COURSE BOOK

International Marketing

DLMMARE01

INTERNATIONAL UNIVERSITY OF APPLIED SCIENCES

Course Book

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UNIVERSITY OF
APPLIED SCIENCES

Masthead

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DLMMARE01
Version No.: 001-2022-0609

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Signposts Throughout the Course Book

Welcome

This course book contains the core content for this course. Additional learning materials can be found on the learning platform, but this course book should form the basis for your learning.

The content of this course book is divided into units, which are divided further into sections. Each section contains only one new key concept to allow you to quickly and efficiently add new learning material to your existing knowledge.

At the end of each section of the digital course book, you will find self-check questions. These questions are designed to help you check whether you have understood the concepts in each section.

For all modules with a final exam, you must complete the knowledge tests on the learning platform. You will pass the knowledge test for each unit when you answer at least 80% of the questions correctly.

When you have passed the knowledge tests for all the units, the course is considered finished and you will be able to register for the final assessment. Please ensure that you complete the evaluation prior to registering for the assessment.

Good luck!

Learning Objectives

International marketing is a specific discipline within the broader field of marketing that is becoming increasingly important in our globalized economy. This course aims to provide you with the knowledge and skills you need to develop effective marketing strategies for companies operating internationally.

This course will begin by introducing you to the fundamental features and functions of international marketing before exploring specific strategies for selecting, developing, and exiting international markets. We will look at the role of market research and analyze different methodologies for collecting relevant information.

We will explore the features of specific business sectors and the opportunities and challenges faced by companies. We will look in-depth at the industrial and investment goods sector, the consumer goods sector, the wholesale and retail sector, and the service sector.

You will acquire a broad understanding of the characteristics of international product, pricing, promotion, and distribution policy as we explore the strategic decisions made by companies seeking to either differientiate or standardize their policies. This course will conclude with a discussion of the international marketing mix skills and the benefits /disadvantages of adopting either a home-country, global, or multinational orientation.

Unit 1

Introduction to International Marketing

STUDY GOALS

On completion of this unit, you will have learned …

… the role of marketing for companies seeking to internalize their businesses.

… what are four important issues related international business activities.

… how to utilize supplier, consumer, and competitor feedback to shape marketing policies.

… which environmental factors shape international market development.

… what differentiates the buying behavior of individuals from the buying behavior of organizations.

1. Introduction to International Marketing

Introduction

International Business Activities

Transnational or cross-border business activities are a necessity for many companies. They help companies to achieve their economic goals and guarantee competitiveness by expanding activities from a domestic market into international markets. In doing so, companies seek to ensure their ongoing existence by increasing the pool of potential customers. The expansion of international business is also a result of the increasing interconnectedness of national economies. Such growth in interconnectedness can be attributed to developments such as:

- the creation of economic and monetary unions,
- decreasing trade tariffs and establishing free trade zones,
- companies becoming increasingly mobile, and
- barrier-free communication across national borders emerging as a result of technological advances and widespread use of the Internet.

Business activities must be coordinated across the multiple countries in which a company operates. Coordination is increasingly important as the interdependency of national markets prevents a company from developing strategies targeted towards single national markets, independent of strategies on other markets. Activities in one national market will often have implications for activities in another.

Such transformations in the landscape of international business have major consequences for the marketing activities of companies. Companies need to adopt new approaches to marketing to meet the challenges associated with the increasing internationalization of markets.

1.1 Issues Related to International Marketing

International marketing refers to the process of expanding into and operating within global markets using specific **marketing mix** tools. It is characterised by cross-border activities that involve adopting both country-specific and transnational approaches. International business activities require companies to respond to distinct issues that arise as a result of crossing national borders. Here, we will explore four such issues: information demand, business risk, complexity, and uncertainty.

