS FOR SALE IN HIS COUNTRY AND BRAND
PAYS ROYALTY TO THE LICENSOR FOR USING INTELLECTUAL PROPERTY AND BRAND NAME

Licensing offers several advantages



3. FRANCHISING

- The exchange of rights between a franchisor and franchisee, such as the right to use a total business concept including use of trade marks, against some agreed royalty.
- Franchisee is responsible for all operations but agrees to operate according to a business model established.
- The difference from the licensing mode of entry is that the franchisee must obey certain rules given by franchiser.
- Parent company provides advertising, training, and new-product assistance.

Types:

- Product and trade name franchising
- Business format ‘package’ franchising

3. Difference between Franchising & Licensing

When: International Franchisor has already achieved considerable success in franchising in its domestic market **(unique products and advantageous operating systems)**

- Long-term that Licensing
- It restricts how Franchisee use intellectual properties
- Practice by Service firms
- Support other service
- Organize supply chain, management training & finance assistance.
- KFC, Marriott, Hilton & Starbucks, McDonald's Restaurants & Wal-Mart.

FRANCHISING

Franchising is **a business relationship between two entities wherein one party allows another to sell its products and intellectual property**.

- **Coca-Cola is a franchise** as a product distribution system and the largest beverage company in the world.
- As a product and trade name franchisor, The Coca-Cola Company licenses its franchisees to sell and distribute the end product using the franchisor's trademark, trade name, and logo.

4. MANAGEMENT CONTRACT

- The companies with low level technology and managerial expertise may seek the assistance of a foreign company.
- Agreement between two companies whereby one company provides managerial assistance, technical expertise and specialized services to the second company for a certain period of time in return for monetary compensation.
- Contract in a separate enterprise which performs the necessary managerial functions in return for a fee.
- E.g. Air France and Delta airlines provide services in developing countries.
- Technical operation of a production facility, management of personnel, accounting, marketing services and training

4. MANAGEMENT CONTRACT

Advantages

- ✓ Access to local management skills
- ✓ Avoids buying unwanted assets
- ✓ Retains strategic control

Disadvantages

- ✓ Potential incentive problem
- ✓ Potential adverse selection problem

5. Contract Manufacturing (CM)

- IB in which a manufacturer that contracts with a firm for components or products.
- One company custom produces parts or other materials on behalf of their client.
- The manufacturer also handles the ordering and shipment processes for the client.
- CMA- when the Client wishes the Manufacturer to design, manufacture and deliver goods. Firm hires another firm to produce goods.
- Results in client does not have to maintain manufacturing facilities, purchase raw materials, or hire labor in order to produce the finished goods. *Form of outsourcing*
- Computer components and electronic contract manufacturing. automotive parts, and medical supplies

- Contract manufacturing **occurs when a small business hires another company to produce its products**.
- It enables small businesspeople to begin selling their products without obtaining the large amount of capital necessary to build and run a factory.
- **Contract manufacturing is a form of outsourcing — outsourcing is a more general term**. It refers to obtaining any goods or services from third-parties, while contract manufacturing refers to hiring a partner to manufacture your products.
- Contract manufacturing in international markets is used in situations when one company arranges for another company in a different country to manufacture its products; this is also known as **international subcontracting or international outsourcing**.

5. Contract Manufacturing (CM)

Advantages

- ✓ Job Creation For Host Country
- ✓ Host Country Gaining Resources (Capital And Technology)
- ✓ Low Trade Barriers
- ✓ Utilization Of Local Labor
- ✓ Host Country's Economic Incentives

Disadvantages

- ✓ Expropriation risk
- ✓ large capital investment
- ✓ Risk of transferring the technological know-how to a potential foreign competitor
- ✓ loss of profit margin on production activities

6. TURNKEY PROJECT

- ✓ A turnkey project is a contract under which a firm agrees to fully design, construct and equip a manufacturing/ business/ facility and turn the project over to the purchase when it is ready for operation for remuneration like a fixed price, payment on cost plus basis.
- ✓ Large-scale plants requiring technology and large-scale construction processes unavailable in local markets
- ✓ E.g. nuclear power plants, airports, oil refinery, national highways, railway line etc. Hence they are multiyear project.

7. STRATEGIC ALLIANCE {SA}

- ✓ SA a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial.
- ✓ *Cooperative and collaborative approach* to achieve the larger goals. Involvement in critical areas (competing firms)
- ✓ Long term competitive advantage by forming alliance with its competitors. **In non- equity form**
- ✓ Airlines are a good example of the international nature of strategic alliances. Star, Sky Team, and One world
- ✓ Not all organizations are strong in **Functional business area**.
- ✓ It Involves distribution access, technology transfers, or production technology. To bring particular sources

8. ASSEMBLY OPERATIONS

- An assembly operation is a variation on a manufacturing strategy.
- Assembly means joining together of fabricated parts or components are produced in various countries.
- Capital-intensive parts
- Labor-intensive assemblies
- Practiced consumer electronics
- Product becomes mature and faces intense price competition
- Aim: To gain each country's comparative advantage.
  - Advantage
  - circumventing trade barriers
  - utilization of local labor

9. FDI- Investment Modes

I). Merger

- The combining of two or more companies, generally in the acquiring company in exchange for the surrender of their stock
- Two firms agree to integrate their operations on a relatively coequal basis.

