UNIT 1: AN OVERVIEW TO INTERNATIONAL MARKETING

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1.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to explain

- the meaning of international marketing
- the benefits of international marketing
- the barriers of international marketing
- the forms of entry into international markets.

1.1 INTRODUCTION

A firm selling abroad its merchandise often faced with cultural, economic, and legal systems that are quite different from those in its home country. Thus a firm must understand and adapt to a new and unfamiliar environment.

A firm moves beyond domestic markets into international trade for several reasons.

The first is simply the existence of foreign markets. There is a strong demand for a wide variety of consumer products in the developed nations of the world. And with in the developing as well as the developed nations of the world, there is a demand for business products such as machine tools, construction, equipment and computers. Second, as domestic markets become saturated, producers even those with no previous international experience, look to foreign markets.

Third, some countries possess unique natural or human resources that give them a comparative advantage when it comes to producing particular products. Another factor in international expansion is the possession of a technological advantage.

What do we mean by international marketing?

An organization whose products are marketed in two or more countries is engaged in international marketing.

The fundamentals of marketing apply to international marketing in the same way they apply to domestic marketing. Marketing program should be built around a good product that is properly priced, promoted, and distributed to a market that has been carefully selected.

International markets create attractive opportunities, but the competition is intense. Success goes to the firms that understand and adapt to the environmental factors that influence international marketing.

1.2 **MEANING**

The American Marketing Association (AMA) defines the term international marketing as follows.

"International Marketing is the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create an exchange that satisfy individual and organizational objectives. "

1.3 TYPES OF MARKETING

One way to understand the concept of international / global world marketing is to examine how international marketing differs from such similar concept as domestic marketing, Foreign marketing, comparative marketing, international trade and multinational marketing.

Domestic marketing is concerned with the marketing practices with n a marketer's home country. From the perspective of domestic marketing, marketing methods used outside the home market are foreign marketing.

Therefore, **foreign marketing** encompasses the domestic operation with in a foreign country.

A study becomes **comparative marketing** when its purpose is to contrast two or more marketing systems rather than examine a particular country's marketing system for its own sake. Similarities and differences between systems are identified. Thus comparative marketing involves two or more countries and an analytical comparison of marketing methods used in these countries.

International marketing must be distinguished from international trade. **International trade** is concerned with the flow of goods and capital across national borders. The focus of the analysis is on commercial and monetary conditions that affect balance of payment and

resource transfers. This economics approach provides a macro view of the market at the national level, with no specific attention given to companies marketing intervention. The study of international marketing on the other hand, is more concerned with the micro level of the market and uses the company as a unit of analysis. The focus of the analysis is on how and why a product succeeds or fails abroad and how marketing efforts affects the outcome.

Some marketing authorities differentiate international marketing from **multinational marketing** because international marketing in its literal sense signifies marketing between nations. The word international can thus imply that a firm is not a corporate citizen of the world but rather operates form a home base.

Domestic marketing involves are set of uncontrollable derived from the domestic market. International marketing is much more complex because a marketer faces two or more sets of uncontrollable variables originating from various countries. The marketer must cope with different cultural, legal, political and monetary systems.

A firm marketing mix is determined by the uncontrollable factors with in each country's environment as well as by the interaction between the sets.

1.4 DISTINCTION BETWEEN DOMESTIC VS INTERNATIONAL MARKETS

Some basic distinctions between domestic and international markets are as enumerated below.

i) Domestic market

1. One language, one nation, one culture
2. Market is much more homogeneous
3. Single currency

4. No problems of exchange controls, tariffs
5. Relatively stable business
6. Minimum government interference in business decision
7. Data in marketing research available, easily collected, and accurate etc.

ii) International Markets

1. Many languages, many nations, many cultures
2. Markets are diverse and fragmented
3. Multiple currencies
4. Exchange controls and tariffs normal obstacles
5. Multiple and unstable business environments
6. Due to national economic plans government influence usual in business decisions
7. Marketing research very difficult, costly and cannot give desired accuracy, etc.
8. Domestic and International Enterprises: Characteristics and Practices Environment

1.5 BENEFITS OF INTERNATIONAL MARKETING

The nation will be benefited through International Marketing, as discussed in the summarized form below :

- **To meet imports of industrial needs**

The developing countries need imports of capital equipments, raw materials of critical nature, technical know how for building the industrial base in the country with a view to rapid industrialization and developing the necessary infrastructure.

- **Debt servicing**

All most all underdeveloped countries have been receiving external aid over the years for their industrial development. Hence it is necessary to

aim at sufficient export earnings to cover both imports and debt servicing.

- **Rapid economic growth**

An expanding export trade can be a dynamic factor in a country's development process. The country should have to utilize domestic resources and to provide technological improvement and improved production at lower costs.

The benefits include: -

i) The foreign exchange earnings can be used for the import of agricultural implements and fertilizers to raise the production of agricultural produce and that can provide a base for many agriculture-based industries.

ii) Mitigate unemployment in labor – intensive industries

iii) Full utilization of idle resources

iv) Spin of benefits for the domestic consumer by exposing the industry to international markets and making it more competitive as well as conscious of costs and quality.

- **Profitable use of natural resources**

Earning from exports can be utilized in establishing industrial unit based on different natural resources available in the country by making the necessary imports of plant and machinery for the purpose.

- **Facing competition successfully**

Better quality and lower prices improve the image of the producer as well as of the country in minds of foreign customers.

- **Increase in employment opportunities**

In an effort to increase the export, many export oriented industrial units are established. In underdeveloped countries, the problem of the employment and underemployment is very serious that can be solved to some extent by increasing the level of export.

- **Role of exports in national income**

Exports play an important role in the national income of the country and it can be increased to a sizeable extent through organized export marketing.

- **Increase in the standard of living**

Export marketing improve the standard of living of the countrymen in the following ways: -

i) The imports of necessary item for consumption can be made which may help improve standard of living.
ii) Exports increase the employment opportunities, which in turn, increase the purchasing power of the people.
iii) Exports are responsible for the rapid industrialization of the country. New items are produced for consumption in domestic market, which increases the level of standard of living.
iv) In order to face the competition in the international market, the producer improves the quality of the product by applying the latest technology. In this way, people get better quality products at cheaper rates. It helps improve the standard of living of the people.

- **International collaboration**

Export marketing results in international collaboration. Developed country fix their import quotas for different countries and for different commodities.

- **Closer cultural relations**

International trade brings various countries closer. Better trade relations are established among the countries.

- **Help in political peace**

The economic relations between two countries help improve their political relations.

1.6 BARRIERS TO INTERNATIONAL MARKETING

The major legal, political and economical forces affecting international marketers are barriers created by governments to restrict trade and protect domestic industries. Examples includes the following: -

- **Tariff:** - a tax imposed on a product entering a country. Tariffs are used to protect domestic producers and / or to raise revenue. E.g. Japan has a high tariff on imported rice.
- **Import quota**: - a limit on the amount of a particular product that can be brought into a country. Like tariffs, quotas are intended to protect local industry.
- **Unstable governments**: - high indebt-ness, high inflation, and high unemployment in several countries have resulted in high unstable governments that exposed foreign firms in business risks and profit repatriation.
- **Foreign exchange problems**: - high indebtedness and economic and political instability decrease the value of a country's currency. Profit repatriation for foreign firms are not available in many markets.
- **Foreign government entry requirements and bureaucracy.** Government places many regulations on foreign firms. For

example: - they might require joint ventures with the majority share going to the domestic partner, a high number of nationals to be hired, limits on profit repatriation etc.

- **Corruption**: - officials in several countries requires bribes to cooperate. They award business to the highest briber rather than the lowest bidder. Etc.
- **Technological pirating**: - a company locating its plant abroad worries about foreign managers learning how to make its product and breaking away to compete openly. I.e. machinery, electronics, chemicals, pharmaceuticals area

1.7 FORMS OF ENTRY TO INTERNATIONAL MARKETS

Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures and direct investments. Each succeeding strategy involved more commitment, risk, control and profit potential.

1.7.1 Indirect Export

Companies typically starts with indirect exporting that is they work through independent intermediacies to export their products. There are four types of intermediaries.

a) Domestic – based export merchant

Buys the manufacturer's products and then sells them abroad.

b) Domestic based export agent

Seeks and negotiate foreign purchases and is paid a commission. Included in this are trading companies.

c) Cooperative organization

Carries on exporting activities on behalf of several producers and is partly under their administrative control. Often used by producers of primary product – fruits, nuts and so on.

d) Export – management company

Agrees to manage a company's export activities for a fee.

Indirect export has two advantages: -

1) It involves less investment and
2) It involves less risk

1.7.2 Direct Export

Companies eventually may decide to handle their own exports. The investment and risk are somewhat greater. The company can carry on direct exporting in several ways;

a) Domestic based export department or division

An export sales manager carries on the actual selling and draws market assistance as needed. The department might evolve into a self – contained export department performing all the activities involved in export and operating as a profit center.

b) Overseas sales branch or subsidiary

An overseas sales branch allows the manufacturer to achieve greater presence and programs control in the foreign market. The sales branch handles sales and distribution and might handle warehousing and promotion as well. It often servers as a display center and customer – service center also.

c) Traveling export sales representation

The company sends home – based sales representatives abroad to find business.

d) Foreign – based distributors or agents

The company can hire foreign based distributors or agents to sell the company's goods. These distributors and agents might be given exclusive rights to represent the manufacturer in that country or only limited rights. Whether companies decide to enter foreign markets through or indirect exporting, one of the best ways to initiate or extend export activities is by exhibiting at an overseas trade show.

1.7.3 Licensing

Licensing is a simple way for a manufacturer to become involved in international marketing. The licensor license a foreign company to use a manufacturing process, trademark, patent, or other item of value for a fee or royalty. The licensor thus gains entry into the foreign market at a little risk. The license gains production expertise or a well-known product or name without having to start from scratch.

There are several forms of licensing arrangements:

a) Management contract

The company can sell a management contract to the owners of a foreign hotel, airport, hospital or other organization to mange these businesses for a fee.

Management contracting is a low risk method of getting into a foreign market, and it yields income from a beginning. Management contracting prevents the company from competing with its clients.

b) Contract manufacturing

The firm engages local manufacturers to produce the product. Contract manufacturing has the drawback of giving the company less control over the manufacturing process and the loss of potential profits on manufacturing. However, it offers the company a chance to start faster, with less risk and with the opportunity to form a partnership or to buy out of the local manufacturer later.

c) Franchising

A company can enter a foreign market through franchising, which is a more complete form of licensing. Here the franchiser offers a franchisee a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchiser.

1.7.4 Joint Venture

Foreign investors may join with local investors to create a joint venture in which they share ownership and control.

Forming a joint venture might be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical or managerial resources to undertake the venture alone. Or the foreign government might require joint ownership as a condition for entry.

Joint ownership has certain drawbacks. The partners might disagree over investment, marketing or other policies. I.e. one partner might want to reinvest earnings for growth, and the other partner might want to withdraw these earnings.

1.7.5 Foreign Direct Investment

The ultimate form of foreign involvement is direct ownership of foreign-based assembly or manufacturing facilities. The foreign company can buy part or full interest in a local company or build its own facilities. As a company gains experience in export, and if the foreign market appears large enough, foreign production facilities offer distinct advantages, as enumerated below.

1. The firm could secure cost economies in the form of cheaper labor or raw materials, foreign government incentives, freight savings and so on.

2. The firm will gain a better image in the host country because it creates jobs.
3. The firm develops a deeper relationship with government, customers, local suppliers, and distributors, enabling it to adapt its products better to the local marketing environment. Etc.
4. The main disadvantages of direct investment is that a firm exposes its large investment to risks such as blocked or devalued currencies, worsening markets, or expropriation. The firm will find it expensive to reduce or close down its operations, since the best country might require substantial severance pay to the employees.

1.8 CHARACTERISTICS OF MULTINATIONAL CORPORATION

Several firms have passed beyond the international division – stage and have become truly global organizations. They have stopped thinking of themselves as national marketers who have ventured abroad and now think of themselves as global marketers. Their top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows, and logistical systems.

The global operating units report directly to the chief executives or executive committee, not to the head of an international division. Executives are trained in world wide operations; not just domestic or international ones. Management is recruited from many countries; components and supplies are purchased where they can be obtained at the least cost; and investment is made where the anticipated returns are greatest.

What is a Global industry?

"A global industry is an industry in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions."

What is a Global firm?

"A global firm is a firm that operates in more than one country and captures R&D, production, logistical, marketing, and financial advantages in its costs and reputation that are not available to purely domestic competitors. "

The mention of MNC_S usually elicits mixed reactions. On the one hand, MNC_S are associated with exploitation and ruthlessness. They are often criticized for moving resources in and out of a country, as they strive for profit, without much regard for the country's social welfare.

On the other hand, MNC_S have power and prestige. Additionally they create social benefits by facilitating economic balance. As explained by Miller, "with resources, capital food, and technology unevenly distributed around the planet, and all in short supply, an efficient instrument of quick and effective production and distribution of a complex of goods and services is a first essential.

According to Aharoni, an MNC has at least three significant dimensions: structural, performance and behavior.

1. Structural

Structural requirements for definition as a MNC include the number of countries in which the firm does business and the citizenship of corporate owners and top managers.

2. Performance

Definition by performance depends as such characteristics, as earnings, sales and assets. These performance characteristics indicate the extent of

the commitment of corporate resources to foreign operations and the amount of rewards from the commitment. The greater the commitment and reward, the greater the degree of internationalization.

3. Behavior

Behavior is somewhat less reliable as a measure of multinational's than either structure or performance, though it is no less important. Thus a company becomes more multinational as its management thinks more internationally. Such thinking, known as Geocentricity, must be distinguished from the two other attitudes or orientations, known as ethnocentricity and Polycentricity.

a) **Ethnocentricity: -** is a strong orientation toward the home country. Markets and consumers abroad are viewed as unfamiliar and even inferior in taste, sophistication and opportunity. Centralization of decision-making is thus a necessity. The usual practice is to use the home base for the production of standardized products (i.e. without significant modification) for export in order to gain some marginal business.

b) **Polycentricity**: - is the opposite of ethnocentricity, is or strong orientation to the host country. The attitude places emphasize on differences between markets that are caused by variation with in, such as income, culture, laws and politics. The assumption is that each market is a unique and consequently difficult for outsiders to understand. Thus, managers from the host country should be employed and allowed to have a great deal of discretion in market decision. A significant degree of decentralization is thus common across the overseas divisions.

c) **Geocentricity:** - is a compromise between the two extremes of ethnocentricity and polycentricity. Geocentricity is an orientation that considers the whole world rather than any

particular country as the target market. A geocentric company might be thought of as a denationalized or supranational. As such, “international” or foreign departments or markets do not exist because the company does not designate anything international or foreign about a market.

Check Your Progress Exercise

1. Define the term International Marketing? And discuss at least four benefits and barriers_____

_____

_____

2. What is a global firm? Discuss the behavioral classification of a firm?

_____

_____

3. What do we mean by Comparative and Foreign Marketing?

_____

_____

4.Enumerate three differences between Domestic and International Markets? _____

_____

_____

5. Describe in detail the mode of entry in to the International Market

_____

_____

1.9 SUMMARY

Marketing activities are targeted at market consisting of products purchasers and also individuals and groups that influence the success of an organization. A firm moves beyond domestic markets into international trade for several reasons:

The first is simply the existence of foreign markets. Second, as domestic markets become saturated, producers even those with no previous international experience, look to foreign markets. Third, some countries possess unique natural or human resources that give them a comparative advantage when it comes to producing particular products. Another factor in international expansion is the possession of a technological advantage. An organization whose products are marketed in two or more countries is engaged in international marketing. The AMA has defined the term international marketing as:

"International Marketing is the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create an exchange that satisfy individual and organizational objectives. "

There is a distinction between a domestic market and international market. Some of the distinctions include: In Domestic Market – there is One language, one nation, one culture, Market is much more homogeneous, etc While in International Market - Many languages, many nations, many cultures, Markets are diverse and fragmented, etc.

The nations will be benefited while engaging in to the international marketing. Some of the benefits Include : To meet imports of industrial needs ,Debt servicing ,Rapid economic growth, Increase in employment opportunities, Increase in the standard of living ,International collaboration ,Closer cultural relations, etc.

Even though the international marketing provides certain benefits to the nation, the host government may not always be hospitable. To discourage international trade, many government imposes certain barriers, which takes the form of: Tariff, Quota, Government Bureaucracy and entry requirement, etc. The firm may have several options while deciding to

enter in to international market. The option available to the firm includes: direct export, Indirect export, licensing, joint venture, and foreign direct investment. With resources, capital food, and technology unevenly distributed around the planet, and all in short supply, an efficient instrument of quick and effective production and distribution of a complex of goods and services is a first essential.

Several firms have passed beyond the international division – stage and have become truly global organizations. They have stopped thinking of themselves as national marketers who have ventured abroad and now think of themselves as global marketers. Their top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows, and logistical systems. Accordingly, These firms has at least three significant dimensions: structural, performance and behavior.

1.10 ANSWER TO CHECK YOUR PROGRESS QUESTIONS

1. Refer Sections1.2, 1.5 and 1.6
2. Refer Section 1.8
3. Refer Section 1.3
4. Refer Section 1.4
5. Refer Section 1.7

UNIT 2: POLITICAL ENVIRONMENT

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2.3 Summary

2.4 Answer to check your Progress

2.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to explain:

- the types of government
- the political risks involved
- the methods used to curb the political risks
- the indications of political instability

2.1 INTRODUCTION

Environmental forces influence organization marketing. Some of these forces are external to the firm, while others come from within. There isn't much that management can do about controlling the external forces, but it generally can control the internal ones.

Successful marketing depends largely on a company's ability to manage its marketing programs within its environment. To do this, firm marketing executives must determine what makes up the firms environment and then monitor it in a systematic, on going fashion.

These marketing executives must be alert to spot environmental trends that could be opportunities or problems for their organization. And they must be able to respond to these trends with the resources they can control.

External forces have considerable influence on any organizations marketing system. Therefore environmental monitoring also called environmental scanning is deemed necessary. Environmental monitoring is the process of:

1. Gathering information regarding a company's external environment.
2. Analyzing it, and
3. Forecasting the impact of whatever trends the analysis suggests.

These uncontrollable external forces that influence an organization's marketing activities includes: **Political and legal forces, Social and cultural forces, Economic condition, Demography, Competition, and Technology.**

2.2 POLITICAL ENVIRONMENT

The political environment, that a firm operating in international market face is a complex one because they must cope with the politics of more than one nation. The complexity forces to consider that environment as composed of three different types of political environment: foreign, domestic and international.

2.2.1 Types Of Politics

a) Foreign politics

Foreign politics are the politics of host country. This part of international business environment can range from being favorable and friendly to

being hostile and dangerous. The host country's political and economic circumstances determine the kind of political climate a company faces.

When the company decides to export a product from its home – base country, it may quickly discover that the host country's political environment is not always hospitable. The host government, as a rule, views imports negatively, because of imports adverse contribution to the host country's balance of payments. This is generally true with luxury and non – essential products, especially when those items can be or are already produced locally.

A government's encouragement or discouragement of foreign investment is usually dictated by considerations of balance of payments, economic development, and political realities. Balance of payments problems result in policies favoring investments that improve the country's experts, whereas economic development concerns result in policies favoring investments in industries that stimulate employment, either direct through manufacturing or indirectly through use of locally produced parts. Sensitive political situations usually result in policies that prohibit the foreign ownership of vital or sensitive business, such us utilities, transportation, communication and broadcasting.

One problem often encountered with foreign politics is the conflicting signals sent by the host country to foreign firms. On one hand, the host country actively woos MNC investment. To win foreign capital and new technology, the country pledges cooperation and various tax and financial incentives. County is often quick to accuse foreign firms of not providing the latest technology and expertise in local operations. It may also criticize these companies of making excessive profits and draining the nation of its wealth. To indicate displeasure, the host government may restrict the repatriation of profits to corporate headquarters abroad.

b) Domestic politics

Domestic politics that exists in he company's home country, also known as the parent or source county. At first glance, it would seem that domestic politics should pose no threat and that a company should have minimal problems at home. This is often not the case. Although a company's major political problems usually derive form political developments at home.

Domestic criticism of the company's international activities comes largely from labor and political organizations. Which frequently accuse the company of exporting capital and job. Although these organizations usually have no objection to the exportation of goods, they often strongly oppose the export of capital as well as the import of goods and services. They feel that imports and direct investment abroad create unemployment at home. To discourage such activity, organizations may advocate a requirement of local content for products that are sold in their country.

The government of the home country, instead of providing support for international trade, can turn out to be a significant hindrance. There may be many government regulations that interfere with the fee flow of trade, and the actions taken by a home country may be motivated more by political considerations than by sound economic reasoning. For decades Taiwan has refused to trade with China, even though Taiwan has what China needs: Capital and know – how. China, on the other hand, offers cheap labor to counteract Taiwan's rising wages.

c) International politics

International politics are the interaction of the overall environmental factors of two or more countries. The complexity of the political environment increases significantly when the interest of the company, the host country, and the home country do not coincide.

Regardless of whether the politics are foreign, domestic or international, the company should keep in mind that political climate does not remain stationery. The political relationship between the United States and a long – time adversary, china is a prime example. After decades of bitter opponents, both countries become very interested in improving their political and economic ties.

On the other hand, serious problems can develop when political conditions deteriorate. A favorable investment climate can disappear almost overnight. In one case, the United States withdrew Chile's duty – free – trade status because of Chile's failure to take "steps to afford internationally recognized worker rights". Chile thus joined Romania, Nicaragua and Paraguay in being suspended form the GSP (generalized system of preferences).

2.2.2Government Types

a) Political System

One way to classify governments is to consider them as either parliamentary (open) or absolutist (closed).

Parliamentary governments consult with citizens from time to time for the purpose of learning about opinions and preferences. Government policies are thus intended to reflect the desire of the majority of the society. Most industrialized nations and all democratic nations can be classified as parliamentary.

At the other end of the spectrum are absolute governments, which include monarchies and dictatorship.

In an absolutist, system, the ruling regime dictates government policy with out considering citizens' needs or opinions. Frequently, absolutists countries are newly formed nations or those undergoing some kind of political transition.

Many countries political systems do not fall neatly into one of these two categories. Some monarchies and dictatorship (E.g. Saudi Arabia and South Korea) have parliamentary elections.

b) Number of Parties

Another way to classify governments is by number of political parties. This classification results in four types to governments: two – party, multi party, single party, and dominant one – party.

i) Two party

In a two party system, there are typically two strong parties that take turns controlling the government, although other parties are allowed. The USA & UK are prime examples.

The two parties generally have different philosophies, resulting in a change in government policy when one party succeeds the other.

I.e. in USA, the Republican Party is often viewed as representing business interests, whereas the Democratic Party is often viewed as representing labor interests, as well as the poor and disaffected.

ii) Multiparty

In a multiparty system there are several political parties, none of which is strong enough to gain control of the government. Even though some parties may be large, their elected representatives fall short of a majority. A government must then be formed through coalitions between the various parties, each of which wants to protect its own interests.

Countries operating with this system include Germany, France and Israel.

iii) Single party

In a single party system, there may be several parties, but one party is so dominant that there is little opportunity for others to elect representatives to govern the country.

Egypt has operated under single – party rule for more than three decades. Countries often use this form of government in the early stages of the development of a line parliamentary system.

iv) Dominated one – party

In a dominated one party system, the dominant party does not allow any opposition, resulting in no alternative for the people. In contrast, a single party system does allow some opposition party.

The former Soviet Union, Cuba, and Libya are good examples of dominated one party system. Such a system may easily transform itself into a dictatorship. The party, to maintain its power, is prepared to use force or any necessary means to eliminate the introduction and growth of other parties.

c) Economic Systems

Economic systems provide another basis for classification of governments. These systems serve to explain whether businesses are privately owned or government owned, or whether there is a combination of private and government ownership. Basically these systems can be identified**: Communism, Socialism and Capitalism.**

i) Communism

A movement toward communism is accompanied by an increase in government interference and more control of factors of production. A movement toward capitalism is accompanied by an increase in private ownership.

Communist theory holds that all resources should be owned and shared by all the people (I. e. not by profit seeking enterprises) for the benefit of the society. In practice, it is the government that controls all productive resources and industries, and as a result the government determines jobs,

production, price, education, and just about anything else. (Centrally-planned economies).

E.g. China, Soviet Union, Eastern Europe, Vietnam, North / Korea:

ii) Socialism

The degree of government control, that occurs under **Socialism,** is somewhat less than under communism. A socialist government owns and operates the basic, major industries but leaves small business to private ownership. Socialism is a matter of degree, and not all socialist countries are the same.

I.e. a socialist country such as Poland leans toward communism, as evidenced by its rigid control over prices and distribution. France's socialist system, in comparison, is much closer to capitalism than it is to communism.

Identify the wrong statement about capitalism

A. It promotes the free-market system

B.

iii) Capitalism

At the opposite end of the continuum from communism is **Capitalism.** The philosophy of capitalism provides for a free – market system that allows business competition and freedom of choice for both consumers and companies. It is a market – oriented system in which individuals, motivated by private gain, are allowed to produce goods or services for public consumption. Under competitive conditions. Product price is determined by demand and supply. This system serves the needs of society by encouraging decentralized decision- making, risk taking, and innovation. The results include product variety, product quality, efficiency, and relatively lower price.

Successful economic reform requires several critical policy principles, including establishing private property rights and privatization of public enterprises, promoting domestic competition, and reducing and reforming the role of government.

2.2.3 Political Risks

According to **Charles De Gaulle,** there are a number of political risks with which marketers must contend. Hazards based on a host government's action include confiscation, expropriation, nationalization and domestication.

i) **Confiscation:** Is a process of a government taking ownership of a property without compensation. An example of confiscation is the Chinese government' s seizure of American property after the Chinese communists took power in 1949. The US congress did not approve the normalization of economic relations with China until a satisfactory claim settlement had been negotiated.

ii) **Expropriation:** Differs somewhat from confiscation in that there is some compensation, though not necessarily just compensation. More often than not, a company whose property is being expropriated agrees to sell its operations – not by choice but rather because of some explicit or implied coercion.

iii) **Nationalization:** After property has been confiscated or expropriated it can be either nationalized or domesticated.

Nationalization involves government ownership, and it is the government that operates the business being taken over. Burma's foreign trade, for example, is completely nationalized. Generally, this action affects a whole industry rather than just a single company.

iv) **Domestication:** In the case of domestication, foreign companies relinquish control and ownership, either completely or partially to the nationals. The result is that private entities are allowed to operate the confiscated or expropriated property.

- The French government, after finding out that the state was not sufficiently proficient to run the banking business, developed a plan to sell thirty six French banks.
- When situation worsened in South Africa and political pressures mounted at home, Pepsi sold its South African bottling operations to local investors, and Coca – Cola signaled that it would give control to a local company.

Another classification system of political risk is the one used by **Root**: based on this classification, four sets of political risk can be identified: general instability risk, ownership / control risk, operation risk and transfer risk.

i) **General instability risk:** Is related to the uncertainty about the future viability of a host country's political system. The Iranian revolution that overthrew the shah is an example of the kind of risk.

ii) **Ownership / control risk:** Is related to the possibility that a host government might take actions (e.g. expropriation) to restrict an investor's ownership and control of a subsidiary in that host country.

iii) **Operation risk:** Proceeds from the uncertainty that a host government might constrain the investor's business operations in all areas, including production, marketing and finance.

iv) **Transfer risk:** Applies to any future acts by a host government that might constrain the ability of a subsidiary to transfer payments, capital or profit out of the host country back to the parent firm.

Although the threat of direct confiscation or expropriation has become remote, a new kind of threat has appeared. MNCs have generally been concerned with coups, expropriation. The overseas private investment corporation (OPIC) defines creeping expropriation as a set of actions whose cumulative effect is to deprive investors of their fundamental rights in the investment. Laws that affect corporate ownership, control, profit, and re – investment (e.g. currency inconvertibility or cancellation of import license).

2.2.4 Indicators of Political Risks

To assess a potential marketing environment, a company should identify and evaluate the relevant indicators of political difficulty. Potential source of political complications include social unrest, the attitudes of nationals, and the policies of the host government.

i) Social unrest

Social disorder is caused by such underlying conditions as economic hardship, internal dissension and insurgency and ideological, religious, racial and cultural differences. Lebanon has experienced conflict among the Christians, Muslims and other religious groups. The Hindu – Muslim conflict in India continues unabated.

A company may not be directly involved in local disputes, but its business can still be severely disrupted by such conflicts.

ii)Attitudes of nationals

The national's attitude toward foreign enterprises and citizens can be quite inhospitable. Nationals are often concerned with foreigners'

intentions in regard to exploitation and colonialism, and these concerns are often linked to concerns over foreign governments' actions that may be seen as improper. Such attitudes may arise out of local socialist or nationalist philosophies which may be in conflict with the policy of the company's home country government.

iii) Policies of the host government

Government policy formulation can affect business operations either internally or externally. The effect is internal when the policy regulates the firm's operations with in the home country. The effect is external when the policy regulates the firm's activity in another country.

E.g. a company in one country may be prohibited form doing business with other countries that are viewed as hostile. A dispute over the boundary between Chile and Argentina prompted Argentina to restrict traditional exports to Chile, including petrochemicals, pharmaceuticals, vehicles, and vehicles replacement parts. The restriction disrupted the marketing plans of General Motors, Peugeot and Renault all of which supplied Chile with automobiles parts from Argentina plants.

2.2.5 Measures to Curb Political Risks

Political risk though impossible to eliminate, can at the very least be minimized. There are several measures that MNCs can implement in order to discourage a host country from taking control of MNCs assets. Some strategies used by MNCs:

a) Stimulation of the local economy

One defensive investment strategy calls for a company to link its business activities with the host country's national economic interest.

A local economy can be stimulated in a number of different ways. One strategy may involve the company's purchasing local products and raw materials for its production and operations. By assisting local firms, it can

develop local allies who can provide variable political contacts. A modification of this strategy would be to use subcontractors.

Sometimes local sourcing is compulsory. Governments may require products to contain locally manufactured components because local content improves the economy in two ways:

- It stimulates demand for domestic components and
- It saves the necessities of foreign exchange transaction. Further investment in local production facilities by the company will please the government that much more.

b) Employment of nationals

Frequently foreigners make the simple but costly mistake of assuming that citizens of least developing countries are poor by choice. It serves no useful purpose for a company to assume the local people are lazy, unintelligent, unmotivated or uneducated. Such an attitude may become a self – fulfilling prophecy. Thus the hiring of local workers should go beyond the filling of labor positions.

I.e. united Brand's policy is to hire only locals as managers.

c) Sharing ownership

Instead of keeping complete ownership for itself, a company should try to share ownership with others, especially with local companies. One method is to convert from a private company to a public one or form a foreign company to local one (Joint venture).

In some overseas business ventures, it is not always necessary to have local firms as partners. Sometimes having co owners form other nations can work almost as well. Having multiple nationality for international business projects not only reduces exposures, it also makes it difficult for the host government to take over the business venture without attending a number of nations all at once.

Another strategy may include voluntary domestication. A case in point involves Indians foreign exchange regulation act, which was passed in 1973 to protect domestic industry. The act forbids expatriate companies from holding more that 40%. In India operations, unless the company is high technology or export oriented.

A wise strategy may be for the company to retain the marketing or technical side of the business while allowing heavy local ownership in the physical assets and capital investment portion of the investment.

d) Being civic minded

To shed the undesirable perception, multinationals should combine investment projects with civic projects. Corporations rarely undertake civic projects out of total generosity, but such projects make economic sense in the long run. It is highly desirable to provide basic assistance because many civic entities exist in areas with slight or non-existent municipal infrastructures that would normally provide these facilities.

e) Political neutrality

For the best long – term interest of the company, it is not wise to become involved in political disputes among local groups or between countries.

A company should clearly but discreetly state that it is not in the political business and that its primary concerns are economic in nature.

f) Behind the scene lobby

Companies may not only have to lobby in their own country, but they also may have to lobby in the host country. Companies may want to do the lobbying themselves, or they may let their government do it on their behalf. This government can be requested to apply pressure against foreign government.

E.g. many U.S clothing retailers complained vigorously when trade barriers were erected against importation of clothes.

g) Observation of political mood and reduction of exposure

Marketers should be sensitive to changes in political mood. A contingency plan should be in readiness when the political climate turns hostile, when measures are necessary to reduce exposure. Some major banks and MNCs took measures to reduce their exposure in France in response to a fear that a socialist – communist coalition might gain control of the legislature in the election 1978.

Check Your Progress Exercise

1. Discuss in detail the type of Government?

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_____

2. Discuss in detail the indicators of the political risks?

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3. What are the methods used by the MNCs to curb political risks? Explain

_____

_____

4. Discuss the political risks as explained by Charles Degualle?

_____

_____

5. Discuss the political risks as explained by Root ?

_____

_____

2.3 SUMMARY

The political environment, that a firm operating in international market, face is a complex one because they must cope with the politics of more than one nation. The complexity forces to consider that environment as composed of three different types of political environment: foreign, domestic and international. A government's encouragement or discouragement of foreign investment is usually dictated by considerations of balance of payments, economic development, and political realities. The host government, as a rule views imports negatively because of imports adverse contribution to the host country's balance of payments. This is generally true with luxury and non – essential products, especially when those items can be or are already produced locally.

One way to classify governments is to consider them as either parliamentary (open) or absolutist (closed). Another way to classify governments is by number of political parties. This classification results in four types to governments: two-party, multi party, single party, and

dominated one party. Another basis of classification takes the form whether businesses are privately owned or government owned, or whether there is a combination of private and government ownership. Basically these systems can be identified: Communism, Socialism and Capitalism There are a number of political risks with which marketers must contend. According to **Charles Degualle** Hazards based on a host government's action include confiscation, expropriation, nationalization and domestication. Another classification system of political risk is the one used by **Root:** based on this classification, four sets of political risk can be identified: general instability risk, ownership / control risk, operation risk and transfer risk.

To assess a potential marketing environment, a company should identify and evaluate the relevant indicators of political difficulty. Potential source of political complications include social unrest, the attitudes of nationals, and the policies of the host government.

Political risk though impossible to eliminate, can at the very least be minimized. There are several measures that MNCs can implement in order to discourage a host country from taking control of MNCs assets. Some strategies used by MNCs Includes: Stimulation of the local economy, Employment of nationals, Sharing ownership, Being civic minded, Political neutrality, behind the scene lobby, Observation of political mood and reduction of exposure

Although political scientists, economists, businesspersons, and business scholars have some ideas about what political risk is, they seem to have difficulties agreeing both on its definition and a methods to predict danger. According to **Douglas & Craig**, he suggested the firm to consider the factors: Domestic stability (e.g. Riots, purges & assassination), Foreign conflict (e.g. diplomatic expulsion, and militarily violence),Political climate (e.g. size of the county's communist party and a

number of socialist seats in the legislative) and ,Economic level (e.g. GDP, inflation, external debts level & frustration levels.) In addition to the strategic of risk avoidance and risk reduction, MNCs can employ the strategy of risk shifting. Insurance coverage can be obtained from a number of sources.

2.4 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer 2.2.2
2. Refer 2.2.4
3. Refer 2.2.5
4. Refer 2.2.3
5. Refer 2.2.3

UNIT 3: LEGAL ENVIRONMENT

Content

3.0 Aims and Objectives
3.1 Introduction
3.2 Legal Systems
3.3 Multiplicity of Legal Environment
3.4 The Law and the Marketing Mix
3.5 Intellectual Property
3.6 Unfair Competition
3.7 Summary
3.8 Answer to Check Your Progress

3.0 AIMS AND OBJECTIVE

After studying this unit, you will be able to explain:

- the types of legal systems
- the intellectual properties
- the type of unfair competition
- how the legal system affects the way we do business

3.1 INTRODUCTION

Government set rules and regulation to normalize the business activities while safeguarding the societal well-being. Many of the rules set by the government may have an adverse effect on the business. Hence forth, the business firm may be aware of the government rules and regulation and accordingly abide by it. Every company's conduct is influenced more and more by the legal process in the society. The legal forces on marketing can be the following:-

- Monetary and fiscal policies- Government spending, tax legislation etc.

- Social legislation and regulation-Anti pollution law.
- Government relationship with industries- Tariffs and import quotas etc.

The impact of these factors can be wide-ranging and subtle. It can range from the effects of a change in government to the policies persuade by individual government department or agencies. Such changes can have important consequences both for individual business and for whole sectors of the economy.

3.2 LEGAL SYSTEM

To understand and appreciate the varying legal philosophies among countries, it is useful to distinguish between the two major legal systems: common law and statue law.

i) A common law system

A common law system is a legal system that relies heavily on precedents and conventions. Not so much as statues guide Judges decisions as by previous court decisions and interpretations of what certain laws are or should be. As a result, these countries laws are traditions oriented. Countries with such a system include the United States, Great Britain, Canada, India and other British colonies.

ii) A statue law system

Countries employing a statue law system, also known as code or civil law, included most continental European countries and Japan. Most countries – over 70 – are guided by a statue law legal system. As the name implies, the main rules of the law are embodied in legislative codes. Every circumstance is clearly spelled at to indicate what is legal and what is not. There is also a strict and literal interpretation of the law under this system. Therefore, the only major distinction between the systems is the

freedom of the judge in interpreting laws. A common law country, the judge's ability to interpret laws in a personal way gives the judges a great deal of power to apply the laws as it fits the situation. In contrast, a judge in a civil law country has a lesser role in using personal judgment to create or interpret laws because the judge must strictly follow the "letter of the law".

3.3 MULTIPLICITY OF THE LEGAL SYSTEMS

Much like the political environment discussed, there are a multiplicity of legal environments: domestic, foreign, and international.

i) Domestic legal environment

In the domestic environment, a businessperson must abide by the laws of the home country. Such laws can affect both imports and exports.Various countries design their legal system on which one system differs with others. For e.g. in the case of the united states, items that are 'restricted' but not 'prohibited' include automobiles, cultural treasures, more than $5000 of cash, firearms, wildlife and fish. Counterfeit products and illegal drugs cannot be imported etc.

ii) Foreign legal environment

Once a product crosses a national border, it becomes subject to both an entirely different set of laws and a new enforcement systems.

E.g.1 in China, all joint ventures with foreigners must be audited by the Chinese CPA. This simple requirement is difficult to satisfy because there are only about 1000 registered accountants in the country. E.g.2 France bans all imports of crawfish because of the risk of disease etc.

ii) International legal environment

In many cases, agreements between nations must be secured before marketers can enter a particular market. The airline business provides a good illustration of such agreements. Treaties among nations govern

international air routes. I.e., ***"Warsaw Convention"*** *- means the convention for the unification of certain rules relating to international coverage by air signed at Warsaw, 12th October 1929, or that convention as amended at the Hague, 28th September 1995, whichever may be applicable.*

There is no international law- perse that prescribes acceptable and legal behavior of international business enterprises. There are only national laws – often in conflict with one another, especially when national politics is involved. This complexity creates a special problem for those companies that do business in various countries, where various laws may demand contradictory actions. Because of the complexity of the international legal system, countries enter into an agreement to overcome such barriers. Among the most organization, the most active is GATT, whose role in the promotion of free trade.

The EC representing its members desire for economic integration strives for the same goal. An EC ruling can strike down domestic laws that pose a barrier to the free movement of goods among member countries.

I.e. the case with the West German beer market; which was protected for almost 500 years from imported beers by the "Purity of beer" laws. This German law requires beer to contain only malted cereals, hops, water and natural yeast and no chemical additives (preservatives and stabilizers). The purity law applies to beers imported in to Germany but not German beers exported into other countries.

3.4 THE LAW AND THE MARKETING MIX

Government regulations are designed to serve societal interest by preserving business competition on the one hand and protecting consumers on the other. Such regulations not only increase a company's

cost of doing business, but also affect its marketing strategies. Any one of the 4p's of marketing can be affected as illustrated.

i) Product

There are many products that cannot be legally imported into most countries. Examples include counterfeit money**,** illicit drugs, pornographic materials, etc. it is usually also illegal to import live animals and fresh fruits unless accompanied by the required certificates. Further more, many products have to be modified to conform to local laws before these products are allowed to cross the border. The modification may be quite technical from an engineering standpoint or may only be cosmetic, as in the case of certain packaging change.

ii) Place

In various countries the restriction in regards to distribution channels differs. As a result it affects the firms marketing activities. I.e. in the USA a manufacturer has a number of distribution channels from which to choose as long as competition is not stifled in the process. In most other countries, the manufacture does not have such freedom.

I.e. in Europe independent dealers handle personal computers, but EC regulation restricts IBM's control of the distribution for is midsize machines.

In terms of retailing not all types of sellers are available for distributing the product. For these, who do distribute, effectiveness and efficiency may be severely limited.

I.e. in Japan, small stores protected by law dominate the retailing industry. The large scale retail store law allows neighboring small stores to veto any proposed new stores of more that 27,000 square free and proposed expansion of existing stores.

Retailing in a number of counties is also affected by ancient so – called blue laws, which bar many shops from being open on Sundays.

I.e. in England and Wales, it is legal to buy a pornographic book on Sunday but not a Bible; Whisky and Gin but no dried milk in cows; post cards but not birthday cards etc.

iii) Promotion

There are virtually no limits on how much an advertiser can spend for promotion in the USA, but free spending is usually regarded as improper elsewhere.

Taking the view that advertising is not necessary for doing business, many countries have direct tax on advertising billings, agencies or media. Some governments use advertising tax to discourage advertising so that demand and inflation can be cured. Other government use advertising restrictions as a non tariff barrier to foreign exports.

I.e. Japan does not allow foreign cigarettes to be advertised in the Japanese language.

Obstacles to overseas advertising can also take a less explicit form. I.e. some countries do not allow advertising materials produced elsewhere to be shown in the native country.

I.e. Australia requires all TV commercials to be filled by local firm producers etc.

Another problem that a company must be prepared to deal with is the varying interpretations that occur with advertisement. What is acceptable to one country may be ‘misleading’ in another.

iv) Price

The general policy for using price control is to protect consumers’ interests or to control inflation. Generally the company has no choice but to obey the wage and price control imposed by the government.

Despite the need for price control form time to time, many countries also recognize the important role of price competitions. As such, certain practices that can interfere with market prices are prohibited. In the case of Germany, the federal cartel may intervene in:

i) 'Resale price agreement' that recommended upper or lower limit,
ii) 'Concerted conduct' or international parallelism ' between firms'
iii) Discrimination and boycotts against competitors
iv) Certain mergers and acquisition
v) Certain extensive restraints in connection with license agreements

One pricing practice, that is unlawful in most countries price discrimination.

If laws were to stay unchanged, lawmakers would soon be out of business. There will always be new laws changes in old laws, and new interpretations of existing laws. These changes can become serious roadblocks for some companies.

New laws often present both obstacles and challenges. As marketers, companies should be on the lookout for any new opportunities that new laws present with rapid and request changes in social and economic norms and in regulatory assumptions about such norms, a market once closed may suddenly open.

I.e. because of new laws banks in Switzerland and other countries, once prevented from issuing true credit cards by their central banks, are now able to issue visa cards or other cards that extend credit. Although a company must comply with existing laws, it is not entirely at the mercy of one country's laws.

I.e. US marketers of certain kinds of sugar substitute; chemicals and pesticides (i.e. DDT) can sell these products else where in spite of the ban in the U.S.

Taiwan’s “three no’s” policy of;

i) No contact
ii) No negotiation
iii) No compromise with china has not prevented Taiwan business from creating a $2Billion – a year trade with China. They accomplish such trade by transshipping goods through Hong Kong and other third country’s parts.

A multinational enterprise, the multinational company has countervailing powers. It may simply choose to leave a country whose laws create tow many problems to justify the costs of doing business there. If leaving is neither practical nor desirable, it can work toward affecting changes in those laws, perhaps with the threat to leaving as a negotiating play. In some cases law may have intended or unintended technical loopholes. MNCs with their international network are in a good position to exploit any legal loopholes to their advantage.

3.5 INTELLECTUAL PROPERTY

Intellectual property is a general term that describes inventions or other discoveries that have been registered with government authorities for the sale or use by their owner. Such terms as patent, trademark, copyright or trade secret fall in to the category of intellectual property. Individuals and firms have the freedom to own and control the rights to intellectual property (i.e. inventions and creative works). The term patent, trademark, copyright, and trade secret are often used interchangeably. In fact, they are four basic forms of intellectual property and hold different meanings as illustrated below: -

i) Trade mark: -

A trademark is a symbol, work or thing used to identify a product made or marketed by a particular firm. It becomes a registered trademark when the mark is accepted for registration by the trademark office.

ii) Copy right

A copy right which is the responsibility of the copyright office in the library of congress, offers protection against unauthorized copying by others to an author or artist for his / her literary, musical, dramatic and artistic works. A copyright protects the form of expression rather than the subject matter. The US has finally joined the eighty – nation Berne convention for the protection of literary and artistic works, allowing greater protection against foreign pirating of US copy righted works in 25 additional countries.

iii) Patent

A patent protects an invention of a scientific or technical nature, it is a statutory grant from the government (the patent office) to an inventor in exchange for public disclosure giving the patent holder exclusive right to the functional and design inventions patented and excluding other firm using those inventions for a certain period of time.

iv) Trade secret

The term trade secret refers to know – how (i.e. manufacturing methods, formulas, plans and so on) that is kept secret with in a particular business. This know – how, generally unknown in the industry, may offer the firm a competitive advantages.

3.6 UNFAIR COMPETITION

Even though, there are firms who would like to enjoy their sweats, there are also business who would like to prosper via short cut. These firms are unfairly competing with their competitors. The government role in the free market economy is to regulate unfair competition by preserving of

the intellectual properties. Some of the unfair competition takes the following forms:

i) Infringement

Infringement occurs when there is commercial use (i.e. recopying or imitating) without owner's consent, with the intent of confusing or deceiving the public.

I.e. Texas instruments charged that eight Japanese firms make memory chips based on its patent after the expiration of license agreements, and the US Company was able to force the Japanese firms to pay nearly $300 million in royalties.

ii) Counterfeiting

Counterfeiting is the practice of unauthorized and illegal copying of a product. In essence, it involves infringement on a patent or trademark or both. I.e. according to the Us Lanham Act, a counterfeit trademark is a "spurious trade mark, which is identical with, or substantially indistinguishable from a registered trademark." Section 42 of the US trademark Act of 1942 prohibits imports of counterfeit goods in to the United States. In South Korea – it is not a matter of priority. There are several level of counterfeiting.