Information Demand

A great deal of **additional information** is often needed to enter new national markets as companies need to familiarize themselves with the unique features and environment of each particular market. This is sometimes referred to as the information demand. The task of sourcing additional information is often met with problems of procurement; accurate sources of information need to be found and developed so that the company can access the information it requires.

A particular type of additional information required by companies relates to the distinct cultural features of each national market and how to adequately consider these features when working within these markets. In many cases, drawing from personal or lived experience, e.g. through travelling to the specific countries or permanently relocating employees abroad, is the only way to acquire the necessary cultural knowledge needed for making informed decisions. Knowledge about a culture is by no means equivalent to "experienced knowledge" (Czinkota & Ronkainen, 2010; Backhaus & Voeth, 2010).

Business Risk

Closely linked to the problem of gathering additional information is the issue of increased business risk when operating across national borders. With often only limited information available, companies face greater uncertainty operating in foreign markets compared to operations in their domestic market. The outcomes of entrepreneurial actions cannot be accurately predicted when there is insufficient information available and thus the risk associated with international operations is greater.

Complexity

Entering new national markets entails greater complexity and differentiation of both management responsibilities and marketing tasks. Careful preparation and decision-making is extremely important given the demands placed on the capabilities and skills of management staff working transnationally. It is worth noting that in many cases, management and marketing tasks are highly interdependent.

However, it is problematic to directly and exclusively attribute the complexity of management and marketing tasks simply to "transcending national borders." Whether operating on a domestic or international scale, developing new markets and pursuing product innovations often entails great risk and the amount of additional information required is often considerable (e.g. when it comes to developing new technologies); the increase in complexity of management tasks is always significant when developing new aspects of a business. However, at a management level, crossing borders always presents companies with two specific dilemmas: 1) How do we enter a new national market? and 2) How do we work within it?

Marketing mix
Creating a marketing mix means choosing and adjusting certain marketing tools and then deciding on how intensely to use them in order to meet as many marketing objectives as possible; it is often associated with the four P's: product, price, promotion, and place (distribution).

Additional information
Additional information is needed as foreign markets are often different to the domestic market of a company e.g. in terms of legal system, geography, culture, or competitive environment.

Uncertainty

As we have already seen, decisions resulting from entry into new national markets are usually high risk and characterized by a high demand for information. Entering new national markets generates a high degree of uncertainty that management needs to respond to. Effective responses to uncertainty usually involve designing measures to reduce this uncertainty, such as procuring the necessary information to make informed decisions. However, when it comes to making important decisions about international business, information addressing the questions of “whether” and “how” to enter new markets (such as information on how existing competitors will react to the market entry of the new company) is not always available. Modelling different scenarios and analyzing their consequences is essentially the only way to address such questions.

Market development
Both business risk and information demand decline in the course of market development.

How do all these issues associated with international business relate to one another? As the company selects and begins operating within new markets (in a process known as **market development**), the level of both the information demand and business risk declines until finally reaching levels typical of operations within a domestic market. The company gradually learns how and where to gather relevant information and becomes more adept at judging whether the reactions of competitors actually matter. Through experience, management undergoes a process of maturation that increases their capabilities to assess alternative marketing strategies and instruments (Backhaus & Voeth, 2010).

Feedback

The information demand and the level of business risk as well as the type and complexity of management responsibilities are all strongly linked to the feedback received from national markets. Three main types of information direct the scope of national marketing activities: supplier, consumer, and competitor feedback. We will review three case studies in order to examine these different types of feedback in greater detail.

Case study: Beverage industry
A German consumer goods company in the beverage industry expanded its international presence significantly from the period of 2005–2010. While the company generated less than 1 % of total sales from international business activities in 2003, this share increased to over 40 % by 2009. The rapid development of numerous foreign markets necessitated the formulation of several overarching, transnational business goals. In 2007, the company created the following business goals:

- Eight to 12 % return on the nominal capital (before taxes and interests)
- Sales volume of €3.0 billion (2007 sales: €1.5 billion) and a leading market position in Europe
- Establishment of an open, success-oriented, inspiring, and internationally-oriented company culture

In 2010, when commenting on this aspect of the internationalization process, the head of corporate and strategic planning stated: "These few transnational objectives have allowed us to create a common language that connects us across different cultures and mentalities and creates a common identity. The common language of the objectives forms the basis of a transnational corporate culture."