II). Acquisition

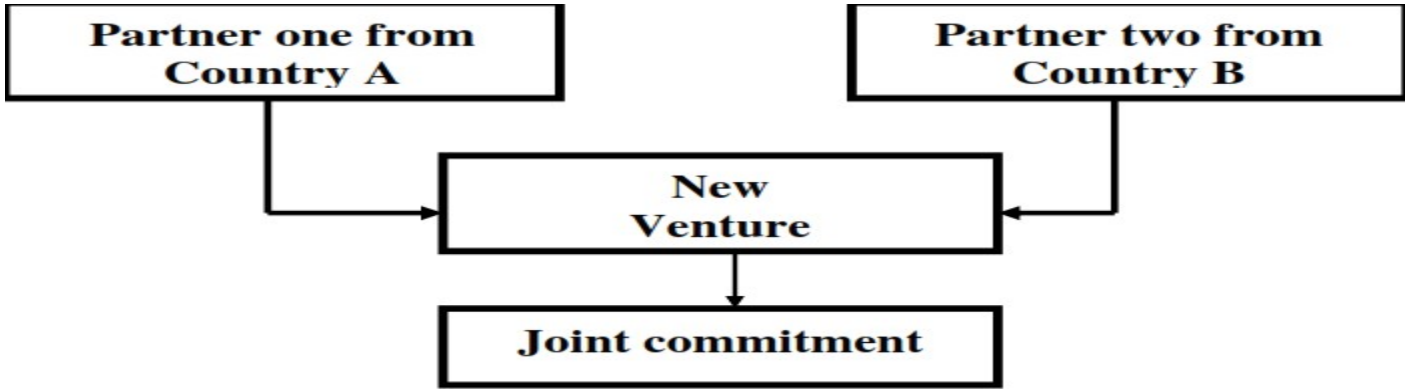
- When one company takes over another and clearly established itself as the new owner
- Transfer of Local Company to Foreign owner.

III). Greenfield Investment:

Starting of the operations of a company from scratch in a foreign market. Set up new operation Establishing A New Business In A New Country

IV. Joint Ventures

- A joint venture is an entity formed between two or more parties to undertake economic activity together.
- Contributing equity, and share in the revenues, expenses, and control of the enterprise.
- **Sony-Ericsson is a joint venture by the Japanese consumer electronics company Sony Corporation and the Swedish telecommunications company Ericsson to make mobile phones.**



THANK YOU!!

Strategic Orientation

- **Ethnocentric Orientation**
- **Polycentric Orientation**
- **Regio-centric Orientation**
- **Geocentric Orientation**

Chapter Four

Product policy decisions

Introduction

The range of product policy questions may include:

- Standardization versus adaptation
  - **What new products should be developed for what markets?**
  - **What products should be added, removed, or modified for the product line**
  - **What brand names should be used?**
  - **How should the product be packaged and serviced?**

Customers vary with:

- Language, climate, race, occupations, education, taste,
- Different laws, rules & regulations, cultures, and societies
- Differences in the cultural, political and socio economic condition of the countries.

Standardisation Vs. Adaptation

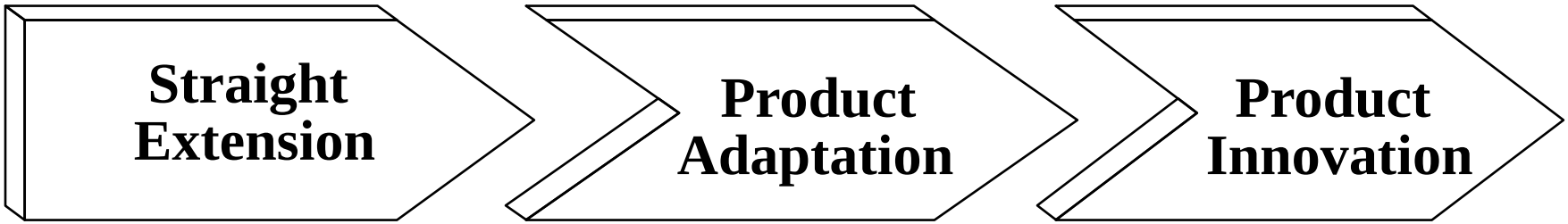
- In international markets, success depends on satisfying the market demands. The product or service must be suitable and acceptable for its purpose.
- "Marketing internationally, is to assess the suitability of the existing products for international markets."
- Product policy abroad: firm must decide which aspects of a product need to be adapted and which can be standardised.

Standardardisation Vs. Adaptation

- **Standardisation policy**: offering a uniform version of a product in all of its foreign markets.
- Think globally & act Globally".
- **Adaptation policy**: offering a product to targeted foreign consumers altered to specific tastes, preferences and needs. Adaptation can concern all the characteristics of the product.
- "Think globally but act locally".
- Decision between standardisation and adaptation is **not mutually exclusive** rather it is a matter of degree
- A certain degree of adaptation of a product is required in international markets.
- **mutually exclusive when they cannot both occur simultaneously.**

Global Product Strategies

Three global strategies to penetrate foreign markets:



The firm adopts the same policy used in its home market.

The company caters to the needs and wants of its foreign customers.

The firm designs a product from scratch for foreign customers.