1. **The true counterfeit** product**,** which uses the name of the original and looks like it.
2. **A look – alike** or knock off, which duplicates the organize design but does not use its name.
3. **Reproduction or replica,** a close but not exact copy and
4. **Imitation or associative counterfeit,** which is a cheap but poor copy of the original.

But, it is illegal use of the name and a product shape that differs little form the original that leads consumers to associate an imitation with the original.

iii) Gray market

A gray market exists when a manufacture ends up with unintended channel of distribution that performs activities similar to the planned channel – hence the term parallel distribution. Through this extra channel, gray market goods move, internationally as well as domestically. In an international context, a gray market product is one imported by an unauthorized party. Products notably affected by this method of operation include watches, cameras, automobiles, perfumes and electronic goods.

iv) Bribery

Bribery is both unethical and illegal. A closer look, however, reveals that bribery is not really that straight forward an issue. There are many questions about what bribery is, how it is used, and why it is used. The ethical and legal problems associated with bribery can also be quiet complex. I.e. according to the foreign corrupt practices Act of 1997, bribery is "the use of intensive commerce to offer, pay, promise to pay, or authorize giving anything of value to influence an act or decision by a foreign government, politician or political party to assist in obtaining, retaining, or directing business to any person. A bribe is also known as a "pay off" "grease money" "lubricant" "little envelop" or "bite", and under – the – table – payment as well as by other terms. A bribe may take the form of cash, gifts, jobs and free trips.

Check Your Progress Exercise

1. Explain the two legal Systems? And bring about the differences

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2. Explain in detail how the legal system affects the marketing mix?

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3. Discuss the Intellectual Properties In detail?

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4. Discuss in detail the unfair competition?

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5. Explain the multiplicity of the legal Systems?

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3.7 SUMMARY

Because of the variety of legal systems and the different interpretations and enforcement mechanisms, the discussion must, of necessity, be somewhat general. Based on the same rationale, it is impossible for the top management and legal staff at corporate headquarters to completely master the knowledge of foreign law on their own. To appreciate the problem and subtlety of foreign law, it is clearly necessary to consult local attorneys to find out how a company's operation may be constrained by particular laws. To deal with problems related to bribery, incorporation, counterfeiting and infringement, the services of local attorneys are essential. Just as essential is the corporation of the governments of both the host and home countries. The legal environment is dynamic with different countries claiming jurisdiction (or lack of jurisdiction) over business operations. The interaction among domestic, foreign, and international legal environments creates new obstacles as well as new opportunities.

3.9ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer Section 3.2
2. Refer Section 3.4
3. Refer Section 3.5

4. Refer Section 3.6
5. Refer Section 3.3

UNIT 4 : CULTURAL ENVIRONMENT

Contents

4.0 Aims and Objectives

4.1 Introduction

4.2 Meaning

4.3 Characteristics of a Culture

4.4 Influence of Culture

4.5 Subculture

- 4.5.1 Definition
- 4.5.2 Function of Subculture
- 4.5.3 Basis of Subculture

4.6 Summary

4.7 Answer to check your Progress

4.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to explain

- the meaning of culture
- the characteristics of culture
- the influence of culture
- what subculture is.

4.1 INTRODUCTION

The task facing marketing executives is becoming more complex because our culture patterns- life styles, social values, beliefs-are changing much more quickly than they used to. People start seeking value, quality, and safety in the products they buy. They have started concerning about education, retraining of workers, about air and water pollution, solid waste disposal (distraction of rain forests and other natural resources.

The social factors of the nation, including their changes through time, have great impact on the marketing strategies of firms. The long-term social changes are the major interest of this course.

Today, there is a great change in social outlook for the marketable products and business firms have also possibilities to utilize these opportunities. The study of these social trends such as: The rate of population growth, The rate of employment, trends in consumption.

Deferent patterns of moral authority, as religions decline, grow or are substituted by new and often divergent moral norms, Lifestyle of multi cultural population etc.

In order to develop an appreciation for the role of culture in society as well as the marketing implications of culture, this chapter explores the following:

i) What culture is
ii) What its characteristics are, and
iii) How culture affects consumer behavior

The varying methods of developing cross – cultural communication, verbally and otherwise are discussed. And population homogeneity with in a country is an exception rather than a rule; it is necessary to examine the relevance and basis of sub-cultural groups.

4.2 MEANING

"Culture is a set of traditional beliefs and values that are transmitted and shared in a given society. Culture is also the total way of life and thinking patterns that are passed from generations to generation. "

4.3 CHARACTERISTICS OF CULTURE

Culture, an inclusive term, can be conceptualized in many different ways. Not surprisingly, the concept is often accompanies by numerous definitions.

I.e. one study found that there are at least 164 definitions of culture. Another research effort identified some 240 definitions.

In any case, a good basic definition of concept is that: Culture means many things to many people because the concept encompasses norms, values, customs, art and more.

Behavior can be interpreted differently depending on where in the world it occurs. Consider these examples that could cause problems for an uniformed marketer.

i) Standing with your hands on your hips is a gesture of defiance in Indonesia.
ii) When you shake your head from side to side, that means, “yes” in Bulgaria, India and Srilanka.
iii) Crossing your legs to expose the sole of your shoe is unacceptable in Muslim countries.
iv) It is rude to leave anything on your plate when eating in Norway, Malaysia or Singapore.
v) In Egypt, it is rude not to leave something.

a) Culture is prescriptive

Culture set the kinds of behavior considered acceptable in the society. That is, certain behavior is not acceptable in some countries. The prescriptive characteristics of culture simplify a consumer decision making process by limiting product choices to those which are socially acceptable.

These same characteristics create problems for those products not in tune with the consumer's cultural beliefs.

I.e. smoking was once socially acceptable behavior, but recently it has become more and more undesirable – both socially and medically.

b) Culture is socially shared

Culture, out of necessity, must be based on social interaction and creation. It cannot exist by itself. It must be showed by members of a society, thus acting to reinforce culture's prescriptive nature. I.e. Chinese parents at one time have the preference of wanting their girl children to have small feet.

Large feet viewed as characteristics of peasants and low – class people;

c) Culture facilitates communication

One useful function provided by culture is to facilitate communication. Culture usually imposes common habits of thoughts and feeling among people.

Thus, within a given group culture makes it easier for people to communicate with in another. But culture may also impede communication across groups because of lack of shared common cultural values.

This is one reason why a standardized advertisement (i.e. a global advertisement prepared for many countries) may have difficulty communicating with consumers in foreign counties.

Advertising and promotion require special attention because they play a key role in communicating product concepts and benefits to the target segment.

d) Culture is learned

Culture is not inherited genetically – it must be acquired. Socialization or enculturation occurs when a person absorbs or learns the culture in which he or she is raised. In contrast, if a person learns the culture of a society other than the one in which he or she was raised, the process of acculturation occurs.

The ability to learn culture makes it possible for people to absorb new cultural trends.

I.e. Indian women never used to shake hands with the opposite sex, however, after a while they have started doing so.

e) Culture is subjective

People in different cultures often have different ideas about the same object. What is acceptable in one culture may not necessarily be so in another.

In this regard, culture is both unique and arbitrary. As a result the same phenomenon appearing in different cultures can be interpreted in very different manners. It is customary in many cultures for a bridegroom family to often a dowry to a bride's family, whether for the bride's future security or to compensate her family for raising her.

In Indian, an entirely different set of cultural rules applies. A woman there is viewed as a burden to both her own family and her husband – to – be. When she marries, her family must offer a dowry to the bridegroom.

f) Culture is enduring

Because culture is shared and passes along from generation to generation, it is relatively stable and somewhat permanent. Old habits are hard to break and a people tend to maintain its own heritage in spite of a continuously changing world.

I.e. India and China, despite serve overcrowding, have a great deal of difficulty with birth control.

g) Culture is cumulative

Culture is based on hundreds or even thousands of years accumulated circumstances. Each generation adds something of its own to the culture before passing the heritage on to the next generation.

Therefore, culture tends to become broader based overtime, because new ideas are incorporated and become a part of the culture. Of course, during the process, come old ideas one also discarded.

h) Culture is dynamic

Culture is passed along form generation to generation, but one should not assume that culture is static and immune to change. For from being the case, culture is constantly changing. It adapts itself to new situations and new sources of knowledge.

I.e. length of hair serves as a good example of cultural change.

The dynamic aspect of culture and make some products absolute and can usher in new buying habits. Because values and ideas change over time, marketers must keep up with changes in tastes in order to capitalize on new cultural trends.

4.4 INFLUENCE OF CULTURE

Culture influence the consumption pattern, the thinking process and the communication process,. As illustrated below: -

i) Influence of culture on consumption

Consumption patterns, living styles, and the priority of needs are all dictated by culture. Culture prescribes the manner in which people satisfy their desires. Not surprisingly, consumption habits vary greatly.

I.e. Thai and Chinese do not consume beef at all, believing that it is improper to eat cattle that work on farms, thus helping to provide foods such as rice and vegetables.

Food preparation methods are also dictated by cultural preferences. Not only culture influence what is to be consumed, but it also affects what should not be purchased.

- Muslims do not purchase chickens unless they have been hallaled.
- In Jewish no consumptions of pork
- Alcoholic beverages restricted in Islamic countries. Etc.

ii) Influence of culture on thinking process

In addition to consumption habits, thinking processes are also affected by culture. When traveling overseas, it is virtually impossible for a person to observe foreign cultures with out making references, perhaps unconsciously, back to personal cultural values. This phenomenon is known as the self – reference criterion (SRC). Because of the effect of the SRC, the individual tends to be bound by his or her own cultural assumptions. It is thus important for the traveler to recognize how perception of overseas events can be distorted by the effect of the SRC.

I.e. project heads launching a venture in a less development country should consider the following guidelines.

- Resist the tendency to conduct business immediately on landing
- Resist the tendency to conduct business at all times
- Consider doing favors as a business tool to generate allies
- Contact, cultivate, and conduct field work among at least one sample clientele to serve as an initial testing center for the firm's product.
- Introduce the product line into the sample group by local forms of cause related marketing and
- Extend product acceptance beyond the sample clientele into related market segments.

iii) Influence of culture on communication process

A country may be classified as either a high – context culture or a low – context culture.

The context of culture is either high or low in terms of in – depth background information. This classification provides an understanding of various cultural orientations and explains how communication is conveyed and perceived.

I.e. North America and North Europe (e.g. Germany, Switzerland, and Scandinavian countries) are examples of low context cultures. In these types of society, messages are explicit and clear in the sense that actual words are used to convey the main part of information in communication.

I.e. Japan, France, Spain, Italy, Asia, Africa, and the middle eastern Arab nations, in contrast are high – context cultures. In such cultures, the communication may be indirect, and the expressive manner in which the message is delivered becomes critical. Because the verbal part (i.e. words) does not carry most of the information, much of the information is contained in the non-verbal part of the message to be communicated. The context of communication is high because it includes a great deal of

additional information, such as the message sender's values, position, background, and associations in the society.

According to hall, Cultures also vary in the manner by which information processing occurs. Some cultures handle information in a direct, linear fashion and are thus monochromic in nature.

Schedules, punctuality, and a sense that time forms a purposeful straight line are indicators of such cultures. Being monochromic, however, is a matter of degree.

Although the Germans, Swiss and Americans are generally more monochromic cultures, the Americans are generally more monochromic than most other societies, and their fast tempo and demand for instant responses are often viewed as pushy and impatient.

Other cultures are relatively polychronic in the sense that people work on several fronts simultaneously instead of pursuing a single task. Both Japanese and Hispanic cultures are good examples of polychronic culture. The Japanese are often misunderstand and accused westerns of not volunteering detailed information.

The truth of the matter is that the Japanese do not want to be too direct because by saying things directly they may be perceived as being insensitive and offensive.

The cultural context and the manner in which is the processing of information occurs can be combined to develop a more precise description of how communication takes place in a particular country.

I.e. Germany is a monochronic and low context culture. France in comparison is a polychronic and high context culture etc.

4.5 SUB CULTURE

Because of deferring, cultures, world wide consumer homogeneity does not exist. Neither does it exist in the USA. Deference's is consumed groups are everywhere. There are white, black, Jewish, catholic, truck driver, young, old, eastern, and western consumers, among other numerous groups. Communication problems between speakers of different languages are apparent to all, but people who presumably speak the same language may also encounter serious communication problems.

4.5.1 Meaning of Subculture

"A subculture is a distinct and identifiable cultural group that has values in common with the overall society but also has certain characteristics that are unique to itself. "

Thus subcultures are groups of people with in a larger society. Although the various subcultures share same basic traits of the wider culture, they also preserve their own customs and lifestyles, making them significantly deferent from others group with in the larger culture of which they are a part.

*i.*e. Indonesia has more than 300 ethic groups, with lifestyles and cultures that seem thousands of years apart.

4.5.2 Functions of Subculture

Subculture is important to person because it serves at least three important functions:

i) Group identification
ii) A network of groups and institutions and
iii) A frame of references

a) Group identification

A subculture provides a psychological source of group identification. It often a unique identity based on an association with the same kind of people. An individual will know if he or she is white, black or Spanish.

b) A network of groups and institutions

A subculture also often a patented networks of communication. A subculture provides for the maintenance of primary relationships with others in the same subculture. Briefly speaking, it makes available the means of contact through a communication network.

c) A frame of references

Belonging to a subculture makes it easy for a person to understand a new encouragement by seeing as a frame of reference for viewing the new culture. Comparisons can be made with preciously experiences in the subculture. Understanding of a new situation or encouragement to thus achieved easier and faster.

4.5.3 Basis of Subculture

There are many ways to classify subcultures. Although race or ethnic origin is one obvious way, it is not the only one. Other demographic and social variables can be just as suitable for establishing subcultures within a nation. As explained by valentine, the list only begins with:

a) Socioeconomic strata - such as the lower class or the poor. It goes on to include
b) Ethnic collectives - E.g. Blacks, Jews, Whites
c) Regional populations - Southerners, Midwesterners;
d) Age grades - Adolescents, youth
e) Community types - Urban, Rural
f) Institutional complexes - Education, penal establishments
g) Occupational groupings - Various professions
h) Religious bodies - Catholics, Orthodox, Muslims

i) Political entities - Revolutionary groups,
j) General of intellectuals orientation, such as 'scientists' and intellectuals
k) What are categories of moral evaluation, ranging from 'respectable' to the 'disreputable' and the 'unworthy' poor.

The degree of intra-country homogeneity varies from one country to another. In the case of Japan, the society as a whole is remarkably homogeneous. Although some regional and racial diversities as well as differences among income classes are to the found, the differentials are not pronounced.

Check your Progress Exercise

1. Define the term Culture? And discuss its characteristics?

_____

_____

2.Duiscuss in detail the influence of culture?

_____

_____

3.what is subculture? Discuss the basis of subculture?

_____

_____

4.Discuss in detail the function of Subculture?

_____

_____

4.6 SUMMARY

Culture prescribes acceptable beliefs, traditions, customs, and values that are then socially shared. Culture is subjective, enduring yet dynamic, and ambulate. It affects people's behavior in divers ways through logic, communication, and consumption. Although some cultural traits are

universal, many others are unique and vary from country to country. And in spite of national norms, cultural differences as a rule even exist within each country.

Because marketing takes place with in a given culture, a firms marketing plan takes on meaning or is appropriate only when it is relevant to that culture.

As a result, the firms marketing mix may have to undergo significant adaptation and adjustment. Effective marketing in this environment will thus mandate that the company be culturally responsive.

4.7 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer Sections 4.2
2. Refer Section 4.2.2
3. Refer Section 4.3
4. Refer Section 4.4

UNIT : 5 ECONOMIC ENVIRONMENT

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5.7 Summary

5.8 Answer to Check Your Progress Exercise

5.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to explain

- what economic environment is
- the various tariff and non tariff barriers
- the economic cooperation.

5.1 INTRODUCTION

People alone do not make a market. They must have money to spend and be willing to spend it. Consequently, the economic environment is a significant force that affects the marketing activities of just about any organization. A marketing program is affected especially by such economic factors as the current and anticipated stage of the business cycle, as well as inflation and interest rate. Firms are very sensitive for the following major and other economic factors: **Energy price; Interest rates; Exchange rates; Taxation; Inflation/deflation and Economic growth of the nation**

There is also a range of economic factors at an industry level such as the availability of land, capital and labor in different economies and regions. In economic language, the three central economic tasks of every society are really about choices among on economy's inputs and outputs.

Inputs are commodities or services used by firms in their product processes. Outputs are the various useful goods or services that are either consumed or employed in further production.

We classify inputs, also called factors of production, into three broad categorized land, labor and capital.

1. Land – or more generally natural resources represents the gift of nature to our production processes. It consists of land used for farming or for underpinning houses, factories and roads etc.
2. Labor – consists of the human time spent in production – working in automobile, factories, teaching school etc.

Capital – resources form the durable goods of an economy, produced in order to produce yet other goods. Capital goods include machines, roads, computers, hammers, trucks etc.

5.2 ECONOMIC SYSTEMS

In the earliest societies, custom ruled every facet of behavior. What, how and for whom were decided by tradition passed on from elders to youth. Different societies face the demands for change through alternative economic systems and economic studies the different mechanisms that a society can use to allocate its scarce resources.

Economic organization can be briefly discussed as follows:

5.2.1 Command Economy

A command economy is one in which the government makes all decisions about production and distribution. In a command economy, the government owns considerable fractions of the means of production (land and capital). It also own and directs the operations of enterprises in most industries. It is the employer of most workers and tells them how to do their job. And the government in a command economy decides how the output of the society to be divided among different goods and services.

5.2.2 Market Economy

A market economy is one in which individuals and private firms make the major decisions about production and consumption. A system of prices, of markets, of profits and losses, of incentives and rewards determine what, how and for whom. Firms produce the commodities that yield the highest profits (the what) by the technique of production that are least costly (the how). Consumption is determined by individual decisions about how to spend the wages and property incomes generated by their labor and property of consuming (the for whom).

5.2.3 Mixed Economy

With elements of market and command, there has never been a 100% market economy. Today most decisions are made in the market place. But the government plays an important role in modifying the functioning of

the market. Government sets laws and rules that regulate economic life, produces educational and police services, and regulates production and business.

5.3 PRODUCTION POSSIBILITY FRONTIER

Life is full of choices. Because resources are scarce, we must constantly decide what to do with our limited time and income.
i.e.,

- Should we go to a movie or read a book?
- Should we travel or buy a car?
- Should we get postgraduate or begin work?

In each of these cases, making a choice in the world of scarcity requires us to give up something else, costing us the opportunity to do something else. The alternative forgone is the opportunity cost.

The opportunity cost of a decision arises because choosing one thing in a world of scarcity means giving up something else. The opportunity cost is the value of the good or service forgone.
The production – possibility curve shows the maximum amounts of production that can be obtained by an economy, given the technological knowledge and quantity of inputs available. The production possibility curve represents the menu of choices available to society.

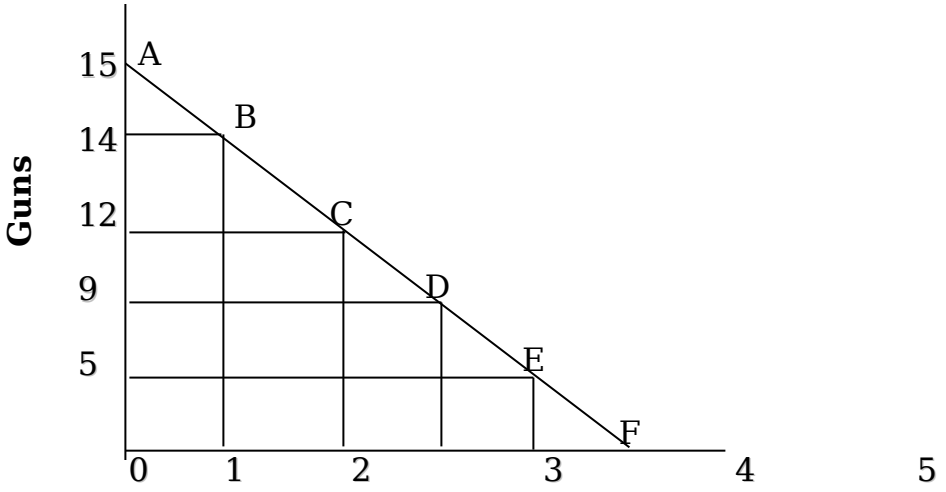
Consider an economy with only so much labor, so much technical knowledge, so many factories and tools and so much land, waterpower and natural resources. In deciding what shall be produced and how, the economy is deciding in reality just how to allocate its resources among the thousands of different possible commodities. How much land should go into wheat growing? Or into housing the population? How many factories will produce computers? How many will make pizzas? These issues are complicated even to discuss. Therefore, we must simplify. Let

us assume that only two economic goods are to be produced. For dramatic purposes we can select Guns and Butter to illustrate the problem of choosing between military spending and civilians goods.

We can represent our economy's production possibilities more vividly in the diagram shown. This diagram measures Butter along the horizontal axis and Guns along the vertical one.

Alternative Production Possibilities

Possibilities	Butter (Millions of pounds)	Guns (Thousands)
A	0	15
B	1	14
C	2	12
D	3	9
E	4	5
F	5	0



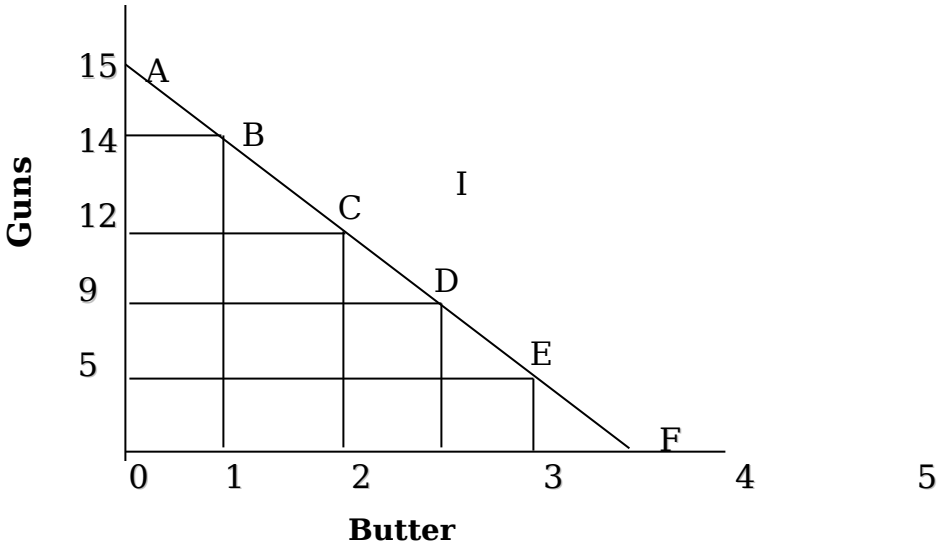
Butter millions of pounds
(Graphical Depiction of alternative production possibilities)

Suppose the economy throws all its energy into producing the civilian good, Butter. Suppose 5 million pounds of Butter is the maximum amount that can be produced with the existing technology and resources. At the other extreme, imagine that all resources are instead devoted to the production of Guns i.e., assume that the economy can produce 15 thousands Guns of a certain kind of no Butter is produced.

A schedule of possibilities given in the diagram combination F shows the extreme where all Butter and no Guns are produced. While A depicts the opposite extreme where all resources go in to Guns. In between at E, D, C and B increasing amounts of Butter are given up in return for more Guns.

Butter is transformed into Guns, not physically but by diverting the economy's resources from one use to the other.

How do we know that any point the curve is efficient?



Let us start in the situation shown by point D in the figure above. Decree that we want another million pounds of Butter. If we ignored the constraints shown in the diagram, we might think it possible to produce more Butter without reducing Gun production, say by moving to point I, due east of point D. but point I is outside the diagram in the impossible region. Starting from D, we cannot get more Butter without giving up some Guns. Hence point D is efficient and point I is infeasible.

- *Productive efficiency occurs when society cannot increase the output of one good without cutting back on another good. An efficient economy is on its production-possibility curve.*

5.4 TRADE THEORIES

5.4.1 Principle of Absolute Advantage

Adam Smith may have been the first scholar to investigate formally the rationale behind foreign trade. In his book "Wealth of Nations" Smith used the principles of absolute advantage as the justification for international trade.

According to this principle, a country should export a commodity that can be produced at a lower cost than other nations. Conversely it shared import of a commodity that can only be produced at a higher cost than can other nations.

Consider a hypothetical example of the nations producing two products.

Product	USA	Japan
Computer	20	10
Automobile	10	20

It shows that given certain resources and labor, the United States can produce 20 computer or 10 automobiles or some combination of both. In contrast, Japan is able to produce only half as many computers (i.e., Japan produces 10 for every 20 the United States produces).

The disparity might be the result of better skills by American workers in making this product. Therefore the United States is having an absolute advantage in computers. If the situation is reversed for automobiles, the United States makes only 10 cars for every 20 units manufactured in Japan. In this instance, Japan has an absolute advantage.

In this instance, it should be apparent why trade should take place between the two countries. The USA has an absolute advantage for computers but an absolute disadvantage for automobiles.

For Japan, the absolute advantage exists for automobiles and an absolute disadvantage for computers. If each country specializes in the product for which it has an absolute advantage, each can use its resources more effectively while improving consumer welfare at the same time. Since the USA would use less resource in making computers, it should produce this product for its own consumption as well as for export to Japan. Based on

this same rationale, the USA should import automobiles form Japan rather than manufacturer them itself. For Japan, of course, automobiles would be exported and computers imported.

> *Example: A doctor is absolutely better than a mechanic in performing surgery. Whereas the mechanic is absolutely superior in repairing cars. It would be impractical for the doctor to practice medicine as well as repair the car when repairs are needed. Just as impractical would be the reverse situation for the mechanic to attempt to practice surgery.*

Thus, for practicality each person concentrates on and specializes in the craft that person has mastered. Similarly, it would not be practical for consumers to attempt to produce all the things they desire to consume. One should practice what one does well and leave the production of other things to people who produce them well.

5.4.2 Principle of Comparative Advantage

The principle of comparative advantage holds that each country will specialize in the production and export of those goods that it can produce at relatively low cost (in which it is relatively more efficient than other countries). Conversely each country will import those goods that it produces at relatively high cost or in which it is relatively less efficient than other countries.

Ricardo's Analysis of Comparative Advantage

Let us illustrate the fundamental principles of international trade by considering America and Europe of a century ago. If labor (or resources more generally) is absolutely more productive in America than in Europe, does this mean that America will import nothing? And is it economically wise for Europe to "protect" its markets with tariff or quotas.

These questions were first answered by the English economist David Ricardo in 1817. Ricardo supplied a beautiful proof that international specialization benefits a nation, calling the result the law of comparative advantage.

For simplicity, Ricardo worked with only two countries and only two goods, and he choose to measure all production costs in terms of labor hours. We shall follow his lead here; analyze food and clothing for Europe and America.

American and European Labor Requirements for Production

Necessary Labor (Labor – Hours)

Product	In America	In Europe
1 Unit of food	1	3
1 Unit of clothing	2	4

Note: In hypothetical example, America has lower labor costs in both food and clothing; American labor productivity is between 2 and 3 times Europe's (twice in clothing, thrice in food). Yet it benefits both regions to trade with each other.

In America it takes 1 hour of labor to produce a unit of food while a unit of clothing costs 2 hours of labor. In Europe the cost is 3 hours of labor for food and 4 hours of labor for clothing. We see that America has an absolute advantage in both goods, for it can produce them with greater absolute efficiency, than can Europe. However America has comparative advantage in food, while Europe has comparative advantage in clothing, because food is relatively inexpensive in America while clothing is less expensive in Europe.

From these facts, Ricardo proved that both countries will benefit if they specialize in their areas of comparative advantage, that is America specializes in the production of food while Europe specialize in the

production of clothing. In this situation, America will export food to pay for European clothing while Europe exports clothing to pay for American food.

To analyze the effect of trade and the benefits to specializing in areas of comparative advantage, we must measure the amounts of food and clothing that can be produced and consumed in each country.

A. If there is no international trade and
B. If there is free trade with each country specializing in its area of comparative advantage.

Before Trade

Start by examining what occurs in the absence of any international trade. Say because all trade is illegal or because of prohibitive tariff.

The real wage of the American worker for an hour's work is 1 unit of food or ½ unit of clothing. The European worker is less well off in a no-trade position, getting only $^{1}/_{3}$ unit of food or ¼ unit of clothing per hour of work. Clearly, if perfect competition prevails in each isolated region, the prices of food and clothing will be different in the two places because of the difference in production costs. In America, clothing will be 2 times as expensive as food because it takes twice as much labor to produce a unit of clothing as it does to produce a unit of food. In Europe clothing will be only $^{4}/_{3}$ as expensive as food.

After Trade

Now suppose that all tariff are repealed and free trade is allowed. For simplicity, further assume that there are no transportation costs. In this case, goods will flow from their low price region to their high price region. Indeed with no transportation cost, all prices in the two regions must be equalized just as the water in the connecting pipes must come to

a common level once you remove the barrier between them. Hence food sells for the same price everywhere as will clothing.

What is the flow of goods when trade opened up? Clothing is relatively more expensive in America and food is relatively more expensive in Europe.

Given these relative prices, and with no tariffs or transportation costs, this means that food will soon be shipped from America to Europe and clothing from Europe to America.

As European clothing penetrates the American market, American clothiers will find price falling and profits shrinking and they will begin to shut down their factories.

The opposite will occur in Europe. European farmers will find that the prices of foodstuffs begin to fall when American products hit the European markets they will suffer losses, some will go bankrupt, and resources will be withdrawn from farming.

The relative prices of food and clothing must lie somewhere between the European price ratio (which ¾ for the ratio of food to clothing price) and the American price ratio is (which is ½).

Let us say that the final price ratio is 2/3, so that 2 units of clothing trade for 3 units of food. For simplicity, we measure price in American dollars and assume that the free trade price of food is $2 per unit, which means that the free trade price of clothing is $3 per unit.

More over the regions have shifted their production activities. America has withdrawn resources from clothing and invested in food while Europe has contracted its farm sector and expanded its clothing manufacture. Under free trade, countries shifts production toward their areas of comparative advantage.

When trade opens and each country concentrates on its area of comparative advantage, every one is better off. Workers in each region can obtain larger quantity of consumer goods for the same amount of work when people specialize in the areas of comparative advantage and trade their own production for goods in which they have a relative disadvantage. When borders are opened to international trade, the national income of each and every trading country rises.

The Economic Gains From Trade

Real wages are measured by the amount of goods of service that a worker buy's with an hours pay.

Before trade for both countries:

For simplicity, assume that each worker buys 1 unit of clothing and 1 unit of food. Before trade, the bundle of consumer goods costs an American worker 3 hours of work and a European worker 7 hours of work.

After trade has opened up, recall that the price of clothing is $3 per unit while the price of food is $2 per unit. An American worker must still work 1 hour to buy a unit of food. But the price ratio of 2 to 3, the American worker need work only 1½ hours to produce enough to buy 1 unit of European clothing. Therefore the bundle of goods costs the American workers 2 ½ hours of work when trade is allowed, this represents an increase of 16 2/3 percent in the real wage of the American worker.

For European workers, a unit of clothing will still cost 4 hours of labor in a free trade situation, for clothing is domestically produced. To obtain a unit of food, however, the European worker need produce only 2/3 unit for 1 unit of American food.

The total European labor needed to obtain the bundle of consumption is then 4 + 2 2/3 = 6 $^{2}/_{3}$, which represents an increase in real wages of about 5 percent over the no trade situation.

Limitation and Suggested Refinements

Trade theories provides logical explanations about why nation trade with one another, but such theories are limited by their underlying assumptions. Most of the world's trade rules are based on a traditional model that assumes that:

- trade is bilateral
- trade involves products originating primarily in the exporting country
- the exporting country has a comparative advantage, and
- competition primarily focuses on the importing country's market.

However today's realities are quite different. That is

- trade is a multilateral processes
- trade is often based on products assembled from components that are produced in various countries
- it is not easy to determine a country's comparative advantage, as evidenced by the countries that often export and import the same product and
- competition usually extends beyond the importing country to include the exporting country and third countries.

Limitations

1. One limitation of classical trade theories is that the factors of production are assumed to remain constant for each country because of the assumed immobility of such resources between countries. This assumption is especially true in the case of land, since physical transfer and ownership of land can only be accomplished by war or purchase.

Example: US seizure of California from Mexico and the US purchase of Alaska from Russia.

2. A significant difference exists in the degree of mobility between land and capital. In spite of the restrictions on the movement of capital imposed by most governments, it is possible for a country to attract foreign capital for investment or for a country to borrow money from foreign banks or international development agencies.
3. Labor as a factor is relatively immobile. Immigration laws in most countries severely limit the freedom for movement of labor between countries. In China, people (i.e. labor) are not even able to select residence in a city of their choice. Still, labor can and does move across borders.
4. Production factors are now considered more mobile than previously assumed, but their mobility is still considerably restricted. As a result, production costs and product prices are never completely equalized across countries. The small amount of mobility that does exist serves to narrow the price/cost differentials. In theory as a country exports its abundant factors, that factor becomes more scarce at home and its price rises. In contrast, as a country imports a scarce factor, it increases the abundance of that factor and its price declines. Therefore, a nation is usually interested in attracting what it lacks and this practice will affect the distribution of production factors.
5. Immobility is not the only item of relevance when considering the factors of production. Another item that is very significant involves the levels of quality of the production factors. It is important to understand that the quality of each factor should not be assumed to be homogeneous worldwide.
6. Perhaps the most serious shortcoming of classical trade theories is that they ignore the marketing aspect of trade. These theories are primarily concerned with commodities rather than with

manufactured goods or value-added products. It is assumed that all suppliers have identical products with similar physical attributes and quality. This habit of assuming product homogeneity is not likely to be made among those familiar with marketing. Trade analysis, therefore, is not complete without taking into consideration the reasons for product differentiation.

7. A further shortcoming of classical trade theories is that the trade patterns as described in the theories are in reality frequently affected by trade restrictions. The direction of the flow of trade, according to some critics of free trade, is no longer determined by a country's natural comparative advantage. Rather a country can create a relative advantage by relying on out-sourcing and other trade barriers, such as tariff and quotas.

i.e., The US trade pattern is also distorted by trade restrictions and regulations. The US automobile emission control standards have effectively presented Brazilian cars from entering the US market.

5.4.3 Factors Endowment Theory

The principle of absolute advantage and relative advantage provide a primary basis for trade to occur, but the usefulness of these principles is limited by their assumptions. One basic assumption is that the advantage, whether absolute or relative, is solely determined by labor in terms of time and cost. Other factors of production are assumed to be

i. insignificant
ii. so evenly spread over all labor inputs that they always work in a fixed proportion with labor
iii. merely representation of stored up labor. Labor then determines comparative production costs and subsequent product prices for the same commodity.

If labor is indeed the only factor of production or even a major determinant of product content, countries with high labor cost should be in serious trouble. It is misleading to analyze labor cost without also considering the quality of that labor. A country may have high labor cost on absolute basis. Yet this cost can be relatively low if productivity is high.

Further more, the price of a product is not necessarily determined by the amount of labor it embodies, regardless of whether the efficiency of labor is an issue or not.

Since product price is not determined by labor efficiency alone, other factors of production must be taken into consideration including land and capital (i.e. equipment). Together, all of these production factors contribute significantly to the creation of value with in a particular product.

One reason for the importance of identifying other factors of production is that different commodities require different factor inputs and that no country is well endowed in all production factors. The varying proportion of these factors embodied in various goods has a great deal of impact on what a country should produce. Corn for instance is best produced where there is an abundance of land (relative to labor and capital), even though corn can be grown in most places in the world. Oil refining, in contrast, requires relatively more capital and relatively less labor and land because of expensive equipment and specialized personnel. In clothing, the most important input factor is that the economy is labor intensive.

The varying factor inputs and proportions for different commodities together with the uneven distribution of such factors of production in different regions of the world are the basis of Heckscher – Ohlin theory of factor endowment. This theory holds that the inequality of relative prices

is a function of regional factor endowment and the comparative advantage is determined by the relative abundance of such endowments. Accordingly to Ohlin, there is a mutual interdependence among production factors, factor movements, income, prices and trade. A change in one affects the rest. Prices of factors and subsequent product prices in each region depend on supply and demand, which in turn are affected by the desires of consumers, income levels, quantity of various factors, and physical conditions of production.

Therefore, a country that is relatively abundant labor but relatively scarce in capital is likely to have a comparative advantage in the production of labor-intensive goods and to have deficiencies in the production of capital-intensive goods. This concept explains why China, a formidable competitor in textile products, has to depend on US and European firms for oil exploration within China itself.

The United States has a relative advantage in such temperate-zone agricultural commodities as wheat, corn and soybeans as well as in high-technology manufactured goods (e.g., capital goods). These advantages are not surprising in a country that has a great deal of land and capital. On the other hand, the United States is a net importer of such low-techonolgy manufactured goods as consumer products. The United States also imports mineral fuel (e.g., oil), even though it exports other crude materials.

5.5 TRADE BARRIERS

Even though a nation will be benefited from international marketing, dealing in international market is subject to some barriers. Government will impose several barriers to discourage international trade: depending upon the political situation; economic development; imports adverse effect to balance of payment of a country; etc. Some of the barriers imposed by most government to protect the local industries could be

broadly classified under two major heads: tariff barriers and non-tariff barriers.

5.5.1 Tariff Barriers

1. Classification of Tariff:

Direction:

- Import Tariff
- Export Tariff

Purpose

- Protective Tariff
- Revenue Tariff

Time length -

- Tariff Surcharge
- Countervailing Duties

Import Restraints

- Special Duties
- Variable Duties

Tariff Rates

- Special Duties
- Advolarem Duties
- Combined rates

Production, consumption, &distribution

- Single stage tax
- Value added tax
- Cascade tax
- Excise tax

TARIFF:- ***"Tariff is derived from a French word meaning rate, price, or list of charges is a Customs duty or a tax on products that moves across borders."***

Classification of Tariff:

1. Direction: Import and Export

Tariff are often imposed on the basis of the direction of product movement ,that is ,on imports or exports, with the latter being the less common one. When export Tariff are levied, they usually apply to an exporting country's scarce resources or raw materials (rather than finished manufactured materials.)

2. Purpose: Protective and Revenue

The purpose of protective Tariff is to protect home industry, agriculture, and labor against foreign competitors by trying to keep foreign goods out of country. The purpose of revenue tariff, in contrast is to generate tax revenues for the Government. Compared to a protective tariff, a revenue tariff is relatively low.

3. Length: Tariff surcharge and countervailing duties

- Protective Tariff can be further classified according to length of time. A tariff surcharge is a temporary action, whereas a countervailing duty is a permanent surcharge**.**

- Countervailing duty is charged on certain imports when foreign Governments subsidize products. These duties are thus assessed to offset a special advantage or discount allowed by an exporter Government. Usually, a government provides an export subsidy by rebating certain taxes of goods are exported**.**

4. Import Restraints: Special duties and Variable duties

- Protective tariff can also be classified as either import charges or import restraint. These tariffs include special duties and variable levies, which are imposed in addition to import tariff. Special duties

are extra duties for certain items. The purpose is to make it difficult to import and to sell those products.

- Variable duties means different rates for different product categories, depending on how much the products have been processed and how much more processing they will undergo. Variable duties can also be used for exports as well, except that in this case rates are reversed. That is, a country may encourage imports of raw materials or resources by taxing them less than finished or value added products.

5. Rates: - Specific, Advalorem, and Combined

- Specific duties are a fixed or specified amount of money per unit of weight gauge, or other measure of quantity based on a standard physical unit of a product. They are a specific rates of so many dollars or cents for a given unit of measure. E.g., $1/gallon, $0.25 /square yard, $2/ton etc.
- Advalorem duties are duties according to value. They are stated as fixed percentage of the invoice value and are applied as a percentage to the duty able value of the imported goods**.**
- Compound rates or Compound duty are a combination of the specific and Advalorem duties on a single product. They are duties based on both the specific rate and advolrem rate that are applied to an imported product.
- **Distribution Point:- Distribution and Consumption taxes**
    - **Single stage sales tax** is a tax collected only at one point in the manufacturing and distribution chain. This tax is perhaps most common in the united states, where retailers and wholesalers make purchases without paying any taxes simply by showing a sales tax permit. The single stage sales tax is not collected until products are purchased by final consumers**.**

- **A value added tax (VAT)** is a multi stage, non-cumulative tax on consumption. It is a national sales tax levied at each stage of the production and distribution system through only on the value added at that stage.
- **E.g.:-** A manufacturer initially pay tax of raw materials worth $100.By transforming this raw material in to finished products, the manufacturer adds another $50 to the product value. If the product is then sold to a wholesaler, the wholesaler pays tax on the $50 (i.e. the value added) and not on the total value of $150.Mostly used in Europe, Korea in hotels, tourist facilities, and major restaurants as a standard rate of 10%.
- **Cascade Tax** are collected at each point in the manufacturing and distribution chain and are levied on the total value of the product, including tax borne by the producer at the earlier stage .A cascade tax and a value added tax.
- **An Excise Tax** is one time charge levied on the sales of specified products. Alcoholic beverage and cigarettes are good examples. In the US, the federal government collects a 3% Excise tax on telephone services and collects $0.16 for each pack of cigarettes. State country and city government may have taken own excise taxes.
    - Many countries have a turnover or equalization tax. This is a tax intended to compensate for similar taxes levied on domestic products. Any critical examination of this tax would demonstrate that the tax does not equalize prices at all.

5.5.2 Non-Tariff Barriers

Government Participation In Trade: -

- Administrative Guidance
- Subsidies
- Government Procuring and State Trading

Customs Entry Procedures: -

- Product Classification
- Product Valuation
- Documentation
- License Or Permit
- Inspection
- Health And Safety regulation

Product Requirement: -

- product standard
- packaging ,labeling and marking
- product specification -
- Product Testing

Quota: - Export quota

- Import quota
  - Absolute Quota
  - Tariff Quota
  - Volunteer Quota

Financial Control: -

- Exchange Control
- Multiple Exchange Rates
- Prior Import Deposit
- Credit Restriction
- Profit Remittance Restriction

1. Government Participation in trade:

The degree of government involvement n trade varies from passive to active .The type of participation include administrative guidance, state trading and subsidies.

- **Administrative Guidance**

Many governments routinely provide trade consultation to private companies. The systematic cooperation between the government and business is labeled Japan inc. to get to the Japanese government guidance. The government uses the CARROT & STICK approach by exerting the influence through regulations, recommendation, encouragement, discouragement, or prohibition.

- **Government procurement and state trading**

State trading is the ultimate in government participation, because the government itself is now the customer or buyer who determines what, when, where, how and how much to buy. In this practice, the state engages in commercial operations, either directly or indirectly, through the agencies under its control. Such business activities are either in place or in addition to private firms.

- **Subsidies**

Government participation can take the form of subsidies to protect local industries or to push exports. Subsidies can take the form of : cash, interest rate, value added tax, corporate income tax, sales tax, freight insurance, and infrastructure. One common method is for the government to provide concessionary financing (lower than market interest rates.)

1. **Customs entry procedures.**

Customs and entry procedures can be employed as non-tariff barriers. These restriction involve classification, valuation, documentation, license, inspection, and health and safety regulation**.**

- **Classification**

How a product is classified is can be arbitrary and inconsistent and is often based on a custom officers judgment, at least at the time of entry.

- **Valuation**

Regardless of how products are classified, each product must still be valued. The value affects the amount of tariff levied. A customs appraiser is the one who determines the values.

- **Documentation**

Documentation can present another problem at entry because many documents and forms are often necessary, and the documents required can be complicated**.**

- **License or permit**

Not all the product can be freely imported. Controlled imports require license or permit. E.g.. importation of distilled spirits, wines, malt beverages, arms, ammunition, and explosives etc require a license or permit.

- **Inspection**

Inspection is an integral part of product clearance. Goods must be examined to determine quality and quantity. This step is highly related to other customs and entry procedure. First, inspection classifies and values products for tariff purpose.

2. Product Requirement

Packaging, Labeling, and Marking: - Packaging, Labeling, and Marking are considered together because they are highly interrelated. Many products must be packaged in a certain way for safety and other reasons.

- **Product Testing**

Many products must be tested to determine their safety and suitability before they can be marketed. Although products may have won approval everywhere else for safety and effectiveness, such products are medical equipment and pharmaceuticals must go through elaborate standard testing, that can take a few years.

- **Product Specification**

Product specification though appearing to be an innocent process, can wreak havoc on imports. Specification can be written in such a way as to a favor to local bidders and to keep out foreign suppliers.

3. Quota

Quotas are a quantity control on imported goods. Generally, they are specific provisions limiting the amount of foreign products imported in

order to protect local firms and to conserve foreign currency. Quotas can be used for export control as well.

- **Absolute Quota**

An absolute quota is the most restrictive of all. It limits in absolute terms the amount imported during a quota period. Once filled, further entries are prohibited.

- **Tariff Quota :-** a tariff quota permits the entry of limited quantity of the quota product at reduced rate of duty. Quantities in excess of the quota can be imported but are subject to a higher duty rate.
- **Voluntary Quota :-** a voluntary quotas differs from the other two kinds of quota which are unilaterally imposed. voluntary quota is a formal agreement between nations or between a nation and an industry. This agreement usually specifies the limits of supply by product, country and volume.

4. **Financial Control**

Financial regulations can also function to restrict international trade. These restrictive monetary policies are designed to control capital flow so that currencies can be defended or imports controlled.

- **Exchange Control: -**

An exchange control is a technique that limits the amount of the currency that can be taken abroad. The reason exchange controls are usually applied is that the local currency is overvalued , this causing imports to be paid for in smaller amounts of currency. Exchange controls also limit the length of time the amount of money an exporter can hold for the goods sold.

- **Multiple exchange rates: -**

multiple exchange rates are another form of exchange regulation or barriers. The objective of multiple exchange rates are two fold: to

encourage export and import of certain goods and to discourage exports and imports of others.

- **Prior import deposit and credit restriction :**

Financial barriers can also include specific limitations or import restraints, such as prior import deposits and credit restriction. Both of these barriers operate by imposing certain financial restriction on importers. E.g. A government can require prior import deposits (forced deposits) to make imports difficult by tying up an importer's capital.