Company goals that are specific to foreign markets and the configuration of international activities (such as those in the case study) constitute **supplier feedback**. Company goals will typically focus on market position (e.g. market share, sales, market coverage), cost (e.g. efficiency, productivity), and profitability (e.g. profit, return on capital, profit-turnover ratio) (Becker, 2001). They sometimes include financial goals (e.g. liquidity, capital structure, etc.), social goals (e.g. security, job satisfaction, company culture), and/or prestige goals (e.g. image). A feature of these goals is that they draw the focus away from individual national markets and relate to the company as a whole.

Supplier feedback
Supplier feedback refers to information from producers of goods and services, such as company goals or the company's financial position.

Goals related to cost play a significant role in achieving a company's overall objectives. Industrial enterprises, in particular, are increasingly influenced by a growing number of fixed costs. The portion of costs independent of actual production costs is growing steadily for the majority of companies. In most cases, increases in fixed labor costs are the main reason for this. Additional reasons include increases in the allocation of funds for research and development and increasing capital costs. But if a company needs to supply several national markets with production infrastructure that has a high share of fixed costs, this will also significantly influence the company's financial position. While intrastructure (whether purchased or constructed) comes at a cost, additional sales volumes result in greater distribution of fixed costs; higher additional sales volumes result in wider allocation of fixed costs and thus lower costs per unit produced. This greater distribution of fixed costs is referred to as "economies of scale." Realizing the potential for economies of scale (which leads to reduced production costs and sustained competitiveness) is among the most important motives for a company seeking to internationalize its activities (Meffert & Bolz, 1998).

Having examined supplier feedback, we now turn to consumer feedback. We will look a second case study to explore this concept.

Case study: UMTS
The "Universal Mobile Telecommunication System" (UMTS) uses frequency bands much more efficiently than the "Global System for Mobile Communication" (GSM) standard. UMTS' significantly quicker transfer rates allow users to better operate multimedia services using mobile devices. However, mobile network operators have had to make significant investments to be able to offer UMTS technology. With this in mind, it is understandable that all UMTS network operators from the onset have attempted to enter as many national markets as possible. T-Mobile, for instance, bought not only the licenses for UTMS services in Germany, but also licenses in many other European countries. This was a strategic move, given that the same operational knowledge developed for the German market could be used repeatedly to establish services in multiple locations and this would allow T-Mobile to operate data traffic across national borders. Deutsche Telekom also spent about €1.3 billion in 2010 auctioning cellular frequencies for the new transmission standard "Long Term Evolution" (LTE). LTE provides data rates of sev-

eral hundred megabit/second (whereas UMTS only achieves a maximum of 14 megabit/second) and thus enables interruption-free transmission of videos or online games. However, neighboring countries also have to utilize LTE to guarantee efficient use of this technology. Only then will Deutsche Telekom be able to recoup their investments. The overall market volume for LTE is forecast at over $11 billion USD by 2014.

We can see in this example, the cross-border exchange of information and goods is an essential source of consumer feedback required for national marketing activities. Understanding consumer preferences (in this case, preferences regarding cellular usage) and the spread of consumer and their buying behavior (in this case, the uptake of different technologies across different countries) is the type of feedback companies need to develop strategies for different markets.

The globalization of markets, as a result of increasingly standardized consumers' needs, has led to the standardization of information (Meffert & Bolz, 1998). As accessing information has become easier in the course of liberalizing information and communication markets, a **coordination-related dimension** to international marketing has emerged with regards to collecting and managing this information. In many countries, consumers are able to access information about supply or on supplier behavior in a sector relevant to them, and vice versa. Collecting, analyzing, and distributing such information requires considerable planning and coordination on the part of companies.