Source: W.J. Keegan, Multinational Product Planning: Strategic Alternatives, Journal of Marketing, 33, 1969, pp.58-62 Rapidly changing styles

Strategic Options in Global

Strategic Option 1: Product and Communication Extension: Dual Extension (domestic market extension strategy)

Strategic Option 2: Product Extension- Communications Adaptation

Strategic Option 3: Product Adaptation- Communications Extension

Strategic Option 4: Product and Communications Adaptation-Dual Adaptation

Strategic Option 5: Product Invention, standardized product (global marketing strategy)

Reasons for Standardization and Adaptation

Reasons for Product Standardization

- **Economies of scale** : elimination of duplicate product , Marketing, R&D costs.
- **Common Consumer needs** Drinking patterns, car sizes
- Consumer Mobility : Customer retention & Loyalty McDonald ´s, Hilton
- Home Country Image : Italian Pizza, French Perfumes,...
- Impact of technology : B to B Markets, mobile phone, cameras, PCs…

Reasons for Product Adaptation

- Climate: air conditioning equipment, tyres…
- Skill level of users : Computers in Africa
- National consumer habits :front-loading/top-loading washing machines
  - car models : four-door (F) - two-door (Germ.)
- Government regulations on products, packaging, and labels.
- Better satisfy customers' needs and wants
- Leads to product differentiation
- Helps in achieving competitive advantage
- Legal and political conditions of the different counties

Standardization vs. Customization

Factors encouraging Standardization	Factors encouraging Adaptation
Economies in product R& D	Differing use conditions of product
Economies of scale in production	Government and regulatory influences
Economies in marketing	Differing buyer behavior patterns
Control of marketing program	Adherence to the marketing concept
Gives the image of global brand.	Achieving competitive advantage
Specialization	Leads to product differentiation
Changing world structure (Globalization)	

Benefits of Product Standardization

- Lower manufacturing& input costs
- Cost savings due to elimination of product adaptation efforts
- Fast global roll-outs are possible
- Product available for global customers
- Enhance consumer perceptions of global brand

Adaptation/customization

The Adoption of new products - driven of factors:

- Individual Differences
- Personal Influences
- Product Characteristics
- Local competition
- Different conditions of use
- Intercultural differences in consumer behavior and purchasing behavior
- Differences in purchasing power
- Different legislation

Adaptation

Mandatory Product Adaptation

- ❑ Government regulations
  - ✓ Electrical current standards
  - ✓ Measurement systems (metric and English markings)
  - ✓ Operating systems
  - ✓ Pollution control System
- ❑ Product standards and systems
  - ✓ Product safety
  - ✓ Product Use Situation

Optional Product Adaptation

- ❑ Physical distribution
- ❑ Local use conditions
- ❑ Climatic conditions
- ❑ Consumer demographics
- ❑ Environmental characteristics
- ❑ Price
- ❑ Limiting product movement across national borders (gray marketing) gray market is **an unofficial market**
- ❑ Local customs and culture
- ❑ gray market refers to **products that are sold legally, but outside of the brand's permission.**

Benefits of Product Adaptation

- Penetrate otherwise closed markets
- Able to use products in different climates & infrastructures
- Better product performance in different use conditions
- Decreased costs due to varying local inputs
- Decreased costs due to feature elimination
- Increased sales due to better meeting industry norms or cultural preferences

Problems of Product Adaptation

- Additional cost required for the promotional activities
- Duplication of the activities within the firm
- Inexperience and limited knowledge about the technical aspects of the different products and know how regarding the marketing of the product
- Extra resources will be required for the research and development (Bennet, 2008).

Branding And Its Types, Brand Piracy

Functions of a brand are:

- To create identification and brand awareness.
- To guarantee a certain level of quality and satisfaction.
- Help with promotion.
- The brand has brand equity- is value that is attached to that brand.

ultimate goal: to induce repeat sales

Four levels of branding decisions

Branding Levels and Alternatives:

***a) No** brand: it has costs*

- ✓ Marketing of commodities
- ✓ unbranded/undifferentiated products
- ✓ Branding is then probably undesirable because brand promotion is ineffective
- ✓ salt, steel, diamonds, beef, and other agricultural and chemical products

Branding And Its Types, Brand Piracy

b) Private vs. Manufacturer's Brand

- ✓ Manufacturer should use its own brand - MB
- ✓ distributor's world IB trading firms, importers, and retailers- PB
- ✓ **MB serve the interest of the manufacturer first and benefit the retailer who carries them second**. Brands that are owned and marketed by sellers are referred to by various names such as "private-label," "store brands," others.

c) Single Brand vs. Multiple Brands

- ✓ **Firm** market several brands within a single market _ the market is heterogeneous and be segmented.
- ✓ Specific brand is designed for a specific market segment.

d) Local vs. Worldwide Brand:

- ✓ **Local brands are assumed to be distributed and owned domestically.**
- ✓ different brands for different markets

A single, worldwide brand/ international, universal, or global brand.

Coca cola is a global brand

Brand Protection

- ✓ obtain trademark registration

Brand piracy: Act of naming a product in a manner which can result in confusion with other better known brands.

unauthorized usage of protected brand names, labels, designs or description of trade.

Brand piracy- More common in India and China

Packaging Decision

Packaging- It has benefits

- ✓ **Product Identification**: Packaging serves as an identification of the product
- ✓ **Product Protection**: it provides protection to the product from dirt, insects, dampness and breakage.
- ✓ **Convenience**: provides convenience in the carriage of the product from one place to another.
- ✓ **Product Promotion**: Packaging simplifies the work of sales promotion.

LABELING

- ✓ carries verbal information about the product of the seller.

After Sales And Support Services:

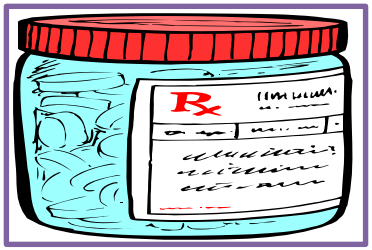
support service component

- ✓ Repair and maintenance,
- ✓ Instructions & installation, warranties
- ✓ deliveries, and availability of spare parts.