- **Credit restriction: -**

Apply only to imports. That is ,exporter may be able to get loans from government, usually at very favorable rates, but importers will not be able to receive any credit or financing from the government. Importers must look for loans in the private sector -- very likely at significantly higher rates, if such loans are available at all.

- **Profit remittance restriction: -**

Another form of exchange barriers is the profit remittance restriction. Many countries regulate the remittance of profit earned in local operations and sent to parent organization located abroad. Some countries uses progressive rates in taxing all profits remitted to parent company abroad with such rates going up to 60 percent.

Another form of exchange barrier is the profit remittance restriction. ASEAN Countries share a common philosophy in allowing unrestricted repatriation of profits earned by foreign companies. Singapore in particular allows the unrestricted movement of capital. But many countries regulate the remittance of profits earned in local operations and sent to a parent organization located abroad. Brazil used progressive rate in taxing all profits remitted to a parent company abroad, with such rates going up to 60 percent. Other countries practices a form of profit remittance restriction by simply having long delays in permission for

profit expatriation. To overcome these practices, MNCs have looked to legal loopholes. Many employ the following tactics.

a) Switch Trading

This tactic requires that goods are sold for credit or for other products, which can later be sold for conversion into the desired currency. For example, assume that Russia has $ 1 million credit for Italian pasta, which Russia does not want. A US firm may agree to sell its product to Russia at a premium in return for the $ 1 million credit for pasta, subsequently, the US firm can sell the pasta to Germany for Dutch marks, which are fully convertible to dollars.

b) Moving up the Priority Queue

A company can negotiate its way up the governments queue for permission to expatriate profits by bribing officials, refusing to service and repair the products sold, and so on.

c) Currency Swaps

This tactic matches a multinational firm that wants to repatriate a currency with another firm that needs the currency and is willing to acquire it by offering to take it at a discount.

d) Nesting

In this tactic, a subsidiary's blocked funds are utilized to cover affiliation costs within a country, such as the legal fees of the parent company.

e) Parallel Loans

This variation of netting involves a back-to-back transaction. For example, a British subsidiary of a US corporation lends British pounds to a British multinational firm whose US subsidiary lends the same amount in dollars to the US Corporation. Another tactic is to negotiate for a higher value of an investment than the investment's actual worth. In effect, this tactic

increases the equity base from which dividend repatriation are calculated. Some techniques for effecting this purpose are:

- Invoicing: raising markup on intra-company shipments
- Royalties: increasing royalties charged to subsidiaries on parts designed in the US
- Management Fees: charging subsidiaries for the time managers at the parent company spend on international business
- Engineering Fees: charging subsidiaries for the time engineers develop and refine products made overseas.

5.6 ECONOMIC COOPERATION

Given inherent constraints in any system, conditions for the best policy rarely exist. A policy maker must then turn to the second best policy. This practice applies to international trade. Worldwide trade is ideal, but that cannot be attained. The theory of second best suggests that the optimum policy, then is to have economic cooperation on small scale. In an attempt to reduce trade barriers and improve trade ,many countries with in the same geographic area often join together to establish various forms of economic cooperation. Some forms of economic cooperation are as illustrated below:-

5.6.1 Free Trade Area

The countries involved eliminate duties among themselves while maintaining separately their own tariff against outsiders. The purpose of free trade area is to facilitate trade among member nations. The problem with this kind of arrangement is the lack of coordination of tariff against non members, enabling non members to direct their exported products to enter the free trade area at the point of lowest external tariff.

5.6.2 Customs Union

A custom union is an extension of the free trade area in the sense that member countries must also agree on a common schedule of identical tariff rates. In effect, the objective of the customs union is to harmonize trade regulations and to establish common barriers against outsiders. Uniform tariff and a common commercial policy against non members are necessary to prevent them from taking advantage of the situation by supplying goods initially to member country that has the lowest external tariff.

5.6.3 Common Market

A common market is a higher and more complex level of economic integration than either a free trade area or a customs union . In a common market countries remove all customs and other restrictions on the movement of the factors of production (such as services. raw materials ,labor and capital) among the members of the common market . As the results, business laws are standardized to ensure undistorted competition **.**

5.6.4 Economic and Monetary Union

Monetary union means one money (i.e. one currency). Economic and monetary union in the European community define monetary union as having three basic characteristic

a. Total and irreversible convertibility of currencies

- Complete freedom of capital movements in fully integrated financial market and
- Irrevocably fixed exchange rates with no fluctuation margins between member currencies leading ultimately is a single currency. The economic advantage of a single currency include all the elimination of currency risks and lower transaction costs.

5.6.5 Political Union

A political union is the ultimate type of economic corporation because it involve the integration of both economic and political policies. The European communities debate over political union involves issues such as common defense and foreign policies. Strengthening the role of the EC's parliament, and adopting an EC's wide social policy. In late 1991 the member's countries of the EC reached agreement on an European monetary union (EMU) and political union. The agreement on political union has given the EC authority to act in defense, in foreign and in social policies.

Check Your Progress Exercise

1. What is a production possibility frontier? Explain

---

2. Discuss the non-tariff barriers to trade?

---

3. Discuss the tariff barriers to trade?

---

4. Explain Ricardo's Comparative Advantage Theory?

5.7 SUMMARY

People alone do not make a market. They must have money to spend and be willing to spend it. Consequently, the economic environment is a

significant force that affects the marketing activities of just about any organization. A marketing program is affected by various economic factors. These includes, inflation, deflation, interest rate, tax rate, etc

Government encouragement or discouragement of foreign investment is dictated by depending upon the political situation; economic development; adverse effect of imports to balance of payment of a country; etc.

Some of the barriers imposed by most government to protect the local industries could be broadly classified under two major heads: tariff barriers and non-tariff barriers.

Tariff is a tax imposed on the product crossing the customs boundary. The main purpose of which is to generate revenue to the government or to protect the home industry. Some of the tariff barriers include: tariff surcharge, excise tax, value added tax, e.t.c. Non-tariff barrier includes: Quota, government participation in trade, customs entry formalities, e.t.c

In an attempt to reduce trade barriers and improve trade, many countries with in the same geographic area often join together to establish various forms of economic cooperation. Some forms of economic cooperation includes : free trade area ,customs union, common market, economic monetary union, political union.

5.8 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer Section 5.3
2. Refer Section 5.5.2
3. Refer Section 5.5.1
4. Refer Section 5.4.1

UNIT 6: CONSUMER BUYING BEHAVIOR

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- 6.2.6 Marketing

6.3 Summary

6.4 Answer to Check Your Progress Exercise

6.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to explain

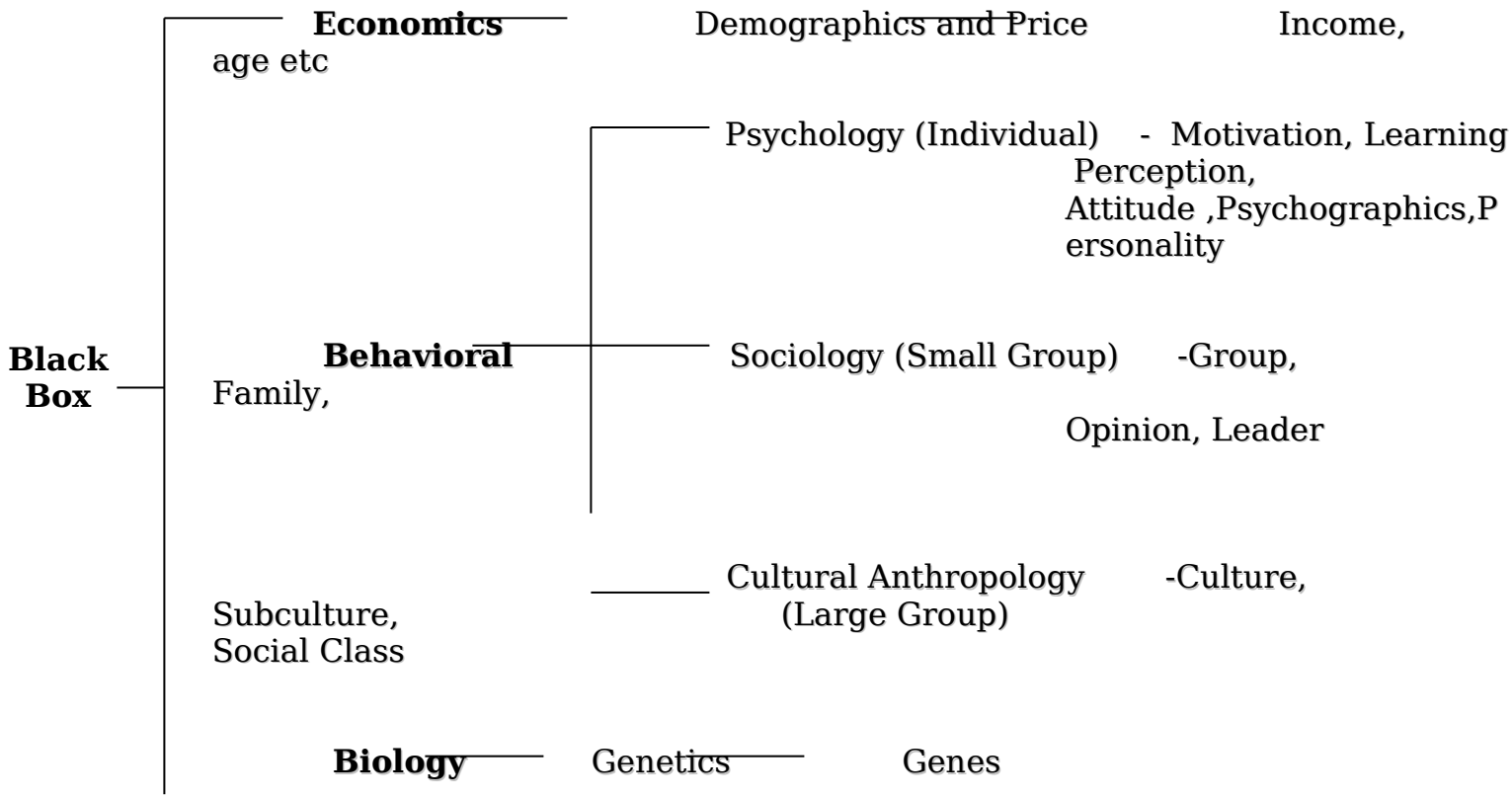
- what consumer buying behavior is
- the various factors influence the consumer buying behavior.
- the process involved in buying decision
- the process consumers go through in making purchase decision
- the influence of culture, subculture, social class and reference groups on buying behavior
- the roles of motivation, perception, learning, and attitudes in shaping consumer behavior

6.1 INTRODUCTION

Consumer behavior can be defined as study of human behavior with in the consume role and includes all the steps in the decision making process. The study must go beyond the explicit act of purchase to include the examination of less observable processes, as well as discussion of why, where and how a particular purchase occurs.

Consumer behavior is an area of study that draws on the work of scholars and practionars from many diverse disciplines. Most studies of consumer behavior attempt to explain the so-called black box model.

6.2 BLACK BOX MODEL OF CONSUMER BEHAVIOR



Mental activities between a stimulus and the resulting response cannot be observed, causing difficulty in comprehending why a person decide to take a particular action.

There are four perspective employed to explain the internal operation of the black box. These four perspectives include: Economics; Social Biology; Behavioral Science, and Marketing.

6.2.1 Economics

Economists were the first group of scholars to conduct formal studies of consumer decision is based on a careful allocation of resources. Among various alternatives to maximize the utility with in the constraints

imposed by a financial budget. In explaining consumer behavior, we rely on the fundamental premises that people tend to choose those goods and services they value most highly. To describe the way consumer choose among different consumption possibilities, economist a century ago developed a notion of utility.

What do we mean by utility? In a work, utility denotes satisfaction. More precisely it refers to the subjective pleasure or usefulness that a person derive form consuming a good or a service. Marginal utility and the law of diminishing.

6.2.1.1 Marginal Utility

How does utility apply to the theory of demand? Say that consuming the first unit of good like ice cream gives you a certain level of satisfaction or utility. When you eat a second unit of ice cream, you will get additional satisfaction or utility. The increment to your utility is called marginal utility. The expression “marginal” is a key term in economic and is always used in the sense of “extra”. The law of diminishing marginal utility states that as the amount of a good consumed increases, the marginal utility of that good tends to diminish.

The fundamental condition of maximum satisfaction or utility is therefore the following: A consumer with a fixed income and facing a given market price of goods will achieve maximum satisfaction or utility when the marginal utility of the last dollar spent on each good is exactly the same as the marginal utility of the last dollar spent on any other good.

The fundamental condition of consumer equilibrium can be written in terms of the marginal utilities (MU) and prices (P) of the different goods in the following compact way:

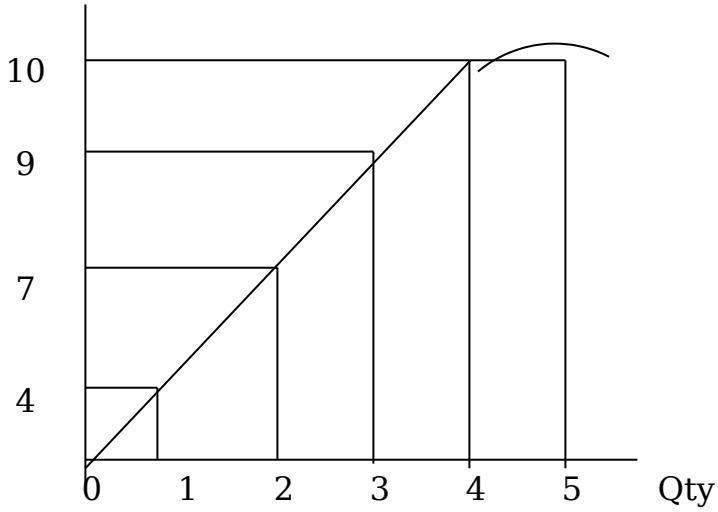
$$\frac{\text{MU good 1}}{P_1} = \frac{\text{MU good 2}}{P_2} = \frac{\text{MU good 3}}{P_3} = \text{MU per \$ of Income}$$

Therefore, a higher price for a good reduces the consumers optimal consumption of that commodity. This shows why demand curve slope downward.

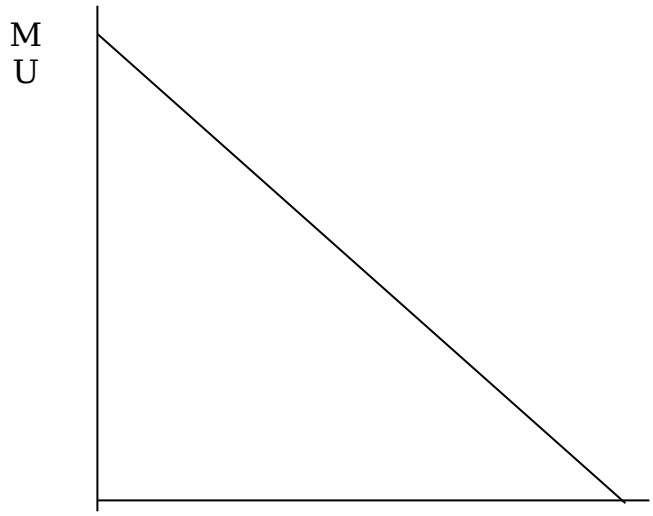
Illustrative examples

1 Quantity of goods consumed	**2** Total Utility	**3** Marginal utility
0	0	----
1	4	4
2	7	3
3	9	2
4	10	1
5	10	0

a) Total Utility



b) Marginal Utility

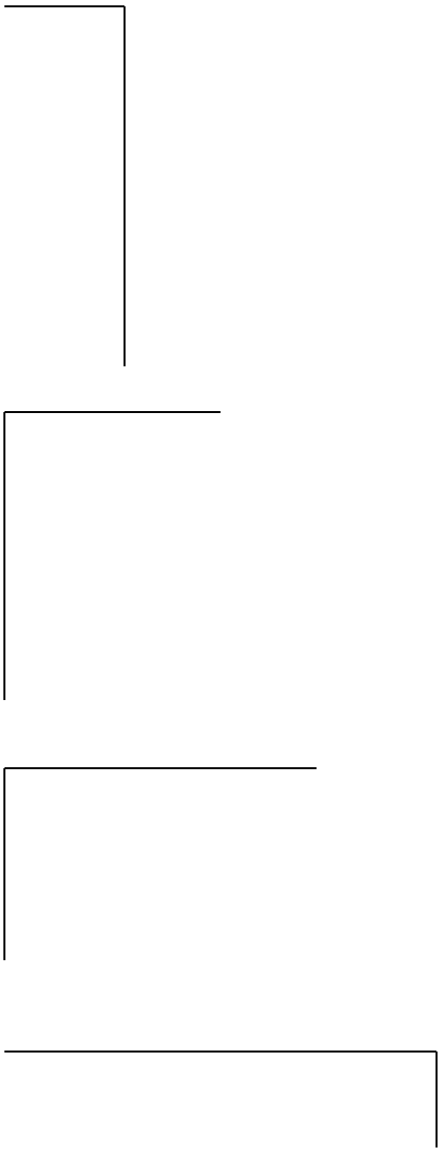


4

3

2

1



Q

0 1 2 3 4 5

The total utility of consuming a certain amount is equal to the sum of the marginal utilities up to that point. I.e. assume that 3 units are consumed column (2), the total utility is 9 units. In column (3) the sum of the marginal utilities of the first 3 units is also 4+3+2 = 9 units. Therefore, the total utility is the sum of all marginal utilities that were added from the beginning. An alternative approach to consumer behavior are:

a. The substitution effect
b. The income effect

The concept of marginal utility has helped explain the fundamental law of downward – sloping demand. Economists have developed an alternative approach to analysis of demand – one that makes no mention of marginal utility. This alternative approach uses “indifference curve”.

Indifference analysis asks about the substitution effect and the income effect of a change in price. By looking at these, we can see why the quantity demanded of a good declines as its price rises.

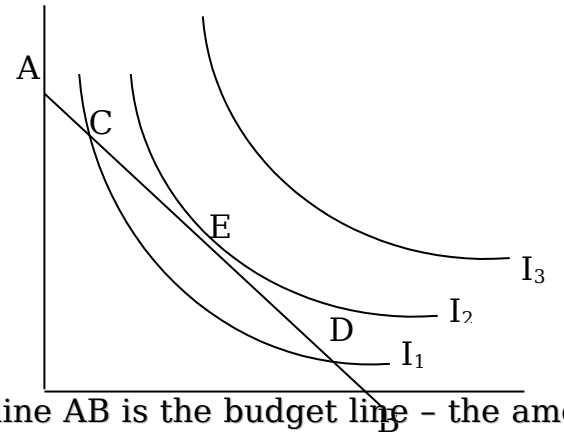
6.2.1.2 Substitution Effect

The first factor explaining diminishing consumption when price rises is an obvious one. If the price of coffee goes up while other prices do not, then coffee has become relatively more expensive.

When coffee becomes a more expensive source of stimulation, less coffee and more tea will be bought. More generally, the substitution effects says that, when the price of a good rises, consumers will tend to substitute other goods for the more expensive good in order to achieve desired satisfaction most cheaply.

6.2.1.3 Income effect

In addition when your money income is fixed, a price increase is just like a reduction in your real income or purchasing power, more specifically, the income effect signifies the impact of a price change on consumer real income. When a price rises and money incomes are fixed, consumers real incomes fall, and they are likely to buy less of almost all goods (including the good whose price has risen).



The straight line AB is the budget line – the amount of disposable income that can be spent on one of the two alternatives or on a combination of them.

The first so called indifference cure (I_1) intersects the budget line at two points (C and D), implying that the combination will give this particular consumer equal satisfaction. The consumer is indifferent at either point because both points are on the same indifferent curve and the utility obtained is held constant by simply adjusting the quantities of both alternatives.

The third indifference curve (I_3) being higher will yield more satisfaction. But the curve does not intersect the budget line at all, making it unattainable by the consumer. The optimum point, then is 'E' on the second indifference curve (I_2), because it is attainable and because it is the only point of intersection of I_2 and the budget line, resulting in the

maximum satisfaction with in the available budget. Thus, rational consumption is almost solely a function of income present or future expected income – and the consumer will choose the total bundle of goods and services that yields the optimum satisfaction.

Price Elasticity of Demand

The price elasticity of demand (or price elasticity) is the responsiveness of the quantity demanded of a good to changes in the goods price other thing held constant.

The precise definition of price elasticity, E_D is the percentage change in quantity demanded divided by the percentage change in price. Symbolically,

$$E_D = \frac{\text{Percentage changes in quantity demanded}}{\text{Percentage change in price}}$$

$$= \frac{\Delta Q}{(Q_1 + Q_2) / 2} \div \frac{\Delta P}{(P_1 + P_2) / 2}$$

E.g.

Price \$ 90 and quantity demanded = 240 units

Price \$ 110 and quantity demanded = 160 units

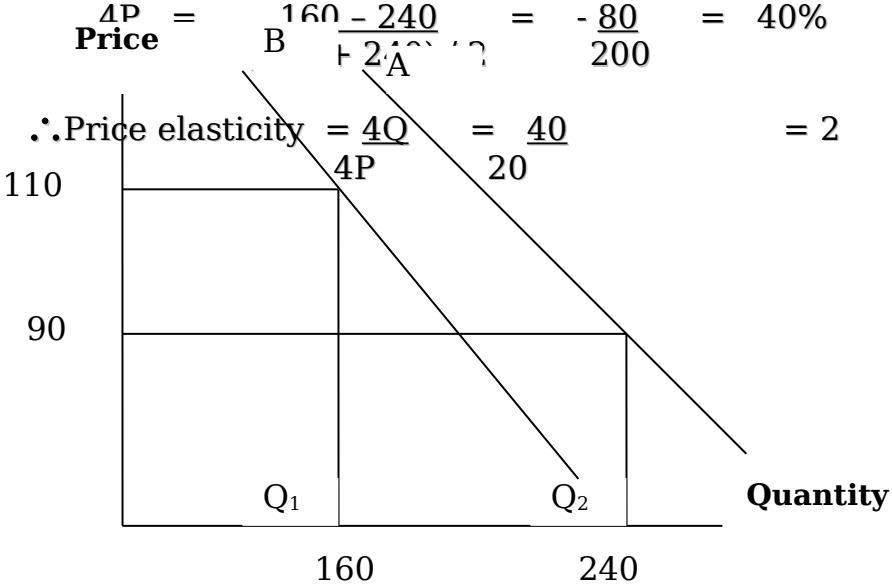
Percentage price change:

$$\frac{4P}{P} = \frac{110 - 90}{(110 + 90) / 2} = \frac{20}{100} = 20\%$$

Percentage quantity change:

$$\frac{4P}{} = \frac{160 - 240}{+ 2} = \frac{-80}{200} = 40\%$$

∴Price elasticity $= \frac{4Q}{4P} = \frac{40}{20} = 2$



Market equilibrium is originally at point A. in response to 20% price changes (increase), quantity demanded declines 40% to point B. Price elasticity is $E_D = 40/20 = 2$.

Demand is therefore elastic in the region from A to B

The economies framework, although useful is inadequate because of its restrictive assumptions.

i. It assumes that consumers want to maximize satisfaction when they actually seek only satisfactory purchase solution rather than optimal ones.

ii. Consumers are assumed to make careful measurements of the utility to be gained from all possible alternatives. In reality, consumers rarely get involved with detailed calculations of the satisfaction to be derived from each alternative.

iii. A rational decision is presumed to be made; that is, the consumer is presumed to have complete information about prices, markets and products. This condition, however does not exist in the real world because complete information is unavailable, too costly to obtain, or too technical to understand., this is especially true in countries where communication networks are under developed or inadequate. When a foreign product is involved, the information may not be disseminated properly or effectively.

iv. The consumer assumed to be rational, is actually influence a great deal by emotions. Price and durability often becomes secondary to beauty and prestige.

v. The basic assumption in economies is homogeneity. Homogeneous products and homogeneous consumer preference. In the international context, supposing consumer across the counties to be homogeneous is a very unrealistic assumption. Marketing on the other hand, is based on the heterogeneity concept: both demand and supply are heterogeneous this approximating the real work much more correctly.

vi. The economies perspective should be considered as being prescriptive or normative and not descriptive in nature explaining what a consumer should do rather than what are actually does. In this regard, the correct assumption emphasis can be ascertained by the level of economic development in a country. Therefore, the economics framework by itself does not provide a complete picture of consumer behavior and other academic discipline must be taken into account.

6.2.2 Behavioral Science Approach

The major behavioral sciences relevant to consumer study are psychological, sociology and cultural anthropology.

Psychology

With the individual as its central unit of analysis, is the study of individual and interpersonal behavior. Behavior is governed by a person's cognition such as values, attitudes, experiences, needs and other psychological phenomena. Purchase then, becomes a function of the psychological view of products., and the consumer buys a product not only for consumption

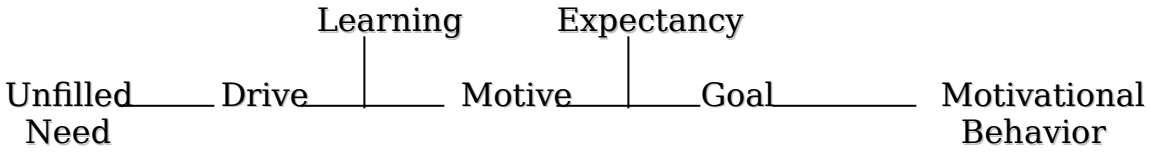
but also because of a perception of how a product can be used to communicate with other people. Some psychological concepts relevant to study of consumer behavior are motivation, learning, personality, perception and attitudes.

6.2.2.1 Motivation

Motivation is fundamental in initiating consumer behavior. Motivation can be thought of as a drive that is directed by a motive formed in relation to a particular goal. Once the motive drive relationship is developed, the consumer takes some forms of motivated behavior to satisfy a previously recognized need. Consumer motives are largely determined by buying habits, though motives can vary and it is important to recognize the various types of motives. Motives can be classified as rational and non-rational.

Rational motives are price, durability, and economy in operation. Non-rational appeals in comparison includes prestige comfort and pleasure.

Motivational Model



In the end, the success of a product is greatly affected by whether its target customers are properly motivated. Whether a motive is rational or irrational is not particularly important. What is important is to identify specific motives relevant for marketing purposes. A critical task is to select, carefully and properly, a relevant motive for the purpose of product promotion.

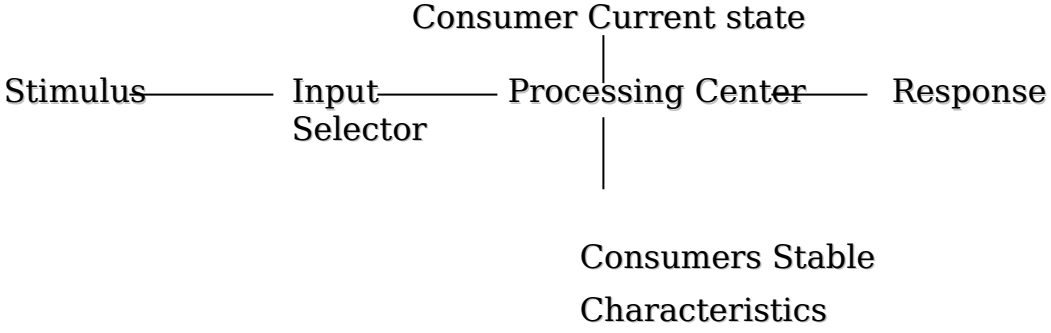
According to one study, Chinese consumers place greater emphasis than American consumers as convenience of location and sales person's manner, and less emphasis on the stores return policy. The relevance of a particular buying motive often varies from country to country. Even when national groups have the same demographic and psychographics profile, they may drink mineral water for different reasons.

i.e. Germans, use mineral water is a curative and preventive home remedy product that is healthful for the internal organs. French women use it to keep them svelte (slim)

6.2.2.2 Perception

To learn a person must perceive. Perception goes beyond sensation by providing meaning to sensory stimulations. It is the process of interpreting nervous impulses or stimuli received that the brain must organize and give meaning through cognitive interpretation.

Model of Perception



It is important to keep in mind that perceptions are formed through a highly subjective and selective process. The consumer's cognitive map of the environment is not photograph of that physical environment. It is instead a partial and personal construction of a situation in which certain ideas-selected and given emphasis-are perceived in an individual manner. More precisely, when one forms of perception, are is not a photographer

but rather an artist who draws or paints an object in the way one thinks it is or should be. Therefore, no object or product is ever perceived exactly in the way it actually appears.

Because of a person need for organization and stability perception of an object tends to be stable overtime in spite of the changes in that object. Because of the selectivity and subjectivity characteristics of perception, people “seeing” the same thing can have vastly different interpretations.

Example:- In Spain accepting credit is viewed as an inability to pay – a shameful situation.

Whether a product will be successful or not depends significantly on how it is perceived. A marketer should provide some clues about a product, in order to aid consumers in perceiving the product in the desired manner.

It should be pointed out that there are separate country of design and country of assembly effects. Credibility of attributes claims for products (TV and Stereos) made in a newly industrialized country (Korea) can be significantly improved if such products are manufactured in the USA. In addition, attribute claims, become more credible when the products are distributed through a prestigious retailer.

International marketer should pay attention to the relationship between country of origin and the perception product quality. Country of origin information is more important than price and brand information in affecting product quality assessment. In general, engineering and technical products from Germany, electronics product from Japan, fashion products from France, and tobacco products from the USA are favorably received in most parts of the world.

6.2.2.3 Attitude

Attitude is the learned tendency to respond to an object with consistently favorably or unfavorably way. Attitude is a complex and multidimensional

concept. It consists of three components: - cognition, affect, and conation (behavioral intention). Based on this definition, a few properties of attitude can be identified.

- The relationship between an individual and an object is not neutral: the reaction to the object is favorable or unfavorable.

Example: -Most people have favorable attitude toward such automobiles as Mercedes – Benz, BMW, and Rolls Royce, viewing them as status symbol.

- Attitudes are relatively enduring and patterned and not temporary or transient. As a person becomes older, attitude becomes more established. This becomes a challenge for international marketer who want to introduce change.

One's attitude about an object is favored by one's experience with the object, either directly or indirectly.

- Attitude is not innate

Attitude must be learned. One's attitude about an object is formed by one's experience with the object, either directly or indirectly. To achieve a better measurement results, the standard attitude models may have to be modified for overseas markets.

Attitude exists with in an individual to serve four useful functions: -

i. Instrumental
ii. Ego-defensive
iii. Value-expressive and
iv. Knowledge

- **The Instrumental Function**

Results in the expression of an attitude in such a way as to maximize external rewards and minimize internal punishments. This function is also known as the utilitarian or adjust function, because the individual adjusts an attitude in an acceptable and socialized manner in order to seek favorable response from others.

- **The ego defensive function**

Serves to protect a person against internal conflicts and external dangers. Wanting protection without acknowledging deficiencies, are forms an attitude to defend one's self-concept and to cover up one's weakness.

i.e. low income buyers having no choice but to purchase less expensive imported goods, may develop this type of defensive behavior.

- **The value expressive function**

Is related to individuals need to protect worthy values into the open. The individuals want to be different or original and desire to maintain and express a self-identity. This function is very common in the western world. People elsewhere, however view this function of attitude with distrust and resentment, fearing that their tradition will be diluted or destroyed by the permissiveness associated with the west.

Example: -The younger generation in USA, as well as in other part of the world, is generally receptive to products emphasizing symbolic attributes that provide for self-enhancement.

- **The knowledge function**

Is also called the object-appraisal function because it is related to a person need to understand an object.

Based on a desire for clarity, predictability and stability in perception, the individual seeks to have coherence and focus for experience with an object.

A marketer shared thus take care to provide adequate information in order to familiarize potential customers with a product's benefits.

Attitude is greatly influenced by culture.

i.e$_1$. In Saudi Arabia, strict Muslim restrictions make it very uncommon for women to work.

i.e$_2$. In Japan workingwomen are common but rarely have the opportunity to rise to a managerial position.

Therefore, when women are portrayed in advertisement the portrayal should be consistent with the expected role of women in that particular culture.

Attitude can affect marketing plans in other ways. The countries have favorable attitude toward foreigners, wealth and change, making it relatively easily for multinational corporations to introduce new products.

In fact, attitudes toward marketing itself should be considered.

Example: -Nestle's infant formula received enormous adverse publicity because of the negative view in least developed country about the marketing activities in pour countries.

Consumers in six developed countries had varying attitudes toward government regulations of marketing. One problem firms have in marketing their products overseas involves the negative attitudes toward situations associated with their products and sometimes toward the products themselves. i.e. customers may have favorable attitude toward German machinery but not toward the purchase of such machinery because of the high cost, service, or availability of parts. It is important for a marketer to distinguish between private and public attitudes, because an expressed public attitude can differ widely from a private attitude especially when the private attitude contradicts the societies cultural norms.

6.2.2.4 Learning

Like all habits, food and drink habits are learned. Before World War II, the British were accustomed to drinking tea, not coffee. Then came the American troops who brought the American taste for coffee.

In another example, a large lunch and wine presents no problem to a Swiss, but the same will put an American to sleep. Because motives,

cultural norms, and consumption habits are all learned, a marketer should understand the learning process. Learning is a change in behavior that occurs over time relative to a given set of external stimulus conditions.

Based on this definition, two important characteristics of learning can be identified.

i) There must be some change (or originations) in response tendencies (i.e. behavior), and

ii) This change must be the result of some external stimulus condition (i.e. the effect of experience).

Three types of learning explain such changes

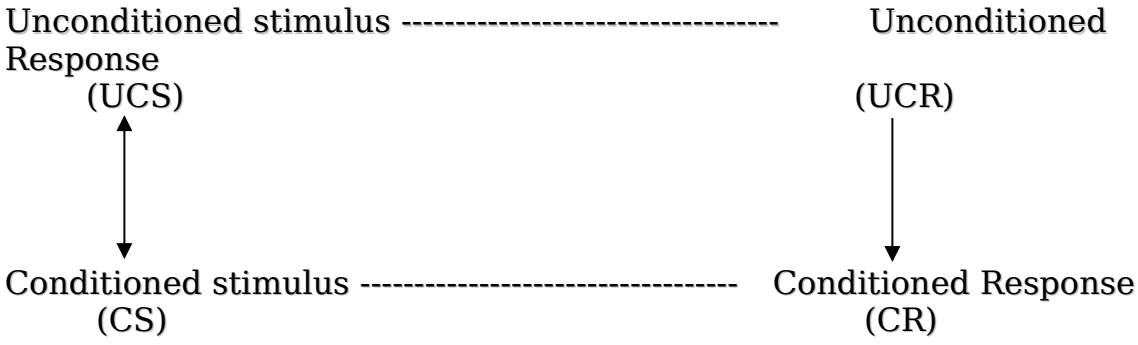
a. Classical learning
b. Instrumental learning and
c. Cognitive learning

- **Classical learning**

Classical learning is the process in which

i. An unconditional stimulus (UCS) known to elicit
ii. A particular unconditional response (UCR) is paired with
iii. A neutral or conditioning stimulus (CS) to increase the tendency that the (CS) alone will produce the same response (UCR), which is then called
iv. A conditioned response (CR)

Classical Learning



In order to cause the (CR) to produce the desired result, both (UCS) and (CS) must be introduced together and repeatedly exposed to the respondent. Consumer preference can be influenced by such advertising stimuli as background music, color, and other features that are not part of a product itself.

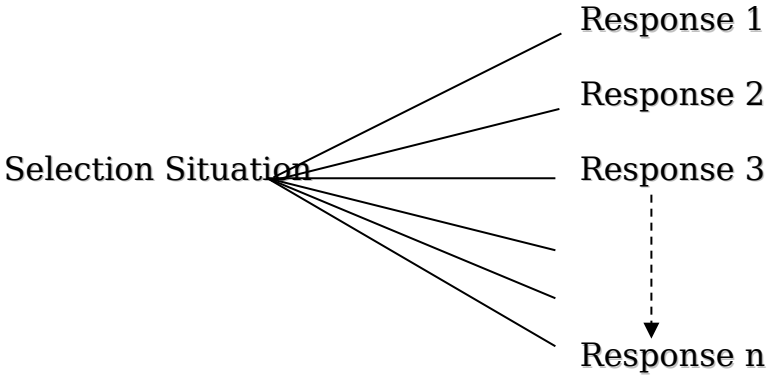
i.e. listening to liked or disliked music in conjunction with the viewing of a product has been found to affect preference.

- **Instrumental Learning**

Instrumental learning is a type of learning that increases the frequency or probability of a particular response. Based on the process of trial and error, an individual selects an optimal alternatives from a number of alternatives for a given problem situation.

A marketer can play a significant role in influencing the learning process by using a variety of rewards to encourage instrumental learning to occur for his market offering.

Instrumental Learning

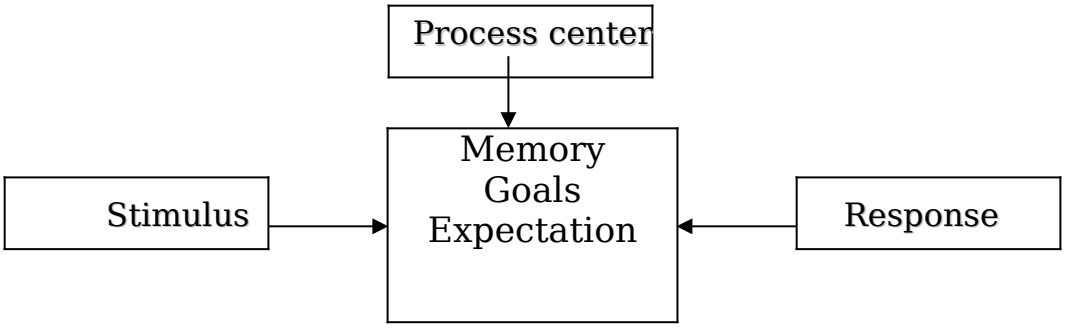


The alternatives (Eg. brands or stores) are tried at random until the most rewarding option gradually emerges at the most dominant or preferred choice, as shown in the above illustration.

- **Cognitive Learning**

Classical learning and instrumental learning are both based on theories of stimulus response and repetitions. Cognitive learning in contrast, functions, very differently and goes beyond the process of stimulus response and repetition. The theory of cognitive learning suggests that a consumer relies on personal analytical skills before making a response to stimulus.

Cognitive Learning



The individual uses insight and problem solving patterns based on memory, expectation, and goal seeking to provide an appropriate response. Whereas a stimulus is both a necessary and sufficient condition in stimulus-response theory for learning to take place. A stimulus is a necessary condition but not a sufficient condition in cognitive theories of learning.

Cognitive learning acknowledges that the consumer is an intelligent information processor, who constantly uses acquired information in an active manner to alter and modify responses to stimuli the consumer receives. The implication for marketers is that relevant information should be provided to potential customers so that they can intelligently draw their own conclusions. It is inconceivable that a particular school of

thought has a monopoly on describing learning behavior. In all likelihood all three theories contain save truth about how a person learns. As the three kind of learning are interrelated, a marketer must repeatedly provide information with regard to how a product is associated with the rewards potential customers are seeking. A product cannot succeed unless consumers understand what a product is for and what its advantages are:

6.2.2.5 Psychographics

Personality study has long been a subject of interest to marketers because of the assumption that product purchases are an extension of a consumer's personality. Personality, derived from a Latin word meaning "personal or relating to person," is the individual characteristics that make a person unique as well as consistent in adjustments to a changing environment. Personality is an integrated system that holds attitude, motivation, and perception together. To study a personality is to study the person as a whole – not just the separate, individual elements that make up a person.

Personality traits are relatively stable qualities, but they do vary in degree from person to person. Because of the disappointing results in using to predict purchase behavior, marketers have to other meaningful purchase variables that might be used in conjunction with personality characteristics. This area of purchase behavior study is known as psychographics, also known as lifestyle or AIO (Activities, Interests, and Opinions) study. Psychographics is a quantitative analysis of consumers' lifestyles and activities with the purpose of relating these variables to buying behavior.

The analysis encompasses both the strength of the qualitative nature of Freud's psychoanalytic theory and the statistical and methodological sophistication of traits and factor theories. As a result, questions are well

organized, and responses are subject to numerical representation and multivariate analysis.

Questions normally included in psychographics studies are those related to demographics, personality traits, and activities such as media habits, retail patronage, and general interests. People can be classified by their lifestyles and then to be contrasted in terms of their consumption habits. Studies of Canadian women revealed the existence of five diverse lifestyle segments: contented striver, independent/self-confident, insecure, traditionalist and carrier-oriented. The largest segment proved to be contended striver. A member of this group is usually more than forty years old and is content with year role as a homemaker. She reads grocery advertisements and saves and redeems coupons. Refusing to pay more in order to save shopping time, she shops around for bargains. In contrast, independent, self-confident women, the second largest segment, are not overly price-conscious or interested in coupons. This is the youngest group and they like to shop by catalog. Being ambitious and having initiative, these women want to be leaders.

The third largest group consists of insecure women who feel lonely and inadequate. Because of a lack of brand loyalty, these consumers are price-conscious and purchase private-label products. Next in line in the study was the traditionalist segment. Being older, its members are committed to traditional belief, and they value quality and convenience over price. Being cautious of unknown brands, they are store and brand loyal and pay cash for their purchases. Finally, the career-oriented women are members of the last and smallest group. They are similar to those in the independent, self-confident segment, except that this last group is older and more opinionated about the roles its members should pay.

Because of varying lifestyles, marketers must adjust communications strategies accordingly. At the least, one campaign could be devised for the more traditional market consisting of the contented striver, insecure, and traditionalist groups, all of which focus on home life. Anther kind of communication theme would be necessary for working women (i.e., independent/self-confident and career-oriented), who are interested in work and labor force involvement.

Psychographics is also useful in exploring the diverse values and buying habits of consumers in different countries. Marketers, in addiction to identifying lifestyle variations within a country, may also identify lifestyle groups on a worldwide basis.

Life Style

Because of varying lifestyles, marketers must adjust communications strategies accordingly. At the least, one campaign could be devised for the more traditional market consisting of the contented striver, insecure and traditionalist group, all of which focus on home life. Another kind of communication them would be necessary for workwomen (i.e. independent self confident and career oriented), who are interested in work and labor force involvement.

Marketers in addition to identifying lifestyle variation within a country may also identify lifestyle groups on a worldwide basis.

According to Backer Speirlogel Bates worldwide, there are five distinct groups of consumers worldwide: -

i) Strivers (26%): Relatively young people who work very hard and seek convenience and instant gratification.
ii) Achievers (22%): Affluent opinion and style leader who pick brands that make statements about status & quality.
iii) Pressured (13%): Predominantly women who contend with economic and family pressures and have little room for pleasure or enjoyment.

iv) Traditional (16%): Those who embody the oldest values of their countries and culture and resist change while preferring familiar products.
v) Adopters (18%): Older consumers who live comfortably in a changing world by respecting new ideas without losing sight of time-honored values.

STAGES IN ADOPTION PROCESS

A prospective user goes through six stages in the adoption process – deciding whether to purchase something new:

1. Awareness: individual is exposed to the innovation. Becomes a prospect
2. Interest: prospect is interested enough to seek information
3. Evaluation: prospect judges the advantages and disadvantages of a product
4. Trial: prospect adopts the innovations on a limited basis. A consumer buys a sample, if the product can be sampled
5. Adoption: prospect decides whether to use the innovation on a full scale basis
6. Confirmation: after adopting the innovation, prospects becomes a user who immediately seeks assurances that decision to purchase the product was correct.

ADOPTER CATEGORIES

Some people will adopt an innovation soon after it is introduced. Others will delay before accepting a new product, and still others may never adopt it. Research has identified five innovation adopter categories, based on the point in time when individuals adopt a given innovation.

1. **Innovators:** Innovators representing three percent of the market, innovators are venture some consumers who are the first to adopt an

innovation. In relation to later adopters, innovators are likely to be younger, have higher social status, and be in a better financial shape.

2. **Early Adopters:** Early adopters comprising about 13 percent of the market, early adopters purchase a new product after innovators but sooner than other consumers. Unlike innovators, who have broad involvement outside a local community, early adopters tend to be involved socially with in a local community. Early adopters are greatly respected in their social system. In fact, other people are interested in and influenced by their opinions.
3. **Early majority:** The early majority, representing about 34 percent of the market, includes more deliberate consumers who accept an innovation just before the average adopter in a social system. This group is a bit above average in social and economic measures. Consumers in the early majority group rely quite a bit on ads, sales people, and contact with early adopters.
4. **Late majority:** The late majority another 34 percent of the market is a skeptical group of consumers who usually adopt an innovation to save some money or in response to social pressure from their peers. They rely on their peers – late or early majority – as sources of information. Advertising and personal selling are less effective with this group than is word of mouth communication.
5. **Laggards:** Laggards are consumers who are bound by tradition and, hence are last to adopt an innovation. They comprise about 16 percent of the market. Laggards are suspicious of innovations and innovators. They wonder why any one would pay a lot more for a new kind of light bulbs, for example. By the time laggards adopt something new, the innovators in favor of a newer concept may already have discarded it.

6.2.3 Cultural Anthropology

Is the study of human culture. Thus the analytic respective may be quite large. Culture involves an aggregate social category level (i.e. large

group), and the social categories are significant in the sense that they influence consumers cognitive and personality development. The concepts from this discipline usually included in the analysis of consumer behavior are culture, subculture and social class. (For details please refer Unit 4).

6.2.4 Social Class

Social class is a study of groups and human interactions. The unit of analysis is not the individual but rather the group. The group consisting of a set of individual who interact over time, is important because it can exert a significant influence on a person's preference and consumption behavior. In many instances, it may be useful for a marketer to think of consumers as a group.

I.e. a family, not an individual, often makes a purchase decision that affects all members of the family group. Important sociological concepts are reference group and family.

Social class implies inequalities. Social class exists because it provides for and ensures the smooth operation of the society. The criteria used to assign people into social classes vary from country to country. A study of Chinese social classes found that income, occupation, education, residence and family background as components of class standing, affect purchase behavior. Another difference can occur in the variation of the number of social classes across countries.

In USA three major classes (i.e. upper, middle & lower) with each class further subdivided into two categories. (i.e. upper & lower with in each of the major classes)

In Thailand, five classes are identified

i) An Aristocracy composed largely of descendants of royalties and the old nobility.
ii) An Elite –comprising of top political, professional & business leaders.
iii) An upper middle class made up of merchants, small businessman, and white-collar workers.
iv) A lower middle class made up of mostly of craftsman and skilled laborers and
v) A lower class made up of unskilled labor, domestic servants, peddlers and so on.