Coordination-related dimension
The liberalization of information and communication markets simplifies the gathering of information but requires a coordination-related dimension.

Adequate information is vital for a company or consumer to take advantage of country-specific differences in price or quality. While the cross-border procurement of industrial goods has occurred throughout history, the development of the Internet has increasingly allowed consumers, in addition to companies and merchants, to choose from a variety of regional and national markets in many consumer good sectors. This has greatly facilitated the process of **arbitrage**. Arbitrage occurs when country-specific differences in prices and quality are known and the costs related to procurement (e.g. import taxes, delivery charges, etc.) do not outweigh the relative benefits of purchasing from a foreign market.

Arbitrage
Arbitrage occurs when consumers try to take advantage of price differences in different markets, purchasing from one market and selling in another at a profit.

Companies targeting similar consumer groups across multiple national markets with a policy of **differientiated pricing** face considerable challenges to coordinate their activities; arbitrage occurring across national markets often places pressure on a differentiated pricing policy.

Differentiated pricing
Differentiated pricing (also called differential pricing) is the practice of charging different prices across different markets for the same product.

Having discussed supplier and consumer feedback, we will now use a case example to illustrate competitor feedback. Competitor feedback refers to the information about the strategy and operations of companies providing similar products.

Case study: Deregulation and the aviation industry
In the 1990s, after the process of strict deregulation of the airline industry had essentially ended, competition intensified between airlines. Increasingly airline carriers (most of which were formerly state-owned companies) began founding global networks in order to offer their clients a connected, worldwide transportation network. In 1997, after many airlines had already had their bids to establish alliances accepted, Deutsche Lufthansa, Air Canada, SAS, Thai Airways, and United Airlines decided to found the

"Star Alliance" network. This development forced all carriers not already organized into such networks to take action. Ultimately, competitor feedback created a situation in the airline carrier market that compelled all companies to internationalize their business and become affiliates of international networks (Machatschke, 2000).

Competitor feedback is a fundamental factor influencing the development of international commercial activities. Relative competitive positions and the extent of a company's own internationalization as well as the internationalization level of competitors are one of the main causes for the interdependence of national markets. In the case study above, competitor feedback resulted in an integration into competing networks in order to remain competitive on a global scale. Changes in the behavior or number of competitors entering a single market may force a company to adjust not only their international marketing policy towards a particular national market but also toward other markets in which they are active.

The establishment of competing networks with mutually interdependent competitive positions may significantly reduce an international company's "degree of freedom" regarding their business activities in individual national markets. The actions of one company or its competitors in a single national market may result in a need to make adjustments not only in that market but in all other national markets. Take, for instance, a new competitor entering a domestic market and undercutting the price level for a product already sold on this market. This will force a company already selling this product to not only reduce their prices on the domestic market but it may in turn impact the ability of the company to enter other markets or change their pricing structure in other markets as well.

Feedback on competitors is important when planning, trialling, and continuing international commercial activities. However, assessing the extent and nature of competition can be especially difficult when international competitors are integrated in terms of strategy or equity; competitors may be cooperating in some segments but competing in others and, at times, these relationships can be difficult to distinguish.

Definition of International Marketing

Marketing requires the gathering of specific information and implementation of particular strategies in the international context. Risk, uncertainty, and complexity are especially relevant when it comes to operating across borders. So too are the problems of coordinating marketing activities across multiple markets and developing strategies that take advantage of economies of scale. Against this backdrop, we define the tasks of international marketing as (Backhaus & Voeth, 2010):

- accessing or managing relevant feedback (supplier, consumer, and competitor feedback) at the business segment level,
- coordinating national marketing activities (when entering new markets and operating within multiple markets), and
- optimizing profits across all national markets.