Packaging & Labeling Adaptations

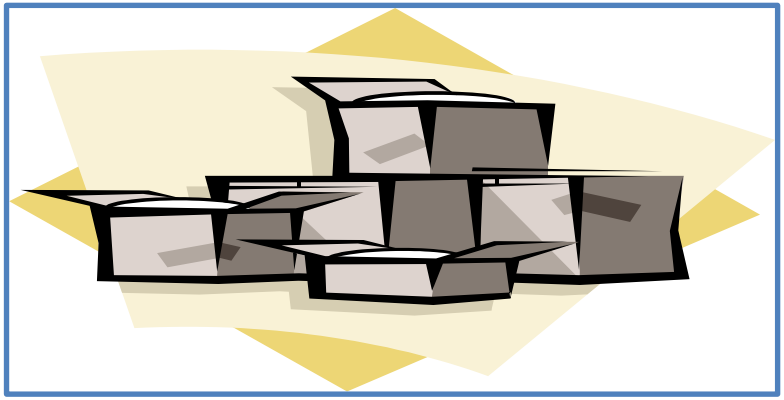
Size, shape, materials

- Product packaging norms
- Existing standards
- Economic development
- Environmental concerns



Color & text

- Promotional strategy
- Cultural meaning & implications
- Government regulations
- Language issues



THANK YOU ALL

CHAPTER FIVE

International Marketing Mix: Promotion

Promotion Strategy in international context

The objectives of product promotion are to:

- ✓ **Aim: Inform, remind, persuade**

- The objectives of product promotion:-

- Attract customers
- Increase sales
- Improve product recognition
- Enhance brand identity
- Generating consumer demand
- Providing information about product availability and uses.

The Role of Promotion

- Promotion
  - **Communication** to build and maintain **relationships** by informing and persuading one or more audiences
  - *Overall role of promotion is to **stimulate** demand by:*
    - ❑ Building and enhancing customer relationships.
    - ❑ Focusing customers on information about company activities and products.
    - ❑ Promoting programs that help selected groups to build goodwill.
    - ❑ sponsoring special events that generate positive promotion of an organization and its brands.

International promotion

- Promotional messages in countries may have to be adapted because of:-
- *Language*
- *Political climate*
- *Cultural attitudes and*
- *Religious practices.*

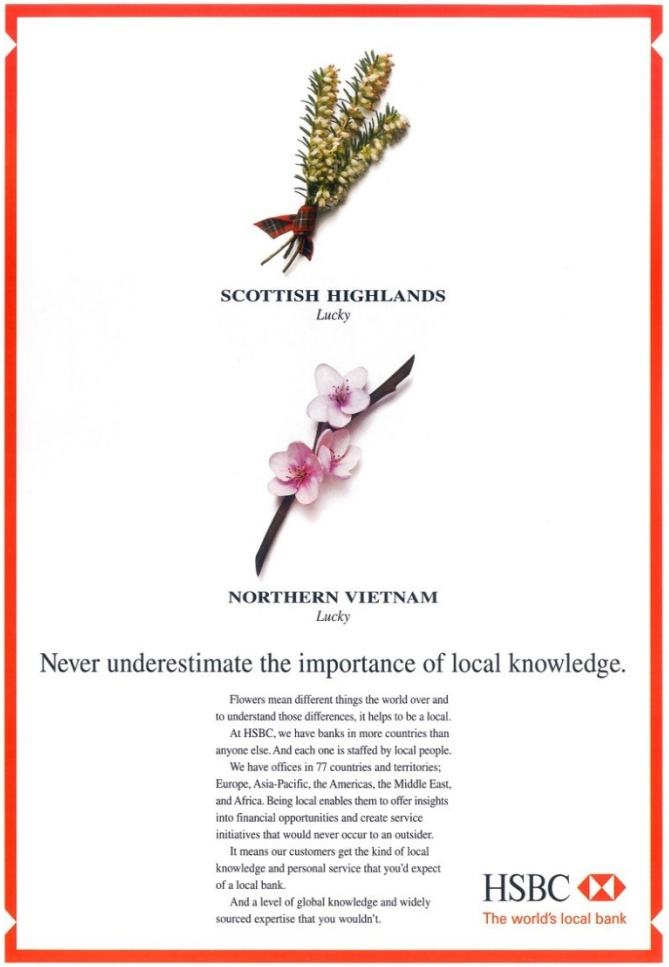
✓For example a promotional strategy in one country could cause offence in another.

✓Every aspect of promotional detail will require research and planning

International promotion

One example is the use of col

- Red is lucky in China and
- Worn by brides in India,



International promotion

- The level of media development and availability will also need to be taken into account.
- Is commercial television well established in your host country? What is the level of television penetration?
- How much control does the government have over advertising on TV, radio and Internet? Is print media more popular than TV?

International promotion

- Advertising planning, budgeting, resource allocation issues, message strategy, and media decisions.
- *Local regulations, advertising agency selection, coordination of multi-country communication efforts and regional and global campaigns*
- Before designing promotional activity for a foreign market it would be expedient to complete a PEST analysis

1. Personal Selling:

- International selling Company sales force travels across countries and meets directly with clients abroad.
- Local selling Company organizes and staffs a local sales force made up of local nationals to do selling in that country.
- When a customer is met in person by a representative of the marketing company it is called personal selling.