Social class has a great deal of relevance for marketing strategies. It influences store selection, media selection, advertising appeal selection and sales promotion selection. Different motives may thus have to be employed for different social classes.

6.2.4.1 Family

The word family has a narrow meaning in some countries as it encompasses only the husband, wife and their offspring (if any). This family is known as a nuclear or conjugal family.

Other count vertical and horizontal relatives of either the husband or wife or both is as part of their family. As a subset and special kind of reference group, the family can be distinguished by its characteristics. First, a family allows its members ample opportunity to interact with one another on a face-to-face basis. In effect, each member operation as both a counselor and an information provider.

Second, the family is a consuming unit in the sense that most members share the consumption of many products, especially those that are durables or that affect family budget. Third, individual needs are usually subordinated to family needs. Finally, one member is often assigned the

primacy duty of buying products for other users, thus acting as a gatekeeper or purchasing agent.

A family function more efficiently when its members specialize in the roles they are most comfortable with or are capable of performing better than others family members.

A marketer must determine the kind of decision-making that is relevant to the product. Once that fact is known, the marketer can direct a promotional effort toward the party making the purchase decision. It is thus useful to consider and to assess the relative influence of each spouse in the decision making process.

6.2.4.2 Group

A group consists of two or more persons who share a set of norms and have certain implicitly or explicitly defined relationship with one another in such a way that their behavior is interdependent. Originally formed for defense and survival, a group now serves its members more for needs of social and psychological satisfaction. An individual cannot operate well in isolation because all persons are biologically and socially interdependent. An individual needs to belong to a group to interact with those who can provide identified and help meets needs in a more efficient manner.

The influence of a reference group is derived in part from its capacity to disseminate information. Therefore, international marketers operating in different countries should keep in mind that a product may not be evaluated independently of group conformity and face saving. A marketing mix program should take into account these social factors.

6.2.4.3 Opinion Leaders

With in social group, there are some individuals who are able to exert a significant influence on other members in such a way as to affect their thinking and behavior in a desired direction. These individuals are known

as opinion leaders. In the context of consumer behavior, their opinions about products can affect subsequent purchases make by others. In one focus group study of beer drinkers, 80% of drinkers were introduced to the brand by a friend. Becoming an opinion leader requires certain qualification in regard to social and psychological characteristics; the limited evidence indicates that opinion leaders are more self-confident progressive, assertive, likable, emotionally stable, susceptible to change, outgoing, and less depressive.

In marketing products overseas, multinational corporations should attempt to appeal to opinion leaders. In general, these are likely to be people who command respect from others. When it is doubtful who the opinion leaders are, marketers should try to identify those with influence and affluence.

i.e. BMW sells its cars at a discount to diplomats believing that its target consumers will take notice of the kind of cars driven by these in power. i.e. In foreign countries, business periodicals and English language newspaper are usually an effective means of reaching government and business leaders who are potential opinion leaders.

6.2.5 Social Biologist

This perspective involves the latest in explaining behavior patterns and is still very much in its infancy.

According to socio-biologists, the study of human behavior makes no sense without the consideration of biology. Its most striking tenet: human behavior is genetically based. There may be human genes for such behavior conformism, homosexuality, and spite. This theory is highly controversial because it maintains that all other physical sciences and human sciences should become branches under one great discipline of social biology. Furthermore, it may be used to show that some races are inferior, that male dominance over women is natural and so on.

A firm conclusion with regards to the validity of the social – biology perspective is premature because that is little empirical evidence to support or refute this theory. in any case, it is highly unlikely that heredity or biological development can be used to explain brand choice behavior.

6.2.6 Marketing Perspective

Economics, Sociobiology and the Behavioral Sciences may provide a solid foundation for the study of consumer behavior, but hey are of limited values for marketers because their objectives are to describe and explain behavior rather than to suggest specific solutions to decisions problems.

Furthermore, a particular discipline is into always adequate in providing complete insight into consumer behavior. The study of consumer behavior must thus be multidisciplinary, involving all relevant disciples. The marketing perspective moves toward this end by attempting to integrate several disciplines together.

Based on their perspectives, relevant variables are classified as either uncontrollable or controllable. Controllable variables are those variables that can be manipulated by marketers, namely the 4P's of marketing. Uncontrollable variables, in contrast are those outside marketers control and such variables are divided into Intrapersonal (psychological) and interpersonal (social and cultural) variables.

Check Your Progress Exercise

1. Outline and discuss the black box model of consumer buying behavior?

_____

_____

2. Discuss in detail the psychological factors affecting the consumer buying behavior?

_____

_____

3. Discuss in detail the social factors affecting the consumer buying behavior?

_____

_____

4. Discuss in detail the cultural factors affecting the consumer buying behavior

_____

_____

6.3 SUMMARY

Instead of explicitly or implicitly attempting to use culture to explain most variations in consumptions, researchers should redirect their attention toward smaller units of analysis. This requires a study of psychological concepts as well as social concepts, which are not solely based on cultural determinants.

At the psychological level, relevant concept such as motivation, learning, personality, psychographics, perception and attitude should be closely examined. Because consumer need vary across countries, as does the degree of importance attached to a particular need, it is unrealistic to expect consumers everywhere to be motivated in the same way.

The varying motives that occur are due in part to individual personality traits and lifestyles. The learning and perception of a product and the attitude toward it will also affect consumers' motivations in acquiring the product.

At the social level, it is redundant to state that consumer behavior is affected by the cultural environment. It is more important to list specifically the cultural norms in a country. It is thus important to appreciate how these norms are shaped by reference groups, social class,

family, opinion leadership, and the diffusion process of innovation. Consumer preference depends in part on how well a product fits into the cultural circumstances and as whether the product will have the approval of a consumers; reference group, social class, and family.

6.4 ANSWER TO CHECK YOUR PROGRESS

1. Refer Section 6.2
2. Refer Section 6.2.2
3. Refer Section 6.2.4
4. Refer 6.2.3

UNIT 7 : ASSESSING OVERSEAS MARKETS

Contents

7.0 Aims and Objectives
7.1 Introduction
7.2 Introduction to MIS
7.3 Marketing Research
7.3.1 Meaning
7.3.2 Process
7.3.3 Measurement Problems
7.4 Market Analysis and Entry Strategy
7.4.1 Analysis Variables
7.4.2 Forms of Entry
7.5 Free Trade Zones
7.6 Summary
7.7 Answer to Check Your Progress Exercise

7.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to explain

- what marketing research is
- the various processes involved in conducting research
- the various market analysis factors
- the benefits of free trade zones

7.1 INTRODUCTION

Lack of knowledge and unfamiliarity with foreign markets usually heighten the risk for a company wanting to do business in a foreign land. The problem is further complicated by the fact that international marketing research is more difficult, more complex, and more subjective than domestic research.

A company's international involvement and commitment as well as the degree of business risk determine the extent of its international marketing research. Marketing research involves the "systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services.

This definition provides a useful description of the nature of marketing research, but it fails to include pre-research analysis, which is an important aspect of the research process. Before data collection, careful planning is required to specify both the kind of inflation needed and the purpose for such information.

The gathering of information can never be a substitute for good managerial judgment. A story about marketing to shoeless islanders illustrates this point. Two-shoe salesman from two companies visited the same island and came away with vastly different interpretations.

One felt that a market opportunity was non existent, because people their did not wear shoes. The other salesman, however, was enthusiastic, because in his determination no one as yet had sold shoes to these "customers". The moral of the story is that marketing research is only part of the equation, and proper analysis and judgmental decisions are important and required.

7.2 MARKETING INFORMATION SYSTEM

A marketing information system (MIS) is an integrated network of information designed to provide marketing managers with relevant and useful information at the right time and place for planning, decision making, and control. As such, the MIS helps management identify opportunities, become aware of potential problems, and develop marketing plans. The MIS is an integral part of the broader management information system.

In many parts of the world, a knowledge and application of modern management systems in non existent. i.e. the un indexed filling system, a long – honored custom, makes each employee practically indispensable since no one knows how to find a document that has been filed by some one else.

With modern technology and the availability of affordable computers, it seems quite worthwhile for an international firm to install a computer – based information system.

For MIS to achieve its desired purpose, the system must be carefully designed and developed. Development involves the three steps of system analysis, design and implementation. System analysis involves the investigation of all users' information needs.

System design should be the next major consideration. System design transforms the various information requirements into one or more plans that clearly specify the procedures and programs in obtaining, recording, and analyzing marketing data. Alternative or competing plans are developed and compared, and the most suitable one is ultimately selected.

The last step comprises system implementation. The chosen system is installed and checked to make certain that it functions as planned. Both those who operate the system and those who use it must be trained and their comments should be evaluated to ensure that smooth operation o the system.

7.3 MARKETING RESEARCH

7.3.1 Meaning

"Marketing research involves the "systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services."

7.3.2 Process

Marketing Information Source

Once a researcher has identified the marketing problem and has completed a pre-research analysis, the relevant information must be collected. The two major sources of information are primary data and secondary data.

i) Primary Data

It can be defined as information that is collected first hand, generated by original research tailor-made to answer specific current research questions.

The major advantage of primary data is that the information is specific, relevant, and up to date. The desirability of primary data is, however, somewhat moderated by the high cost and amount of time associated with the collection of this type of data.

ii) Secondary Data

In contrast, can be defined as information that has already been collected for other purposes and is thus readily available.

Note that the advantages of primary data are the disadvantages of secondary data and that the advantage of secondary data become the disadvantages of primary data.

A problem for marketers is that secondary data on international marketing may not be comparable for several reasons. First, countries may employ different data collection methods. Second, there might be a problem with classification differences. Definitional differences are

another common problem because countries tend to use various definitions in collecting the same kind of information.

i.e., Country's definition of urban

Albania - Localities of 400 or more inhabitants

Argentina - Localities of 200 or more inhabitants

Singapore - Entire country

Switzerland - Localities of 10,000 or more inhabitants etc.

Secondary Research

There are many different ways to collect secondary data and there are many information sources for this purpose. Such sources can be grouped under either public or private sources.

i) Private Sources

Avery basic method of finding business information is to begin with a public library or a university library. A library with a reasonable collection should contain standard reference guides, commercials, and other materials directories, financial reference manuals, and other materials containing pertinent business information.

One source of information can be found in world trade centers and trade associations. Another good source of information is a community's chamber of commerce. Being well informed on local business, this organization is likely capable of providing helpful advice.

ii) Public Sources

Public sources of market information are just as numerous as private sources. Foreign governments, their embassies and consulates, and trade promotion agencies either have the information desired or are in a position to guide the market to the proper sources of information.

Regional and international organizations, such as the World Bank and the IMF, routinely collect information on population and nation financial circumstances. GATT, for instance publishes compound of sources and international trade statistics.

The organization for economic cooperation and development (OECD) is the international organization of the industrialized, market-economy countries. It regularly gathers statistical information on the foreign trade of its member countries and makes the statistics internationally comparable by converting the information into uniform units. OECD publishes these statistics in six basic formats to meet the needs of variety of users.

i.e.,

- Monthly statistics of foreign trade (series A)
- Foreign trade by commodities (series C)
- Annual Foreign trade statistics by country
- Annual Foreign trade statistics by commodity
- Monthly overall trade by country
- Detailed foreign trade by commodity

Publications in the international marketing information series include the following:

- Overseas business reports (OBR)
- Foreign economic trends and their implications
- Global market survey (GMS)
- Country market sector surveys etc.

Primary Research

When secondary data are unavailable, irrelevant, or obsolete the marketer must then turn to primary research. One decision that must be made is whether to make or buy information. In other words, the question to be decided is whether outside agencies such as marketing research

firms should be used to collect the information need or whether the firm should use its own personal for this purpose.

Next in line are those firms who do searched of published sources. In printed forming firms are used by clients who believe that the information is already printed somewhere but who have no knowledge of where to locate the particular document.

Full service research firms are even more sophisticated because, after searching existing databases, these firms can proceed to conduct interviews.

If a marketer decides to conduct his or her own research without hiring outside consultants or researchers, there are many alternatives available to collect primary information.

First, the marketer should subscribe to the newspapers in the competitor's home country. Second, the marketer can learn about a foreign market by personally visiting it or by being a member of a trade mission. By attending trade fairs, the marketer can observe competitors display booths and have the opportunity to talk with potential customers and distributors.

If consumers' attitudes are of interest, a marketer can conduct a survey called a quantitative – descriptive study. This kind of research is very common in marketing because of the need to understand consumer purchase habits and characteristics.

A marketer should make an attempt to determine the effectiveness of the planned, marketing mix. In many cases, neither the exploratory nor the quantitative descriptive study is appropriate or adequate for the purpose. Instead some types of experimental technique may be necessary to determine a cause-and-effect relationship.

One type of field experimentation often employed in marketing studies is test marketing. The technique can be used to test planned natural marketing program for a new product in a limited geographic area. A good test market should possess the following characteristics:

- Representatives
- Self-contained media
- Self-contained trading area

The concern about representative ness involves demographic comparability. The test market should be demographically similar to the country of which it is part and its population should portray the country's average characteristics.

The market should be self-contained from a media standpoint in order to avoid media spoilage at of the market. If the market is not isolated in terms of media coverage, communication costs are wasted because an audience is being contacted outside of the intended market.

Finally, the test market should be self-contained in terms of trading area. This is necessary in order to avoid transshipments into and out of the area. If the city gains population during the daytime because outside people travel into the city for work or if a distributor distributes the product in other nearby cities, it is difficult to achieve accurate readings of sales, because the sales figure is actually overstated given the normal residential population of the trading area.

i.e., cities such as Tokyo and New York are definitely not self-contained.

Research Design

If the purpose of the study is to learn about how consumers of a particular country respond to an experimental variable of interest (e.g., Price) or to compare an experimental group with a control group, both from the same country, a researcher can use virtually all research designs. Such research designs could include the following:

- one shot case study
- one group, pretest, posttest
- static group comparison
- pretest/posttest control group
- posttest – only control group

A problem arises when the purpose of the study is to compare responses to an experimental variable across countries, because such a sample do not land itself to an experimental design. Respondents in different countries cannot simply be assigned to each national group by random procedure.

That is, respondents are automatically reassigned to each group by nationality. It is thus difficult to have experimental and control groups that are comparable before a treatment is given. The data then must be adjusted, perhaps, subjectively, to account for built in national or cultural biases.

Sampling

As with virtually all consumers market studies it is neither feasible not practical for a researcher to contract all the members of the population. What is usually done is to contract a select group of considered to be representative of the entire population. This practice is known as sampling.

There are several kinds of sampling techniques, with probability and non probability sampling methods being the two major categories in probability sampling.

It is possible to specify in advance the change that each element in the population will have of being included in that sample, though not necessarily is equal probability for every element. In non-probability

sampling, it is not possible to determine such probability or to estimate the sampling error.

Probability sampling methods, though theoretically superior, may be difficult to employ, and the temptation to use non probability methods become great. There are several reasons for this difficulty. A map of the country is often not available or out of date.

i.e., some street in Saudi Arabia have no street names, and houses have no numbers.

In Hong Kong, a large number of people live in boats. The unavailability of block statistics thus precludes meaningful stratification. Lists of residents may be non existent or inaccurate. Poor road systems can create another problem because they preclude the use of the dispersed sample. Even when a proper location is identified, it is still difficult to identify the selected sample element.

It is advisable to pay appropriate attention to sampling design issues without getting unduly obsessed with them. In cross-national studies, sampling procedures become even more complicated. A researcher may desire to use the same sampling method for all countries in order to maintain consistency.

Non-response is the problem of an inability to reach selected elements whereas non-coverage involves the problem of identifying proper elements for the sample.

The two main reasons given for non-response errors are:

i) Refusal to respond and

ii) Not being at home to be interviewed.

In countries where males are still dominant in the labor force, it is difficult to contact a head of household at home during working hours. Frequently, only housewives, or servants are at home during the day.

Even when the individuals are at home or can be contacted, they may refuse to participate in the study. Such reluctance to cooperate is understandable. Women of the middle east will not given interviews in the absence of their husbands. In most countries, people are suspicious of strangers, thinking that they may be tax inspectors, sales men, or burglars. In general, standard motivation methods such as incentives and personal please can be used to reduce the non-response rate. These methods may minimize the problem of not acquiring the opinions of certain kinds of subjects not properly represented in a survey. Still, the effectiveness of the incentives may vary from country to country.

Basic Methods of Data Collection

There are two principal methods for the collection of primary data.

i) Observation and

ii) The administration of survey questions.

In the case of observation, respondents are visually observed regardless of whether they realize it or not. When the survey question method is used, respondents are asked certain questions relating to their characters or behavior.

Observation

The principal advantage of the observation method is that, on a theoretical basis, it is supposed to be more objective than the use of survey questions. When using observation, a researcher does not have to depend on what respondents say or are willing to say. Another reason the observation method tends to yield more objective information lies in the fact that there is not influence exerted by an interviewer regardless of whether such influence would be real or imagined by respondents. The lack of social interaction eliminates the possibility of influencing the respondent.

In some cases (especially those involving sensitive, personal, or controversial issues), the observation technique may yield more information than could otherwise be obtained, because of the method is independent of respondents' unwillingness or inability to answer. In some developing countries where certain classes provide no opinion, surveys should be complemented with observation method.

There are conflicting opinions about the kind of personnel that should be involved in direct observation. Some contend that local observers should be used because of their familiarity and understanding of the local culture. Others, on the other hand, believe that familiarity breeds carelessness. Local observers, by being familiar with local events, tend to take those occurrences for granted.

The only safe conclusion that can be made about observers is that there is no substitute for careful training. Observers must be explicitly instructed about what they are supposed to notice. Training and practice are necessary if desired details are to be systematically noted and recorded. If bias cannot be completely eliminated through training, it may be necessary to use observers of various backgrounds to cover each other's blind spot.

To acquire information not available from traditional sources, other observation techniques must be devised for intelligence gathering. If a marketer is interested in the size of a competitor's labor force, an observer can occur the number of parking spaces at the competitor's plant. An alternative method is to count the number of people making in or out while noting the number of production shifts.

Another observation technique is scrutinizing competitors' help wanted advertisements, because these may reveal information on the company's facilities, source networks, and new products.

Questioning

Survey questions can be used more frequently than observation because of speed and cost. With questioning, data can be collected quickly and at a minimum cost because the researcher does not have to spend idle time waiting for an event to have to be observed.

Survey questions can be employed to acquire information on the past, present, and future. They are even useful to learn about a consumer's internal workings – such as motives and attitudes – that are not observable. There are three basic ways of administering questions: the personal interview, the telephone interview, and the mail questionnaire.

In many developing countries, telephone and mail survey are impractical for a variety of reasons. Although personal, door to door, in home interviews are the dominant mode for gathering research data in Great Britain and Switzerland. Central location/street interviews are the dominant technique in France. Whereas mail and central location/street interviews are most popular in the Netherlands, telephone interviewing is dominant in Sweden.

In Japan, personal door-to-door interviewing, accounting for 34% of total annual sales, is the major data collection method. Telephone surveys are not very popular even though 90% of Japanese households own a telephone.

When the personal interview is used an interviewer must know and understand the local language. This imperative can present a problem in a country such as India, where there are fourteen official languages. Also, a great deal of personal and social interaction occurs in a personal interview, and the appearance of the interviewer must thus be taken into account. If an interviewer is dressed well, farmers and villagers may be intimidated and may claim to use expensive products just to impress the interviewer.

The use of the personal interview should not be restricted only to the individual interview. It can also be used with a group of respondents. One variation of the group interview is a focus group. This technique require a moderator to lead a group discussion. The group told the marketer that the brochures contained too much information and that the brochures could be made simpler with more pictures and less text. A less complicated brochure was thus produced and used as a promotional tool.

Telephone interviews pose a special challenge for international researchers. State run telephone monopolies are usually associated with poor service, and it is therefore difficult and at times impossible to conduct a telephone survey. It is exceedingly difficult for residents in many countries to receive their own telephone lines.

i.e, The extent of telephone ownership varies greatly across countries. China, for instance, has only 1038 telephone fore each 100 city dwellers and .013 telephone per 100 among rural inhabitants.

Finally, telephone conversational habits can be vastly different and an interviewer may experience great difficulty in obtaining information over the telephone. Some people for example, may be reluctant to give any information over the telephone to an unknown person. The mail questionnaire is a very popular survey method because of its low cost and a high degree of standardizations. Despite these advantages, its effectiveness is contingent on the country in which it is used.

Every market should understand the problems associated with the use of this method in the international arena. Another problem is illiteracy. Without doubt, this is a significant problem in may LDCs. Lack of familiarity with the mailed survey question method should be given careful consideration, because many people are not used to responding by mail.

7.3.3 Measurement Problems

The best research design and the best sample are useless without proper measurements. A measuring method or instrument that works quite satisfactorily in one culture may fail to achieve the intended purpose in another country. Special care must therefore be taken if the reliability and validity of the measurement are to be ensured. Questions and scales must be assessed in order to make certain that they perform the function properly. A measurement instrument is considered reliable when it yields the same result repeatedly, assuming no change in the object being measured.

There is empirical evidence showing that “the same research instrument used in a cross national survey may lead to different levels of response reliabilities among the various country samples due to differences in the knowledge of products and / or brands, the perceptions of producers and / or products attributes; the familiarity with the research instrument used; an the national propensity for certain response styles.

Validity is an indication of whether a measuring instrument is able to measure what it purports to (i.e. whether the measure reflects an accurate representation of the object being measured).

Reliability is prerequisite for the existence of validity. If an instrument is not reliable, there are no circumstances under which it can be valid. Reliability, although a necessary condition for validity, is not a sufficient condition. Just because an instrument is reliable, the instrument is not automatically valid.

Linguistic and conceptual non-equivalencies in questionnaire instruments that are used in cross – national surveys could conceivably operate to produce differences in the reliabilities of measurements, thus affecting the validity of conclusions drawn about market similarities or differences.

A study of cross – national consumer research instrument found it to be sensitive to the nature of the attitudinal constructs, the nationality of the respondents, and the country – of – origin – effects.

One way to minimize the problem is to pretest measures in each market of interest until they elicit similar and satisfactory levels of reliability. The problems of adjustments of measurement in terms of conceptual equivalence, instrument equivalence, linguistic equivalence (translation), response style, measurement timing and external validity.

i) Conceptual equivalence

Conceptual equivalence is concerned with whether a particular concept of interest is interpreted and understood in the same manner by people in various cultures. Such concepts as hunger and family welfare are universally understood and pose little problem. Demographics in spite of being apparent and easily understood should not be readily embraced in terms of conceptual equivalence with out an examination of the varying frames of reference. A demographic variable such as sex is universal and a question of this nature can be used in a cross- cultural study. Age, on the other hand, is not always considered in the same way

I.e. the Chinese include the time during pregnancy in their age.

Educational level, likewise, does not have the same meaning every where. The meaning of primary school, grade school, secondary school, high school, college and university varies greatly.

I.e. primary school can range from four years to eight years depending on the country.

A college education in one country may not be at all equivalent to that in another etc.

One kind of conceptual equivalence a researcher should pay close attention to be functional equivalence.

A particular object may perform varying functions or may satisfy different needs in different countries.
I.e. a bicycle is a recreation device in some countries, and a basic transportation device in another.

Definitional or classification equivalence is another type of conceptual equivalence that requires careful treatment. This factor involves the way in which an object is defined or categorized – either perceptually by consumers or officially by low or government agencies.

I.e. beer is an alcoholic drink in Northern Europe, a soft drink in Mediterranean countries, and a malt liquor in Thailand.

Additionally, even demographic characteristics are subject to the problem of definitional or classifications equivalence. Age is one such example. Persons in the same age group in different countries are not necessarily at the same stage of life or family life.

ii) Instrument equivalence

In devising and using a measure, a research should distinguish between two kinds of measuring instruments: Emic and Etic. Emic instruments are tests constructed to study a phenomenon with in one culture only. Etic instruments, on the other hand, are those that are “culture universal” or “culture independent”.

One area of concern the use of rating scales, many times during the course of an investigation, it is inadequate to determine only whether the object being investigated possesses a specific quality or characteristics.

Rating scales allow an object to be rated and placed in one of an ordered series of categories, with a numerical value assigned to each category. In consumer research, the most popular rating scales are the Likert scale and the semantic differential scale.

When a Likert scale is employed, a respondent is asked to respond by indicating agreement (disagreement) and the relative intensity of such an agreement to each time or question. The degree of agreement (or disagreement) usually ranges from “strongly agree” to “strongly disagree’.

The semantic differential scale measures the meaning of an object to a respondent who is asked to rate that concept on a series of bipolar rating scales (i.e. the extremes of each scale employ adjectives of opposite meanings).

A researches must keep in mind that the Likert and semantic differential scales, through proven to be satisfactory in measuring behavior and opinion, may not be understood or may not elicit the same manner of response in different markets. It is imperative that scales are tailor – made and carefully tested in each culture in terms of relevance and appropriateness.

iii) Content validity

Content validity should be routinely examined. Content validity is critical when a measuring instrument developed for one population is going to be used with another population. A test has content validity when it consists of items or questions judged to be representative of the specified universe of content. A test to measure the spelling ability of fifth grade student should consists of words students at that level of education are suppose to have learned.

1) Standardized test

Such as I.Q, ACT, and SAT tests, are somewhat controversial because of content validity or the lack of it. In USA, such tests are criticized by the poor and various ethnic minorities for being praised because the questions purportedly reflect the experience of white, middle – class Americans.

A researcher must remember that the content validity of an instrument depends on the purpose of the study as well as on the groups of people under investigation.

Standardized test, therefore, may not necessarily work. Identical questions do not guarantee comparable data from different counties, and some variation in questions may be necessary.

iv) Linguistic equivalence

Linguistic differences can easily invalidate the results of a study. One researcher translated nine scale terms in to Arabic, Chinese, French, German and Spanish and asked respondents, who were native speakers of those languages, to place values on the translated terms. By comparing the average values of the translate terms to the average values of the English terms, the researcher was able to ascertain that there was a measurement equivalency problem. Therefore, intuitively developed scales are likely to result in poor comparability of research results.

The goal of linguistic equivalence requires the researcher to pay close attention to potential translation problems. Translators should pay attention to idiomatic vocabulary, grammatical and syntactical differences in language, and the experimental differences between cultures as expressed in language.

There are several translation technique that can be used. They are:

- Back translation
- Parallel – blind translation
- Committee approach
- Random probe and
- De-centering

    - **Back translation**

In back translation, the research question is translated by one translator and then translated back into the source language by another translator. Any discrepancy between the first and the last research question indicates translation problems.

- **Parallel – blind translation**

In a parallel translation, the question is translated by several individuals independently, and their translated statements are then compared.

- **Committee approach**

The committee approach differs form the parallel blind techniques in the sense that the former permits committee members to discuss the research questions with one another during the translation.

- **Random probe**

Random probe involves placing probes at random locations in both the source and translated questions during pre-testing in order to ensure that the respondent understands questions in the same way.

- **De-centering**

In de-centering, both the source version and target version are viewed as open to modification. If translation problems are recognized for the source document, then it should be modified to be more easily translatable. Consequently, the source question becomes more lucid and precise.

v) Response style

People from different cultures have different response style when dealing with the same questions. Asian, people for example, are generally very polite and may avoid making negative statements about a product. In

such a case, researcher may have to employ an even number scale (e.g. Yes / No) in order to receive an objective response.

The even number scale, however, may create another problem in the sense that it may elicit an opinion that does not truly exist in that particular culture.

Another issue concerning response style variation is the willingness – or lack of it – on the part of a respondent to take an extreme position, especially when such a position is not a popular one. It may thus be appropriate to adjust for respondents' extreme positions and / or response style by using 'normalized' scores rather than raw scores.

Therefore, it is a good idea to phrase questions in simple, positive terms. Questions with negative should be avoided.

vi) Measurement timings

A cross – national study can be done simultaneously, sequentially or independently. A researcher may initially think it advantageous for a study to be conducted simultaneously in the countries of interest. But simultaneous studies in different markets may present problems of data comparability, especially because of seasonal factors. Consider a study of soft drink consumption, which is generally highest in the summer. Winter in Canada occurs when it is summer in Argentina. Simultaneous studies in such a case would yield invalid results.

History can sometimes act as an extraneous variable, complicating cross national studies. A specific event may affect the outcome or respondent behavior with in a study. I.e. an important election (i.e. history) held in one country and not in another can considerable affect the results of the study.

Another complicating factor can be a product's life cycle stage. The same product may be in different stages of its life cycle in different countries. Because of the phenomenon of an international product life cycle, LDCs may lag behind more advanced nations in adopting the product. The sales of the product in two or more countries for the same period may not be comparable, casting doubt on the wisdom of conducting simultaneous studies.

In addition, it may be prudent to conduct sequential studies for a particular stage in the product's life cycle when the product is not introduced at the same time in the countries of interest.

vii) External validity

There are two major types of validity: Internal and External. A study is said to have internal validity when it accurately measures the characteristics or behavior of interest.

External validity is concerned with the generalization of research results to other populations. Ordinarily, there is a limit or how far research findings can be generalized consequently, the findings may not be applicable to other groups or populations, other products, other cities or other countries.

External validity is generally not a problem when the matter of concern is physiological in nature. The same cannot be said about psychological matters. Thus people may have similar demographics but diverse attitudes and behavior. The behaviors of one consumer group or the general behavior of the people in one country should not simply be extended to another group or people. It may not be reasonable to assume that a study of a marketing problem or people in other cultures.

7.4 MARKET ANALYSIS AND ENTRY STRATEGY

Marketing opportunities exist us all countries regardless of the level of economic development. To assume that only developed countries often more market potentials a misconception similar in nature to the so-called majority fallacy. A particular market may initially seem attractive because of its potential demand and size in terms of the number of consumers of their purchasing power.

Marketer must develop a priority system so that available resources will not spread too thin for the needed impact. Countries or markets must be screened based on certain relevant criteria for comparing opportunities. Such criteria may include market potential economic growth, political risk, available natural resources available labor, and trade barriers.

That is Latin America, as a region, has rich natural resources and dense population. Yet it has strong trade barriers as well as lack of hard currencies, marking the region generally unattractive so a market opportunity.

Economic variables that shard be considered include GNP, population, GNP/capital, income and personal consumption. The top eight countries is terms of per capital income are UAE $7,060, Brunei $15,060, Liechtenstein $16,900 USA$39,940, Switzerland $16,380, Qatar $ 15, 980, Kuwait $ 19,040 and Norway $ 13,890,Japan $38860,Israel $17710,Canada $22370, China $860, India $450,France $21980,Germany $22800. Based on this criteria there are several small but attractive countries.

a) Gross National Product (GNP)

GNP is a measure of the value of all goods and services produced by a nation. As, such, GNP in effect measures the size of the economy. GNPs range from a more $ 30 million for the Maldives to $ 2 trillion for the USA. This criteria favors the USA as the most important market on earth.

Although a higher GNP is generally regarded as indicator of better market.

By dividing a country's GNP by its population, the result achieved is the GNP/capital, which measures market intensity.

A country with a higher GNP/capital generally has a more advanced economy than a country with a lower figure. In the case of Austria and India, Austria has an $ 8600 GNP/capital and thus is much more attractive in terms of wealth than India. Whose GNP/capital is only $450.

Another general indicator of market size is a country's population. On this score, china is the foremost market because its population exceeds, billion. Because of China strict birth control program, there is a chance that in the future India may take this distraction away from China.

According to the private, non-profit population reference Bureau; by the year 2025, 83% of the world's population will live in Africa, Asia and Latin America. Population size is a good indicator of market opportunity for low unit-value products or necessities.

Still, population itself not alike GNP, can be misleading especially when high priced products or luxuries are involved. But GNP/ capital reveals a totally different picture. Brunei as market, becomes for more attractive because its GNP/capital of $ 15,060 is more than 100 times greater than India $450. Therefore, a large population does not necessarily indicate a better market opportunity.

It is inadequate to assess markets by relying only on each country's total population with out considering its land area. From the marketing standpoint, the level of population density should be examined. Where as total population indicates the overall size of a market,, population, diversity determines the ease in reaching that market.

Another indicator of a country's wealth is the personal income of the citizen. Income can reflect the degree of attractiveness of a market because consumption generally rises a income increases. Income, however, should not be strictly considered us absolute terms.

How to the income is spent will provide another clue to market potential. If a large portion of a person's income must go toward purchases of essentials, market opportunities for luxuries may be limited. Food costs, i.e. are so high is Japan. That we Japanese are forced to spend 25% of their disposable income on food. Their American counterparts, in contrast, are much more fortunate, spending only 15% of their income and leaving them with more discretionary income to be spent on nonessentials.

One problem with per capital income is the assumption that everyone gets an equal share of the nations income.

When income is evenly distributed across the various population segments, a firms produced is likely to be suitable for all individuals. In contrast, the product may be unstable for certain segments if income varies significantly from one group of consumer to another. In the industrial nations and communist countries, income is somewhat evenly distributed. In many other countries, especially less developed, Socialism or a dual economy exists.

Exporters should pay attention to the income elasticity of imports and exports of target countries, because these coefficients indicates how imports and exports are influenced by consumers income change in each country. The income elasticity for US exports in 0.99. The problem for the USA is that its income elasticity of import demand is 1% increase in American consumers' income will result in a 1.7% growth in US imports. For each unit increase in income is the USA, US imports will grow much faster than US exports leading to a determination of the country's

balance of trade. Furthermore, a calculation by the bank of Japan leveled that a decline of 1% is the value of the US dollar will result in only a drop of 0.4% is real US imports.

Income often dictates the extent of consumption because income and consumption are positively related. Although the effect of income is moderated by cultural preferences, it still indicates the degree of consumption for many products. Thus a markets should also obscure per capital consumption for each product under consideration since it can vary greatly from market to market. i.e. In USA, there are 572 cars, 650 telephones, and 612 TV sets for each 1000 persons.

In Brazil, all figures are much lower; there are 76 cars, 90 telephones, and 184 TV sets for each 1000 persons. In planning export activities, it also useful to estimate geographical /customer concentration. The geographical concentration index is obtained by dividing the value of the country's merchandise exports. The higher the index, the greater is the concentration of exports is the mains export markets.

These concentration indexes generally work well in assessing the creditworthiness of LDCs but may not be so useful in the case of industrialized countries. Which have well diversified economies and export markets.

Another useful indicator of country's ability to endure the balance of payments problem is its compressibility of imports. A compressibility index is the value of a countries nonessential imports divided by the value of its total imports of goods and services and this index measures that amount of non essential imports divided by the value of its total impacts of goods and services. And this index measures the amount of nonessential imports. A high index indicates that too much foreign exchange is being spent on nonessential imports. The country should then be able to compress its import bill in order to reduce the outflow of

foreign exchange. Since unnecessary imports can be curbed so that foreign exchange can be directed to other items more important to the several of the economy.

7.4.2 Forms Of Entry

1. Exporting

Exporting can be defined as follows:

Exporting is a strategy in which a company, without any marketing or production organization overseas, exports a product from its home base.

Exporting takes two forms:

I. Direct Export

II. Indirect Export

i) Direct Exports.

Direct Export takes for forms as discussed in chapter 1

They are: -

- Domestic based export department or Division
- Overseas sales branch or subsidiary
- Traveling export sales representatives
- Foreign based distributors or agents (Refer unit 1 for details)

ii) Indirect Export

Indirect export also takes for forms and they are:

- Domestic based export merchant
- Domestic based export agent
- Cooperative organization
- Export management company (Refer unit1 for details)

The main advantage of an exporting strategy is the ease in implementing the strategy. Risks are minimal because the company simply exports its excess production capacity when it receives orders from abroad. As a result, its international marketing effort is casual at best. This is very

likely the most common overseas entry approach for small firms. Many companies employ this entry strategies when they first become involved with international business and may continue to use it on a more or less permanent basis.

The problem with using an exporting strategy is that it is not always an optimal strategy. A desire to keep international activities simple, together with a lack of product modification make a company's marketing strategy inflexible ad in responsive. A currency can remain strong over a stretch of several years, creating prolonged difficulties for the country's exports.

iii) Licensing

When a company finds exporting ineffective but is hesitant to have direct investment abroad, licensing can be a reasonable compromise.

Licensing is an agreement that permits a foreign company to use industrial property (i.e. patents, trademarks, and copyrights) technical know how and skills (i.e. feasibility studies, manuals, technical advice, etc), Architectural and engineering designs, or any combination of these in a foreign market. Essentially, a license or allows a foreign company to man future a product for sale is the licensees country and sometimes is other specified markets.

As discussed in unit 1 , Licensing takes several forms. They are:

- Manufacturing
- Management contract
- Franchising

I. Manufacturing

The manufacturing process can be employed as a strategy involving all or some manufacturing in a foreign country. One kind of manufacturing procedure known as sourcing, involve manufacturing operations is a host

country, not so much to sell there but for the purpose of exporting from that country to a company's home country or to other countries.

The goal of a manufacturing strategy may be to set up a production base inside a target market country as a means of invading it. There are several variations on this method, ranging from complete manufacturing to contract manufacturing.

There are several reasons that a company chooses to invest in manufacturing facilities abroad. One reason may involve gaining access either to raw materials or to take advantage of resources for its manufacturing operations. As such, this process is known as backward vertical integration. Another reason may be to take advantage of lower labor cost or other abundant factors of production i.e. labor, energy, or other input.

Manufacturing is a host country can make the company's product more price competitive because the company can avoid or minimize high import taxes, as well as other trade barriers. A manufactures interested in manufacturing abroad should consider a number of significant factors.

i. Product image is are such factor
ii. Competition is an important factor
iii. Research of various countries, which should be compared to determined each country's comparative advantage. The comparative should also include productive considerations, including:

    Production facilities
    Raw materials
    Equipment
    Real estate, water, power, and transport

Human reserves, an integral part of the production factor, must be available at reasonable cost.

Manufactures should pay attentions to absolute as well as relative changes in labor costs. A particular country is more attractive as a plant's location if the wages were increase more slowly than those other countries.

The type of product made is another factor that determines whether foreign manufacturing is an economical and effective venture. A manufacture must weigh the economies of exporting a standardized product against the flexibility of having a local manufacturing plan that is capable of tailoring the product for local preferences. i.e. for capital intensive products that rely on volume production to keep costs down, it is more advantageous to produce that rely on volume of production to keep costs down, it is more advantageous to produce the product in one central location (i.e. In the home country or is an advanced nation) and ship it us to markets.

Freight cost intensive products, such as snack foods and soft drinks, take up large amounts of space and have high transportation costs is relation to unit value. For such products, it may be better to manufacture them is several location, preferably near or within their markets.

Taxation is another important consideration, countries commonly offer tax advantages, among other incentives, to foreign investment.

Just as important as other factor is the investment climate for foreign capital. The investment climate is determined by geographic an climate conditions, market size, and growth potential, as well as by the political atmosphere.

II. Management Contract

In some cases, government pressure and restrictions force a foreign company either to sell its domestic operations or to relinquish control. In such a case, the company may have to formulate another way to generate

the revenue given up. One way to generate revenue is to sign a management contract with the government or the new owner is order to manage the business for the new owner.

The new owner may lack technical and managerial expertise and may need the former owner to manage the investment until local employees are trained to manage the facility. Management contracts is not have to be sued only after a company is forced to sell its ownership interest. Such contracts may be used as a sound strategy for entering a market with a minimum investment and minimum political risks.

III. Franchising (Turn key operations)

A turnkey operation is agreement by the seller to supply a buyer with a facility fully equipped and ready to be operated by the buyers personnel, who will be trained by the seller. By the buyers personnel, who will be trained by the seller. The term is sometimes used in fast-found franchising. when a franchiser agrees to select a store site, build the store, equip it, train the franchisee and employees, and sometimes arrange for the franchising. In international marketing, the term is usually associated with giant projects that are sold to governments or government run companies.

Large-scale plants requiring technology and large-scale projects include building steel mills; cement, fertilizer and chemical plants; and those related to such advanced technologies as telecommunications.

Owing to the magnitude of a giant turnkey project, the winner of the contract can expect to reap huge rewards, thus, it is important that the turnkey construction package offered is a buyer is an attractive are. Such a package offered to a buyer is an attractive one. Such a package involves more than just offering the latest technology, since there are many other factors important to LDCs in deciding on a particular turn key project.

Iv) Assembly Operations

An assembly operation is a variation on a manufacturing strategy. According to the US customs service ‘ assembly means the fitting or joining together of fabricated components”/ the method used to join or fit together solid components may be welding, soldering, riveting, gloving, laminating and selling.

In this strategy, parts or components are produced in various countries in order to gain each country’s comparative advantage. Capital intensive parts may be produced is advanced nations, and labor-intensive assemblies may be produced in an LDC, where labor is abundant and labor costs are low. This strategy is common among manufactures of consumer electronics. When a product becomes mature and faces intense price competition, it may be necessary to shift all of the labor-intensive operations to LDCs. ‘

An assembly operation also allows a company to be price competitive against cheap imports, and this is a defense strategy.

Assembly operations also allow a company’s product to enter many markets with out being subject to tariff and quotas.

In general, a host country objects to the establishment of a “ screw driver assembly” that merely assembles imported parts. If a products local content is less than half of all the compacts used, the product may be viewed as imported, subject to tacift and quota restrictions. Licensing is not only restricted to tangible products. A service can be licensed as well.

In spite of a general belief that foreign direct investment is generally more profitable and thus the preferred scheme, licensing offers several advantages. It allows a company to spread at its research and

development and investment costs. While, enabling it to receive incremental income with only negligible expenses. In addition, granting a license protects the company's patent and or trademark against cancellation for non-use.

There are other reasons why licensing should be used. Trades barriers may be are such reason. A manufacturer should consider licensing when capital is scarce, when import restrictions discourage direct entry, and when a country is sensitive to foreign ownership. The method is very flexible because it allows a quick and easy way to enter the market. Licensing also work well when transportations cost is high, especially relative to product value. A company can avoid substantial risks and other difficulties with licensing.

Nevertheless, licensing has its negative aspects. With reduced risk generally comes reduced profit. In fact, licensing may be the least profitable of all entry strategies.

It is necessary to consider the long-term prospective. By granting a license to a foreign firm, a manufacturer may be nurturing a competitor in the future. Someone who gaining technological and production knowledge. At some point, the licensee may refuse to review the licensing contract. To complicate the matter, it is anything but easy to prevent the licensee from using the process learned and acquired while working under license.

Another problem often develops when the licensee performs poorly. To attempt to terminate the contract may be easier said than done. Once licensing is in place, the agreements can also prevent the licensor from entering that market directly.

Inconsistent product quality across countries caused by licenses' lack of quality control can injure the reputation of a product on a worldwide

basis. This possibility explains why MacDonald's goes to extremes in supervising operation, thus ensuring product quality and consistency.

Even when exact product formulations are followed, licensing can still sometimes damage a products enjoy a certain degree of prestige or mystique that can rapidly disappear when the product is made locally under license.

Licensing, in spite of certain limitations, is a sound strategy that can be quite effective under certain circumstances. Licensing terms must be carefully negotiated and explicitly treated.

In general, a license contract should include these basic elements: product coverage, rights licensed under the contract, territorial coverage, or term of contract, extension and renewal clauses, protection of rights subject to license, future rights and options, merchandising and management assistance quality control, grant back and cross licensing, royalty rate and structure, Service charges, royalty free license, terms and condition of payments, reporting and auditing requirements, equity participations, currency control, choice of law, know how and trade secret protection, plant resists, commercial arbitration, taxes, termination provisions, and terminal rights and obligation.

A provident licenser does not "assign" a trade mark to licensee: Far better is to specify the conditions under which the mark can or cannot be used by licensee. From the lessee's standpoint. The licensor's trademark is valuable in marketing the licensed product only if the product is popular.

Leasing should be considered a two-way street because a license also allows the original licenser to gain access to the licensee's technology and product.

v) Joint Venture

The joint venture is another alternative a firm may consider as a way of entering an overseas market. A joint venture is simply a partnership at corporate level, and it can be domestic or international. For the discussion here, an international joint venture is one in which the partners are from more than one country.

Marketers consider joint ventures to be dynamic because of the possibility of a parent firms change is mission or power. Furthermore, the characteristics of joint ventures in developed countries differs from those in developing countries. Root has a checklist for joint venture entry, and this list requires potential patters to consider the following points:

Purpose of joint venture, partners, contribution, host governments role. Ownership shares, capital structure, management, production, finance, marketing and agreement.

There are several reasons why joint ventures enjoy certain advantages and should be used. One benefit is that a joint venture substantially reduces the amount of resources (many and personal) that each partner must contribute. Frequently, this strategy is the only way, other than through licensing, that a firm can enter a foreign market. This is especially true when wholly owned activates are prohibited in a country.

A joint venture can also simultaneously work to satisfy social. Economic and political circumstances since these concerns are highly related. In many kind of international business undertaking, political risks always exist, and a joint venture can reduce such risks while it increases market opportunities.

Joint ventures are not without their shortcomings and limitations. First if the partner to the joint venture have not established clear cut decision making policy and must consult with each other on all decisions, then the

decision-making process on all decisions, their the decision-making process may delay a necessary action when speed is essential.

When ever two individual or organizations work tog ethers there are bound to be conflicts because of cultural problems, divergent goals, disagreement over production and marketing strategies, and weak contributions by one or the other partner. Although the goals may be compatible at the asset, goals and objectives may diverge over time, even when joint ventures are successful.
Another potential problem is the matter of control. By definition, a joint venture must deal with double management. If a partner has less than 50% ownership that partner must in effect let the majority partner make decisions. If the board directors have a 50-50 split it is different for the board is make a decision quickly or at all.

The implication is that joint ventures are dynamic and both partners should periodically review their individual goals and those of the joint venture they have formed.

vi) Acquisition

When a manufacturers wants to enter a foreign market rapidly and yet retain maximum control. Direct investments through acquisition should be considered. The reasons for wanting to acquire a foreign company involve product/geographical diversification Acquisitions of expertise (technology, marketing, and management), and rapid entry.

Acquisition takes many forms. According to root Acquisition may be horizontal (the product lines and markets of the acquired and acquiring firms are similar), vertical (the acquired firm becomes a supplier or customer of the acquiring firm), concentric (the acquired firm has the says market but different technology or the same technology but different markets, and Conglomerate (the acquired firm is in a different industry from that of the acquiring firm).