1.2 Environmental Factors in International Market Development

The market environment of international business is characterized by technological, political-legal, and socio-cultural factors. We will explore each of these factors and their impact on international marketing.

Technological Factors

Historically, technological factors have been especially influential on the development of international markets. Advances in both communication and transport technology (sometimes referred to as freight) have led to the distribution of labor, management, and production, and reduced costs associated with sourcing materials, producing goods and services, and selling them in multiple locations. However, available technology varies across and even within national markets, affecting the decision-making of suppliers, consumers, and competitors.

Political-Legal Factors

Political-legal factors refer to the political situation and stability of a country as well as the development and implementation of their legal systems (which includes both domestic and international legal structures). For companies considering entry into different national markets, it is important to assess the political-legal situation of each country, using either qualitative or quantitative tools. Qualitative methods include country checklists that determine the degree of certain risk factors (such as currency risks or security risks) or country risk profiles that illustrate the intensity of specific risks according to country. With regards to available tools, country risk indexes such as the **Business Environment Risk Index (BERI) and the International Country Risk Guide (ICRG) index** are especially important for companies. They evaluate risks for each country, using qualitative data from interviews with managers and/or researchers and quantify the data in order to develop country rankings.

BERI and ICRG indexes
The BERI and ICRG indexes are indicator models for determining risk values for individual countries.

We will use the following case study to examine political-legal factors and use of the BERI index.

Case study: Click-IT AB
Swedish media production company Click-IT AB produces digital storage media and multimedia applications. To expand their product portfolio, management has decided to enter the market for flash memory cards, as the demand for this product is forecast to increase worldwide in the next five years. Flash memory cards are the storage devices used in USB flash drives or as memory cards in digital cameras. Despite wanting to internationalize their business, Click-IT AB does not want to leave Europe. As a family-run, highly risk-conscious company, Click-IT AB decides to use the BERI index to analyze risks associated with each country and work out which countries they should target.

The table below illustrates the assessment of country risks and their development based on the BERI index (Homburg & Krohmer, 2009).

Assessment of Country Risks and Their Development Based on the BERI Index

	Risk	Political Risk	Operative Risk	Investment Risk	Overall Risk (2008)	Overall Risk (5-year forecast)
	Country	Maximum risk = 0 Minimum risk = 100				
Highly industrialized countries	Germany	61	69	83	71	74
	USA	67	69	61	64	68
	France	57	61	67	62	65
	UK	63	67	51	60	62
Industrialized countries	Spain	61	63	51	58	60
	Italy	39	50	57	49	52
Emerging countries	China	57	53	73	61	63
	Russia	44	42	58	48	50
	India	40	49	50	46	48
	Brazil	44	42	46	44	47
	Estonia	47	44	36	42	45
	Ukraine	39	41	43	41	43
	Israel	34	40	41	38	40

	Risk	Politi-cal Risk	Opera-tive Risk	Invest-ment Risk	Over-all Risk (2008)	Overall Risk (5-year fore-cast)
	Country	Maximum risk = 0 Minimum risk = 100				
Developing countries	Egypt	42	46	47	45	44
	Syria	44	40	47	44	44
	Indone-sia	35	38	49	41	43

After considering the above information, Click-IT AB chose Germany and the UK as target markets given that the overall expected risk is the lowest for each of these countries.

Cross-national trade barriers
Free trade agreements reduce cross-national trade barriers.

The abolishment of **cross-national trade barriers** is an important factor when it comes to analyzing political-legal factors, as this has greatly contributed to increasing international business activities. Establishing free trade agreements is of particular signficance. Examples of free trade agreements include the following:

- ASEAN (Association of Southeast Asian Nations: Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam)
- NAFTA (North American Free Trade Agreement: Canada, Mexico, and USA)
- GAFTA (Greater Arab Trade Area: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates, and Yemen)
- Common markets, especially the European Union and Mercosur (Mercado Común del Sur: Argentina, Brazil, Paraguay, and Uruguay)

Socio-Cultural Factors

Hofstede's cultural dimensions
Hofstede's cultural dimensions can be used to characterize the culture of a country.