- Global marketing presents additional challenges because the buyer and seller may come from different national or cultural backgrounds.

1. Personal Selling:

✓ ***Personal* communication/ Mass Selling/ direct Communication**

***When to use*/effective?**

- Industrial buying
- Large volume purchases
- Large amount of money
- Market is concentrated
- It works well with high-unit value
- Infrequently purchased products

Personal selling has three important qualities:

✓ **Personal interaction**
✓ **Cultivation**
✓ **Response**/personal choices

2. Public relations and publicity

- Favorable news **coverage about business/Product**
- PR Marketing activities that enhance brand equity by promoting goodwill toward the organization/CBBE
- May be necessary to defend brand against bad publicity & PR campaigns can go wrong if not managed correctly
- Stakeholders (employees, customers, suppliers, Medias, shareholders, gov't, competitors, and the general public)
- Building and maintaining a **positive perception** of an organization in the mind of its publics.

E.g.

✓ Charitable contribution
✓ News releases
✓ TV and radio talk show appearances by company personnel.

3. Sales promotion

Collection of short-term incentive tools

Sales promotion activities include:

- Advertising campaigns,
- Product demonstration
- Trade shows
- Free sample campaigns,
- Media campaigns
- Door-to-door sales
- Direct mail campaigns and other activities

- ✓ It is any paid form of non-personal, oral and / or visual openly sponsor-identified message concerning goods, services or ideas.
- ✓ *Characteristics*
- ✓ The firm pays for its message & Use of mass media,
- ✓ A designed messages delivered to the entire audience
- ✓ The name of the sponsor is clearly presented
- ✓ The company controls the message.
- ✓ At the same time, the international marketer must take into account relevant cultural, linguistic, and legal constraints found in various national markets.

The major international advertising decisions

- **Message decisions-** Creative strategy – What kind of advertising appeals do we use across markets? Same or different?
- **Media decisions** – Cost and availability of media across different country markets – Suitability of media to match target audiences
- **Agency selection** – Local or global? Selection *factors/availability/ Reliability/Audience*
- **Evaluation**: what criteria do we use to compare relative success of advertising campaigns across country markets

International Advertising Budget

Budget decision

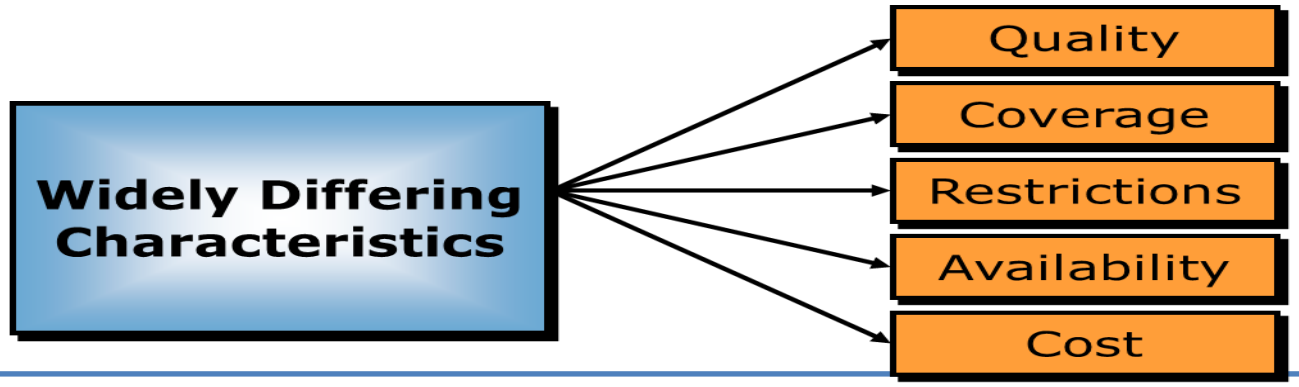
- Percentage of sales: percentage of past sales or future sales or combination of both to determine the budget

- Competitive Parity: Determining budget based on competitors activities.

International Budget allocation

- Resource allocation: Involves the allocation of promotional resources across different countries
- Key factors: Marketing *objectives and market entry strategies*
- Who determines? Depends on decentralization ≠ s. centralization
- Subsidiaries determining their own budgets ≠ s. Headquarters determines budgets

International Media Selection Issues



Influences upon International Media Choice.

- The *nature and level of competition* for marketing channels in your target market.
- Whether or not there is a *rich variety of media in your target market.*
- The *level of economic development in your target market* (for example, in remote regions of Africa there would be no mains electricity on which to run TVs or radios).

Global promotion Vs international promotion

- **Global Promotion (GPS)**
- A GPS is when your company presents the same basic message of brand or product value around the globe.
- Closely standardized product strategy. *Globalization* (Standardization)
- McDonald's has benefited from a consistent commitment to its global message of efficient, family-friendly fast food.

Cont'd

International Promotion (IPS)

- An IPS is *when promotional messages vary from one country to the next or where campaigns are tailored to different regions.*
- *Glocalization* (Adaptation)/customized product.