Acquisition is viewed in a light different from the kinds of foreign direct investment. A government generally welcomes foreign investor that starts up a new enterprise (called a Greenfield enterprise), since than investment increases employment and enlarges the tax base.

An acquisition, however, fails to do this since it displaces and replaces domestic ownership. Therefore, acquisition is very likely to be previewed as exploitation or a flow to national pride-an this basis, it stands a good chance of being termed down.

Other than legal and political complications, social reasons may also prevent the use of acquisition as a strategy to enter a market. Japan is a prime example. Foreign companies rarely attempt to enter Japan by acquiring existing Japanese's companies.

Japans firms themselves do not view acquisition with high regard being acquired is like having to sell one's family. Not surprisingly, sound companies available for acquisition are different to find.

Analysis of Entry Strategies

There are a number of characteristics that determine the appropriateness of entry strategies, and many variables affect which strategy is chosen. These characteristics include political risks, regulations, type of country, type of product, and other competitive and market characteristics.

A host country's market size affects the decisions on manufacturing direct foreign investment. In addition, such decisions are influenced by certain classes of political events in certain group of countries. Although internal conflict adversely affects decisions to inmost in both LDCs and developed countries, the effect of internal conflict is different from LDCs when compared to developed countries conflictive intra nation events are viewed as promoting instability in LDCs, and such instability could adversely affect foreign investors' business goals and profits.

Markets are far from being homogeneous, and the type of country chosen dictates the entry strategy to be used. One way of classifying countries is by the degree of control exerted on the economy by the government, with capitalism at the one extreme and communism at the other.

The country temperature gradient is another meaningful classification system.

Countries can be classified as hot, moderate, or cold markets based on a number of factors, including level of economic development and trade barriers, Hot countries are dynamic market receptive to new distortion ideas, whereas cold countries do not easily accommodate changes. Market entry strategies are also influenced by product type. A product that must be customized or that requires same services before and after the sale cannot easily be exported to another country. In fact, a service or a product whose value is largely determined by an accompanied service cannot be practically distributed outside of a producing country. Any portion of the product that is service oriented must be created at the place of consumption. As a result, service-intensive products require particular modes of market entry. The options include management contract to sell service to a foreign customers licensing so that another local company (franchisee) can be trained to provide that service, and local manufacturing by establishing a permanent branch or subsidiary there.

Market size and market sophistication also did not appear significant in affecting the choice. Since previous studies showed that both market size and market sophistication were positively related to levels of direct investment, the two variables were apparently related to levels of licensing is the same manner.

MNCs prefer whole ownership when they have a lot of experience in an industry or a country. When intersystem sales of the subsidiary are high, or when the subsidiary is located in a marketing- intensive industry.

The joint venture is the preferred mode when MNCs rely local inputs of raw materials and skills.

7.5 FREE TRADE ZONES

When entering a market, a company should go beyond an investigation of market entry modes. Another question that should be asked to whether a free trade zone (FTZ) is involved and needs consideration. The decisions concerning market entry and FTZ are some what independent. An FTZ can be used regardless of whether the entry strategy is exporting or local manufacturing.

FTZ is a secured domestic area in international commerce, considered to be legally outside a country's customs territory. It is an area designated by a government for the duty-free entry of goods. It is also a location where imports can be handled with few revelations, and little or no customs duties and excise taxes are collected. As such, goods enter the area without paying any duty. The duty would be paid only where goods enter the customs territory of the country when an FTZ is located.

Variations among FTZ include free ports, tariff-free trade zones, air port duty free areas, export processing zones, and other foreign grade zones. FTZ are usually established in countries for the convenience of foreign traders. The zones may be run by the host government or by private entities. FTZ vary in size from a few acres to several square miles. They can be located at airports, in harbor areas, or within the interior of a country (eg. Salt, lake city) worldwide, FTZs experienced nearly a three fold increase in numbers during the 1970s. By the mid-1980s, there were more than 400 zones located in eighty countries. About $160 billion of the

$.7 trillion world trade way processed through FTZs, a rate of close to 10 percent of the world's trade.

The benefits of FTZ use are numerous, some of these benefits are country specific in the sense that some countries offer superior facilities for lower costs. (e.g. Utilities and telecommunications), other benefits are zone-specific in that certain zones may be better than others with in the same country interims of tax and transportation facilities. Finally, there are zone-related benefits that constitute general advantages in using and FTZs.

Many activities can be performed in FTZs. According to Calabro,

A company can "store", stockpile, manufacture, assemble break up, manipulate, mix, pack-repack, clean, repair, salvage, discard, destroy, inspect, sample, test, grade, weight, sort, mark/remark, label/re-label, display, exhibit, distribute, sale, and re-export.

FTZ offers several important benefits, both for the country and for companies using them. One benefit is job retention and creation. When better facilities and grants are provided to attract MNCs, FTZs can generate foreign investment and jobs.

Check Your Progress Exercise

1. Define the term marketing research ? and explain the sources used to gather primary data ?

_____

_____

2. Discuss in detail the measurement problem in international marketing research?

_____

_____

3 Explain in detail the forms of entry in to the foreign market?

_____

_____

4. What is a free trade zone? Explain the benefits of free trade zones?

_____

_____

7.6 SUMMARY

The primary goal is to provide a basic understanding of the research process and the use of marketing information. This coverage is far from being exhaustive, and the reader should consult marketing research textbooks for specific details related to particular research topics.

A marketer should initiate research by searching first for any relevant secondary data. There is a great deal of information readily available, and the researcher needs to know how to identify and locate the various sources of secondary information both at home and abroad.

A company should set up on MIS to handle the information efficiently and effectively. The system should integrate all information inputs from the various sources or departments with in the company. For a multinational operation, this means the integration and coordination of all information generated by the overseas operation as well.

7.7 ANSWER TO CHECK YOUR PROGRESS

1. Refer Section 7.3
2. Refer Section 7.3.3
3. Refer Section 7.4.2
4. Refer Section 7.5

UNIT 8: STRATEGIC PLANNING AND ORGANIZATION

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8.0 AIMS AND OBJECTIVES

After Studying this unit, you will be able to explain:

- the meaning of strategic planning
- the forms of business organization
- the various forms of business combination
- the process involved in strategic planning.

8.1 INTRODUCTION

In strategic planning, managers match organizations resources with its market opportunities over the long run. Market and economic conditions during the past two decades prompted many companies to consider more

formally and more frequently how best to match their opportunities and their resources. To do so, managers must seize their opportunities and avoid the threats by assessing the environmental forces affecting its business.

Environmental forces influence organization marketing. Some of these forces are external to the firm, while others come from within. There isn't much that management can do about controlling the external forces, but it generally can control the internal ones. The business unit therefore should ask:

1. Which asset, skills, strength and weakness do we have today?
2. Which asset, skills, strength and weakness do our competitors have today? Where are they heading?
3. Which are the most attractive markets – today and tomorrow?
4. Which are the key success factors on those markets – today and tomorrow?

An organization operates with in an external environment that it generally cannot control. There are two levels of external environment:

1. **External macro-environment** (so called because they affect all firms) includes demographics, economic conditions, culture, and laws etc. and
2. **External micro- environment** (so called because they affect a particular firm) consists of suppliers, marketing intermediaries, and customers.

Successful marketing depends largely on a company's ability to manage its marketing programs within its environment. To do this, firm marketing executives must determine what makes up the firms environment and then monitor it in a systematic, on going fashion. The sequence of the strategic process may include:

1. Research- customer survey, competitor survey, environmental survey and self-survey.
2. Analysis –industry analysis, Portfolio analysis
3. Objectives – Overall strategic objective (Mission), strategic portfolio objective
4. Actions –action for improving operational efficiency, actions for improving market position and strategic investments

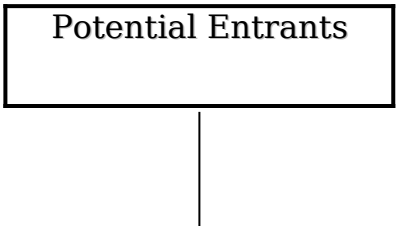
These marketing executives must be alert to spot environmental trends that could be opportunities or problems for their organization. And they must be able to respond to these trends with the resources they can control.

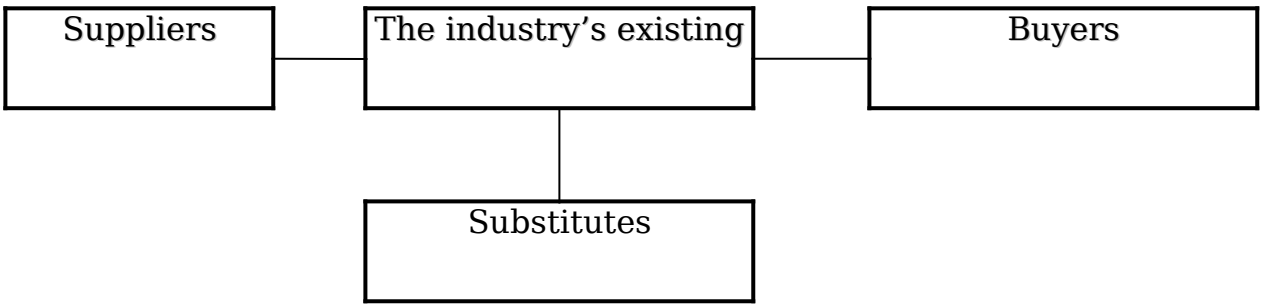
8.2 STRATEGIC PLANNING

Strategic marketing planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, skill, and resources and its changing market opportunities. The aim of strategic planning is to shape and reshape the company's businesses and products so that they yield target profits and growth.

Every industry is unique in terms of the competitive behavior that we observe during any period of time. One of the most difficult problems is defining the industry. No industry has clear boundaries either in terms of the firm's products or geographic areas. But the simplest way is, restricting analysis of the firm's external environment to its immediate environment – the industry.

Major forces in industry analysis





Porter's Approach to competitive structure analysis

Understanding the forces at work in any market segment are a necessary prerequisite to deducing whether – and if appropriate, how – the firm should use that segment as a strategic business area.

The five forces are:

1. New entrants, potential entrants and the threat of entry
2. Substitute products/ services
3. Buyers and buyer power
4. Suppliers and supplier power
5. Competitors and the nature of inter-firm rivalry.

The greater the intensity of any of these sources of competition, the harder it will be for an organization to earn profits and the greater will be the need for strategic sophistications. A checklist of questions can assist strategist in thinking through the strategic implications of the competitive structures of an industry.

1. What is the threat of entry into the industry and from where does it arises?
2. Where are present and potential substitute products /services located and what it is
3. Who are the buyers and what is the extent of their power with regard to the organization,etc

8.2.1 Strategic Planning Process

The intent of planning is to seize the opportunities and to avoid the threats associated with changing markets. Formal strategic planning was recognized as an effective management tool to do this. The management process as applied to marketing, consists of basically:

The Planning stage includes setting goals and designing strategies and tactics to reach these goals.The implementation stage entails forming and staffing the marketing organization and directing the actual operation of the organization according to the plan.

The evaluation stage consists of analyzing past performance in relation to organizational goal. This third stage indicates the interrelated, continuing nature of the management process.

Planning is a predetermined goal. It is deciding now what to do later, including how and when we are going to do it. Without a plan, we cannot get things done effectively and efficiently, because we don't know what needs to be done or how to do it.

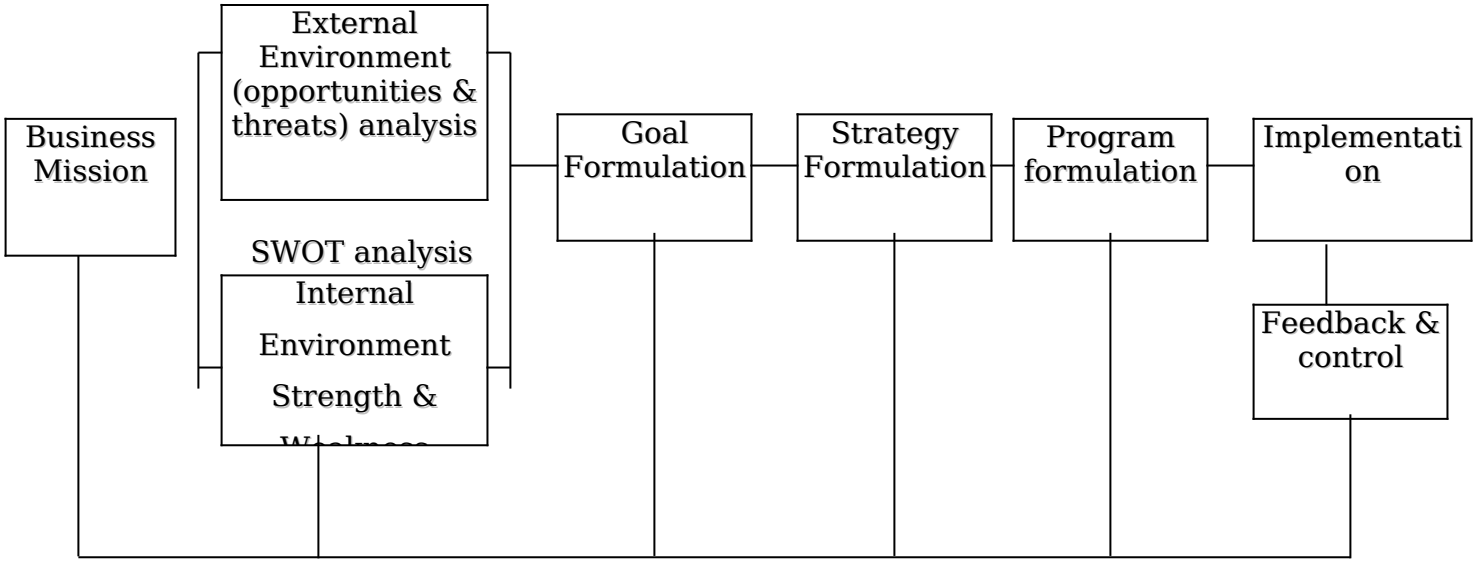
A business can be defined in terms of three dimensions; customer groups, customer needs, and technology. For example, a small company that defines its business as designing incandescent lighting systems for televisions studios, its customer group is television studios; the customer need is lighting; and the technology is incandescent lighting.

The purpose of identifying the company’s strategic business units is to develop separate strategies and assign appropriate funding. Senior management knows that its portfolio of business usually includes a numbers of “Yesterday’s has – been as well as tomorrow’s breadwinners.” But it cannot rely just on impressions; it needs analytical tools for classifying its business by profit potential.

1. It is a single business or collection of related business that can be planned separately from the rest of the company.
2. It has its own set of competitions
3. It has a manager who is responsible for strategic planning and profit performance and who controls most of the factors affecting profits.

Managers before going in detail analysis of environmental factors, they must assess the industry structure. According to Michael Porter , the forces that affect the industry are as follows. The business unit strategic planning process consists of the eight steps as shown below:

The business strategic - planning process



- **Business Mission**

The organization's mission states what customers it serves, what need it satisfies, and what types of products it offers. A mission statement indicates in general terms the boundaries for an organization's activities. A mission statement should be neither too broad nor vague nor too narrow and specific. Traditionally, companies stated their mission in production-oriented terms. Today, firms following the marketing concept express their mission in customer-oriented terms.

- **External Environmental Analysis (Opportunity and Threat Analysis)**

Once the business unit has formulated its mission statement, the business manager knows the parts of the environment it needs to monitor to achieve goals.

In general a business unit has to monitor key external macro environment forces (demographic, economic, technological, political, legal, social & cultural) and significant microenvironment factors (customers, competitors, distribution channel, suppliers) that affect its ability to earn profits. The business unit should set up a marketing intelligence system to track trends and important developments. For each trend or development, management needs to identify the associated opportunities and threats. Such Analysis is called STEEP analysis. STEEP analysis entails the following steps

STEEP Analysis

The STEEP factors represents that part of the macro-environment ever which managers have little influence, let alone control. Yet these factors have a profound effect on organizations and marketing.

1. Social and cultural Factors

The task facing marketing executives is becoming more complex because our culture patterns- life styles, social values, beliefs-are changing much more quickly than they used to. People start seeking value, quality, and safety in the products they buy. They have started concerning about education, retraining of workers, about air and water pollution, solid waste disposal (distraction of rain forests and other natural resources. These concerns have raised the level of environmental consciousness. The statistical study of human population and it's distribution is demography. It is of special interest to marketing executives because people constitute markets. Therefore the marketing executives directs

there marketing activities based on the demographical changes, i.e. Culture, age group, sex, etc.

The social factors of the nation, including their changes through time, have great impact on the marketing strategies of firms. The long-term social changes are the major interest of this course.

Today, there is a great change in social outlook for the marketable products and business firms have also possibilities to utilize these opportunities. The study of these social trends such as:

1. The rate of population growth
2. The rate of employment
3. Number of women in employment
4. Self-employment growth
5. Trends in consumption etc.

2. Technological factors

Technology has a tremendous impact on the life style, consumption pattern, and the economic well-being. Technology is a mixed blessing in other ways also. A new technology may improve the live in one area while creating environmental and social problems in other areas.

Technology has a profound impact on organizations and consumers. What we eat, how the sleep, how we work and get to work, how and how often we communicate with each other, and what we do in our leisure time are constantly changing as a result of new technology.

There are a number of examples of technological changes:

1. Electronic mail facilities at the office & home
2. Modems and advanced telephone transmission lines
3. Compact disk players etc.

3. Economic factors

People alone do not make a market. They must have money to spend and be willing to spend it. Consequently, the economic environment is a significant force that affects the marketing activities of just about any organization. A marketing program is affected especially by such economic factors as the current and anticipated stage of the business cycle, as well as inflation and interest rate.

Firms are very sensitive for the following major and other economic factors:

1. Energy price
2. Interest rates
3. Exchange rates etc.

There is also a range of economic factors at an industry level such as the availability of land, capital and labor in different economies and regions.

4. Environmental factors

Environmental factors are increasingly at the forefront in consumer choices and in the regulators, which governments apply to what organizations, make or deliver, and how they do so. The marketing implications go beyond opportunities for providing environmentally friendly goods and services.

They include the sensitivity, which organizations need to adopt towards environmental opinion in governments, political movements, the media and the public in general. Forecasting the availability and cost of source of energy and raw materials will also be highly dependant up on environmental criteria.

5. Political and legal factors

Every company's conduct is influenced more and more by the political and legal process in the society. The political and legal forces on marketing can be the following:-

1. Monetary and fiscal policies- Government spending, tax legislation etc.
2. Social legislation and regulation-Anti pollution law.
3. Government relationship with industries- Tariffs and import quotas etc.

The impact of political factors can be wide-ranging and subtle. It can range from the effects of a change in government to the policies persuade by individual government department or agencies. Such changes can have important consequences both for individual business and for whole sectors of the economy. The changing patterns of political activity can also be important.

Managers should also take account of political factors at federal and regional level. It is also important to note the STEEP factors present both opportunities and threats to organizations. The other factors that affect the business operations may be as illustrated below:

1. Market

The market really is what marketing is all about- how to reach it and serve it profitably and is a socially responsible manner. A market can be defined as a place where buyers and sellers meet, goods or services are offered for sale, and transfers of ownership occur.

From a business point of view a market can be defined as 'a people or organizations with wants (needs) to satisfy, money to spend, and the willingness to spend it. Thus, in the market demand for any given good or services, there are three factors to consider:

2.Suppliers

The people or firms who supply the goods or services that we need to produce what we sell are critical to our marketing success. And that is why we consider a firm's suppliers as part of its marketing system.

3. Marketing Intermediaries

Marketing intermediaries are independent business organizations that directly aid in the flow of goods and services between a marketing organization and its markets. There are two types of intermediaries:- The firms we call middlemen – wholesalers and retailers

Various facilitating organizations that provide such services as transportation, warehousing, and financing that are needed to complete exchanges between buyers and sellers. These intermediaries operate between a company and its markets and between a company and its suppliers. Thus that are part of what we call channels of distribution.

4. Competition

A Company's competitive environment obviously is a Major influence on its marketing programs. Skillful marketing executives constantly monitor all aspects of competitors. Marketing activities – their products, pricing, distribution systems, and promotional programs.

For each trend or development, management needs to identify the associated opportunities and threats.

Opportunities:

A marketing opportunity is an area of buyer need in which a company can perform profitability. Opportunities can be classified according to their attractiveness and their success probability. The company's success probability depends on whether its business strengths not only match the key success requirements for operating in the target market but also exceeds those of its competitions.

Threats

An environmental threat is a challenge posed by an unfavorable trend or development that would lead, in the absence of defensive marketing action, to deterioration in sales or profit. Threats should be classified according to their seriousness and probability of occurrence. To deal with threats, the company needs to prepare contingency plans that spell out what changes the company can make before or during the threat occurrence.

Once management has identified the major opportunities and threats facing a specific business unit, it can characterizes that business's overall attractiveness.

Four outcomes are possible:

1. An ideal business is high in major opportunities and low in major threats.
2. A speculative business is high in both major opportunities and threats.
3. A mature business is low in major opportunities and low in threats.
4. A troubled business is low in opportunities and high in threats.

Opportunity and threat matrixes

(a) O tunity matrix

Attractiveness	Success probability: High	Success probability: Low
High	1	2
Low	3	4

Cell 1 consists of opportunities offering the greater scope, and management should focus upon these. Cell 4, by contrast, represents these opportunities which either are small or which the organization is unlikely to be able to exploit effectively. Cell 2 and 3 after certain attraction and management should examine these closely to see whether scope exists either for improving their attractiveness or increasing the probability of success.

b) Threat matrix

Seriousness	Probability of occurrence: High	Probability of occurrence: Low
High	1	2
Low	3	4

The threats in cell 1 are serious and have a high probability of occurrence. Because of this, the straight needs to monitor developments closely and have a detailed contingency plan available to cope with any changes that take place. The threats in cells 2 and 3 need to be closely monitored in case they become critical. At this stage, contingency planning is unlikely to be necessary. Threats in cell 4 are very minor and can be largely ignored

Internal Environment Analysis (Strengths/ weakness Analysis)

Internal forces that are controllable also shape an organization's marketing system by management. These internal influences include a firm's production, financial, and personal activities. If a company considers developing its existing product, it must determine whether existing production facilities and expertise can be used. If a new product requires a new plant or machinery, financial capability enters the picture.

Other non-marketing forces are the company's location, its research and development (R&D) strength, and the overall image the firm projects to the public. Plant location often determines the geographic limits of a company's market; particularly if transportation costs are high or its products are perishable.

Each business needs to evaluate its internal strength and weakness periodically.

Management or an outside consultant reviews the business marketing, financial, manufacturing, and organizational competencies and rates each factor as a major strength, minor strength, neutral factor, minor weakness, or major weakness.

Checklist for performing strengths/weakness analysis

	Performance							
	Major Strength	Minor strength	Neutral	Minor weakness	Major weakness	Importance Hi	mid	low
Marketing								
1. Company Reputation								
2. Market share								
3. Product quality etc.								
Finance								
4. Availability of capital								
5. Cash flow								

6. Financial stability etc.

Manufacturing
7. Facilities
8. Economies of scale
9. Capacity
10. Technical manufacturing skill etc.

Organization
11. Leadership
12. Dedicated employees
13. Flexible/Responsive etc.

A modern tool for analysis of the situation

Today, strategy designers have been aided by a number of matrixes showing the relationship of critical variables.The SWOT matrix has a wider scope, and it has different emphases form those of the Business portfolio matrix. It has been common to suggest that companies identify their strengths and weakness, as well as the opportunities and threats in the external environment.

Four Alternative Strategies

The strategies are based on the analysis of the external environment (threats and opportunities) and the internal environment (weakness and strengths).

1. The WT strategy aims to minimize both weakness and threats. It may require that the company. For example, forms a joint venture, retrench, or even liquidate.

2. The WO strategy attempts to minimize the weaknesses and maximize the opportunities. Thus, a firm with certain weakness in some areas may either develop those areas with in the enterprise or acquire the needed competencies (such as technology or persons with needed skills) from the outside, making it possible to take advantage of opportunities in the external environment.

3. The ST strategy is based on the organization's strengths to deal with threats in the environment. The aim is to maximize the former while minimizing the latter. Thus, a company may use its technological, financial, managerial, or marketing strength to cope with the threats of a new product introduced by its competitors.

4. The most desirable situation occurs when a company can use its strength to take advantage of opportunities. (The SO strategy). Indeed, it is the aim of enterprises to move from other position in the matrix to this one. If they have weakness, they will strive to overcome them, making them strengths. If they face threats, they will cope with them so that they can focus on opportunities.

The SWOT Matrix for Strategic Formulation

Internal factors External factors	Internal strengths (s) e.g. strengths in management, operations finance, marketing R&D, engineering	Internal weakness (W) e.g. Weakness in the area shown in the box of strengths
External opportunities (0) current & future economic conditions, political and social changes, new products, services and technology consider risks also	So strategy maxi-maxi potentially the most successful strategy, utilizing the organizations strengths to take advantages of opportunities	WO strategy mini-maxi e.g. developmental strategy to overcome weaknesses in order to take advantage of opportunities
External Threats (T) e.g. lack of energy competition, and areas similar to those shown in the opportunities box above	ST strategy Maxi-mini e.g. use of strengths to cope with threats or to avoid threats	WT strategy Mini-mini e.g. retrenchment, liquidation, or joint venture.

Clearly the business does not have to correct all its weakness, nor should it gloat about all its strengths. The big question is whether the business should limit itself to those opportunities where it possesses the required strength or should consider better opportunities where it might have to acquire or develop certain strength.

Goal Formulation

Objective and goals used interchangeably. An objective is simply a desired outcome. Effective planning must begin with a set of objectives that are to be achieved by carrying out plans.

The overall evaluation of a company's strengths, weakness, opportunities and threats is called SWOT analysis. Once the company has performed its SWOT analysis, it can proceed to develop specific goals for the planning period. This stage of the business strategic planning process is called goal formulation.

Other important trade off includes short-term profit verses long-term growth, deep penetration of existing markets versus developing new markets, profit goals versus non-profit goals and high growth versus low risk. Each choice in this set of goals trade off calls for a different marketing strategy.

MEASURING OBJECTIVES

Objectives must be understandable and acceptable to those who will help to achieve them. In fact, many people believe that a specific measurable objective increases the performance of both employees and organizations.

Effective managerial performance requires establishing objectives in every area that contributes to overall organizational performance. Peter Drucker has stated that firms' objectives should be established in at least eight areas of performance: market standing, innovation, productivity, physical and financial resources, profitability, managerial development, worker performance and altitude and public responsibility.

Drucker's planning objectives and how they can be measured.

1. Market standing :Ranking of firms market share among competitors.
2. Innovation : Firms record in bringing new products and processes onto the market.

3. Productivity : The efficient use of resources
4. Physical and financial resources : Non-human assets the firm owns
5. Profitability : Earnings, operating income or net income after taxes
6. Managerial performance and development :Management's record for achieving objectives overtime
7. Worker performance and attitude : Worker's record for achieving objectives over time.
8. Public responsibility :Firms record for meeting and exceeding social expectations.

Effective planning require measurement objectives.

A number of measurements exist to quantify objectives in some of the general areas that Drucker suggests.

a) Profitability objectives

Profitability objective include the ratios of

i) Profits to sales
ii) Profits to total assets and
iii) Profits to capital (net worth)

Managers have tendency to emphasize the ratio of profits to sales as an important measure of profitability. Both qualities in this ratio are taken from the income statement which management generally regards as a better test of performance than the balance sheet.

The measures are not mutually exclusive. All three ratios are profitability objectives because each measures and therefore evaluates, different yet important aspects of profitability. Mathematically can be presented as follows:-

i) Profit to sales

$$\text{a) Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net Sales}} \times 100$$

b) Net profit ratio = $\frac{\text{Net profit after tax}}{\text{Net sales}} \times 100$

ii) Profit to total assets

a) Return on capital Employed = $\frac{\text{Net profit before tax and interest}}{\text{Capital employed}}$

The term capital employed means either non-current liability plus shareholder's funds or working capital plus non-current assets. (If the terms "Capital Employed" is taken as Gross Capital Employed then it means Total Assets).

iii) Profits to capital (net worth)

Return on shareholders investment or proprietor's funds = $\frac{\text{Net profit (after taxes \& interest)}}{\text{Shareholder's funds or equity}}$

NOTE: Shareholders' equity will include equity share capital, preference shares capital and reserves and surplus (less accumulated losses, if any). It is also termed as Net Worth.

1. The purpose of Profit

The purpose of profit is to measure efficiency, to recover and cost element of being in business (return on invested capital) and to provide funds for further expansion and innovation. The minimum profitability is that which ensures the continuous stream of capital into the organization given the inherent risks of the industry in which the organization operates.

2. Marketing objectives

Marketing objectives measures performance relative to products, markets, distribution and customer services. They focus on prospects for long-run profitability. Thus well managed organizations measures

performance in such areas as market share, sales volume, number of outlets, carrying the product and number of new products developed.

3. Productivity objectives

Productivity is measured with ratio of output to input. Other factors being equal, the higher the ratio, the more efficient is the use of inputs.

Drucker has proposed that the ratios of value added to sales and profit are the superior measures of productivity. He believes that a business's objectives should be to increase these ratios and that departments in the firms evaluated on the basis of these increases. The argument for value added is that it measures the increase in value of the purchased materials due to the firm's efforts since value added is equal to the difference between the purchase price and the market value of materials and supplies. In this way, a firm's efficiency is measured directly. This measure of productivity also could be used for comparisons among a firm's individual departments.

4. Physical and financial objectives

Physical and financial objectives reflect the firm's capacity to acquire resources sufficient to achieve its objectives. Measurement of physical and financial objectives is comparatively easy since numerous accounting measures can be used. Liquidity measures such as the current ratio, working capital turnover, debt/equity ratio accounts receivables and inventory turnover can be used in establishing and evaluating performance in financial planning. Mathematical can be presented as follows:-

A. Current ratio

i) Current ratio = $\frac{\text{Current Assets (2:1)}}{\text{Current liability}}$

ii) Acid test ratio = $\frac{\text{Current Assets - Inventories (1:1)}}{}$

Current liabilities - Overdraft

B. Working capital turnover = Closing stock
Working capital

Lesser the percentage, lesser amount tide up in Inventory and liberated working capital

C. Inventory turn over ratio = Cost of goods sold (op stock +purchase - closing stock)
Average inventory held (opening stock + closing stock)/2

The higher the inventory turnover, the lesser amount of capital tide-up. And materials could be considered as fast moving.

D. Accounts receivable (Debtors turnover ratio) =Accounts receivables x 360 days
Net sales

The payment period should not exceed $1^{1/3}$ times of the regular payment period.

E.g. If payment period is 30 days, the average collection period should not exceed 40 days.

NOTE: Changes in the ratio indicates changes in the company's credit policy or changes in its ability to collect its receivables.

E. Debt/equity ratio = Total Debts (1:1)
Net worth or owner's equity

NOTE: The term total debt includes all debts i.e. long term, short term, mortgages, bills, debentures etc. whereas the term net worth means equity share capital, preference share capital, reserve and surplus i.e. proprietors fund or equity, 1:1 ratio is acceptable.

Strategy Formulation

The term strategy originally applied to the art of military generalship. A strategy is a broad plan of action by which an organization intends to reach its objectives.

i.e. objectives

1. Increase sales next year by 10% over this year figure possible strategies.
2. Intensify marketing efforts in domestic markets
3. Expand in to foreign markets. i.e. strategy
4. Direct our promotion in males, ages 25-40

The company's plans for its existing businesses allow it to project total sales and profits. Often projected sales and profits are less than what corporate management wants them to be. If there is a strategic planning gap between future desired sales and projected sales, corporate management would have to develop or acquire new business to fill it.

Evidently the company wants to grow much faster than its current businesses will permit. How can it fill the strategic planning gap?

Three options are available. The first is to identify opportunities to achieve further growth with in the company's current businesses (intensive growth opportunities). The second is to identify opportunities to build or acquire businesses that are related to the company's current business (integrative growth opportunities). The third is to identify opportunities to add attractive businesses that are unrelated to the company's current business (diversification growth opportunities).

i) Intensive Growth

Corporate management's first course of action should be a review of whether any opportunities exist for improving its existing businesses performance. Ansoff has proposed a useful framework for detecting new intensive growth opportunities called a product/market expansion grid.

ii) Integrative Growth

Often a business's sales and profits can be increased through backward, forward, or horizontal integration within its industry.

An organization might acquire one or more of its suppliers (producers) to gain more control or generate more profit (backward integration). Or an organization might acquire some wholesalers or retailers, especially if they are highly profitable (forward integration). Finally an organization might acquire one or more competitors. Provided that the government does not bar this move (horizontal integration).

Through investigating possible integration moves, the company may discover additional sources of sales-volume increases over the next 10 years. These new sources may still not deliver the desired sales volume. However, in that case, the company must consider diversification.

Diversification Growth

Diversification growth makes sense when good opportunities can be found outside the present businesses. A good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Three types of diversification are possible. The company could seek new products that have technological and/or marketing synergies with existing product lines, even though the new products themselves may appeal to a different group of customers (concentric diversification strategy).

Second, the company might search for new products that could appeal to its current customers even though the new products are technologically unrelated to its current product line (horizontal diversification strategy). Finally, the company might seek new businesses that have no relationship to the company's current technology, products, or markets (conglomerate diversification strategy).

8.2.2.1 Ansoff's Product/Market Expansion Grid

The company first considers whether it could gain more market share with its current products in their current markets (market penetration

strategy). Next it considers whether it can find or develop new markets for its current products (market- development strategy). Then it considers whether it can develop new products of potential interest to its current markets (product development strategy). Later it will also review opportunities to develop new products for new markets-diversification strategy).

Ansoff's Product/Market Expansion Grid

MARKETS	Product: Current	Product: New
Current	Market penetration strategy	Product development strategy
New	Market Development strategy	Diversification strategy

The four product-market growth strategies describe in detail as follows:

1. Market penetration

Market penetration strategies means entering deep down into the current market by hearing spending on promotion. It is a market share strategy which involves providing more of what you already do to existing markets.

For a growing market, to get advantage

- Change the base of competition to get differentiation or last advantage
- Encourage latent customer need to emerge

It is appropriate to harvest the remaining advantage in the existing market

2. Market development: -

This strategy calls for selling of the company’s current product in that altering or modifying to the new market. This market may be currently small but is the future it will grow. It includes geographical extensions of products.

3. Product development

These strategies calls for altering or modifying of the current product while saving its current market. This option may be selected by organizations which possess a less than comprehensive product / service range in saving the needs of a given market segment. The company’s awareness of customer requirements – and hence of gaps in its product range – is likely to be reasonably comprehensive because this option presumes there is an existing markets with which companies are most likely to be is case contact.

4. Diversification

The firm may enter with its new product to a new market segment. This strategy is the most risky of all. Diversification means developing into areas beyond both current products and current markets at the same times. This option should not be considered unless and until the other alternatives have been explored in full.

8.2.2.2 Porter's Generic Strategies Model

Michael porter, a Harvard business professor, advises forms to assess two factors, scope of target market and differential advantage, and then choose an appropriate strategy. Porter's generic strategies model recommends three alternatives for consideration.

1. Overall cost leadership:

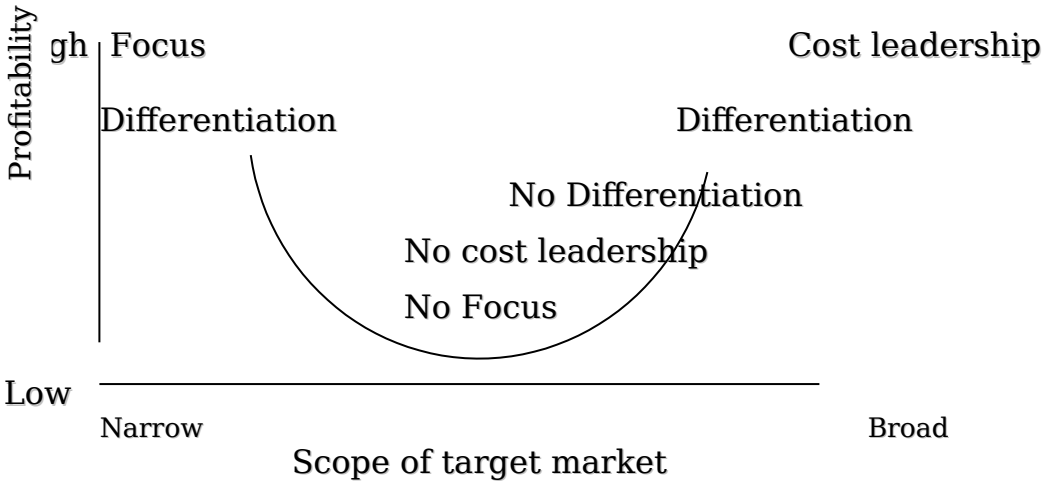
A company or an SBU, typically large, seeks to satisfy a broad market by producing a standard product at a low cost and then under pricing competitors.

2. Differentiation

An organization creates a distinctive, perhaps even a unique, product through its unsurpassed quality, innovative design, or some other feature and, as a result, can change a higher than average price. This strategy may be used to pursue either a broad or narrow target

3. Focus

A firm or an SBU concentrates on part of a market and tries to satisfy it with either a very low-priced or highly distinctive product. The target market ordinarily is set apart by some factor such as geography or specialized needs.



Program Formulation

Once the business unit has developed its principal strategies, it must work out detailed supporting programs.

Thus if the business has decided to attain technological leadership, it must plan programs to strengthen its R & D department, gather technological intelligence, develop leading edge products, train the technical sales force, develop ads, to communicate its technological leadership and soon.

Implementation

A clear strategy and a well-thought-out supporting program may be useless if the firm fails to implement them carefully. Indeed, strategy is only one of seven elements, according to the Mckinsey consulting firm, that the best-managed companies exhibit.

The Mckinsey 7-s framework for business success is includes - Strategy, Structure, and Systems- are considered the hardware of success. The next four - Style, Staff, Skills, and Shared values - are the software's.

The first soft element, Style, means that company employees share a common way of thinking and behaving.The second staff means that a

company has hired able people, trained them well, and assigned them to the right jobs.

The third, skills, means that the employees have the skills needed to carry out the company strategy.

The fourth shared values, means that the employees share the same guiding values. When these soft elements are present, companies are usually more successful at strategy implementation.

Feedback and Control

As it implements its strategy, the firm needs to track the results and monitor new development in the internal and external environments.

The environment will eventually change. And, when it does, the company will need to preview and revise its implementation, programs, strategies, or even objectives.

8.3 BUSINESS COMBINATIONS

A business combination is an assembly of two or more groups of firms, or engaged in the production & distribution of commodities in the national or international markets with the main objective of : Elimination of unhealthy competition, avoidance of wasteful expenditure in production and distribution or marketing through common finance, management, production, and marketing policies.

The motivation behind the combination is, of course, to secure maximization of productivity and profit. Elimination of cutthroat competition and elimination of wasteful expenditure are considered the root causes of the rise of combination movement in many countries. Combination movement has brought about integration of competing business units and by means of integration there has been increased

economies of production as well as distribution arising from the expansion in the scale of output or in the scale of operations.

By means of regulation of production or output, prices, allocation of markets, etc, business combinations can easily succeed in the elimination of wasteful competition and or wasteful expenditure. Increase in the scale of output leads to reduction in the cost of production per unit of output.

The integration or combination movement may be loose or well integrated. There are various forms of combinations. Broadly speaking the business combinations may be classified as follows: -

8.3.1 Simple Association

Business units may have a voluntary combination or association to promote their common interests through joint action or representation. The associating business units do not lose their identity and individuality. Such forms of business units include:

- Trade Association
- Chamber of Commerce
- Trade Union

• Trade Association

It is a voluntary self-governing association of traders formed to promote the common interests of its members. It is a loose form of business combination of business concerns in one trade or industry to promote and protect the common interests of members.

- **Chamber of Commerce**

It is also a voluntary self-governing association or a loose form of business combination of individual firms and companies engaged in various industrial and commercial branches in any area-small or big. It also promotes and protects the common interest of all members.

- **Trade Union**

It is a labor association and represents a combination or association of workers for promoting and protecting workers, interests through united and collective action. These simple associations are merely advisory bodies. They do not interfere in the routine affairs of their members.

8.3.2 Federations (Formal Agreements)

Formal Agreements among business units include :

i) Pool &

ii) Cartels

i) Pool

Pool is a form of business organization established through federation of business units whose members seek a degree of control over prices by combining some factors, which determine price making process in common aggregate and apportioning that aggregate among the unit.

A pool is a working agreement that is based upon a definite written contract frequently providing penalties for its violation. It leaves each company in control of its own affairs but it limits the freedom of participating units regarding certain actions.

The usual objects of pools are to control prices, markets, output, or to avoid patent litigation etc.

Class of Pools

Pools can be classified as: -

a) Price pools

b) Output pools

c) Market Pools

d) Traffic Pools

e) Profit or income pools

a) Price pools

It provides regulation of conditions of sales contract, eg. Advertising allowances, discounts, terms of delivery shipping and insurance charges, guarantee against price decline, samples etc.

Price pools are usually of short duration and they are not effective for long duration. Since the existence of the agreement is kept secret because it is not registered by law, the enforcement of price control becomes difficult and suspicion sooner or later may bring about dissolution.

b) Output pools

Such pool is usually a part of a larger agreement, eg. Price pool or price and profit pool. The aim of output pool is to solve the problem of over production and the ways of reducing the output may be limiting the season or period of production or limiting the quantities to be produced and each unit may be assigned certain quota, which it can produce.

c) Marker pools

Market pool may be of three types. We may have division of markets by customers or by products or by territories. Market pool may also be a part of a larger agreement such as price fixing, limitation on production or allocation of quotas, etc.

When he has division by customers, the purchasers are required to tap only assigned sources of supply and the orders received from the buyers may be secretly apportioned among the sellers.

Division by products points out allocation of markets by products based upon patents.

E.g. Company A manufactures X brand products
Company B manufactures Y brand products
Company C manufactures Z brand products etc.

Division by territories:

We may have a pool by agreement providing for division or allocation of territories for marketing to each constituent unit. This will prevent competition among member units, and each member unit may enjoy exclusive monopoly to distribute its product in a particular area or territory.

d) Traffic pools

Railways or steamship companies may agree to pool the receipts from traffic between two or more competitive points. The objects of a traffic pool are to avoid duplicate services and eliminate wasteful competition on definite routes. Such pools are called shipping conferences in international trade and they regulate as well as restrict competition among the transport agents.

e) Profit or Income pools

These one also often associated with the fixation of price as well as output. In income pool the whole revenue of the combining units may be pooled together and the total amount pooled is dividend among the members after deducting the expenses.

In profit pool, the net earnings or profits are pooled together and then divided among the participating units on the basis of certain formula. In any type of pool, members joint together to regulate the supply or demand of a product unit out surrendering their corporate personalities.

Advantages of Pools:

- They permit the member unit’s internal autonomy independent life as well as reduction of unhealthy competition.
- It may provide any method for division of profits, markets or allotment of production quotas and the pooling manager may enjoy greater or limited degrees of control.

- Pool formation is easy. It involves no legal formalities, no organization, no taxes to pay and easy withdrawal of members etc.

Disadvantages of Pools:

Pools are recognized as illegal forms of combinations.

- There is absolute need for secrecy.
- Total elimination of competition is not possible.
- It may create virtual monopoly and concentration of power in a few hands.

2) Cartels

A cartel is a syndicate is a federal form of business combination essentially as selling agency acting on behalf of the member firms. It is a voluntary agreement between, or association of, independent enterprises of similar type to secure the monopoly of the market.

Individual members agree to sell their entire product to the cartel exclusively for a certain period. Germany is a classic land of cartels. It is an output pool plus profit pool or a pool with a common sales agency.

The manufacturing companies combine in the form of a cartel and the cartel agrees: -

- To regulate their output
- To fix quotas or production
- To fix prices and
- To control sales contracts etc.

Advantages of Cartels:

- They guarantee minimum sales to cover cost of production of the member firms but they do not directly limit the profit of individual firms.
- Manufacturing activity can be carried on under semi competitive conditions.

- The manufacturers who are member of a cartel can concentrate their attention on the production side where as the cartel can look after uniform market conditions for the whole trade.

Disadvantages of Cartels:

- The greatest disadvantage of the cartels is they result in the creation of monopoly or semi-monopoly in the market and they can charge monopoly prices to the consumers.
- The cartels may fail to bring proper adjustments of between demands and supply and there by prove ineffective instruments of control over the demand.
- A cartelized industry may have unhealthy expansion. Thus cartelized industry may lead to over capitalization which may be tolerable during boom period but which may be killing under depression.

8.3.3 Consolidations

8.3.3.1 Partial Consolidations

a) Holding Company

Holding company is a form of business organization, which is created with a view of combining various business units/ by purchasing the controlling interest in the share capital of those units.

It is itself a corporation, which controls the policies of one or more other companies through the ownership of their controlling interests.

This controlling interest, which may be hardly 10% to 20% of their share capital, is gained through acquiring the ownership of the requisite number of shares in those companies. The companies, which are controlled in this manner, are called subsidiary companies and the holding company can appoint its nominees or the board of directors of subsidiary company and through these nominees, the holding company

can exercise effective controlling voice in the management of many other subsidiary companies.

Kinds of Holding Companies

Holding companies takes many forms as illustrated below: -

- Pure Holding company:

It simply holds the controlling amount of shares of other companies by way of investment but it does not engage in the business directly nor does it interfere in the internal management of the subsidiary companies directly.

- Consolidated Holding company:

The company specially formed to take over the stock of many existing companies.

Operating Holding company: The biggest company already operating and actively engaged in the manufacturing activities and at the same time it also holds the share of other companies of similar nature.

- International Holding:

It is a sub holding company controlled by another parent company.

- Finance Holding Company:

- The finance holding company may not hold the shares of other companies for a longer period and in practice it tries to earn profits by disposing of the shares as easily as possible.
- Investment Holding Company:

Such a company merely makes investment in the shares of other companies. It is just an institutional investor to earn profits by getting regular income for such financial investment and it is not primarily interested in controlling the affairs of other companies by virtue of share holding.