Promotion Standardization Advantages:

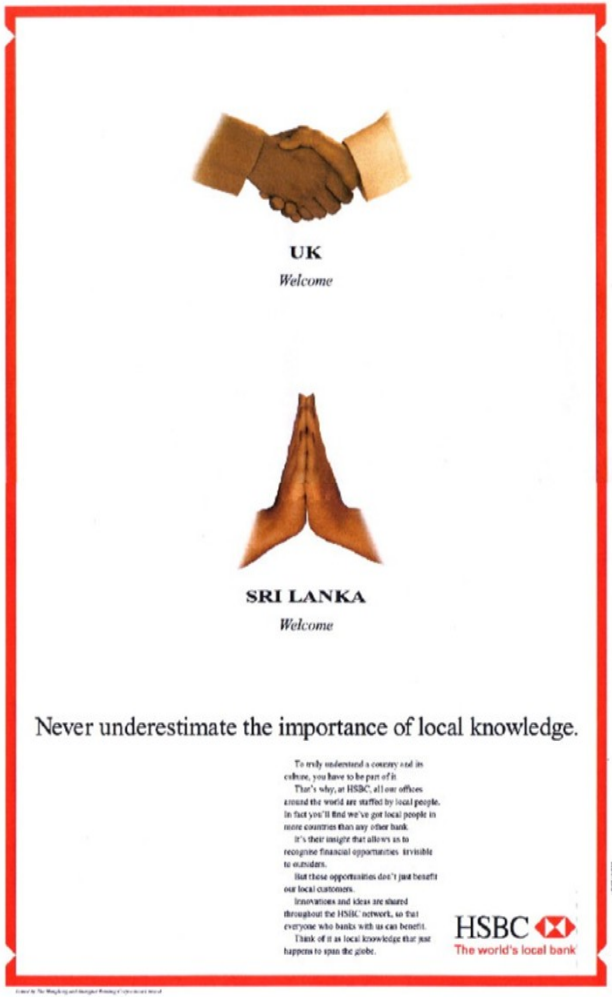
- ✓ Economies of scale (*Production cost savings*)
- ✓ Strong branding image
- ✓ Avoid confusion Travelers
- ✓ Internet and International organizational buyers

Barriers to Standardization

- ❑ Cultural Differences
- ❑ Advertising Regulations
- ❑ Market Maturity/PLC of different countries
- ❑ “Not-Invented-Here” (NIH) Syndrome

PRESSURES FOR PROMOTION ADAPTATION:

- Differences in symbolic meaning,
- Differences in Product use
- Preference differences
- Value and norm differences
- Government regulation
- Written and spoken language differences
- Multiple-meaning words



CONSTRAINTS OF INTERNATIONAL PROMOTION

- Languages - communication and encoding messages
- Government controls and regulations (products, cost, message)
- Nationalism
- Media availability
- Economic differences
- Agency availability
- Tastes and attitudes
- Consumer(customer) behavior pattern and attitudes
- Brand name recognition

- There are three possible global pricing policies
- **extension (ethnocentric),**
- **adaptation (polycentric)**
- **invention (geocentric)**.

Chapter – 6 Pricing in international markets

Pricing: Most critical and complex issues that global firms face. company's GP policy may *make or break* its overseas expansion efforts. *Issue of Value chain members* and *competitors*

- ✓ MNC also face the challenge of how to *coordinate their pricing policy across different countries.*
- ✓ A lack of coordination will create a gray market situation *(shipping products from low priced countries to higher priced markets)*.
- ✓ Unlike *DM, GM:* Problems of *currency fluctuations* and *devaluations,* price escalation, tariffs, dumping charges, transfer prices and price controls.

Factors / DRIVERS OF FOREIGN MARKET PRICING

1) Company Goals: *Goals varied in market/ Initial stage/firm is well entrenched*

2) **Company Costs:** Cost d/ce b/n countries: IM and trade brings additional cost issues

3) **Customer Demand:** *LCD (More price sensitive) A/DC (Less price sensitive)*

4) **Competition** – Difference in the competitive Situation

5). **Distribution Channels** - Length of the channels (long or Short)

6). **Government Policies** - sales tax rates (VAT), tariffs, and price controls.

7). **Inflation** - The prices may change in values of money. *Persistent upward change in price levels*

8). **Exchange rate-** The exporters face fluctuations in exchange rates of several countries' currencies

9. Currency Fluctuations - appreciation or depreciation of the home-country currency

PRICING STRATEGIES

I). New product pricing Strategies

a) Market Penetration Pricing

b) Market Skimming pricing

II). PRODUCT MIX PRICING STRATEGIES

c) Product Line Pricing

d) Optional Product Pricing

e) Captive Product Pricing

f) Product Bundle Pricing

g) By product pricing

III). PRICE ADJUSTMENT STRATEGY

a) Psychological Pricing
b) Promotional Pricing.
c) Geographical Pricing
d) Dynamic pricing

GLOBAL PRICING: THREE POLICY ALTERNATIVES

e) Ethnocentric
f) Polycentric
g) Geocentric/Invention

PRICING STRATEGIES cont'd

- ***Market Penetration Pricing***:-pricing uses deliberate low prices to stimulate market growth and capture market share.
- ***Market Skimming pricing:-*** involves charging a higher price. Skimming refers to the objective of achieving highest possible profit in a short time.

PRODUCT MIX PRICING STRATEGIES

Product Line Pricing:-separation of goods and services into cost categories in order to create various perceived quality levels in the minds of consumers. setting prices for multiple products

- ***Optional Product Pricing:-***Optional product pricing considers optional or accessory products along with the main product.

For example, **A car buyer has a choice to order a music system, GPS navigation system, or not to order such high quality and just simply buy a car**.

- ***Captive Product Pricing-***In this pricing strategy, you sell a core product at a low price, and the essential accessories are sold at a high price to support the profit margins."
- ***By product pricing –pricing for*** some residue products which are called as by-products.

PRICE ADJUSTMENT STRATEGY

Psychological Pricing:-emotional rather than rational basis.

- example Price Point Perspective (PPP) 0.99 Cents not 1 US Dollar.
- **Promotional Pricing:-**temporarily price their products below list price.
- BOGOF (Buy One Get One Free

- **Geographical Pricing**
- variations in price in different parts of the world.
- **Dynamic pricing-**pricing is a process in which producer adjust their pricing to meet the characteristics & needs of individual customers & situations.
- the most of the price is set by the negotiation between buyers & sellers.

Price standardization vs. adaptation

Price standardization means that the head office decide a fixed price that is applied in all international markets.

Price Adaptation: Managers have to establish price depending on the foreign market and foreign consumer's revenues.

Factors driving to price differentiation	Factors driving to price standardization
	procurement strategy in which a business buys goods and services from international markets across geopolitical boundaries.

Methods of payment

Consignment sales- agreement to pay for something at a later date., "promise to pay

This is a method in which the exporter sends the product to an importer on a deferred payment basis; that is, the importer does not pay for the merchandise until it is sold to a third party.

Title to the merchandise passes to the importer only when payment is made to the exporter. Ownership is retained to seller

It is used test the market in a new country

- ✓ Deferred payment basis:
- ✓ The problems: Delays in payment, Risk of nonpayment, Cost of returning merchandise unsold.

2. Cash in advance:

- ✓ Requires the buyer to pay before shipment is done.
- ✓ No risk of bad debt and/or delays because advance payment

The seller assumes no risk of bad debt and/or delays in payment because advance payment is a precondition to shipment.

Sellers often require advance payment in cases in which the credit worthiness of the overseas customer is poor or unknown and/or the political/ economic conditions of the buyer's country are unstable.

Cash in advance is sometimes used between related companies.

It is also common to require money in advance for samples.

Open account:

- ✓ Goods are shipped and received by the importer before payment.
- ✓ In return the seller expects that the invoice will be paid at the agreed time/Invoice. Buyer credit trustworthiness
- ✓ The exporter then bills the importer for the goods, stipulating the amount, form, and time at which payment is expected.
- ✓ The exporter is relying fully upon the financial creditworthiness, integrity, and reputation of the buyer.
- ✓ seller and buyer have mutual trust and a great deal of experience with each other.

Bill of exchange : Like ordinary check in appreance /order to pay a payee.

- ✓ To facilitate the transaction, two banks are usually involved, one in the exporter's country and one in the buyer's country. Negotiable instrument: contains an order to pay a payee. Drawer (exporter) & drawee (Importer)
- ✓ agree on the terms of sale,
- The exporter forwards the documents to its bank (remitting bank) with instructions.
- The remitting bank then forwards the documents to its overseas correspondent bank (collecting bank) in the importer's country.
- The collecting bank contacts the importer to effect or accept payment.

5). Letter of credit: To cover these risks, buyers, sellers, and banks use documentary letters of credit in international trade transactions.

It is a document that is issued by a bank and contains its **promise to pay the exporter**. Goods are shipped by the exporter After payment. Exporter ship based on description on documents.

Letters of credit (LCs) are among the most secure instruments available to international traders.

The exporter bears less risk

Transfer pricing

- ✓ intra-corporate exchanges-transactions/ intercompany transfers -between related business entities within the same parent company.
- ✓ Transfer pricing is the setting of the price for goods and services sold between controlled (or related) legal entities within an enterprise.
- ✓ TP- refers to the rules and methods for pricing transactions within and between enterprises under common ownership or control.
- ✓ applies tangible property, intangible property services and finance transfers.
- ❑ **TP:** buying and selling by operating units or divisions of a single company.
- ❑ **Income Tax Rates:** MNC always consider domestic and foreign income tax rates while setting transfer prices.
- ❑ **Import Duties:** Transfer pricing policies followed by MNC are affected by import duties or tariffs

Transfer pricing

Alternative approach to TP

- **Cost-Based Transfer Pricing**
  - *TP Manufacturing costs only*
  - *TP* – Full cost (MR, RD, **Promotion**)
- **Market-Based Transfer Price-** be competitive in the IM/GM
- **Negotiated Transfer Prices-** Price that unaffiliated traders would agree on for a particular transaction

- **Counter trading** - is transactions in which purchases are tied to sales and sales to purchases.
- mandate to pay for goods and services with something other than cash.
- Monetary payments' may or may not be part of the deal.

Primary reasons

A. Countries that have international debt and liquidity problems

B. Provide developing countries and MNCs with access to new markets

C. Fits well conceptually with the recovery of bilateral trade agreements between governments.

Types of Counter trading

- Barter
- counter purchase/Parallel trade
- compensation trade/Buyback
- Offsets/Right to sell product

- **Counter purchase**:- seller accepts parallel obligations to purchase products and/or services from the buyer's country."
- **Offsets:-** commits, as a condition of sale, to undertake or to introduce a wide-range of industrial and commercial activities for the benefit of the the buyer's country such as:
  - Investments
  - Technology transfer
  - Training and skills upgrade
  - Research and development and Donations

Price escalation

Disproportionality of price

Prices are raised by:

- Shipping costs
- insurance
- Packing
- Tariffs

- Larger middleman margins
- Special taxes
- Administrative costs
- Exchange rate fluctuations
- Longer channels of distribution

Approaches to lessening price escalations

- Lower the cost of goods
- Lower the tariffs
- Lower distribution costs
- Lower channels of Length

Administered pricing

- Establishing prices for an entire market – Agreement arrangement
- Prices may be arranged by the **cooperation** of *competitors, governments, or* national, state, *by international agreements.*
- Aim: Reduce the impact of price competition or eliminate it.