Advantages of Holding companies:

- A holding company is a legal personality and it is very easy to form a holding company because we have simply to purchase the controlling interests of other companies.
- Centralized control without affecting the individuality of the constituent company, and administration can be decentralized.
- It is a very flexible forms of combination as when a company wants to shifts its control over other companies; it has simply to sell the shares of that company.
- A holding company is not required to bear any loss if the business or industrial project undertaken by the subsidiary company fails etc.

Disadvantages of Holding Companies:

- The holding company gets substantial power over the subsidiary companies without having corresponding responsibility towards them.
- It may lead to over-capitalization of industry.
- Inter-company loans and inter-locking of capital under the holding company device is another disadvantage of holding company etc.

b) Trusts

Corporations, firms or even individuals as owners may combine together and stocks of these may be delivered to certain trustees and these are their transferred to the trustees will issue trust certificates to the stockowners. The trustees will acquire all the rights of shareholders. A trust is a partnership of companies, which is not a legal association and it is forbidden by law. It has no legal status.

Trustees enjoy inside powers. They may be empowered to organize new companies, merge various companies, make loans etc. They are controlled by the board of directors of various constituent companies. They are also empowered to declare any dividend.

All trust certificates have the same voting rights, same interests in the assets of the trust fund, same rights to dividends, etc. The trust certificates are bought and sold like stocks and shares of corporation; the holders of the trust certificates elect the trustees at an annual general meeting every year. The trust as a form of a combination represents partial consolidation and usually the trust is for a fixed period. Under the agreement, a trust may continue, i.e. for ten years up to the death of the last surviving trustee named there.
The trust generally implies creation of a monopoly capable of exerting control over prices and services.

The trust was held to be a partnership of companies and this was not permitted by law. Similarly, the trust was held illegal because it constituted a monopoly affecting public interest. The companies composing the trusts were required to surrender or withdraw from the trust. Hence, on account of anti-trust legislation, trustification movement was arrested.

A trust is formed merely by transfer of share certificate of combining companies, who receive in exchange trust certificates. The shares are assigned to the board of trustees. A trust has board of trustees and these trustees are beneficiaries of the trust agreement.

A trust enjoys complete control as far as competition among the units is concerned and the ultimate object of the trust is to have common control not only relating to the market but also relating to production, management and finance.

8.3.3.2 Complete Consolidation

A complete consolidation is a form of business organization, which is established by the outright purchase of the properties of all the constituent or member organizations and the merging or amalgamating of such properties in to a single business unit.

- **Merger & acquisition/Amalgamation**

It is also called absorption of weaker units by a stronger unit. An existing strong company, if empowered by its memorandum, may take over the business of one or more existing weaker companies. Such merging or union is also called complete consolidation. After the merger, all merging companies lose their individuality.

A new company is formed to take over the existing business of all the amalgamating companies. After the amalgamation, all combining units are automatically liquidated.

Advantages of Mergers & Acquisition/Amalgamation:

- Internal competition among the merging units is eliminated –no more inter-company rivalry.
- Economies of large-scale business can be easily maximized – both in production and distribution.
- Financial strength of one huge enterprise offers much greater stability and continuity of life etc.

Disadvantages of Mergers & Acquisition/Amalgamation:

- The goodwill of each merging company is lost when it losses its identity.
- The resulting huge enterprise may lose flexibility and adaptability.
- It may create evils of monopoly.
- There may be over capitalization etc.

Merits and Demerits of Combinations

Business combinations particularly in the form of holding companies, mergers and amalgamations can provide all the advantages of large-scale business and combinations can facilitate optimum utilization of economic resources. As a part and parcel of a scheme of rationalization, combination movement may also provide maximum productivity and

profits as well as all-round economic prosperity. Important advantages of business combinations may be given as follows: -

1. Production Economies

We can have standardization of products, process & materials. By scientific management, we can secure higher efficiency of plant and equipment. And also can secure efficiency of labor by scientific selection, training and adequate compensation as well as by providing favorable work environment. One can have economies of bulk purchases of raw materials.

2. Distribution Economies

Commercial combination as part of rationalization of industry can easily secure economies of transport, economies in the marketing of goods, collective advertisement and publicity, easy development of international markets etc.

3. Managerial And financial Integration

By means of holding company device, community of interests through mergers and amalgamation or through horizontal and vertical combination, we can secure economics in management and finance etc.

Disadvantages of Combinations:

1. Evils of monopoly:

The combination movement sooner or later is bound to lead to monopoly. All forms of monopoly represent essentially the same process of centralization of ownership and control though at different levels.

2. Concentration of Wealth and Power:

Combination movement brings about concentration of power and wealth in a few hands creating obligating. This is anti-social because we have inequitable distribution of wealth.

3. Inefficiency:

Combinations may lead to such an unwieldy size that they may become unmanageable, thus leading to general reduction in efficiency etc.

Check Your Progress Exercise

1. Outline and explain briefly the strategic planning process?

_____

_____

2. Explain in detail the strategies proposed by Ansoff and Porter?

_____

_____

3. Explain in brief the forms of business combination?

_____

_____

4. Explain in detail the SWOT matrix Analysis?

_____

_____

8.4 SUMMARY

The management process consists of planning, implementation, and evaluation. Planning is deciding in advance what objective to pursue during the future time period, including when and how we are going to do it. Planning provides direction to an organization. Strategic planning is intended to match an organizations resources with its market opportunities over the long run. Strategic marketing planning an eight steps process: Define mission statement parsers internal and external environment; set objective set strategies; formulate programs; implement the program and feedback and control.

Management can rely on one or more of the following models for assistance with strategic planning. Porter's generic strategic model, product market growth matrix,etc. A planning models help management

see how best to allocate its resources and to select effective marketing strategies.

Organization consists of people who carryout differential tasks which are coordinated to contribute to the organization goal.

A clear understanding of the objectives and strategies of an organization enable it for structuring, functioning and performance of an organization. Organization involves division of work among people whose efforts must be coordinated to achieve the specific objectives. The pattern of organization structure takes the forms of line organization, staff organization, committee organization, tasks force organization, etc.

The development or growth of forms of business organization is closely interconnected with the stages of economic development of a country.

The business organization is taking the forms of sole-proprietorship, partnership, joint stock Company, e.t.c

Existing firms may combine with the purpose of eliminating of unhealthy competition, avoidance of wasteful expenditure in production and distribution or marketing through common finance, management, production, and marketing policies. Such combination is taking the forms of Simple association-trade union, association, chamber of commerce; federation (formal agreement) –pools and cartels; partial consolidation-holding companies, trust; and complete consolidation-mergers and acquisition.

8.5 ANSWER TO CHECK YOUR PROGRESS

1. Refer Section 8.2
2. Refer 8.2.2.1 & 8.2.2.2
3. Refer 8.4
4. Refer 8.2.1

UNIT 9: PRODUCT MIX

Contents

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9.6 Product Life Cycle
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9.0 AIMS AND OBJECTIVES

After studying this unit you should be able to explain

- the meaning of product
- the process involved in product planning development
- the branding decision
- the product life cycle (local and international)

9.1 INTRODUCTION

Business firms and non-profit organizations engage in marketing. Products marketed included goods as well as **services**, **ideas**, **people,** & **places**. Marketing activities are targeted at market consisting of

products purchasers and also individuals and groups that influence the success of an organization.

People satisfy their needs and wants with products. A product is anything that can be offered to satisfy a need or want. A product can consists of as many as three components:- Physical goods, service(s), and idea(s).

Eg .1. A restaurant is supplying goods (foods, drinks etc), services (cooking, seating etc) and an idea ("saves my time")

Eg. 2. A computer manufacturer supply goods (computer, monitor, printer), services (delivery, installation, training maintenance, repair, and an idea ("computation power.")

To transform marketing strategy in to marketing programs, marketing managers must make basic decisions on marketing expenditures, marketing mix, and marketing allocation.

Marketing mix is one of the key concepts in modern marketing theory. ***Marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market.*** The four-factor classification of marketing mix namely the '4 P's are:- Product, price, Place & Promotion.

The most basic marketing mix tool is product. The firm's tangible offer to the market, which includes the product quality, design, features. Branding, and Packaging. As a part of product offering, Some companies provide various services, such as leasing, delivery, repair, and training. Such support services can provide a competitive advantage in the globally competitive market place.

9.2 MEANING OF A PRODUCT

A product is anything that can be offered to satisfy a need or want.

A product consists of as many as there components: **Physical good(s) service(s) and idea (s).**

Products that are marketed include physical goods (automobiles, books etc), service (concerts, professional advice), persons (Mr A, B, C), places (Langano, Sodere), organizations. (Health association, social clubs), and ideas (family planning, safe driving) etc.

9.3 PRODUCT PLANNING AND DEVELOPMENT

Guided by a company's new-product strategy, a new product is best developed through a series of six stages.

Major steps in development process

Identify the strategic role of new products	1	2	3	4	5	6
	Idea generation	Screening of ideas	Business Analysis	Prototype development	Market Test	Commercialization

The formal development of new products provides benefits such as higher success rates, increased customer satisfaction, and greater achievement of time, quality, and cost objectives for new products.

Stages of the new product development process

1. Generating new product ideas

New product development starts with an idea. A system must be designed for stimulating new ideas within an organization and then

acknowledging and reviewing them promptly. Customers should also be encouraged to propose innovations.

2. Screening ideas

At this stage, new product ideas are evaluated to determine which one warrant further study. Typically, a management team screens the pool of ideas.

3. Business Analysis

A surviving idea is expanded in to a concrete business proposal. This means management (a) identifies product features (b) estimates a market demand, competition, and the products profitability (c) establishes a program to develop the product, and (d) assigns responsibility for further study of the products feasibility

4. Prototype development

If the result of the business analysis is feasible, then a prototype (or trail model) of the product is developed. In the cases of goods, a small quantity of the trail model is manufactured to designated specifications.

5. Market tests

Unlike the internal tests conducted during prototype development, this test involves actual customers. A new tangible product may be given to a sample of people for use in their households (in the case of consumer good) or their organization (a business good). Following this trail, consumers are asked to evaluate the product. Consumers use tests are less practical for services due to their intangible nature.

This stage in new product development often entails test marketing, in which the product is placed on sale in a limited geographic area. Results,

including sales and repeat purchases, are monitored by the company that developed the product and perhaps by competitors as well.

6. Commercialization

In this stage, full-scale production and marketing programs are planned and finally, implemented, up to this point in development, management has virtually complete control over the product.

9.4 PRODUCT LINE AND MIX

Product mix:

The set of all products offered for sale by a company is a called a product mix.

The structure of a product mix has both breadth & depth. Its breadth is measured by the number of product lines carried, its depth by the variety of sizes, colors, and models offered with in each product line.

Product line:

A broad group of products, intended for essentially similar uses and having similar physical characteristics, constitutes a product line.

Product mix Strategies:-

To be successful in marketing, producers and middlemen need carefully planned strategies for managing their product mixes.

The major product mix strategies include:

- Positioning
- Alteration
- Expansion
- Contraction

1) Positioning the product

Positioning means developing the image that a product projects in relation to competitive products and to the firm's other products.

Marketing executives can choose from a variety of positioning strategies. Sometimes they decided to use more than one for particular products. Several types of positioning includes

i) Positioning in relation to a competitor
ii) Positioning in relation to a product class or attribute
iii) Positioning by price and quality
iv) Positioning in relation to a target market

2) Product mix Expansion

Product mix expansion is accomplished by increasing the depth with in a particular line and/or the number of lines a firm offers to consumers.

When a company adds a similar item to an existing product line with the same brand name, is termed as line extension.

Another way to expand the product mix, referred to as mix extension. Under a mix extension the company is to add a new product line to its present assortment.

The new line may be related or unrelated to current products. Furthermore, it may carry one of the company's existing brand name or may be given a entirely new name.

The product strategies of trading up and trading down involve a change in product positioning and an expansion of the product line. Trading up means adding a higher price product to a line to attract a broader market. Also the seller intends that the new product's prestige will help the sale of its existing lower price products.

Trading down means adding a lower-price product to a company's product line. The firm expects that people who cannot afford the original higher price product or who see it as too expensive will buy the new lower-price one.

3) Alteration of existing products

Product alteration is often improving an established product. Product alteration can be more profitable and less risky than developing a new one. Redesigning the product itself can sustain its appeal or even initiate its renaissance. Alternatively, especially for consumer goods, the product itself is not changed but its packaging is altered.

4) Product mix contraction

Another product strategy, product mix contraction, is carried out either by eliminating an entire line or by simplifying the assortment with in a lien. Thinner and/or shorter product lines or mixes can weed out low-profit and unprofitable products. The intended result of product-mix contraction is higher profits form fewer products. As firms find that they have an unmanageable number of products or that various items or lines are unprofitable, or both, product-mix pruning is likely.

9.5 PRODUCT IDENTIFICATION

9.5.1 Branding

In developing a marketing strategy for individual products, the seller has to confront the branding decision, branding is a major issue in product strategy. On the one hand, developing a branded product requires a great deal of long-term investment spending, especially from advertising, promotion, and packaging.

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, and enhance brands, marketers say that "Branding is the art and cornerstone of marketing." The American marketing association defines a brand as follows: -

"A Brand is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors".

A brand is essentially a seller's promise to consistently deliver a specific set of features, benefits, and services to the buyers.

A brand name is the part of brand consisting of words, letters, and/or numbers that can be vocalized. A trademark is defined as a brand that is given legal protection. Therefore, trademark is a legal term meaning the words, names, or symbols that the law designates as trademarks.

The best brands convey a warranty of quality. But a brand is even a more complex symbol. A brand can convey up to six levels of meaning.

i) Attributes

A brand first brings to mind certain attributes. Thus, Mercedes suggests expensive, well built, well-engineered, durable, high prestige, high resale value, fast, and so on.

ii) Benefits

A brand is more than a set of attributes, customers are not buying attributes; they are buying benefits. Attributes need to be translated into functional and/or emotional benefits. The attribute "durable" could translate into the functional benefit, "I won't have to buy a new car every few years". The attribute "Expensive" might translate into the emotional benefit, "The car helps me feel important and admired". The attribute "well build" might translate into the functional and emotional benefit, "I am safe incase of an accident".

iii) Values:-

The brand also says something about the product values. Thus, Mercedes stands for high performance, safety, prestige, and soon. The brand

marketer must figure out the specific groups of car buyers who are seeking these values.

iv) Culture:-

The brand may represent a certain culture. The Mercedes represents German culture. Organized, efficient, high quality.

v) Personality:-

The brand can also project a certain personality. If the brand were a person, an animal, or an object, what would come to mind? Some time it might take on the personality of an actual well-known person or spokesperson.

vi) User:-

The brand suggests the kind of consumers who buys or uses the product. The users will be those who respect the product's values, culture, and personality.

The challenge in branding is to develop a deep set of meanings for the brand. When the audience can visualize all six dimensions of a brand, the brand is deep otherwise it is shallow.

Brand Equity

Brand varies in the amount of power and value they have in the market place. At one extreme are brands that are not known by most buyers in the market place. Then there are brands for which buyers have a fairly high degree of brand awareness (measured either by brand recall or recognition). Beyond this are brands with a high degree of brand acceptability. In other words, brands that most customers would not resist buying. Then there are brands that enjoy a high degree of brand preference. These are brands that are selected over the others. Finally there is brands that command a high degree of loyalty.

High brand equity provides a number of competitive advantages: -

- The company will enjoy reduced marketing costs because of high level of consumer's brand awareness and loyalty.
- The company will have more trade leverage in bargaining with distribution and retailers since customers expect them to carry the brand.
- The company can charge a higher price than its competitors because the brand has higher perceived quality.
- The company can more easily launch brand extension since the brand name carries high credibility.
- The brand offers the company some defense against fierce price competition

A brand name needs to be carefully managed so that its brand equity doesn't depreciate. Thus requires maintaining or improving over time brand awareness, brand perceived quality and functionality, positive brand associates, and so on.

Brand Name Selection: -

A good name can add greatly to a products' success. However, finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market and proposed marketing strategies.

Desirable qualities for a brand name includes:-

1. It should suggest something about the product's benefits & qualities
2. It should be easy to pronounce, recognize, and remember. The brand name should be distinctive
3. It should be capable of registration and legal protection

Once, chosen, the brand name must be protected. Many times try to build a brand name that will eventually become identified with the product category.

9.5.1.1 Branding Decisions

To understand the role of trademark in strategic planning, one must understand what a trademark is from a legal standpoint. In many countries, branding may be nothing more than the simple process of putting a manufacturer's name, signature or picture on a product or its package.

The basic purpose of branding is the same everywhere in the world. In general the functions of a brand are: -

- Create identification and brand awareness
- Guarantee a certain level of quality, quantity and satisfaction and
- Used as a promotional tool etc.

All of these purposes have the ultimate goal to induce repeat sales.
Branding levels and alternatives

There are four levels of branding decisions:

1. Branding Vs No Brand
2. Private brand Vs manufacture's brand
3. Single brand Vs multiple brands
4. Local brands Vs worldwide brand

1. Branding Vs No Brand

To brand or not to brand, that is the question. Branding is not a cost free preposition because of the added cost associated with marking, labeling, packaging and legal procedures. Branding is then probably undesirable

because brand promotion is ineffective in a practical sense and adds unnecessary expenses to operations costs.

On the positive side, a brand fewer products allow flexibility in quality and quantity control, resulting in lower production costs along with lower marketing and legal costs. On the other hand, branding makes pricing possible because of better identification, awareness, promotion, differentiation, consumer confidence, brand loyalty, and repeats sales.

2. Private Brand Vs manufacturer's Brand

Branding to promote sales and move products necessities a further branding decision: whether the manufacturers should use its own brand or a distributor's brand on its product. Distributors in the world of international business include trading companies, importers, and retailers, among others; their brands are called private brands.

Clearly, the manufacturer has two basic alternatives: 1) its brand or 2) private brand. Its choice depends in part on its bargaining power. If the distributor is prominent and the manufacturer itself is unknown and anxious to penetrate a market, then the latter may have to use the formers brand on the product. But, if the manufacturer has superior strength, it can afford to put its won brand on the product and can insist that the distributor accept that brand as part of the product.

3. Single Brand Vs Multiple Brand

When a single brand is marketed by the manufacturer, the brand is assured of receiving full attention for maximum impact. But a company may choose to make several brands with in a single market based on the assumption that the market is heterogeneous and thus be segmented.

Multiple brands are suitable when a company wants to trade either up or down because both moves have a tendency to hurt the firm's main business. If a company has the reputation of quality, trading down without creating a new brand will hurt the prestige of the existing brand. By the same rationale, if a company is known for its low. Priced, mass produced products, trading up without creating a new brand is hampered by the image of the existing products.

4. Local Brands Vs Worldwide Brand

When the manufacture decides to put its own brand name on the product, the problem does not end there if the manufacture is an international marketer. The possibility of having to modify trademark cannot be dismissed. The international marketer must then consider whether to use just one brand name worldwide or different brands for different markets or countries.

Advantages of each branding alternatives (from manufacturers new point)

1. No brand

- Lower production cost
- Lower marketing cost
- Lower legal cost
- More flexibility in quality and quantity control
- (I.e. possibility of less rigidity in control) good for commodities (undifferentiated items)

2. Brand

- Better identification
- Better awareness
- Better chance for product differentiation
- Better chance for repeat sales
- Possible premium pricing (removal from price competition)
- Possibility of making demand more price inelastic

2. Private Brand

- Ease in getting dealer's acceptance
- Possibility of larger market share
- No promotional hassles and expenses
- Good for small manufacture with unknown brand and identity

4. Manufacturer's Brand

- Better control of products and features
- Better price because of more price in elasticity
- Retention of brand loyalty
- Better bargaining power
- Assurance of not being by passed by channel members

5. Multiple Brands (in Single Market)

- Utilization of market segmentation technique
- Creation of excitement among employees
- Creation of competitive spirits
- Avoidance of connotation of existing brand
- Gain of more retail shelf space

6. Single Brand (in Single Market)

- Better marketing impact
- Permitting more focused marketing
- Brand receiving full attention
- Reduction of advertising costs because of better economies of scale

- Retention of customers who are not brand loyal
- Allowance of trading up or trading down without hurting existing brand

7. Local Brands

- Legal necessity (E.G. name already used by someone else in local market)
- Elimination of difficulty in pronunciation
- Allowance for meaningful names (i.e more local identification)
- Elimination of negative connotations
- Avoidance of taxation on international brand
- Quick market penetration by acquiring local brand
- Allowance of variations of quantity and quality across markets

and lack of duplication

- Elimination of brand confusion among employees, dealers and consumers
- Good for product with good reputation and quality

8. Worldwide Brand

- Better marketing impact and focus
- Reduction of advertising costs
- Elimination of brand confusion
- Good for culture free product
- Good for prestigious brand
- Easy identification/recognition for international travelers
- Good for well – known designer

On the other hand, branding makes pricing possible because of better identification, awareness, promotion, differentiation, consumer confidence, brand loyalty, and repeats sales.

Brand Characteristics

A good brand name should possess certain characteristics, and such characteristics are thoroughly discussed in more advertising and marketing textbooks. In essence, a brand should be short, distinctive, easy to pronounce, and able to suggest product benefits without negative connotations. In international arena, these qualities are relevant. According to one study, the criteria and the percent of firms citing each criterion are as follows:

1. Descriptive of product benefits, 58.5%
2. Memorable, 46.3%
3. Fits with company image or other products image, 46.3%
4. Trademark availability, 34.1%
5. Promotable and advertisable, 22.0%
6. Uniqueness in relation to competition, 22.0%
7. Length, 15.9%
8. Ease of pronunciation, 14.6%

9. Positive connotations to potential users, 13.4%
10. Scited to package, 6.1%
11. Modern/contemporary, 3.7%
12. Understandable, 2.4%
13. Persuasive, 2.4%

9.5.1.2 Brand Strategy

A company has four choices when it comes to brand strategy, which are as follows:-

i) Line extension:

Line extension occur when a company introduces additional items in the same product category under the same brand name, usually with features, such as new flavors, forms, colors, added ingredients, package sizes, and so on.

ii) Brand Extension

A company may decide to use an existing brand name to launch a product in a new category. Brand extension strategy offers a number of advantages. A well-regarded brand name gives the new product instant recognition and earlier acceptance. It enables the company to enter new product categories more easily.

i.e. Sony puts its name on most of its electronic products and instantly establish a connection of the new products high quality.

iii) Multi brands:-

A company will often introduce additional brands in the same product category. There are various motives for doing this. Sometimes the company is trying to establish different features and/or appeal to different buying motives.

A multi branding strategy also enables the company to lock up more distributors shelf space and to protect its major brand by setting up flanker brands.

For example, Seiko establishes different brand names for its higher priced (Seiko LaSalle) and lower-priced watch (pulsar) to protect its flanks.

iv) New brand

When a company launches products in a new category, it may find that none of its current brand names are appropriate.

v) Co-brands

A rising phenomenon is the appearance of co-branding (also called dual branding), is which two or more well-known brands are combined in an offer. Each brand sponsor expects that the other brand name will strengthen brand preference or purchase intention. In the case of co-packaged products, each brand hopes it might be reaching a new audience by associating with the other brand.

Advantages of Branding

- The brand name makes it easier for the seller to process orders and track down problems. Further more, the seller find it easier to trace the order if it is misshaped, or to determine why the beer was rancid if consumer complain.
- The seller's brand name and trademark provide legal protection of unique product features, which competitors would otherwise be likely to copy.
- Branding gives the seller the opportunity to attract a loyal and profitable set of customers. Brand loyalty gives sellers some protection from competition and greater control in planning their marketing program
- Branding helps the seller segment markets.

- Strong brands helps build the corporate image, making it easier to launch new brands and gain acceptance by distributors and consumers.

There is evidence that distributors want manufacturers; brand names because brand makes the product easier to handle, hold production to certain quality standards, strengthen buyer's preferences, and make it easier to identify suppliers. Consumers want brand names to help them identify quality differences and shop more efficiently.

9.5.2 Packaging

Even after a product is developed and branded, strategies must still be developed for other product related aspects of the marketing mix. One such product feature, and a critical one for some products, is packaging, which consists of all activities of designing and producing the container or wrapper. Thus packaging is a business function and a package is an item.

Packaging can be defined as follows:

"Packaging includes the activities of designing and producing the container or wrapper for a product."

The container or wrapper is called the package. The package might include upto three levels of material. Thus, old spice, after shave lotion is in bottle (primary package) that is in a cardboard box (secondary package) that is in a corrugated box (shipping package) containing six-dozen boxes of old spice.

In recent times, packaging has become a potent marketing tool. Well-designed packages can create convenience value for the consumer and promotional value for the producer.

Packaging and the resulting package are intended to serve several vital purposes.

i) Protect the product on its way to the consumer:-

A package protects products during shipment. Furthermore, it can prevent tampering with products, notably medications and food products, in the warehouse or the retail store.

ii) Provide protection after the product is purchased:-Compared with bulk (that is unpackaged) items, packaged goods generally are more convenient, cleaner, and less susceptible to losses form evaporation, spilling and spoilage.

iii) Be part of a company's trade marketing program:-

A product must be packaged to meet the needs of wholesaling and retailing middlemen. For instance, a packages size and shape must be suitable for displaying and stacking the product in the store.

iv) Be part of a company's consumer marketing program:-

Packaging helps identify a product and thus may prevent substitution of competitive product. At the point of purchase such as supermarket aisle - the package can serve as a 'silent sales person'

Ultimately, a package may become a product's differential advantage, or at least a significant part of it. In the case of convenience goods and operating suppliers buyers feel that are well-known brand is about as good as another. Thus a feature of the package - reusable jar, self-contained applicator etc, might differentiate these types of a product.

i) Product description:-

The package is expected to show not only what the product is, but also what it does in terms of benefits it gives the promotional message. This could be done using words or pictures.

ii) Product image-

The packaging material ought to match the image of the product inside. Highly prestigious products and inferior products should be packed differently.

iii) Product value

The pack is often designed to make its contents look more than they really are in terms of value a small value item looks huge in certain packages.

iv) Shelf display

It is also important products are packed in such a way that they occupy small space, they are protected from shocks damages, their shelf life increases, they are protected from pilferage.

Criticism of packaging

Packaging in the public eye today, largely because of environmental issues, specific concerns are:

i) **Packaging depletes natural resources:** This concern has been addressed through the use of recycled materials in packaging. A point in favor of effective packaging is that it minimizes spoilage, thereby reducing a form of resource waste.

ii) **Packaging is too expensive:** Even it seemingly simple packaging, such as for soft drinks, as much as one-half of the production cost is for the container. Still, effective packaging reduces transportation costs and spoilage losses.

iii) **Packaging is deceptive:** Government regulations plus greater integrity on the part of business firms regarding packaging have alleviated these concerns to some extent.

5. Used and discarded packaging contributes significantly to the solid waste problem etc.

Marketing executives are challenged to address these criticisms. At the same time, they must retain or even enhance the positive features of packaging, such as product protection, consumer convenience, and marketing support.

Packaging functions and criteria

Much like the brand name, packaging is another integral part of a product. Packaging serves two primary purposes: functional and promotional. First and foremost, a package must be functional in the sense that it is capable of protecting the product at minimum cost.

For most packaging applications, marketers should keep in mind that foreign consumers are more concerned with the functional aspect of a package than they are with convenience. In addition to functional and promotional functions, good packaging should also satisfy secondary criteria. A good design should have impact, visibility, legibility, simplicity, consistency, versatility and honesty. Packaging does not have to be dull. Novel shapes and designs can be used to stimulate interest and create excitement.

Mandatory package modification

A package change may be either mandatory or at the discretion of the marketer. A mandatory change is usually necessitated by government regulations.

The complexity of packaging regulations is very well demonstrated by the experience of R.J.Reynolds in marketing cigarettes, a relatively simple

product. The pack sold in USA can be shipped to only three or four markets.

The company has to employ more than 1400 product codes for all its brands in all countries. I.e. Ethiopia requires the imprint “Ethiopia” on the cigarette paper in addition to a special closure seal on every pack indicating retail price in Ethiopian currency.

Optional package modification

Optional modification of a package, although not absolutely necessary, may have to be undertaken for marketing impact or for facilitating marketing activities. In addition to condition of use, other cultural factors should be taken into consideration because such factors often determines and influence consumer preference.

Symbols and colors of packages may have t be changed to be consistent with cultural norms. If packages are offensive, they must be made more acceptable if the product is to be marketed successfully.

Packing

Packaging may be viewed as consisting of two distinct types

i. Industrial (exterior) and
ii. Consumer (interior)

The aim of packaging is to prepare and protect merchandise for shipment and storage. Packing is more critical for overseas shipment than for domestic shipment because of the longer transit time and a greater number of hazards.

Packing problems

There are four common packaging problems; same of them are in direct conflict with one another. They are

- Weight

- Breakage
- Moisture and temperature and
- Pilferage and theft

i) **Weight:** Over packing not only directly increases packing cost but also increases weight and size of cargo. Any undue increases in weight or size only serves to raise freight changes. Moreover, import fees or customs duties may also rise when import duties are based on gross weight. Thus overprotection, of the cargo can cost more than it is worth.

ii) **Breakage:** Although over packing is undesirable, so is under packing because the latter allows a products to be susceptible to breakage or damage. The breakage problem is present in every step of ocean transport. In order to protect the breakage, cargo should be unitized or palletized whenever possible.

Palletizing is the assembly of one or more packages on a pallet base and the securing of the load to the pallet. Unitizing is the assembly of one or more items into a compact load secured together and provided with acids and cleats for ease handling. These two packing methods force cargo handlers to use mechanical handling equipment to move cargo.

iii) Moisture and temperature: Certain products can easily be damaged by moisture and temperature. Such products are subject to condensation even in the hold of a shipped equipped with air conditioning or dehumidifying equipment. Another problem is that the cargo may be unloaded in the rain. Many foreign parts do not have covered storage facilities, and the cargo may have to be left in the open subject to heat, rain, cold or adverse elements. One very effective means of eliminating moisture is shrink wrapping, which involves sealing merchandise in a plastic film. Waterproofing can also be provided by using waterproof inner lines or moisture absorbing agents and by coating finished metal

parts with a preservative or rust inhibitor.

iv) Pilferage and theft: Cargo should be adequately protected against theft. One method to discouraging theft is to use shrink wrapping seals, or strapping. Gummed sealing tapes with patterns when used, will quickly reveal any sign of tampering. Also, only well constructed packing in good condition should be used. I.e. containerization.

Another area of concern is marking. The main purpose of marking is to identify the shipment so that the carrier can forward the shipment to the designated consignee. Container can take care of most of the four packing problems. Because of a container's construction, a product does not have to have heavy packing. A container is a large box made of durable material such as steel, aluminum, plywood and glass reinforced plastics.

The container by itself provides good protection for the product against breakage, moisture and temperature. Because breaking in to a container is difficult, this method of shipment discourages pilferage and theft as well.

9.5.3 Labeling

Labeling which is closely related to packaging is another product feature that requires managerial attention. A label is a part of a product that carries information about the product and the seller. A label may be part of the package, or it may be a tag attached to the product. Obviously there is a close relationship among labeling, packaging, and branding.

Types of labels:-

Labels fall into three primary kinds:-

i) A brand label:-

It is simply the brand name applied to the product or package.

ii) A descriptive label: It gives objectives information about the products' use construction, care, performance, and/or other pertinent features ingredients and nutritional contents.

iii) A grade label: It identifies the products judged quality with a letter, number, or word. Canned peaches are grade labeled A,B,C, corn and wheat are grade labeled 1 & 2.

Brand labeling is an acceptable form of labeling, but it does not supply sufficient information to a buyer. Descriptive labels provide more product information but not necessarily all that is needed or desired by a consumer in making a purchase decision.

Functions of Labeling

Labeling performs several functions. Some of which are illustrated below:-

- The label identifies the product or brand
- The label might also describe several things about the product, which made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely.
- The label might promote the product through attractive graphics

9.6 PRODUCT LIFE CYCLE

Introducing a new product at the proper time will help maintain a company's desired level of profit. Striving to maintain its dominant position in the market, the company has to face that challenge often.

Though designing a new product takes its own course, even a well-made product may not sustain in the market as expected. There are certain reasons why new product fails. Some of which are as follows:

- Inadequate market analysis and market appraisal

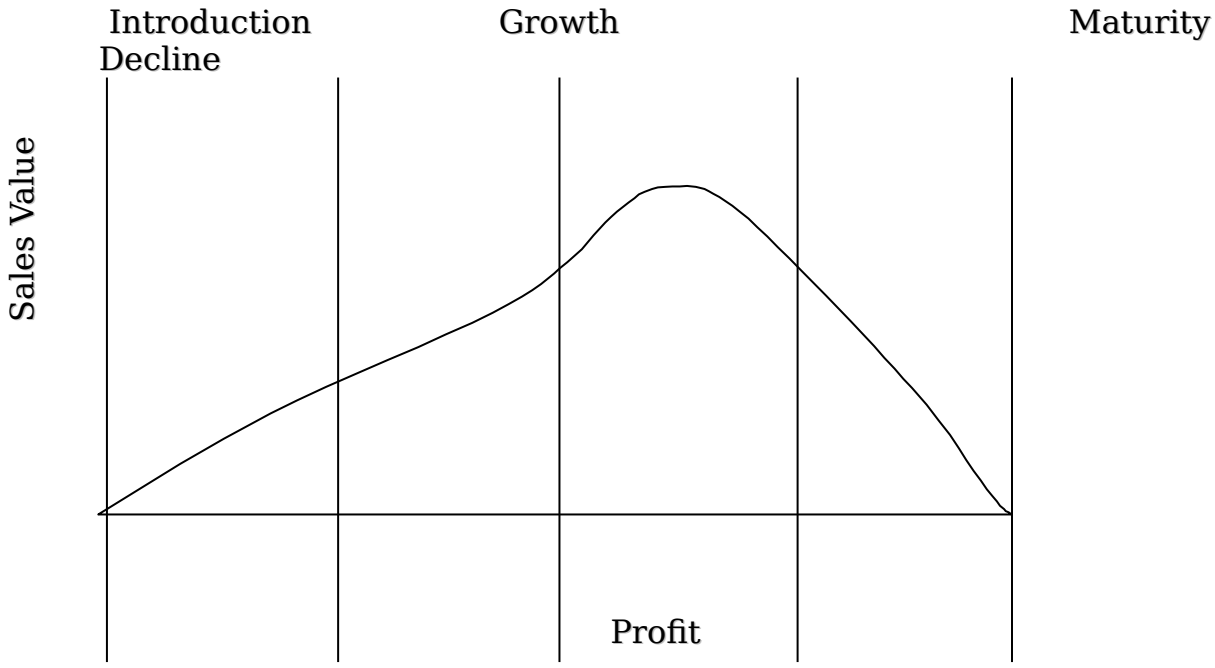
- Insufficient marketing support
- Bad timing
- Failure to recognize changing market environment
- Absence of formal product planning and development proceeds
- Failure to the product to fill consumer needs
- Technical or production problems
- New entrants
- Failure to estimate strength of competition

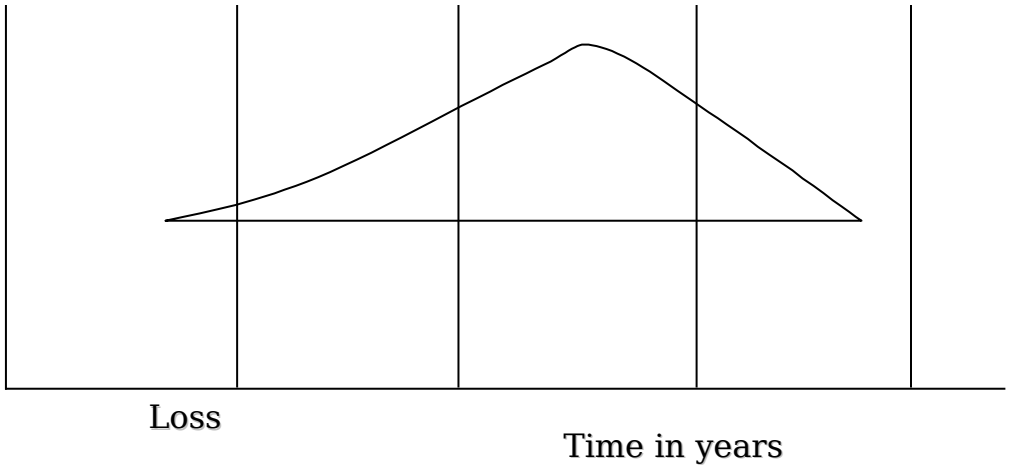
However, any product moves though identifiable stages, each of which is related to the passage of time and each of which has different characteristics.

9.6.1 Domestic Product Lifecycle

The Life cycle of a product consists of four stages:

Introduction, Growth, Maturity and Decline. A product life cycle consists of the aggregate demand over an extended period of time for all brands comprising a generic product category.





Characteristics of Each Stage

Management must be able to recognize what part of the life cycle its product is in at any given time. The competitive environment and marketing strategies that should be used ordinarily depend on the particular stage.

1. Introduction

During the introduction stage, a product is launched into the market in a full-scale marketing program. It has gone through product development, including idea screening prototype and market tests. This introductory (Sometimes called pioneering) stage is the most risky and expensive one, because substantial amount of money spent in seeking consumer's acceptance of the product.

2. Growth

In the growth stage, or market acceptance stage, sales and profit rises, often at a rapid rate. Competitors inter the market, often in a large numbers if the profit outlook is particularly attractive. Mostly as a result of competition, profits start to decline near the end of the growth stage.

3. Maturity

During the first part of the maturity stage, sales continue to increase, but at a decreasing rate. When sales level of profits of producers and

middlemen decline, the primary reason: Intense price competition. During the latter part of this stage, marginal producers, those with high costs or with out a deferential advantages are forced to drop out of the market. They do so because they lack sufficient customers and /or profits.

4. Decline

For most products, a decline stage as gauged by sales volume for the total category is inevitable for one of the following reasons:

- The need for the product disappears.
- Better or less expensive product is developed to fill the same need
- People simply tired of a product (a clothing style for instance)
- So it disappears from the market.

The concept of product life cycle is very important in modern marketing. Steps in planning and development of products, why new product fail? And strategies used on every stage of the life cycle is illustrated as follows:

9.6.2 International Product Life Cycle

Product life cycle is a well – known theory in marketing. But its international counterpart, International Product Life Cycle (IPLC), is relatively unknown. The theory developed and verified by economists to explain international trade in a context of comparative advantage, has been covered rather briefly in some international economics and international marketing texts and in a few marketing articles.

The IPLC theory describes the diffusion process of an innovation across national boundaries. The life cycle begins when a developed country, having a new product to satisfy consumer needs, wants to exploit its technological breakthrough by selling abroad. Other advanced nations soon start up their own production facilities, and before long Least Developed Countries (LDCs) do the same. Efficiency/comparative

advantage shifts from developed countries to developing nations. Finally, advanced nations, no longer cost – effective, import products from their former customers. The moral of this process could be that an advanced nation becomes a victim of its own creation.

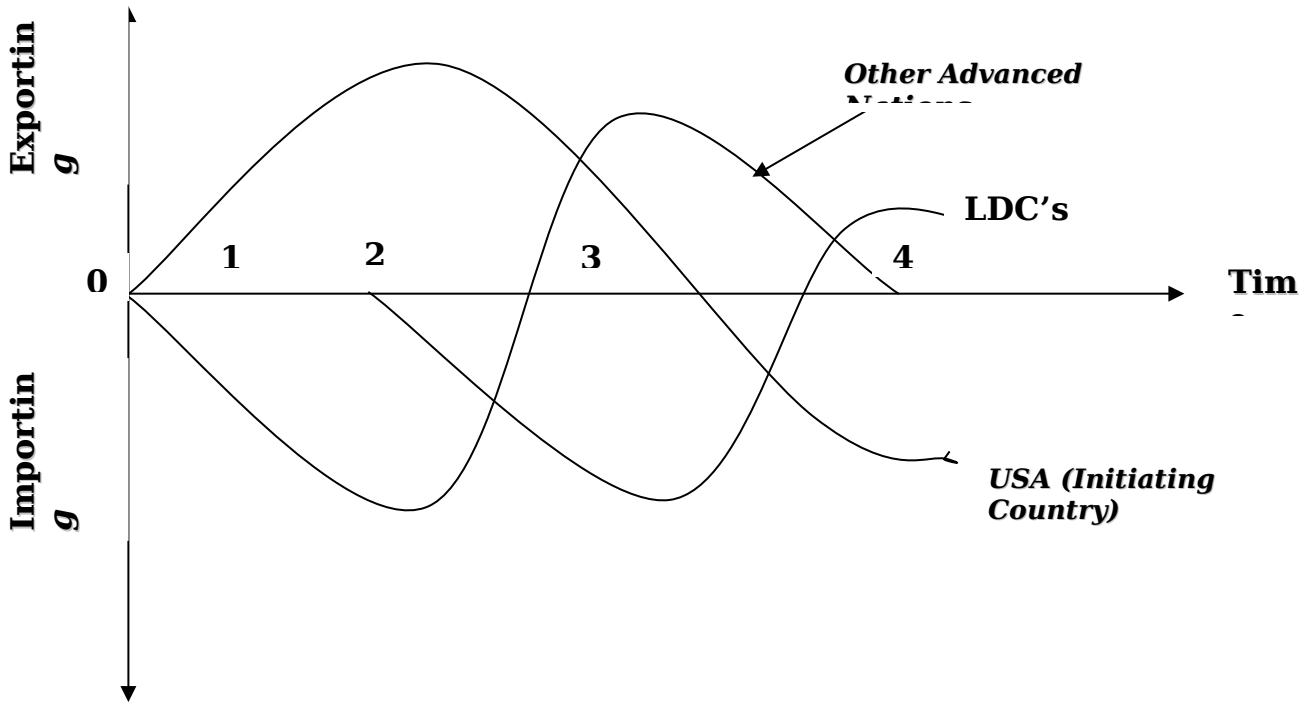
One reason that IPLC theory has not made a significant impact is that its marketing implications are somewhat obscure, even though it has the potential to be a valuable framework for marketing planning on a multinational basis. In this section, the IPLC is examined from the marketing perspective, and marketing implications for both innovators and imitators are discussed.

Stages and characteristics

There are five distinct stages (stage 0 through Stage 4) in the IPLC. Table 2-1 shows the major characteristics of the IPLC stages, with the United States as the developer of the innovation in question. Exhibit 2-2 shows three life – cycle curves for the same innovation: one for the initiating country (i.e., the United States in this instance), one for other advanced nations, and one for LDCs. For each curve, net export results when the curve is above the horizontal line; if under the horizontal line, net import results for that particular country. As the innovation moves through time, directions of all three curves change. Time is relative, because the time needed for a cycle to be completed varies from one kind of product to another. In addition, the time interval also varies from one stage to the next.

Table 2-1 IPLC stages and characteristics (for the initiating country)

Stage		Import/ Export	Target Market	Competitors	Production Costs
0	Local Innovation	None	USA	Few: Local Firms	Initially High
1	Overseas Innovation	Increasing Export	USA & Advanced Nations	Few: Local Firms	Decline Owing to Economies of Scale
2	Maturity	Stable Export	Advanced Nations & LDCs	Advanced Nations	Stable
3	Worldwide Imitation	Declining Export	LDCs	Advanced Nations	Increase Owing to Lower Economics of Scale
4	Reversal	Increasing Import	USA	Advanced Nations & LDCs	Increase Owing to Comparative Disadvantage



IPLC curves

1. Stage 0 – Local Innovation

Stage 0, depicted as time 0 on the left of the vertical importing/exporting axis, represents a regular and highly familiar product life cycle in operation within its original market. Innovations are most likely to occur in highly developed countries because consumers in such countries are affluent and have relatively unlimited wants. From the supply side, firms in advanced nations have both the technological know-how and abundant capital to develop new products. Developed countries, in addition to being the original case where innovation take place, in all likely hood will be the place where such new products are first introduced to the public. Introduction occurs there because marketers are familiar with local desires and marketing conditions, making them believe that the risks in introducing any product at home, rather than some where else, are smaller. Furthermore, it is common for a new product to have technical problems even after market introduction and acceptance, perhaps necessitating significant modifications. Products sold overseas may have to be adjusted to be suitable for their intended markets. All of these considerations together may be too complicated for innovative firms to deal with at the beginning. Thus, it is easier and more logical for a firm to concentrate its effort in its home market before looking to overseas markets.

Many of the products found in the world's market where originally created in the United States before being introduced and refined to other countries. In most instances, regardless of whether a product is intended for later export or not, an innovation is initially designed with an eye to capture the U.S. market, the largest consumer nation.

2. Stage 1- Overseas Innovation

As soon as the new product is well developed, its original market well cultivated, and local demands adequately supplied, the innovating firm will look to overseas markets in order to expand its sales and profit. Thus, this stage is known as a "pioneering" or "International Introduction"

stage. The technological gap is first noticed in other advanced nations because of their similar needs and high income levels. Not surprisingly, English – Speaking countries such as the United Kingdom, Canada, and Austria account for about half of the sales of US innovations when such products are first introduced overseas. Countries with similar cultures and economic conditions are often perceived by exporters as posing less risk and thus are approached first before proceeding to less familiar territories.

Competition in this stage usually comes from US firms, since firms in other countries may not have much knowledge about the innovation. Production cost tends to be decreasing at this stage because by this time the innovating firm will normally have improved the production process. Supported by overseas sales, aggregate production costs tend to decline further because of increase economies of scale. A low introductory price overseas is usually not necessary because of the technological breakthrough; a low price is not desirable because of the heavy and costly marketing effort needed in order to educate consumers in other countries about the new product. In any case, as the product penetrates the market during this stage, there will be more export from the United States and, correspondingly, an increase in imports by other developed countries.

3. Stage 2 – Maturity

Growing demand in advanced nations provides an impetus for firms their to commit themselves to starting local production, often with the help of their governments' protective measures to preserve infant industries. Thus, these firms can survive and thrive in spite of relative inefficiency. This process may explain the changing national concentrations of high – technology exports and the laws of the US share to Japan, France, and perhaps the United Kingdom.

Development of competition does not mean that the initiating countrie's export level will immediately suffer. The innovating firm's sales and export volumes are kept stable because LDCs are now beginning to generate a need the product. Introduction of the product in LDCs helps offset any reduction in export sales to advanced countries.

4. Stage 3 – World Wide Imitation

This stage means tough times for the innovating nation because of its continuous decline in export. There is no more new demand anywhere to cultivate. The decline will inevitably affect the US innovating firm's economies of scale and its production costs thus begin to rise again. Consequently, firms in other advanced nations use their lower prices (coupled with product - differentiation techniques) to gain more consumer acceptance abroad at the expense of the US firm. As the product becomes more and more widely disseminated, imitation picks up at a faster pace. Toward the end of this stage, US export dwindles almost to nothing, and any US production still remaining is basically for local consumption. The US automobile industry is a good example of this phenomenon. There are about 30 different companies selling cars in the United States, with several on the rise. Of these, only 4 are US firms, with the rest being from Western Europe, Japan, South Korea, Taiwan, Mexico, Brazil, and Malaysia.

5. Stage 4 – Reversal

Not only must all good things end, but also misfortune frequently accompanies the end of a favorable situation. The major functional characteristics of this stage are product standardization and comparative disadvantage. The innovative country's comparative advantage has disappeared, and what is left is comparative disadvantage. This disadvantage is brought about because the product is no longer capital – intensive or technology – intensive but instead has become labor – intensive - a strong advantage possessed by LDCs. Thus, LDCs – the last

imitators – establish sufficient production facilities to satisfy their own domestic needs as well as to produce for the biggest market in the world, the United States. US firms are now undersold in their own country. Black – and – white television sets, for example, are no longer manufactured in the United States because many Asian firms can produce them much less expensively than any US firm. Consumers' price sensitivity exacerbates the problem for the initiating country.

The IPLC is probably more applicable for products related through an emerging technology. These newly emerging products are likely to provide functional utility rather than aesthetic values. Furthermore, these products likely satisfy basic needs that are universally common in most parts of the world.

Washers, for example, are much more likely to fit this theory than are dryers. Dish washing machines are not useful in countries where labor is plentiful and cheap, and the diffusion of this kind of innovation as described in IPLC is not likely occur.

Marketing Strategies

For those U.S. industries in the worldwide imitation stage or the maturity stage, things are likely to get worse rather than better. The prospect, though bleak, can be favorably influenced. What is critical is for U.S. firms to understand the implications of the IPLC so that they can adjust marketing strategies accordingly.

i) Product Policy

The IPLC emphasizes the importance of cost advantage. The innovative firm must keep its product cost competitive. To reduce production cost,

a) Cutting labor costs through automation and robotics

b) Eliminating unnecessary options, since such options increase inefficiency and complexity. This strategy may be critical for simple products or those at the low end of the price scale. In such cases, it is desirable to offer standardized products with standard package of features or options included.
c) A firm may use local manufacturing in other countries as an entry strategy. The company not only can minimize transportation costs and entry barriers but also can indirectly slow down potential local competition firm starting up manufacturing facilities. Another benefit is that those countries can eventually become a springboard for the U.S. company to market its products throughout that geographic region.
d) Manufacturers should examine the traditional vertical structure in which they make all or most components and parts themselves, because in many instances outsourcing may prove to be more cost – effective. Out sourcing is the practice of buying parts or whole products form other manufacturers while allowing a buyer to maintain its own brand name. A modification of outsourcing involves producing various components or having them produced under contract in different countries. That production in each country before assembling components into final products form worldwide distribution.

Once in the maturity stage, the innovator's comparative advantage is gone, and the firm should switch from producing simple versions to producing sophisticated models or new technologies in order to remove itself from cut – throat competition.

ii) Pricing Strategy

Initially, an innovating firm can afford to behave as a monopolist, changing a premium price for its innovation. But this price must be

adjusted down - ward in the second and third stages of IPLC to discourage potential newcomers and to maintain market share.

In the last stage of the IPLC, it is not practical for the innovating firm to maintain low price because of competitions cost advantage. But the firm's above – the – market price is feasible only if it is accompanied by top – quality or sophisticated products. A high standard of excellence should partially insulate the firm's product from direct price competition.

iii) Promotion Strategy

Promotion and pricing in the IPLC are highly related. The innovative firm's initial competitive edge is its unique product, which allows it to made a premium price. To maintain this price in the face of subsequent challenges from imitators, uniqueness can only be retained in the form of superior quality, style, or service.

The innovating marketer must plan for a non price promotional policy at the outset of a product diffusion. Timken is able to compete effectively against the Japanese by offering more services and meeting customers' needs at all times. For instance, it offers technological support by sending engineers to help customers design bearings in gearboxes.

One implication that can be drawn is that a new product should be promoted as a premium product with a high-quality image. In this case promotional goal is to sell image rather than a specific product.

By starting out with a high- quality reputation, the innovating company can trade down later with a simpler version of the product while still holding on to the high price, most profitable segment of the market. One thing the company must never do is to allow its product to become a commodity item with prices as the only buying motive, since such a product can be easily duplicated by other firms. Product differentiation, not price, is most important for insulating a company from the crowded,

low profit market segment. A product can be so standardized that it can be easily duplicated, but image is a much different proposition.

iv) Place (Distribution) Policy

A strong dealer network can provide the U.S. innovating firm with a good defensive strategy. Because of its near-monopoly situation at the beginning, the firm is in a good position to be able to select only the most qualified agents/distributors and the distribution network should be expanded further as the product becomes more diffused. A firm must also watch closely for the development of any new alternative channel that may threaten the existing channel.

Check Your Progress Exercise

1. Discuss the steps involved in new product planning and development?

_____

_____

2. Explain in detail the major branding decision?

_____

_____

3. What is packaging? Explain in brief the functions and the problems in packaging?

_____

_____

4. Explain in detail the characteristics of the international product life cycle?

_____

_____

5. Compare and contrast the domestic and international product life cycle?

_____

_____

9.3 SUMMARY

A product is a bundle of utilities, and the brand and package are part of this bundle. Branding decisions involve more than merely deciding whether a product should be branded or not. Branding entails other managerial decisions. A manufacturer must decide whether to use its own brand or that of its dealer on its product.

Like the brand name, which may have to be varied from one country to another, packaging should be changed when needed. Mandatory modification of packaging should not be considered a problem because the marketer has no choice in the matter – if a marketer wants to market a product, the marketer must conform to the country's stated packaging requirements.

Optional or discretionary packaging modification, in contrast, is a more controllable variable with in a marketer's marketing mix. Usually, discretionary packaging is more related to product promotion, and it can take on the same importance as mandatory package.

Labeling, which is closely related with packaging is another product features that requires managerial attention .A label may be a brand label-the brand name applied to the package; or it may be descriptive label-where detailed information about the product incorporated or it may be a grade label-where a tag attached to the package of the product.

Any product moves through identifiable stages, where each of which is related to the passage of time and each of which has different characteristics. The life cycle of a product consists of four stages: introduction, growth, maturity, and decline. The international product life cycle describes the diffusion process of an innovation across the national boundaries. The stages includes in the IPLC are: local innovation, overseas innovation, maturity, world wide imitation, and reversal. The moral of this process could be that the innovating country would be the victim of its creation.

9.4 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1.Refer Section 9.2.3

2. Refer Section 9.2.5

3. Refer Section 9.2.6

4. Refer Section 9.2.9.2

5.Refer Section 9.2.9

UNIT 10: PRICE MIX

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10.0 AIMS AND OBJECTIVES

After studying this unit, you should be able to define:

- the meaning of price
- the various factors determining price
- the pricing methods (Local and International)
- the method of financing

10.1 INTRODUCTION

Simply, price is the amount of money and/or other items with utility needed to acquire a product. Utility is an attribute that has the potential

to satisfy wants. Price is significant to the economy, to an individual firm and in the consumer's mind.

Every marketing activity-include pricing should be directed toward a goal. Thus management should decide on its pricing objectives before determining the price itself.

To be useful, the pricing objectives management selects must be compatible with the overall goals set by the company and the goals for its marketing program.

Some of the pricing objectives set by the firm may include: Profit oriented; Sales oriented, Status quo-oriented.

10.2 FACTORS DETERMINING PRICE

Knowing the objective of its pricing, a company then can move to the heart of price management: determining the base price of a product.

Base price, or list price, refers to the price of one unit of the product at its point of production or resale. This price does not reflect discount, freight charges, or any other modification.

The same procedure is followed in pricing both new and established products.

Other factors, beside objectives, that influence price determination are discussed below:

1. Estimated demand

In pricing, a company may estimate the total demand for the product. This is easier to do for an established product than for a new one. The steps in estimating demand are

a) Determine whether there is a price the market expects and
b) Estimate what the sales volume might be at different prices.

A product must also consider a middleman's reaction to price. Middlemen are more likely to promote a product if they approve its price.

Retailer and wholesale buyers can frequently make an accurate estimate of the selling price that the market will accept for a particular item.

Moreover, the seller is gauging price elasticity of demand, which refers to the responsiveness of quantity demanded to price changes.

2. Competitive Reactions

Competition greatly influences base price. A new product is distinctive only until the inevitable arrival of competition. The threat of potential competition is greatest when the field is easy to enter and profit prospects are encouraging.

3. Other Marketing - mix elements

A Product's base price is influenced considerably by the other ingredient in the marketing mix.

a) Product: We have already observed that a product's price is affected by whether it is a new item or an established one. Over the course of a life cycle, price changes are necessary to keep the product competitive.

b) Distribution Channels: The channels and types of middlemen selected will influence a producers pricing. A firm selling both through wholesaler and directly to a retailers often sets a different factory price for these two classes of customers. The price to wholesaler is lower because they perform services that the producer would have to perform - such as providing storage, granting credit to retailers, and selling to retailers.

c) Promotion: The extent to which the product is promoted by the producer or middlemen and the methods used are added considerations in pricing. If major promotional responsibility is placed on retailers, they ordinarily will be changed a lower price for a product than if the producers advertises it heavily.

d) **Cost of a product:** Pricing of a product also should consider its cost. A product's total unit cost is made up of several types of costs, each reacting different to changes in the quantity produced.

10.3 DISCOUNT AND ALLOWANCES

Discount & allowances result in a deduction form a base (or list) price. The deduction may be in the form of a reduced price or some other concession, such as free merchandise or advertising allowances. Discount & allowances are commonplace in business dealings. Discount takes several forms as explained below:

1. Quantity Discounts

Quantity discounts are deductions from a seller's list price intended to encourage customers to buy in large amounts or to buy most of what they need from the seller offering the deduction. Discounts are based on the size of the purchase, ether in Birr or in units.

e.g. from 1-20 units none
20-40 units 2% discount
41-60 units 4% discounts etc.

2. Trade discount

Trade discount sometimes called functional discounts, are reductions form the list price offered to buyers in payment for marketing functions the buyers will perform - functions such as storing, promoting and selling the product. A manufacturer may quote a retail price of $800 with trade discount of 30% and 10%. The retailer pays the wholesaler $560 ($800 less 30%), and the wholesaler pays the manufacturer $504 ($560 less 10%). The wholesaler is expected to keep the 10% to cover costs of the wholesaling functions and pass on the 40% discount to retailers.

3. Cash discount

A Cash discount is a deduction granted to buyers for paying their bills within a specified time. The discount is composed on the net amount due after first deducting trade and quantity discounts from the base price. Every cash discount includes three elements.

- The percentage discount
- The period during which the discount may be taken &
- The time when the bill becomes overdue

Let's say a buyer owes $400 after other discounts have been granted and is offered terms of 5/10, n/30 on an invoice dated January 10. This means the buyer may deduct a discount of 5% ($20) if the bill is paid with in 10 days of the invoice date - by January 20, otherwise the entire (net) bill of $400 must be paid in 30 days - by February10 etc.

10.4 PRICING METHODS

To determine their selling price, most companies establishes their prices using one of the following methods:

i) Price are based on total cost plus a desired profit (Break even analysis is a variation of this method)
ii) Prices are based on marginal analysis (A consideration of both market demand and supply)
iii) Price are based on competitive market conditions (Market price)

10.4.1 Cost Plus Pricing (Mark Up)

Cost plus pricing means setting the price of one unit of a product equal to the total cost of the unit plus the desired profit on the unit.

Cost plus pricing when it is based on cost, the formula used is as follows

$$\text{Mark up \%} = \frac{\text{markup}}{\text{cost}}$$

when mark up is based on selling price

$$\text{Mark up \%} = \frac{\text{markup}}{\text{selling price}}$$

Adding standard markup to the cost of the product examples: -

1. A retailer pays a supplier $10 for a product and marks it up to sell at $20. There is a 100% markup on the product and the retailer's gross margin is $10. If the operating costs of the store are $6 per unit, the retailer's profit margin is $4 or 40%.
2. Suppose a manufacturer, whose unit cost of the product is $20, wants to earn a 20 percent markup on sales, his mark up price could be calculated in two ways.

i) Markup price $= \frac{\text{Unit cost}}{1 - \text{Desired return on sales}}$

$= \frac{\$20}{1\text{-}0.2\ (20\%)}$

$= \$25$

ii) Given

Unit cost = $20

Markup = 20% (0.2)

Markup price (sales price) = P

P = 20 + 0.2p

P - 0.2p = $20

0.8p = $20

p = $20/0.8

= $25

One way to consider both market demand and cost in price determination is break-even analysis to calculate break-even pints. Break-even points is that quantity of output at which total revenue equals total cost.

e.g. Total units sold - 14,000 selling price/unit $10

Variable cost/unit $6 and fixed cost $ 56,000

:. Total sales 10x14000 = 140,000

Total variable cost 6x14000 = 84000

Contribution = 56000

Fixed cost = 56000

BEP =

10.4.2 Break-even Analysis & Target Profit Pricing (Marginal Analysis)

Another pricing method, marginal analysis, also takes into account of both demand and costs to determine the best price for profit maximization. Firms with other pricing goals might use price based on marginal analysis to compare price determined by different means.

This approach is particularly useful where there is high proportion of overhead costs to be included in the selling price. However, demand and the perceived value of the product should not be ignored. Break-even analysis uses the concept of a break-even chart to develop a system of target profit pricing in which the organization tries to determine the price that will produce the profit it is seeking.

The chart shows the total cost and total revenue at different sales volume levels.

Example:-

- Assume fixed costs to be $300,000
- Assume variable cost per unit to be $15
- Variable cost plus fixed cost gives the total cost (TC)
- Produce total revenue (TR) on the basis of a given price per unit sold.

Assume if company sales

- 75,000 units
- 50,000 units

- 37,500 units
- 30,000 units and
- 20,000 units

These are break-even volumes. For instance, at $30, the company must sell at least 20,000 units to break-even

$$\text{Break-even Volume} = \frac{\text{Fixed cost}}{\text{Price - variable cost (contribution)}}$$

$$= \frac{\$300{,}00}{\$30\text{-}15}$$

$$= 20{,}000 \text{ units}$$

Suppose the enterprise wants to earn a target profit, it must sell more than 20,000 units at $30 each. Consider ABC company has invested $2,000,000 in the business and wants to set price to earn a 15% return, or $300,000. In that case it must sell at least 40,000 units at $30 each.

10.4.3 Market Entry Pricing

In preparing to enter the market with a new product, management must decide whether to adopt a skimming or a penetration pricing strategy.

10.3.4.1 Market Skimming Pricing

Setting a relatively high initial price for a new product is referred to as market skimming pricing. Ordinarily the price is high in relation to the target market's range of expected prices. That is, the price is set at the highest possible level that the most interested customers will pay for the new product.

Market-skimming pricing has several purposes. Since it should provide healthy profit margins, it is intended primarily to recover research and development costs as quickly as possible. Further it provides the firm with flexibility, because it is much easier to lower an initial price that meets with consumer resistance etc.

10.4.3.2 Market Penetration Pricing

In market penetration pricing, a relatively low initial price is established for a new product. The price is low in relation to the target market's range of expected prices. The primary aim of this strategy is to penetrate the mass market immediately and, in so doing generate substantial sales volume and a large market share. At the same time it is intended to discourage other firms from introducing competing products.

10.4.3.3 Dumping

Dumping is a form of price discrimination, is the practice of charging different price for the same product in similar markets. As a result, imported goods are sold at prices so low as to be detrimental to local producers of the same kind of merchandise.

Firms use dumping for many reasons:

- When a manufacturer with unsold inventories wants to get rid of distressed and excess merchandise
- Selling at a loss to gain access to a market and perhaps to drive at competition.
- Consistently selling at lower prices in one market than in others.

The above reasons of dumping each involves charging lower prices abroad than at home. Other forms of dumping include charging a lower price at home market than abroad.

10.4.4 Incoterms

A quotation describes a specific product, states the price for that product as well as a specified delivery location, sets the time of shipment, and specifies payment terms. When a company receives an inquiring from abroad, the quotation must be very detailed in terms of weight, volume and so on because of the customer’s unfamiliarity with foreign products, places, and terms. Also the pro-forma invoice may have to be prepared and supplied with the quotation.

Incoterms (International Commercial terms) are shorthand expressions (such as EXW, FCA, CIF) that state the respective responsibilities of the buyer and seller regarding matters such as transport costs, transfer of risks customs and insurance. There is, however, one important area, which is not governed by in incoterms 2000, and that is the transfer of property of goods.

The International Chamber of Commerce (ICC) has developed Incoterms. Incoterms 2000 is the latest version of Incoterms published by ICC in year 2000 and contains 13 Incoterms. Contacts should therefore explicitly refer to them by the term "Incoterms 2000."
The quotation must include terms of sale. Some of the international commercial terms (INCOTERMS) used are:-

1. Ex-Works (EXW) or Ex-Named point of origin
Ex means from and the price quoted is calculated from the point of origin. There are several variation of this term and they include ex factory, ex warehouse, ex mill, ex-works, under these terms, the sellers makes good available for the buyer at a specific time and place, usually at the seller's place of business or warehouse.

2. FAS – Named port of shipment
FAS stand for free alongside ship. Under this term the price includes delivery of goods along side the vessel or other mode of transportation and the seller pays all charges up to that point. This term does not include the cost of loading.

3. FOB Named Point
FOB stands for Free on Board. Like the other terms with in the quotation, the point where the price is applicable must be mentioned.

There are a number of classes, and the point in question may be any one of these:

- The named inland carrier at the named inland point of departure;
- The named inland carrier at the named point of exportation;
- The named port of shipment; and
- The named inland point in the country of importation.

Nevertheless, the point used for quotation is usually the port of export. In such a case the price includes local delivery and loading.

4. C&F – to named point of destination (CFR)

C & F stands for cost and freight. Usually this term will name the overseas port of import as the point in question. The price, generally includes the cost of transportation to the named point of debarkation. The buyer, in turn, is expected to pay for insurance. Like FOB, the risk of loss or damage to the goods is transferred from the seller to the buyer when the goods pass the ships rail.

5. CIF – to named point of destination

CIF stands for cost, insurance, and freight. The point used for quotation can be any location. But the international chamber of commerce recommends that this point should be the destination. The CIF price includes the cost of goods, insurance and all transportation charges to the point of debarkation (destination). Although the price covers more items of activities than FOB, the seller's obligation still end at the same stage (when goods arte aboard and loaded) etc.

6. **FCA** – Free Carrier: the seller hands over the goods, cleared for export, into the custody of the first carrier (named by the buyer) at the named place. This term is suitable for all modes of transport, including carriage by air, rail road, and containerized modes of transport, including carriage by air, rail road, and containerized/ multi-model transport.

7. **CRF** – Cost and Freight: seller must pay the costs and freight to bring the goods to the port of destination. However, risk is transferred to the buyer once the goods have crossed the ship's rail. Maritime transport only.
8. **CPT –** Carriage Paid To: the general /containerized/ multi equivalent of CFR. The seller pays for carriage to the named point of destination, but risk passes when the goods are handed over to the first carrier.
9. **CIP** – Carriage Paid To: the general/containerized/ multi equivalent of CFR. The seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the first carrier.
10. **DAF** – Delivered At Frontier: the seller makers the goods available, cleared for export, at the named place on the frontier. Suitable for rail/ road transport.
11. **DES** – Delivered Ex ship: the seller makes the goods available to the buyer on board the ship at the port of destination, un-cleared for import.
12. **DEQ** – Delivered Ex quay: one step further than DES – the goods must be unloaded into the quay at the port of destination.
13. **DDU** – Delivered Duty Unpaid: the seller must deliver the goods all the way to a named place in the country in the country of destination. However, the buyer must clear the goods for import and pay the necessary duties.
14. **DDP** – Delivered Duty Paid: maximum obligation for the seller – seller pays for costs, charges, and official formalities up to destination.

- **Elements of Export Costs**

The following is a sample export costing worksheet used to establish a "cost-plus" series of pricing points, which could be used to make a quotation. In this example the goods are planned to be moved by seas as the principal mode of transport; the shipment is not containerized. The worksheet is used to establish prices at a number of Incoterm points of delivery: EXW, FAS, FOB, CFR and CIF Incoterms 2000. For simplicity everything is coasted and priced in US$.

Product charges and prices

	Amount in US $
Product cost: $10 per unit x 100 units	1000
(A)	150
Target mark-up: 15% of (A)	50
Overseas agent's commissions: 5% of (A)	1200
Financing costs on production: 8% of (A)	80
	100
Export packing charges	50
Labeling and marking for 100 units	20
Other direct export costs	1450
EXW PRICE (Factory)	
Inland freight to port of shipment	100
Unloading and terminal charges	100
FAS PRICE (Port of shipment)	1650
Loading charges on ship	50
Export documentation, clearance for export	30
	1730
FOB PRICE (Port of shipment)	

Ocean freight to port of destination	300
CIF PRICE (Port of destination)	2030
Insurance coverage	20
CIF PRICE (Port of destination)	2050

Notice how the CIF price is double the initial product cost: this shows how important it is to work through these cost carefully.

10.5 METHODS OF FINANCING

There are several payment methods. Some methods periods financing to buyers, whereas other methods assure sellers of prompt payment. These payment methods are:-

1. Consignment

When consignment is used goods are shipped but ownership is retained by the seller. This means that the product is furnished on a deferred – payment basis, and when the product is sold, the seller is reimbursed by the consignee. The problem with consignment sales is that a high degree of risk prevails. First of all, it is costly to arrange for the return of merchandised that is unsold. In addition, because of the distance involved, the seller has difficulty keeping track of inventory and its condition.

2. Open account

With an open account, goods are shipped with at documents calling for payment, other than the invoice. The buyer can pick up goods without having to make payment first. The advantage with the open account is simplicity and assistance to the buyer, who does not have to pay credit charges to banks. The seller in return expects that the invoice will be paid at the agreed time. A major weakness of this method is that there is

no safeguard against default, since a tangible payment instrument does not exist. The lack of payment instrument also makes it difficult to sell the account receivable. To compound the problem, the buyer often delays payment until the merchandise is received a standard practice in many countries.

3. Cash in Advance

The seller may want to demand cash in advance when

iii) The buyer is financially weak or an unknown credit risk;

iv) The economic / political conditions in the buyer's country are unstable; and

v) The seller is not interested in assuring credit risk, as in the case of consignment and open account sales.

Because of the immediate uses of money and the maximum protection, seller prefer cash in advance. The problem of course, is that the buyer is not eager to tied up its money, especially if the buyer has some doubt about whether it will receive the goods as ordered. By insisting on cash in advance, the seller shift the risk completely to the buyer, but the seller may end up losing the sale by this insistence.

4. Bill of exchange (Draft)

A means of financing international transaction is through a bill of exchange or draft, which is a request for payment. The request is an unconditional order in writing from one person (drawer) requiring the person to whom it is addressed (drawee) to pay the payee or bearer on demand or at a fixed or determinable time. The drawer, usually her exporter, is the maker or originator of the draft requesting payment. The drawee usually the buyer, is the party responsible for honoring or paying the draft. The payee may be the exporter, the exporters bank, the bearer, or any specified person. In short, a draft is a request for payment. It is a negotiable instrument that contains an order to pay a payee.

There are other variations of this kind of draft. If bills of lading, invoices and the like accompany the draft, this is known as documents against payment (D/P). If financial documents are omitted to around stamp tax charges against such documents or if bills of lading come from countries where drafts are not used. This type of collection is known as cash against documents. Frequently, the draft terms may read “90 days sight D/A” or documents against acceptance. Upon accepting this draft, the buyer is permitted to obtain the documents and the merchandise, while not being obliged to make payment until the draft matures.

5. Bankers’ acceptance:

A bankers’ acceptance assists in the expansion of credit financing. A bankers’ acceptance is a time draft whose maturity is usually less than six months. The draft becomes a bankers’ acceptance when the bank accept it. That is, the bank on which the draft is drawn stamps and endorses it as “accepted”.

An acceptance becomes the accepting bank’s obligation, and once accepted it becomes a negotiable instruments that can be bought or sold in the market like a certificate of deposit (CD) or commercial paper. The bank has primary responsibility for payment to the acceptance holder at maturity. But the draft originator still has secondary liability in case the accepting bank does not honor the claim.

6. Letter of Credit

An alternative to the sight draft is a sight letter of credit (L/C). As a legal instrument, it is a written undertaking by a bank through prior agreement with its client to honor a withdrawal by a third party for goods and services rendered. The document, issued by the bank at the buyer’s request in favor of the seller, is the banks promise to pay an agreed amount of money on its receipt of certain documents within the specified

time period. Several banks may be involved in the process. The issuing bank, as a rise, issues letters of credit for its present customers only, even if collateral is offered by someone else. In contrast, the advising bank is the bank that notifies the exporter that an L/C has been issued. The issuing bank forwards the L/C to the advising bank (its foreign correspondents), which is usually selected for its proximity to the beneficiary. In the case of a conforming bank, the same services are performed as the advising bank but also the conforming because liable for payment. There are several types of letter of credit, including revocable, irrevocable, confirmed, unconfirmed, and transferable.

- **Revocable letter of credit**

With a revocable L/C, the issuing bank has the right to revoke its commitment to honor the draft drawn on it. Without prior warning or notification to the seller, the bank can cancel or modify its obligation at any time before payment even after shipment has already been made. Since the bank's commitment is not legally binding, the protection to the seller is minimal. Exporters generally do not want to accept a revocable L/C.

- **Irrevocable letter of credit**

This type of L/C is much preferred to the revocable letter of credit. In this case, once the L/C is accepted by the seller, it cannot be amended in any way or cancelled by the buyer or the buyer's bank without all parties' approval. It is possible, however, for the buyer who receives proper documents but unsuitable goods because of fraud to obtain an injunction preventing the banker from paying the fraudster.

- **Confirmed letter of credit**

For the exporter it is highly desirable for the L/C to be confirmed through a bank in the exporters country because the exporter then receives an additional guarantee of payment from a second bank (i.e. the confirming

bank). The advising bank sends a cover letter along with the original L/C to the exporter, stating that the L/C has been confirmed. The bank that confirms the L/C must be financially sound and the exporter should specify that (the confirming bank must be acceptable to the seller).

- **Unconfirmed letter of credit**

When the L/C is not confirmed by a bank in the sellers country, the certainty is less and the payment is slower, An unconfirmed letter of credit may still be acceptable as long as the foreign bank that issues it is financially strong. In fact, some multinational banks are so well known that they prohibit letters of credit issued to them to be confirmed because they believe that confirmation would tarnish their prestige. However, letter of credit can still be confirmed confidentially.

- **Transferable letter of credit**

When the seller is an agent or broker for the supplier of the goods, it is difficult for the agent to have an L/C issued to the supplier if the agent's credit standing is weak or unknown. To solve the problem, the agent or broker may request a transferable L/C from the buyer. This type of L/C allows the beneficiary (i.e. agent) to transfer once rights in part or in full to another party. The agent as the first beneficiary request the issuing or advising bank to transfer the L/C to his supplier (second beneficiary). It is also possible to combine the several types of L/C. A letter of credit can be revocable and confirmed, irrevocable and unconfirmed, and so on. For maximum security and earliest payment, the seller should ask for an irrevocable and confirmed L/C.

Check Your Progress Exercise

1. Discuss the factors determining Price?

_____

_____

2. Explain in detail the market entry pricing strategies?

_____

_____

3. Explain in detail the INCOTERMS pricing?

_____

_____

4. Discuss in detail the methods of financing?

_____

_____

10.6 SUMMARY

Price is a value given to the product. Like any other activities, pricing is also based on certain objectives. The objectives might be profit oriented, sales volume oriented and status quo oriented.

A seller before fixing the selling price must closely asses the factors determining the price. The factors include: cost of the product, estimating of a demand, marketing mix elements, etc. A seller must also consider the various incentives to be given to the buyer, which takes the forms of: quantity discount; trade discount, and cash discount.

In preparing to enter to the market wit the new product, management must decide whether to adopt a skimming pricing or a penetration pricing strategy. When a company receives an inquiry from abroad, the seller must be certain about the specific delivery location, the payment terms, time of shipment, etc. The international commerce) has introduced the common terms to be used in to the international trade namely INCOTERMS. Some of the terms widely used are: EXW, FAS, FOB, C&F, CIF, etc.

There are a lot of methods used to finance the international business. Some of the mode of payments are in favor of the buyer whereas some to

the seller. The available mode of payment includes: consignment, open account, bill of exchange, banker's acceptance, letter of credit, etc.

10.7 ANSWER TO CHECK YOUR PROGRESS EXERCISE

1. Refer Section 10.2
2. Refer Section 10.4.3
3. Refer Section 10.4.4
4. Refer Section 10.5

UNIT 11: PLACE MIX

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11.0 AIMS AND OBJECTIVES

After studying this unit, you will be able to explain

- meaning of channels of distribution
- factors determining choice of channels
- meaning of physical distribution
- the tasks of physical distribution

- the various shipping documents used to move cargo.

11.1 INTRODUCTION

Ownership of a product has to be transferred somehow from the individual or organization that makes it to the customer who needs and buys it. Goods also must be physically transported form where they are produced to where they are needed. Services ordinarily cannot be shipped but rather are produced and consumed in the same place.

Even before a product is ready for market, management should determine what methods and routes would be used to get it there. This means establishing strategies for the products: -

i) Distribution channel and
ii) Physical distribution

Between producers and the final users stands a marketing channel, a host of marketing intermediaries performing a variety of functions a variety of names. Some intermediaries such as wholesalers, retailers - buy; take title to and resale the merchandise. Others -such as brokers, manufacturer's representative, and sales agents - search for customers and may negotiate on the producer's behalf but do not take title to the goods.

The process of getting goods to customers has traditionally been called physical distribution. Physical distribution starts at the factory. Managers try to choose a set of warehouses (stocking points) and transportation carriers that will deliver produced goods to final destinations in the desired time and/or at the lowest total cost.

Distribution role within a marketing mix is getting the product to its target market. The most important activity in getting a product to market is arranging of its sale (and transfer of title) from producer to final

customer. Other common activities (or functions) are promoting the product, storing it, and assuming some to the financial risk during the distribution process.

A producer can carry out these functions in exchange for an order (and, hopefully payment) from a customer. Or producer and consumer can share these activities. Typically, however, firms called middlemen perform some of these activities on behalf of the consumer or the producer.

A middleman is a business firm that renders services related directly to the sale/or purchase of a product as it flows form producer to consumer. A middleman either owns the product at some point or actively aids in the transfer of ownership. Often, but not always, a middleman takes physical possession of the product. Middlemen are commonly classified on the bases of whether or not they take title to the product being distributed. Merchant middlemen actually take title to the products they help to market. The two groups of merchant middlemen are wholesalers and retailers. Agent middlemen never actually own the products, but they do arrange the transfer of title. Real estate brokers, manufacturer's agents, and travel agents are examples of agent middlemen. Physical distribution is a necessary as well as a costly activity. According to one executive at Procter & Gambler, the average time required to move a typical product form "farm to shelf" is four to five months. Although it takes only about 17 minutes to actually produce a product, the rest of the time is spent in logistical activities - storage, handling, transportation, packing and so on.

In the developed economies, the distribution sector typically accounts for one-third of the gross domestic product (GDP). Furthermore, international logistics costs can account for 25 to 35 percent of the sales

value of a product, a significant difference from the 8 to 10 percent for domestic shipment.

After a company establishes its channels of distribution, it must arrange for the physical distribution of its products through these channels. Physical distribution, which we use synonymously with logistics, consists of all the activities concerned with moving the right amount of the right products to the right place at the right time. In its full scope, physical distribution for manufacturers includes the flow of raw materials form their sources of supply to the production line and the movement of finished goods from the end of the production line to the final users' locations. Middlemen manage the flows of goods onto their shelves as well as from their shelves to customers' homes, stores, or other places of business. The activities comprising physical distribution are:-Inventory location and warehousing; Materials handling; Inventory control ;Order processing and Transportation.

A decision regarding any one of these activities affect all the others. Location of a warehouse influences the selection of transportation methods and carriers. The choice of a carrier influences the optimum size of shipment.

11.2 MEANING OF CHANNEL OF DISTRIBUTION

A distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves form producer to ultimate consumer or business user.

A channel of distribution always includes both the producer and the final customer for the product in its present form as well as any middlemen such as retailers and wholesalers.

The channel for a product extends only to the last person or organization that buys it without making any significant change in its form. When its form is altered and another product emerges, a new channel is started. i.e. when lumber is milled and then made into furniture, two separate channels are involved. The channel for the lumber might be lumber mill-broker-furniture manufacturer. The channel for the furnished furniture might be furniture manufacturer -retail furniture -store-consumer.

Beside producer, middlemen, and final customer, other institutions aid the distribution process. Among these intermediaries are banks, insurance companies, storage firms, and transportation companies. However, because they do not take title to the products and are not actively involved in purchase or sales activities, these intermediaries are not formally included in the distribution channel.

11.3 TYPES OF INTERMEDIARIES

A good product may not be accepted by a market if it is not properly made available. All products need competent distribution. A manufacturer can sell directly to end user abroad, but this type of channel is generally not suitable or desirable for most consumer goods. In foreign markets, it is far more common for a product to go through several parties before reaching the final consumer. In this unit we shall see the various channels of distribution that are responsible for moving products from manufacturers to consumers.

Companies used two principal channels of distribution when marketing abroad:

i) Indirect selling
ii) Direct selling

i) Indirect Selling

Indirect selling also known as the local or domestic channel, is employed when a manufacturer markets its product through sales intermediaries or middle men.

The middlemen, acting as the manufacturers external export organization, usually assumes the responsibility for moving the product overseas. The intermediary may be a domestic agent if it does not take title to the goods, or it may be a domestic merchant if it does take title to the goods.

An indirect channel does, however, have limitations. The manufacturer has been relieved of any immediate marketing costs, but, in effect, has given up control over the marketing of its product to another firm.

This situation may adversely affect the products success in the future. If the chosen intermediary is not aggressive, the manufacturer may become vulnerable, especially in the case where competitors are careful about their distribution practices.

ii) Direct Selling

Direct selling is employed when a manufacturer develops an overseas channel. This channel requires that the manufacturer deal directly with a foreign party without going through an intermediary in the home country. The manufacturer must set up the overseas channel to take care of the business activities between the countries. Being responsible for shipping the product to foreign market itself, the manufacturer exports through its own internal export department or organization.

11.3.1 Direct Channel

There are several types of intermediaries associated with both the direct and indirect channel. The various types of domestic and foreign intermediaries can be as follows:

i) Foreign Distributor

A foreign distributor is a foreign firm that has exclusive rights to carry out distribution for a manufacturer in a foreign a country or specific area.

There are a number of benefits in using a foreign distributor. Unlike agents, the distributor is a merchant who buys and maintains merchandise in its own name. This arrangement simplifies the credit and payment activities for the manufacturer.

To carry out the distribution function, the foreign distributor is often required to warehouse adequate products, parts, and accessories and to facilities and personnel immediately available to service buyers and users.

ii) Foreign Retailer

If foreign retailers are used, the product in question must be a consumer product rather than an industrial product. There are several means by which a manufacturer may contact foreign retailers and interest them in carrying a product, ranging from a personal visit by the manufacturer's representatives to mailings of catalogues, brochures, and other literature to prospective retailers.

iii) State-control Trading Company

For some products, particularly utility and telecommunication equipment, a manufacturer must contact and sell to state-controlled companies. In addition, many countries, especially those in Eastern Europe, have state-controlled trading companies, which are companies that have a complete monopoly in the buying and selling of goods.

iv) End Users

Sometimes, a manufacturer is able to sell directly to foreign end users with no intermediaries involved in the process. This direct channel is a

logical and natural choice for costly industrial products. For most consumer products, the approach is only practical for some products and in some countries. A significant problem with consumer purchase can result from duty and clearance problems.

11.3.2 Indirect Channel

For a majority of products, a manufacturer may find it impractical to sell directly to the various foreign parties, i.e., foreign distributors, foreign retailers, state-controlled trading companies, and end users). Other intermediaries, more often than not, have to come between these foreign buyers and the manufacturer. Although there are many kinds of local sales intermediaries, all can be grouped under two broad categories: (1) Domestic agents and (2) Domestic merchants.

The basic difference between the two is ownership (title) rather than just the physical possession of the merchandise. Domestic agents never take title to the goods, regardless of whether the agents take possession of the goods or not.

Domestic merchants, on the other hand, own the merchandise, regardless of whether the merchants take possession or not. An agent represents the manufacturer where as a merchant (eg. Distributor) represents the manufacturers product. The merchant has no power to contract on behalf of the manufacturer, but the agent can bind the manufacturer in authorized matters to contracts made on the manufacturer's behalf.

Agents can be further classified according to the principal whom they represent. Some intermediaries represent the buyer; others represent the interest of the manufacturers. Those who work for the manufacturer include export brokers, manufacturers export agents or sales representatives export management companies, cooperative exports. Agents who look after the interest of the buyer include purchasing (buying) agents/offices and country controlled buying agents.

i) Export Broker

The function of an export broker is to bring a buyer and a seller together for a fee. The broker may be assigned some or all foreign markets in seeking potential buyers. It negotiates the best terms for the seller (i.e., manufacturer) but cannot conclude the transaction without the principal's approval of the arrangement. As a representative of the manufacturer the export broker may operate under its own name or that of the manufacturer. The export broker is useful because of its extensive knowledge of the market supply, demand and foreign customers. This knowledge enables the broker to negotiate the most favorable terms of the principal.

ii) Manufacturer's Export Agent or Sales Representatives

Because of the title of this intermediary, one might easily mistake an export agent or sales representative for a manufacturer's employee when in fact, this is an independent business person who usually retains his or her own identity by not using the manufacturer's name.

Except for the fact that this intermediary is also a manufacturer, the cooperative exporter functions like any other export agent. The usual arrangement is to operate as an export distributor for other suppliers, sometimes acting as a commission representatives or broker. Because the cooperative exporter arranges shipping, it takes possession of goods but not title.

iii) Purchasing/Buying Agent

An export agent represents a seller or manufacturer; the purchasing/buying agent represents the foreign buyer. By residing and conducting business in the exporters country, the purchasing agent is in a favorable position to seek a product that matches the foreign principals preference and requirements.

Operating on the overseas customer's behalf, the purchasing agent acts in the interest of the buyer by seeking the best possible price. Therefore, the purchasing agents client pays a fee or a commission for the service rendered. The purchasing agent is also known by such names as commission agent, buyer for export, export commission house, and export buying agent.

iv) Country-controlled Buying Agent

A variation on the purchasing agent is a country-controlled buying agent. This kind of agent performs exactly the same function as the purchasing/buying agent, the only distinction being that a country controlled buying agent is empowered to locate and purchase goods for its country. This agent may have a permanent office location in countries that are major suppliers, or the country's representative may make formal visits to supplier countries when the purchasing need arises. Having more freedom than the manufacturer’s own salesperson, a sales representative can select when, where, and how to work within the assigned territory. Working methods include presenting product literature and samples to potential buyers.

v) Export Management Company (EMC)

An export management company (EMC) managers, under contract, the entire export program of a manufacturer. An EMC is also known as a combination export manager because it may function an export department for several allied but non competing manufacturer.

EMCs are compensated in several ways. Frequently, compensation is in the form of a commission, salary, or retainer plus commission. Depending on the product, the commission varies from 7.5 to 20 percent of the wholesale distribution price. Some EMCs also become traders (i.e., export merchants). In such cases, they buy merchandise at right and thus take title to the goods. They are compensated by receiving discounts on goods

purchased for resale overseas, and such discounts may be greater than other middle men receive for the domestic market.

EMCs may have a variety of contractual agreements with manufacturers, ranging from formal contracts (contractual channel) to informal agreement (administrative channel) and independent operations (conventional channel).

vi) Cooperative Exporter

A cooperative exporter is a manufacturer with its own export organization that is retained by other manufacturers to sell in some or all foreign markets.

vii) Resident Buyer

Another variation on the purchasing agent is the resident buyer. An implied by the name, the resident buyer is an independent agent that is usually located near highly centralized production industries. Although functioning much like a regular purchasing agent, the resident buyer is different because it is retained by the principal on a continuous basis to maintain a search for new products that may be suitable. The resident buyer provides many useful services for a manufacturer. It can offer a favorable opportunity for a supplier to maintain a steady and continuous business relationship as long as the supplier remains competitive in terms of price, service, style and quality.

viii) Export Merchant

The intermediaries covered so far have certain factors in common: they take neither risk nor title, preferring to receive fees for their services. Unlike these middlemen, domestic merchants are independent business that are in business to make a profit rather than to receive a fee. The export merchant’s compensation is a function of how product is priced. The mark up is affected by the profit motive as well as by market conditions. In any case, the export merchant, hopes that the price at

which the product is sold will exceed all costs and expenses in order to provide a profit.

ix) Export Drop Shipper

An export drop shipper, also known as a desk jobber or cable merchant, is a special kind of export merchant. As all these names imply, the mode of operation requires the drop shippers to request a manufacturer to “drop ship” a product directly to the overseas customer. It is neither practical nor desirable for the shippers to physically handle or possess the product. Based on this operational method, the shippers ownership of the goods may only last for a few hours.

x) Export Distributor

Whereas export merchants and drop shippers purchase from a manufacturer when ever they receive orders from overseas, an export distributor deals with the manufacturer on a continuous basis. This distributor is authorized and granted an exclusive right to represent the manufacturer and to sell in some or all foreign markets. It pays for goods in its domestic transaction with the manufacturer and handles all financial risks in the foreign sale.

An export distributor differs from a foreign distributor simply in location. The foreign distributor is located in a particular foreign country and is authorized to distribute and sell the product there. The export distributor, in comparison, is located in the manufacturers country and is authorized to sell in one or more markets abroad.

xi) Trading Company

In international marketing activities for many countries, trading companies may be the most dominant form in volume of business and in influence. Many trading companies are large and have branches wherever they do business. A trading company performs many functions. The term describes many intermediaries that are neither brokers nor

import merchants. A trading company may buy and sell as a market. It may handle goods on consignment, or it may act as a commission house for some buyers. By representing several clients, it resembles an EMC, except for the fact that it:

- has more diverse product lines
- offers more services
- is larger and better financed
- takes title (ownership) to merchandise
- it is not exclusively restricted to engage in export trade, and
- goods beyond the role of an intermediary (which provides only export facilitation service) by engaging directly in production, physical distribution channel development, financing and resource development.

Firms may rely on existing channel, or they may use new channels to better serve current customers and reach prospective customers. In selecting their channels, a firm should seek to gain a differential advantage.

Most distribution channels include middlemen, but some do not. A channel consisting only of producer and final customer, with not middlemen providing assistance, is called direct distribution. In contrast, a channel of producer, final customer and at least one level of middlemen represents indirect distribution. Diverse distribution channels exist today.

11.4 CHANNELS DECISION

As in any domestic market, the international market requires a marketer to make at least three channel decisions: length, width, and number of channels of distribution.

i) Channel Length

Channel length is concerned with the number of times a product changes hands among intermediaries before it reaches the final consumer. The channel is considered long when a manufacturer is required to move its product through several middlemen.

ii) Channel Width

Channel width is related to the number of middlemen at a particular point or step in the distribution channel. Channel width is a function of the number of wholesalers and the different kinds that are used, as well as a function of the number and kind of retailers. As more intermediaries or more types are used at a certain point in the channel, the channel becomes wider and more intensive.

iii) Number of Distribution Channel

Another decision that concerns the manufacturer is the number of distribution channels to be used. In some circumstances the manufacturer may employ many channels to move its product to consumers. For example, it may use a long channel and a direct channel simultaneously. The use of dual distribution is common if the manufacturer has different brands intended for different kinds of consumers. Another reason for using multiple channels may involve the manufacturers setting up its own direct sales force in a foreign market where the manufacturer cannot remove the original channel (eg. Agents) because of a strategic or legal reasons.

There is no single across the board solution for all manufacturers channel decision. Yet there are certain guidelines that can assist a manufacturer in making a good decision. Factors that may be taken into account include legal regulation, product image and characteristics intermediary's loyalty and conflict, and local customs.

i) Legal Regulations

A country may have specific laws that rule out the use of particular channels or middlemen. France for example, prohibits the use of door to door selling. The Iraqi legislation prohibits state enterprise from dealing with third party intermediaries (including commission agents) in obtaining foreign supplies.

ii) Product Image and Characteristics

The product image desired by a manufacturer dictate the manner in which the product is distributed. A product with a low-price image requires intensive distribution. On the other hand, it is not necessary nor even desirable for a prestigious product to have wide distribution.

For high-unit value, low turnover specialty goods, a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will more or less actively seek information about all brands under consideration. In such cases, limited product exposure is not an impediment to market success.

iii) Middlemen's Loyalty and Conflict

One ingredient for an effective channel is satisfied channel members. As the channel widens and as the number of channel increases, more direct competition among channel members is inevitable. Some members will perceive large competing members and self service members as being unfair.

Some members will blame the manufacturers for being motivated by greed when setting up a more intensive network.

In effect, intensive distribution reduces channel members cooperation and their loyalty as well as increases channel conflict.

iv) Local Customs

Local business practices, whether outmoded or not can interior with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired.

i.e., Because of Japan's multi distribution system, which relies on numbers of layers of middlemen, companies often find it necessary to form a joint venture with Japanese firm.

v) Power and Coercion

The one party with resources and alternatives can demand more because it needs the other party less. As such, the least dependent member of the channel members to accept its plan. Dealers in a developing country do not retaliate against the manufacturers use of coercive influence strategies.

vi) Control

If it has a choice, a manufacturer that wants to have better control over its product distributor may want to both shorten and narrow its distribution channel. i.e., In England 75% of the beer is sold in pubs, most of which are owned by the big brewer who naturally push their own brands.

In conclusion, there are a number of factors that affect channel decisions. Some of these factors are interrelated empirically, it has been shown that overseas distribution channel choice is affected by culture and other product constraints.