Cartels/ Collusion

- It exists when various companies or countries producing similar products or services work together to control markets.
- **Aim : To limit Competition**

The cartel association may use formal agreements to:

- ❑ Set Prices
- ❑ Establish Levels of Production And Sales
- ❑ Allocate Market Territories
- ❑ Redistribute profits: e.g. OPEC – organization of petroleum exporting countries

THANK YOU!

Chapter seven
Distribution Policy Decisions

Meaning of logistic/ International context

- The distribution process: physical handling and distribution of goods, the passage of ownership.
- **Logistics**: part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of g/s and information in *international corporation.*
- **supply chain**: Outbound (downstream) & Inbound (Upstream) Logistics and customer value delivery system
- **Upstream:** Firms that supply the raw materials, components, parts, and other elements necessary to create a good.
- **Downstream:** Marketing channel partners that link the firm to the customer.

Importance & Tasks Of Logistics

Importance

- **Improve customer service** - set standards of performance
- **Reduce distribution costs** - eliminating unneeded warehouses
- **Create time and place utilities** - Storage & Transportation/ Balan**ce**
- **Stabilize prices - demand or supply gap**

Tasks Of Logistics

- Inventory location and warehousing- IMS-assembling, dividing and storing and reshipping.
- Materials handling- cargo handling system/Containerization
- Inventory control - investment and fluctuations
- Order processing -receiving, handling, and filling orders
- Transportation- **shipping**/physical distribution system

Distribution patterns

1) Line breadth (many or Few product line/ Government regulations)
2) Cost and margins (level of competition, services offered, efficiencies)
3) Middlemen services
4) Channel length (Short or Long/ product type)
5) Blocked channels /competitors' established lines/cartels/restrict ions
6) Stocking (carry large or small inventories, i.e. inflation, risk, loss)
7) Power and competition (concentration or disperse) Or (few large wholesalers to a mass of small middlemen)

Types of intermediaries in direct Channel/*Foreign-country Middlemen*

1. **Foreign *country* Distributor-** foreign wholesaler/FF that has exclusive rights to carry out distribution for a manufacturer in a foreign country. merchant middleman
2. **Foreign-Country Brokers:** Like the export broker discussed in an earlier section, foreign-country brokers are agents who deal largely in commodities and food products.
3. **State controlled trading company:** companies that have a complete monopoly in the buying and selling of goods. Highly influenced by their governments' trade policies and politics.
4. **End User:** A manufacturer is able to sell directly to foreign end users with no intermediary involved in the process. direct channel- choice for costly IP.
5. **Manufacturer's Representatives:** agent middlemen who take responsibility for a producer's goods certain market. Own sales force or Manufacturer's representative

Types Of Intermediaries in Indirect channel/*home-country middlemen*

Why?? small international sales , inexperienced with FM, complexities of IM, Financial weak, seeks low risk.

1) Home Country Brokers **-** Brings the foreign buyer and seller together but without financial responsibility.
2) Trading company **-** Many trading companies are large and have branches wherever they do business. They accumulate, transport, and distribute goods from many countries.
3) Manufacturer's Export Agent (MEA): distribution firm that sells product on behalf of manufacturer. selling service to principal.
4) Export merchants - Purchase goods from a large number of manufacturers, ship to foreign countries and take full responsibility of their marketing, taking title to the goods. *Profit oriented firms*
5) Cooperative exporter/Complementary marketing **-** excess marketing capacity: it may function as an Ex-Dep't for several allied but non-competing manufacturers.

Determining the intensity of distribution

- ✓ **Intensity:** Three possible strategies are available**:**

1. Intensive distributions
2. Selective distributions
3. Exclusive distributions

Factors Affecting Choice of Channel

Marketing Considerations

- ✓ Geographic concentration mkt.
- ✓ Order size
- ✓ Type of Market
- ✓ Number of potential customers

Product Considerations

- ❖ Technical nature of a product
- ❖ Unit value
- ❖ Perishability

Middlemen Considerations

- ✓ Availability of desired middlemen
- ✓ Producer's and middlemen's policies

Company Considerations

- ✓ Desire for channel control
- ✓ Services provided by seller
- ✓ Ability of management
- ✓ Financial resources
- ✓ Service provided by middlemen

Key elements in distribution

1. Functions performed by middlemen/effectiveness
2. Cost of their services
3. Middlemen availability
4. Extent of control which the manufacturer needs

channel strategy & **PLC and distribution**

Six C's of channel strategy/ Strategic Goals :

long-range channel policies of the company/ Affects LRP

1. **Capital Cost**: Developing Vs. Maintaining
2. **Control**: Shorter Vs. Longer or Its own Vs. Use of channel over marketing efforts
3. **Coverage** – High Sales volume, Market share or penetration or highly developed and sparse markets
4. **Character**: character of the company and the markets. Product or Market character
5. **Continuity**: Loyalty of Channel members
6. **Capital**: set up its own sales force Vs. Use of channel members

Introduction

- ✓ **Scattered**: build selective distribution

Growth

- ✓ **Intensive**: build intensive distribution

Maturity

- ✓ **Intensive**: build more intensive distribution

Decline

- ✓ **Selective**: phase out unprofitable outlets

Thank you for your patience

End of Chapter-8

The end of the syllabus