11.5 PHYSICAL DISTRIBUTION

Physical distribution is a necessary as well as a costly activity. In the developed economies, the distribution sector typically accounts for one-third of the gross domestic product (GDP). Furthermore, international logistics costs can account for 25 to 35 percent of the sales value of a

product, a significant difference from the 8 to 10 percent for domestic shipment.

In its full scope, physical distribution for manufacturers includes the flow of raw materials form their sources of supply to the production line and the movement of finished goods from the end of the production line to the final users' locations. Middlemen manage the flows of goods onto their shelves as well as from their shelves to customers' homes, stores, or other places of business. The activities comprising physical distribution are:- Inventory location and warehousing; Materials handling ; Inventory control ;Order processing and Transportation.

11.5.1 Meaning Of Physical Distribution

Physical distribution, which we use synonymously with logistics, consists of all the activities concerned with moving the right amount of the right products to the right place at the right time

The strategic use of physical distribution may enable a company to strengthen its competing position by providing more customer satisfaction and/or by reduction operating costs. The management of physical distribution can also affect a firms marketing mix particularly product planning, pricing, and distribution channels. Each opportunity is described below.

a) Improve customer service

A well -run logistics system can improve the service a firm provides its customers whether they are middlemen or ultimate users. To ensure reliable customer service, management should set standards of performance for each subsystem of physical distribution.

b) Reduce distribution costs

Many avenues to cost reductions may be opened by effective physical distribution management. For example, eliminating unneeded warehouses will lower costs. Consolidating stocks at fewer locations may reduce inventories and their attendant carrying costs and capital investment.

c) Create time and place utilities

Storage, which is a part of warehousing, creates time utility. Storage is essential to correct imbalances in the timing of production and consumption.

Transportation adds value to products by creating place utility.

d) Stabilize prices: -

Careful management of warehousing and transportation can help stabilize prices for an individual firm or for an entire industry. If market is temporarily glutted with a product, sellers can store it until supply and demand conditions are better balanced.

11.5.2 Tasks Of Physical Distribution

Physical distribution refers to the actual physical flow of products. In contrast, physical distribution management is the development and operation of processes resulting in the effective and efficient physical flow of products. An effective physical distribution system is built around five interdependent subsystems: inventory location and warehousing, materials handling, inventory control, order processing, and transportation. Each must be carefully coordinated with the others.

a) Inventory location and warehousing

The name of the game in physical distribution is inventory management. One important consideration is warehousing, which embraces a range of functions, such as assembling, dividing (bulk-breaking), and storing products and preparing them for reshipping. Management must also consider the size, location, and transportation of inventories. These four areas are interrelated. The number and locations of inventory sites, for example, influence inventory size, and transportation methods.

b) Materials Handling

Selecting the proper equipment to physically handle products, including the warehouse building itself, is the materials handling subsystems of physical distribution management. Equipment that is well matched to the task can minimize losses from breakage, spoilage, and theft. Efficient equipment can reduce handling costs as well as time required for handling. Containerization is a cargo-handling system that has become standard practice in physical distribution. Containerization minimizes physical handling thereby reducing damage, lessening the risk of theft, and allowing for more efficient transportation.

c) Inventory control

Maintaining control over the size and composition, of inventories, which represent a sizable investment for most companies, is essential to any physical distribution system. The goal of inventory control is to fill customers' order promptly, completely, and accurately while minimizing both the investment and fluctuations in inventories.

d) Order processing

Still another part of the physical distribution system is a set of procedures for receiving, handling, and filling orders. The order processing subsystem should include provision for billing, granting credit, preparing invoices, and collecting past-due accounts. Consumer ill will results if a company makes mistakes or is slow in filling orders. That's

why more and more companies have turned to computers to execute most of their order processing activities.

e) Transportation

A major function of the physical distribution system in many companies is transportation - shipping products to customers.

11.5.3 Modes of Distribution

The availability of transportation is one important factor affecting a company's site selection, to move a product both between countries and with in a country.

There are three fundamental modes of transportation: air, water (Ocean and inland), and land (rail and truck). Ocean and air shipments are appropriate for transportation between countries, especially when the distance is considerable and the boundaries are not joined. Inland water, rail, and track are more suitable for inland and domestic transportation. When countries are connected by land, it is possible to use rail and truck to move merchandise from locations.

The appropriate transportation mode depends on

i) market location
ii) speed and
iii) cost

A firm must first consider market location. Contiguous markets can be served by rail or truck. To move goods between continents, ocean or air transportation is needed. Speed is another consideration. When speed is essential, air transport is without question the preferred mode of distribution. Air transport is also necessary when the need is urgent or when delivery must be quickly completed as promised. For perishable items, a direct flight is preferable because a shorter period in transport reduces both spoilage and theft.

Finally cost must be considered as well. Cost is directly related to speed a quick delivery costs more. But there is a trade off between the two in terms of other kinds of savings. Packing costs for the air freight are less than for ocean freight because for air freight the merchandise does not have to be in transit for a long period of time and the hazards are relatively low.

Inland carriers are generally bear the responsibility for any damage to goods while in their possession. The same thing cannot be said for ocean carriers. Their reluctance to accept responsibility is due to the numerous unavoidable perils found at sea. Such perils include severe weather, seawater, standing, fire, collusion and sinking. As a result, ocean carriers refuse to accept any liability or loss or damage unless a shipper can prove that they were purposefully negligent – a difficult task indeed.

To protect against loss or damage and to avoid disputes with overseas buyers, exporters should obtain marine insurance. Marine cargo insurance is an insurance that covers loss or damage at sea, though in practice it also applies to shipments by mail, air and ship. The insurance may be arranged by either a buyer or seller, depending on the term of sale.

There are two basic forms of marine insurance:

i) special (one-time) coverage and
ii) open (blanket) coverage.

i) Special Policy

A special policy is a one time policy that insures a single specific shipment. One time insurance is relatively expensive because the risk cannot be spread over a number of shipments. Nevertheless, it is practical insurance solution if a seller’s export business is infrequent.

ii) An Open Policy

An open policy is an insurance contract issued to a firm in order to cover all its shipments as described in the policy within named geographic regions. The policy is open in the sense that it is continuous by automatically providing coverage on all cargo moving at the seller's risk. The policy is also open in the sense that the values of the individual shipments cannot be known in advance. Under this policy, no reports of individual shipments cannot be known in advance. Under this policy, no reports of individual shipments are required, although the insured must declare all shipments to the underwriter. To protect cargo, an insurance policy must specify the kinds of protection desired. In providing coverage, the policy distinguishes between particular average and general average.

1. General Average

General average is a sacrifice made intentionally for the common good to diminish an impeding peril. Any loss in a sea adventure is shared by all parties (i.e., all cargo owners and carriers). General average is thus a contribution by all parties to cover a loss sustained by one of the parties through a voluntary sacrifice made to save the ship and liens of those on board for the general benefit of all parties. To have a general average, the following considerations must exist:

- A peril that threatens the whole adventure
- A sacrifice, either physical or in the form of unusual expense incurred and
- A measure of success, for if nothing is saved there is nothing to contribute.

A merchant's protection with respect to general average assessment is largely dependent on the extent to which the merchant has insured the property. If the insured value equals or exceeds the CIF value (the contributory value), the underwriter will pay the general average assessment in full. Otherwise, the merchant will be paid a pro-rata value

in the amount borne by the insured as a proportion of the total assessed value. Such payments are normally affected by any clause dealing with a particular average.

2. Particular Average

Particular average is a partial loss of an accidental nature resulting from a peril against which there is insurance. Unlike general average, the loss is only experienced by the particular insured that is affected. In this case, only shipper's insurer is liable, subject to the terms and conditions of the policy. For example, if the specified condition is free of particular average, a partial loss is not covered, unless the loss is caused by the stranding, sinking, burning, or collision of the ship. In the case of with average, a shipment is protected from partial damage as long as the damage exceeds 3% (or some specified percentage) of the total cargo value.

3. Free of damage insurance

This type of coverage is very limited, because it only covers total, not partial, loss of goods (Actual or absolute total loss).

4. Fire and sea perils

Perils of the sea are the general words used in the perils. Clause to include losses caused by unusual forces of nature while operating in and about navigable waters. Examples of sea perils include the opening of seams caused by heavy weather resulting in seawater entering and causing damage to cargo.

When the insured has fire and sea perils coverage, claims are paid only when the vessel is stranded sink, burned or in collision, and only if the damage is caused by fire or sea perils.

➵ **Fire and sea perils with damage**

This coverage is similar to fire and sea perils, but it is not necessary to show that the vessel has been standard, sink burned and in collision.

- **All risk insurance**

This is the most complete type of coverage but applies only to physical loss of cargo or damage from an external cause suffered in transit. It excludes war, strikes, riots, costs of delay, and loss due to the inherent nature of goods.

All of the above policies provide for general average and include salvage changes. A firm can also insure profit through a valuation clause in the cargo policy, which insures exports and a fixed basis of valuation. The following is an example of a typical valuation clause in a marine policy. Valued at amount of income plus 10%.

11.6 SHIPPING DOCUMENTS

It is not an exaggeration to say that, "paper moves cargo". To move cargo, documentation is a necessity. Moving cargo to an overseas destination is a much more complex task than transportation of freight locally. Other than the usual package designed to protect and/or promote a product while on display, packing (shipping package) is necessary if the merchandise is to be properly protected during shipment. Before a seller can request payment, the seller must provide the buyer with a number of documents showing that the terms agreed upon have been compiled with. The buyer requires such documents to protect him and to satisfy its government requirements. The documents that is used in clearing goods from customs authority are as follows:-

1. Commercial Invoice

To collect payment, an invoice is needed. There are two kinds of invoices.

i) **Pro-forma invoice:** is an invoice provided by a supplier prior to the shipment of merchandise. The purpose of this invoice is

to inform the buyer of the kinds and quantities of goods to be sent their value and important specification (weight, size and so on). The buyer may also need the pro-forma invoice in order to be able to apply for an import license and/or a letter of credit.

ii) **Commercial invoice:** A commercial invoice is a document that provides an itemized list of goods shipped and other charges. As a complete record of the business transaction between two parties, it provides a complete description of merchandise quantity, price and shipping and payment terms.

2. Certificate of origin

A certificate of origin is a document prepared by the exporter and used to identify or declare that the merchandise originated in a certain country. It assures the buyer or importer of the country of manufacture. These documents are necessary for tariff and control purposes. Some countries may require statements of origin to establish possible preferential rates of import duties under the most favored nation arrangements. This certificate also prevents the inadvertent important of goods from prohibited or unfriendly countries.

3. Packing list

A packing list is a document that lists the type and number of pieces, the contents, weights, and measurement of each, as well as the marks and numbers. Its purpose is to facilitate customs clearance, keep track of inventory of goods, and assists in tracing lost goods. For insurance purpose, the packing list can be used in determining the contents of a lost piece. Furthermore, it is also useful in estimating shipping costs prior to export.

4. Airway bill / Bill of lading

An airway bill is basically a bill of lading issued by air carriers for air shipments. This transport instrument is not a negotiable document. As a

result, a carrier will release goods to a designated consignee without the waybill. Bill of lading is a document issued to record shipment transportation. Usually prepared by a shipper on the shippers' carrier's forms, this document serves three useful functions.

As a document of title: it is a certificate of ownership that allows a holder or consignee to claim the merchandise described.
As a receipt of goods: the carrier issues it to the shipper for goods entrusted to the carrier's possession of the freight.
As a contract of carriage: the bill of lading defines the contract terms between the shipper and his carrier. The conditions under which the goods are to be carried and the carrier's responsibility for the delivery are specified.

5. Insurance certificate

A certificate of insurance is a negotiable document issued to provide coverage for a specific shipment. It briefly describes the transaction and its coverage.

6. Special purpose documents

As in the case of an inspection certificate, an importer may request other special documents, such as a certificate of weight / measurements and certificate of analysis in order to protect the importer's interest. Other documents may include - inspection report, warranty, bank permit, etc.

Check Your Progress Exercise

1. Discuss the factors determining the channel decision?

_____

_____

2. Discuss the types of intermediaries involved in direct channel?

_____

_____

3. Discuss the types of intermediaries involved under indirect channel?

_____

_____

4. Explain in detail the shipping documents required in customs clearance?

_____

_____

11.7 SUMMARY

Ownership of a product has to be transferred some how from the individual or organization that makes it to the customer who needs and buys it. A middleman is a business firm that renders services related directly to the sale /or purchase of a product as it flow from the producer to the consumer .They are classified on the basis of whether they take title to the product being distributed. A merchant middleman actually takes title to the product .While agent middle men do not. An organization have two choices when it comes to channel decision .They include direct and indirect channel. In direct channel the seller directly handles the distribution. While under the indirect channel, the seller uses intermediaries to handle its distribution tasks.

Goods have to move from the point of production to consumption. The process traditionally is called physical distribution. Physical distribution consists of all activities concerned with moving the right amount of the right products to the right place at the right time. The activities comprising physical distribution are: inventory location and warehousing, material handling, inventory control, order processing and transportation.

To move goods across the customs boundary, documentation is necessary. Moving cargo to an overseas destination is much more complex task than transportation of freight locally. Some of the documents necessary to clear goods from customs are: certificate of

origin, bill of lading, packing list, air way bill, insurance certificate, special purpose documents, etc.

11.8 ANSWER TO CHECK YOUR PROGRESS

1. Refer Section 11.4
2. Refer Section 11.3.1
3. Refer Section 11.3.2
4. Refer Section 11.6

UNIT 12: PROMOTION MIX

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12.0 AIMS AND OBJECTIVES

After studying this unit you will be able to explain

- meaning of promotion
- elements of promotion
- the advertising media used
- the tools under sales promotion, etc

12.1 INTRODUCTION

Modern marketing calls for than developing a good product pricing it attractively, and making it accessible to target customers. Companies must also communicate with their present and potential customers, retailers, suppliers, other stakeholders, and the general public. Every company is inevitable cast into the role of communicator and promoter. For most companies, the question is not whether to communicate but rather what to say, to whom, and how often.

The purpose of promotion is both to communicate with buyers and to influence them. Effective promotion requires an understanding of the process of persuasion and how this process is affected by environmental factors. The potential buyer must not only receive the desired information, but also be able to comprehend that information. Furthermore, the information must be sufficiently potent to motivate this buyer to react positively.

To communicate effectively with someone means that certain facts and information are shared in common with that person. Communication is basically a five-stage process consisting of source, encoding, information, decoding and destination.

Encoding is a step that transforms the idea or information into a form that can be transmitted (eg. written or spoken words). For a receiver to understand the coded information, that person must be able to decode these words.

12.2 ELEMENTS OF PROMOTION

The marketing communications mix (also called the promotion mix consists of five major modes of communication:

Advertising:- Any Paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor

Sales promotion: A variety of short-term incentives to encourage trial or purchase of a product or service

Public relation & Publicity: A variety of programs designed to promote and/or protect a company's image or its individual products.

Personal selling: Face -to -Face interaction with one or more prospective purchasers for the purpose of making presentation, answering questions, and processing orders.

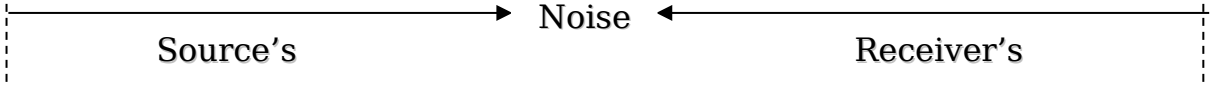
Direct Marketing: Use of mail, telephone, fax, e-mail, and other non personal contact tools to communicate directly with or solicit a direct response from specific customers and prospects.

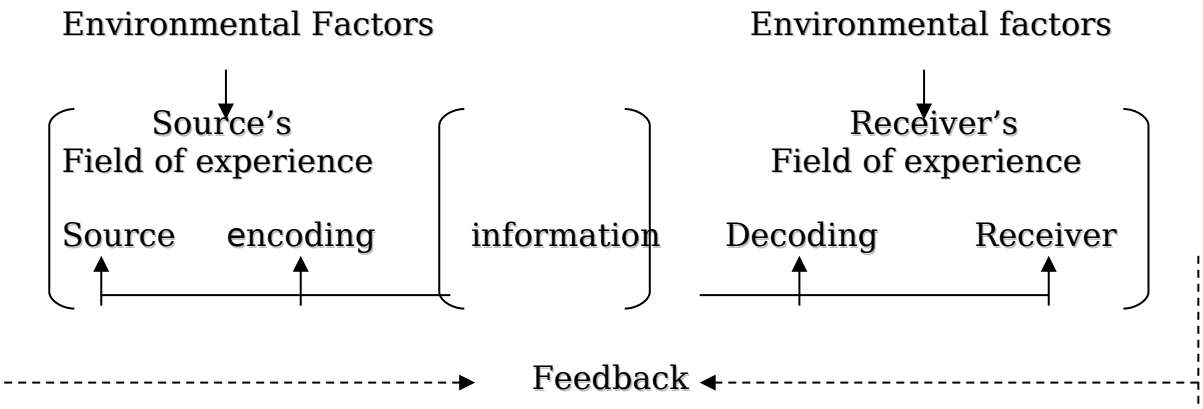
The starting point in the communication process is thus an audit of all the potential interactions target customers may have with the product and company. For example, someone purchasing a new computer would talk to others, see television ads, read articles in newspaper and magazines, and observe computers in a store.

The marketer needs to assess which of these experiences and impressions will have the most influence at the different stage of the buying process. This understanding will help marketers allocate their communication dollars more efficiently.

To communicate effectively, marketers need to understand the fundamental elements underlying effective communication. The major parties in a communication - sender & receiver. The major communication tools - message & media. The major communication functions - encoding, decoding, response and feedback. The last element in the system is noise.

The process of Communication





The model underscores the key factors in effective communication. Senders must know what audience they want to reach and what responses they want. They must encode their messages in a way that takes into account how the target audience usually decodes messages. They must also transmit the message through efficient media that reach the target audience and develop feedback channels to monitor the receivers response to the message.

12.2.1 Personal Selling

The goal of all marketing efforts is to increase profitable sales by offering want satisfaction to consumers over the long run. Personal selling is by far the major promotional method used to reach this goal. Personal selling can be defined as follows:-

" *Personal selling is the personal communication of information to persuade somebody to buy something*"[1]

According to AMA, personal selling is an "oral presentation in a conversion with one or more prospective purchases for the purpose of making sales. Personal selling is more known commonly as salesmanship.[2]

Personal selling is the individual, personal communication of information, in contrasts to the mass, impersonal communication of advertising, sales promotion, and other promotional tools.

This means that the personal selling is more flexible than these other tools. Sales people can tailor their presentation to fit the needs and behavior of individual customers. Sales people can see their customer's' reaction to a particular sales approach and make adjustments on the spot.

Also, personal selling usually can be focused or pinpointed on prospective customers, thus minimizing wasted effort. In contrast, much of the cost of advertising is spent on sending messages to people who is no way are real prospects.

Another advantage of personal selling is that it's goal is to actually make a sale. Other forms of promotion are designed to more a prospect closer to a sale. Advertising can attract attention, provide information, and arouse desire, but seldom does it stimulate buying action or complete the transfer of title from seller to buyer.

A major limitation of personal selling is its high cost. Even though personal selling can minimize wasted effort, the cost of developing and operation sales force is high. Another disadvantage is that a company often is unable to attract the quality of people needed to do the job.

12.2.1.1 Types Of Personal Selling

The types of selling jobs and the activities involved in them covers a wide range. One way of classify sales jobs is on the basis of the creative selling skills required, from the simple to the complex

Robert MCcmurry, classified sales jobs as follows:-

1. Driver- sales person:-

In this job the sales person primarily delivers the product-for example, soft drinks or fuel oil. The selling responsibilities are secondary; few of these people originate sales.

2. Inside order taker:-

This is a position in which the sales person takes orders at the seller's place of business- for example, a retail clerk standing behind the counter, or a telephone representative at a catalog retailer. Most customers have already decided to buy, and the sales person's job is to serve them efficiently.

3. Outside order taker

In this position the sales person goes to the customer in the field and accepts an order. An example is a hardware sales person calling on a retail hardware store, or a sales representative for a radio station who sells advertising time to local business. The majority of these sales are repeat orders to established customers, although these sales people occasionally do introduce new products to customers.

4. Missionary sales person:-

These types of sales job is intended to build good will, perform promotional activities, and provide information and other services for the customers. This sales person is not expected to solicit an order.

5. Sales Engineer:-

In this position the major emphasis is on the sales person's ability to explain the product to a prospective customer, and also to adapt the product to the customers particular needs. The products involve here typically are complex, technically sophisticated items. A sales engineer usually provides technical support ,and works with another sales representative who calls regularly on a given account.

6. Creative sales person- an order getter.

This involves the creative selling of goods & intangibles- primarily services, but also social causes and ideas (don't do drags, stop smoking, obey speed limit etc.). This category contains most complex, difficult selling jobs- especially the creative selling of intangibles, because you can't see, touch, taste, or smell them. Customers often are not aware of their needs for a seller's product, or they may not realize how that product can satisfy their wants better than the product they are now using.

Traditionally, personal selling was face-to face, one -on-one situation between a sales person and a buyer. This situation is existed both in retail sales involving ultimate consumers and also in business-to-business transaction. In recent years, however, some very different selling patterns have emerged. These new patterns reflect a growing purchasing expertise among consumers and business buyers, which, is turn, has fostered a growing professionalism in personal selling. Let's discuses four of these emerging patterns.

1. Selling centers- Team selling

To match the expertise on the buying side, especially in business markets, a growing number of firms on the selling side have adapted the organizational concept of a selling center. A selling center is a group of people representing a sales department as well as other functional areas in a firm such as finance, production, and research and development. Team selling is expensive, and is used only when there is a potential for high sales volume and profit.

2. System selling

The concept of systems selling means selling a total package of related goods and services- a system- to solve a customer's problem. The idea is that the system-the total package of goods and services – will satisfy the buyer's needs more effectively than selling individual products separately.

3. Relationship selling

Developing a mutually beneficial relationship with selected customers over time is relationship selling. It may be an extension of team selling, or it may be developed by individual's sales representative in their dealings with customers. The seller attempts to develop a deeper, linger-lasting relationship built or trust with key customers- usually large accounts.

Unfortunately, often there is not much trust found in buyer- seller relationships, neither in retailer- consumer selling nor in business-to-business selling. How do you build this trust? The following behavioral traits in selling can be effective trust builders.

a) **Candor** – Be truthful in what you say
b) **Dependability** – Behave in a reliable manner
c) **Competence**- Display your ability, knowledge and resources
d) **Customer orientation** – Place you customers' needs and interest on a par with you own
e) **Liability** – Seek a similarity of personality between you and the customers, and commonality of interest and goals.

4. Telemarketing

Personal selling does not always require a face-to-face conversation. For instance, personal selling can be done over the telephone. Although telephone selling has been in existence for a considerable period of time, the growth of the direct marketing field has pushed this method of selling to the forefront. This marketing practice is now known as telemarketing.

The telemarketing is the innovative use of telecommunications equipment and systems as part of the "going to customer" category of personal selling.

Telemarketing is growing because:

1) many buyers prefer it over personal sales calls in certain selling situations, and
2) Many marketers find that it increases selling efficiency.

Buyers placing routine reorders or new orders for standardized products by telephone or computer use less of their time than in –person sales calls. Sellers face increasingly high cost keeping sales people on the road; selling by telemarketing reduces that expense. Also, routine selling by creating allows the field sales force to devote more time to creating. Selling, major account selling, and other more profitable selling activities

5. Expatriate Personnel

One controversial subject for which there is no definite solution is the nationality of the sales persons to be used in a market abroad. Some marketers argue for the use in foreign market of expatriate salespersons, or those from the home country. Others take the opposite point of view by contending that the best policy is to use local nationals or that salesperson, which were born in the host country.

12.2.2 Public Relation/Publicity

Like advertising and sales promotion, public relation is an important marketing tool. Not only must the company relate constructively to its customers, suppliers and dealers, but it must also relate to a large set of interested publics. Public relation may be defined as follows:

"*A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. Public relations (PR) involve a variety of programs designed to promote and/or protect a company's image or its individual products.*

Public relations is a management tool designed to favorably influence attitudes toward an organization, its products, and its policies. It is an often-overlooked form of promotion. In most organizations this

promotional tool is typically a stepchild, relegated far behind personal selling, advertising, and sales promotion. There are several reasons for management's lack of attention to public relations:

Public relation departments perform the following five activities, not all of which support marketing objectives.

1. Press relation -Presenting news and information about organization in the most positive light
2. Product publicity - Sponsoring various efforts to publicize specific products
3. Corporate Communication -Promoting understanding of the organization with internal and external communications
4. Lobbying -Dealing with legislators and government officials to promote or defeat legislation and regulation
5. Counseling - Advising management about public issue and company positions and image. This includes advising in the event of a product mishap when the public confidence in a product is shaken.

Publicity is any communication about an organization, its products, or policies through the media that is not paid for by the organization. Publicity usually takes the form of a news story appearing in a mass medium or an endorsement provided by an individual, either informally or in a speech or interview.

Publicity is the non-personal stimulation of demand that is not paid for by a sponsor that has released news to the media. Advertising and publicity are guile similar in the sense that both require media for a non-personal presentation of the promotional message. One difference between the two is that with publicity a company has less control over how the message will be used by the media. Another difference is that publicity is presumed to be free in the sense that the media are not paid for the presentation of the message to the public.

There are three means for gaining good publicity:

1. Prepare a story (called a news release) and circulate it to the media. The intention is for the selected newspapers, television stations, or other media to report the information as news.

2. Personal communication with a group. A press conference will draw media representatives if they feel the subject or speaker has news value. Company tours and speeches to civic or professional groups are other forms of individual to group communications.

3. One on one personal communication often called lobbying. Companies lobby legislators or other powerful people in an attempt to influence their opinions, and subsequently their decisions.

Publicity can help to accomplish any communication objective. It can be used to announce new products, publicize new policies, or report financial performance. If the message, person, or group, or event is viewed by the media as news worthy.

12.2.3 Sales Promotion

Sales promotion consists of those promotional activities other than advertising, personal selling, and publicity. As such, any promotional activities that do not fall under the other three activities of the promotion mix are considered sales promotion.

The techniques of sales promotion are varied and numerous. The common ones used are coupons, games contests, price-offs, demonstrations, premiums, samples, money, refund offers, and trading stamps. Sales promotion is a key ingredient in marketing campaign.

12.2.3.1 Meaning

It can be defined as follows:

"*Sales promotion consists of a diverse collection of incentives tools mostly short term designed to stimulate quicker and/or greater purchase of particular products by consumer or the trade*."

In other words sales promotion is a demand stimulating devices designed to supplement advertising and facilitate personal selling. Where advertising offers a reason to buy, sales promotion offers an incentive to buy. Sales promotion includes tools for consumer promotion (samples, coupons, cash refund offers, prices off, premium, prizes, patronage rewards, free trails, warranties, tie in promotions, cross promotions, point of purchase displays, and demonstrations). Trade promotion (prices off, advertising, display allowances, and free goods). And business and sales force promotion (trade shows and conventions, contents for sales representatives, and specialty advertising).

Sales promotion are conducted by producers and middlemen. The target for producers' sales promotions may be middlemen, end users households or business users or the producer's own sales force, middlemen direct sales promotion at their sales people or prospects further down the channel of distribution.

Sales promotion is effective when a product is first introduced to a market. It also marks well with existing products that are highly competitive and standardized especially when they are of low unit value and have high turnover. Under such conditions sales promotion is needed to gain that “extra” competitive advantage.

The effectiveness of sales promotion can be tempered by psychological barriers, and this fact is applicable to middlemen as well as consumers. Some retailers are reluctant to accept manufacturers coupons because they fear they will not be reimbursed. Consumers, on the other hand, may review rebates, mail-in coupons, and money-back guarantees with suspicious, thinking that something must be wrong with the product.

International marketers need to confirm the validity of a statement concerning the effectiveness of a sales promotion technique. Sometimes, casual observation and hearsay have a way of making a particular claim become a statement of fact without support of empirical evidence.

Although sales promotion is generally received enthusiastically in LDCs, the activity is still largely underutilized, which may be due more to legal barriers than psychological barriers. European countries have a larger number of restrictions than the United States in this area. The legal requirements are diverse that the European association of Advertising Agencies (EAAA) decided that the standardization of promotion regulations was very unlikely in the near future.

12.2.3.2 Sales Promotion Tools

Let us see how certain sales promotional tools might be affected by local regulations.

i) Premium & Gifts

Most European countries have a limit on the value of the premium given. Colgate was sued by a local blade manufacturer in Greece for giving away razor blades with shaving cream. Austria considered premiums to be a form of discriminatory treatment toward buyers.

ii) Price Reductions, Discounts and Sales

Austria has a discount law prohibiting cash reductions that give preferential treatment to different groups of customers. Discounts in Scandinavia are also restricted. In France, it is illegal to sell a product for less then its cost. In Germany, marketers must notify authorities in advance if they plan to have a sale.

iii) Samples

Germany restricts door-to-door free samples that limit population coverage as well as the size of the sample pack. The USA does not allow alcoholic beer to be offered as a free sample.

iv) Games and Contests

In USA games, or contests not become illegal lottery, a company must make certain that at least one of the three elements – chance, consideration, and price-is missing. Also, a state government's prior approval may be required.

Sales promotion should be included in a company's promotion plans, along with advertising and personal selling. This means setting sales promotion objectives and strategies, determining sales promotion objectives and strategies, determining a sales promotion budget, selecting appropriate sales promotion techniques, and evaluating the performance of sales promotion activities.

One problem management faces is that many sales promotion techniques are short run, tactical actions, coupons, premiums, and contests, for example, are designed to produce immediate (but short-lined) responses. As a result, they tend to be used stopgap measures to reverse in expected sales decline rather than as integrated parts of a marketing program. The objectives of a sales promotion may be the following:

- Stimulating business user or household demand for a product
- Improving the marketing performance of middlemen and sales people
- Supplementing advertising and facilitating personal selling.

One sales promotion technique may accomplish one or two but probably not all of these objectives.

The choice of sales promotion techniques should be dictated by the objectives of the total marketing program. Consider the following situations and the different strategies available:

A firm's objective is to increase sales by entering new geographic markets. A pull strategy is one way to encourage product trial and lure consumers away from familiar brands. Possible sales promotion tactics are coupons, cash rebates, free samples, and premiums.

A firm's objective is to protect market share in the face of intense competition. This goal suggests a push strategy to improve retailer performance and goodwill's Training retailers' sales people, supplying effective point of purchase displays, and granting advertising allowances would be appropriate sales promotion options.

Evaluating the effectiveness of sales promotion is much easier and the results more accurate than evaluating the effectiveness of an advertising. For example, to a premium offers or a coupon with a specified closing date can be counted and compared to a similar period where there were no premiums or coupons offered. It is easier to measure sales promotion because:-

a) Most sales promotion have definite starting & ending points
b) Most sales promotions are designed to impact sales directly

However, there are some pitfalls in measuring sales promotion effects. First, not all sales promotions meet the conditions just mentioned. For instance, training given to a distributor's sales force may be valuable, but may not produce immediate results. Second, current sales promotion results may be inflated by sales "Stolen" from the future. That is, a sales promotion may get buyers to act now when they would have brought the product in the future anyway. An indication of this cannibalizing effect is a lower level of sales after the promotion ends compared to before the sales promotion began. Third, any attempt at measurement must take

into consideration external conditions such as the behavior of competitions and the state of the economy. A firm's market share may not increase following an expensive sales promotion. For example, a promotion may have offset the potentially damaging impact of a competitions promotional activity.

12.2.4 Advertising

Advertising, sales promotion, and public relations are the mass communication tools available to customers. As its name suggests, mass communication uses the same message for everyone in an audience. The mass communicator trades off the advantage of personal selling, the opportunity to tailor a message to each prospective customer, for the advantage of reaching many people at a lower cost per person. Advertising is one of the most common tools companies use to direct persuasive communication to target buyers and publics.

Advertisers include business firms but also museums, charitable organizations, and government agencies that advertise to various target publics. Ads are a cost effective way to disseminate messages, whether to build brand preference or to educate a nation's people to avoid hard drugs.

Meaning

"*Advertising is any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor.*"

The purpose of advertising is to sell something a good, service, idea, person, or place either now or later. This goal is reached by setting specific objectives that can be expressed in individual advertisement that are incorporated into an advertising campaign. Thus, the immediate objective of an advertisement may be to move target customers to the next stage in the hierarchy say, from awareness to interest.

These objectives must flow from prior decisions on the target market, market positioning, and marketing mix. The marketing positioning and marketing mix strategies define the job that advertising must do in the total marketing program.

Advertising objectives can be classified according to whether their aim is to inform, persuade, or remind:

1. Informative advertising:- figures heavily in the pioneer stage of a product life category, where all objectives is to build primary demand.
2. Persuasive advertising:- becomes important in the competitive stage, where a company's objective is to build selective demand for a particular brand. Some persuasive advertising has moved into the category of comparative advertising, which seeks to establish the superiority of one round through specific compression of one or more attributes with one or more brands in the product class.
3. Reminder Advertising:- is highly important with mature products. A related form of advertising is reinforcement advertising, which seeks to assure current purchasers that they have made the right choice.

The choice of advertising objective should be based on a thorough analysis of the current marketing situation. For example, if the product class is mature, the company is the market leader, and brand usage is low, the proper objective should be to stimulate more brand usage. If the product class is new, the company is not the market leader, but the brand is superior to the leader, then the proper objective is to convince the market of the brand's superiority.

12.2.4.1 Advertising Media

The appeal and the target audience determine the message and the choice of media. Advertisers need to make decisions at each of three successive levels to determine which specific advertising media to use:-

- Which type of media will be used?

  Newspaper, television, radio, magazine, or direct mail? What about the less prominent media of billboards, and yellow pages?

- Which category of the selected medium will be used?

  Television has network and cable. Magazines include general interest and special interest categories. And there are national as well as local newspaper.

- Which specific media vehicles will be used?

  An advertiser that decides first on radio and then on local stations must determine which stations to use each city.

Media selection involves finding the most cost effective media to deliver the desired number of exposure to the target audience.

Here are some general factors that will influence media choice:-

1. Objective of the advertisement

   The purpose of a particular advertisement and the goals of the entire campaign influence which media to use. For example, if an advertiser wants to induce quick action, newspaper or radio may be the medium to use.

2. Audience Coverage

   The audience reached by the medium should match the geographic area in which the product is distributed. Furthermore, the selected medium should reach the desired types of prospects with a minimum of wasted coverage. Wasted coverage occurs when an advertisement reaches people who are not prospects for a product.

3. Requirements of the message

   The medium should fit the message. For example, food products, floor coverings, and apparel are best presented visually. If the advertiser can use a very brief message, as is common with reminder advertising, billboards may be a suitable medium.

4. Media Cost

   The cost of each medium should be considered in relation to the amount of funds available to pay for it and its reach or circulation.

Media is a vehicle through which an advertiser communicates their message to likely customers or prospects with a view to influencing them in terms of the advertising objectives. The advertising media can be classified on the following basis. Advertising can be affected in several ways by local regulations. The availability of media (or the lack of it) is one example, when and how much media time and spaces are made available, if at all, is determined by local authorities. Belgium prohibits the use of electricity for advertising purposes between midnight and 8:00 AM. Greece and South Korea ban the erection of new signs. Furthermore, nationalism may intrude in the form of a ban on the use of foreign languages and materials in advertising. According to the World Health Organization, nations with compute bans on cigarettes advertising are Norway, Finland, Italy, Algeria, Jordan, Sudan, Bulgaria etc and those with partial bans include Senegal, Canada, Egypt, Belgium, Denmark, France etc.

International advertising is the practice of advertising in foreign or international media when the advertising campaign is planned, directly or indirectly, by an advertiser from another country. To advertise overseas, a company must determine the availability (or unavailability) of advertising media. Media may not be readily available in all countries or

in certain area with in the countries. The advertising media widely in use are:

1. Television

Television combines motion, sound, and special visual effects. Products can be demonstrated as well as described on TV. It offers wide geographic coverage and flexibility in when the message can be presented. However, television is a relatively expensive medium. In most countries, television is takes for granted because it is available everywhere and in color. Outside USA, or even in other advanced nations, it is a different story altogether.

In most counties, television is not available on a nationwide basis because of the lack of TV Stations, Cable TV, Color TV for the poor, is a rarity. Nevertheless, the viewing habits of people of lower income should not underestimate because of the group-viewing factor. I.e. A TV set in a village hall can attract a large number of viewers, resulting in a great deal of interaction among the villagers in terms of conversation about the advertising products. In many countries, TV stations are state controlled and government operated because of military requirements. As such, the stations are managed with the public welfare rather than a commercial objective in mind. The programming and advertising are thus closely controlled. The programs shown may vary widely and are usually dubbed in the local languages.

2. Radio

A radio set is inexpensive and affordable – even among poor people. It is virtually a free medium for listeners: the programs are free and the costs of operating and maintaining a radio set are almost negligible. Furthermore, illiteracy poses no problem for this advertising medium. As a communication medium, radio is entertaining, up-to-date and portable. The medium penetrates from the highest to the lowest socio-economic

levels, with Fm stations being preferred by high-income and better-educated listeners. Not surprisingly, radio commands the largest portion of advertising expenditures in a great number of markets.

Radio is the most effective media that has enjoyed a rebirth as an advertising and cultural medium. When interests on television increased, radio audiences (especially for national network radio) declined so dramatically that some people predicted radio's demise. Radio makes only an audio impression, relying entirely on the listener's ability to retain information heard and not seen. Also audience attention is often at a low level, because radio is frequently used as background for working, studying, or some other activity.

3. News Papers

Press advertising includes advertising in newspaper, magazines, trade journals, & business directory. The news paper is the most popular form of advertising. It constitutes a valuable medium for disseminating news and molding public opinions and therefore plays an important role in social and political life.

As an advertising medium, newspaper is flexible and timely. Advertising can be inserted or cancelled on very short notice, and can vary in size from small classifieds to multiple pages. Pages can be added or dropped, so newspapers are not limited. Newspapers can be used to reach an entire city, or, where regional editions are offered, selected areas.

Cost per person reached is relatively low. On the other hand, the life of newspapers is very short they are discarded soon after being read. They are viewed as providing fairly complete coverage of a local market. Also, because newspapers don't offer much format variety, it is difficult to design advertisement that stands out. In virtually all-urban areas of the world, the population has access to daily newspapers. In fact, the problem of the advertiser is not one of having too few newspaper but

rather one of having too many of them. Newspapers in communist countries are controlled by the government and are thus used for propaganda purpose. Chine's newspapers, for example, tend to carry news items that the government deems to express some moral and social value. Furthermore, with so many newspapers dividing a small market, it is expensive to reach the entire market. There are some three hundred eighty and eighty hundred newspapers in Turkey and Brazil, respectively. With advertisements in just one paper, the reach would be grit inadequate.

4. Magazines

Marketers of international products have the option of using international magazines that have regional editions (e.g. Time, Business week, Newsweek, and life). In the case of Reader's Digest, local language editions are distributed. Local (i.e. national) business magazines are good vehicle to reach well-defined target audience. Magazines are the medium to use when high quality printing and color are desired in advertising. Magazines can reach a national market at a relatively low cost per reader. Through special interest magazines or regional editions of general interest magazines, an advertiser can reach a selected audience with a minimum of wasted circulation.

5. Trade Journals

are the medium used by an advertiser to reach among a particular class of persons such as doctors and engineers. Thus, where the objective of advertising is to reach such a specific class of persons, trade journals become very suitable as a form of advertising.

6. Business Directory

Yellow pages as we know it today a printed directory of local business names and phone numbers organized by type of product has been around

since the late 1800's. Yellow pages advertising revenue exceeded both radio and magazines.

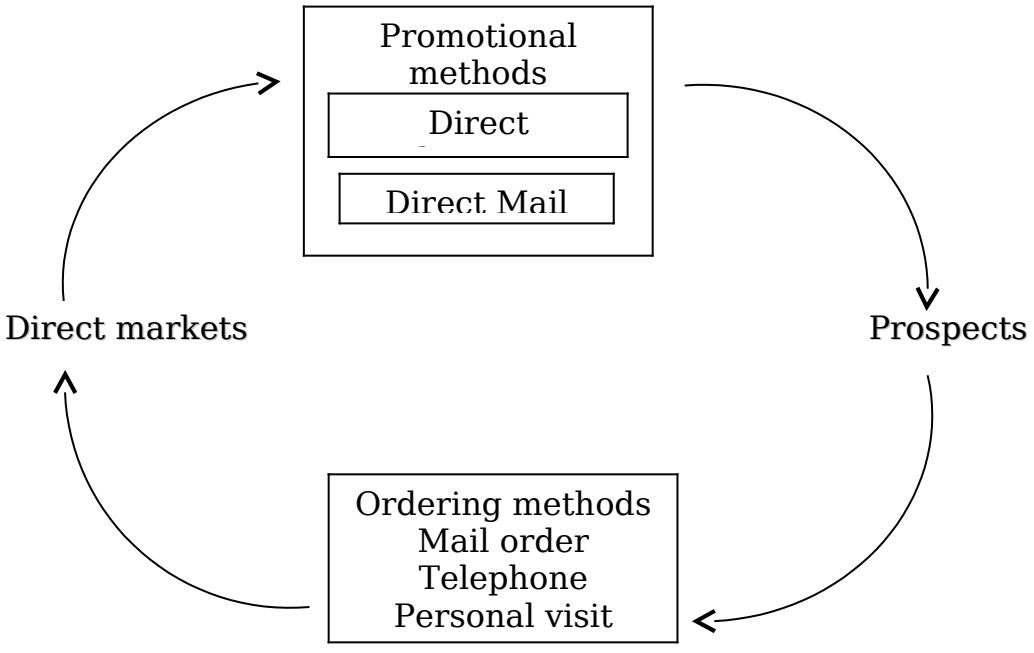
7. Screen (Cinema)

In virtually all countries, the cinema is a favorites activity for social gathering. People are avid moviegoers because of the limited television broadcasting and because of people's natural desire to go out to place of social gathering. Cinema advertising has several advantages. It has impact of outdoor advertising without the drawback of being stationery. It has sight and sound like television but with better quality. Furthermore, cinema advertising has a true captive audience. A disadvantage is that some moviegoers may result having to watch commercials.

12.2.5 Direct Marketing

Direct marketing is the total of activities by which products and services are offered to market segments in one or more media for informational purposes or to solicit a direct response from a present or prospective customer or contributor by mail, telephone, or personal visit. As a system, direct marketing has two distinct components:

(1) Promotion and (2) Ordering/delivery



Direct Advertising is media consists of direct mailings and all forms of print advertisement distributed directly to prospects through a variety of methods. (i.e. Advertising materials distributed door to door, on the street or inside the store etc).

Direct Mail is thus only one kind of Direct Advertising Medium, which is in turn a part of general Advertising Media or the promotional methods of Direct Marketing. Mail order is not a medium; rather it is just one of several means that can be used to place and handle orders. Direct mail, also known as direct marketing, is the most personal and selective of all media. Printing and postage fees make the cost of direct mail per person reached quite high compared with other media. However, because direct mail goes only to the people the advertisers wishes to contact, there is almost no wasted coverage. Reaching the prospect does not, however, ensure that the message is received. Direct mail is pure advertising. Therefore, a direct advertisement must attract its own readers.

It will be realized that press advertising is generally read when the subscriber or reader are indoors. As against this, there are other media, which are noticed by persons when he is outdoors. This media includes bill boards, posters, vehicular advertisement sky advertising, electrical signs. But because it is seen by people "on the go" outdoor advertising is appropriate only for brief messages. Historically, the cigarette and tobacco industries have been the heaviest outdoor advertisers, in part because they are banned from the broadcast media. However, the effectiveness of billboards for reminder advertising has also made them attractive to other industries. Recent advances in computerized billboard paintings have greatly speeded up the production of boards and standardized their quality. Billboards provide flexibility in geographic coverage and can provide intense coverage within an area. However,

unless the advertised product is a widely used good or service, considerable wasted circulation will occur, since many of the passer by will not be prospects. In summary, there are many forms of advertising media from which the marketing manager has to make an appropriate decision. The main yardstick for selection of a media should lie on reach of the maximum number of potential buyers at a minimum cost. Therefore the advertiser should determine the prospective customer or the market segments at which the advertising is to be directed. The messages or copies should also be appropriate for the type of media and the nature of the product involved.

Check Your Progress Exercise

1. Discuss in detail the types of salesman?

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2. What is advertising? Explain in detail its objectives?

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3. What is an advertising media? Explain in detail the factors determine media selection?

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4. What is sales promotion? Discuss the various tools used in sales promotion?

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5. Explain in brief the elements of promotion?

_____

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12.3 SUMMARY

Promotion means communication .The marketing communication mix consist of the five major modes of communication: advertising, sales promotion, salesmanship, public relation/publicity, and direct

marketing.The starting point in communication process is thus an audit of all the potential interaction that target customers may have with the product and the company. To communicate effectively, marketers need to understand the fundamental elements underlying effective communication. The major parties in the communication process -sender and receiver. The major tools used in the communication process - message and media. The major functions in the communication process – encoding, decoding, response and feed back. The last element in the system is noise.

Advertising is one of the elements of the promotion mix. Advertising is any paid form of non-personal presentation of ideas, goods or services by an identified sponsor. The main objectives of advertising are to inform, persuade, and remind. The appeal and the target audience determine the message and the choice of media to deliver the desired number of exposure to the target audience. Types of advertising includes: news paper, television, magazines, radio, etc. Sales promotion should be included in a company's promotion plans, along with advertising and personal selling .Sales promotion is a short term incentive provided by the seller for the purpose of increasing the sales volume. Some of the tools used under the sales promotion includes: premium and gifts, price reduction, discount and allowances, contests, samples, etc.

Personal selling is a face-to-face communication of information to persuade somebody to buy something .The types of selling jobs and the activities involved in them covers a wide range. McMurry, classified the sales jobs as :driver salesman, inside order taker, outside order taker, missionary salesman, sales engineer, e.t.c. Public relation is a management tool designed to favorably influence attitudes towards an organization, its products, and its policies. It consists of a variety of programs designed to build an image or promote the products. The tools

used under public relation includes: lobbying, annual report, sponsoring various activities, e.t.c.

12.4 ANSWER TO CHECK YOUR PROGRESS

1. Refer Section 12.2.1.1
2. Refer Section 12.2.4
3. Refer Section 12.2.4.1
4. Refer Section 12.2.3.2
5. Refer Section 12.2