Cultural differences between individual countries are an essential factor to consider when designing international marketing policies. Five dimensions outlined originally by Geert **Hofstede** can be used for characterizing the culture of a country (Homburg & Krohmer, 2009):

- Power distance: When there is a high power distance in a society, less powerful members accept and thus expect a comparatively uneven distribution of power. Societies with a low power distance are characterized by egalitarianism.
- Individualism: In an individualized society, the bonds between members are comparatively loose whereas the integration of members into social groups is great in societies that are characterized by collectivism.
- Masculinity: People tend to take a firm line with one another and act competitively in societies characterized by strong masculinity. Values such as modesty and care tend to prevail in countries with weaker masculinity.
- Uncertainty avoidance: In countries in which this dimension is strong, people tend to feel threatened by certain or unknown situations and strive to ensure a great extent of security. People in cultures where this dimension is weaker are more willing to take risks.
- Long-term orientation: Where long-term orientation prevails, people largely focus on the future and attach importance to values such as endurance and thriftiness. Where short-term orientation is stronger, people focus on values oriented towards the past or the present, e.g. respecting and continuing traditions.

These cultural differences are especially important when designing marketing strategies in different countries. The content of communication and the introduction of product innovations are two areas of marketing policy that will differ depending on the specific national culture. It is also very important to consider cultural differences when it comes to the leadership behavior of managers (Roth, 2005; Dwyer, Mesak, & Hsu, 2005; Newman & Nollen, 1996).

1.3 Features of Buying Behavior in International Marketing

After discussing the features of international markets, we will explore variations in the buying behaviors of individuals and organizations.

Individual Buying Behavior

Differences in individual buying behavior are often the result of differences in socioeconomic structures and values. One measure used to classify individuals and their buying behavior is the so-called **Sinus-Milieus**, a social and target group model developed by the Sinus Institute Heidelberg in Germany (n.b. The institute has also developed an international version of this model called Sinus-Meta-Milieus which defines target groups across national borders). The model classifies consumers according to social status and basic values and groups consumers into specific “milieus” such as the “traditional milieu” or “new middle class milieu” that each represent different buying behaviors (Sinus Institute, 2016).

Sinus-Milieus
Sinus-Milieus is a model that classifies consumer target groups according to differences in attitudes and values.

Moving beyond the differences in socio-economic structures and values within consumer groups, individual countries also show specific differences in terms of product preferences. Some examples of such differences are listed below (Homburg & Krohmer, 2009):

- Many Spanish people wash their dishes by hand with cold water running from the tap. Their dishwashing liquid must therefore have specific characteristics to allow for this practice.
- The Spanish prefer their yoghurt to be runnier while Germans favor a thicker consistence.
- People in the UK tend to wash their clothes at considerably lower temperatures than the inhabitants of most other European countries. Washing agents sold in the different countries need to feature different characteristics.
- Climatic conditions influence the type of skincare women use and products thus vary across different countries.
- Pork is widely refused in countries with a predominantly Muslim population while Hindu-dominated states do not consume beef.

Organizational Buying Behavior

Having considered variations in the buying behavior of individuals within and across countries, we will now look at features of organizational buying behavior. For many organizations, the centralization of procurement processes is of utmost importance and is a central feature of their buying behavior. The motivation for companies to centralize their procurement processes is often the opportunity to bundle resources and demand and strengthen their competitive position. Prices are, in many cases, no longer negotiated in individual countries, but rather negotiated centrally. Other factors characterizing organizational buying behavior include the involvement of multiple organizations and multiple personalities, demand related to country-specific features, standardization, and high interaction between supply and demand.

Patterns of Buying Behavior

Moving on from individual and organizational buying behavior to look at buying behavior as a whole, we face the question of whether or not societal-cultural conditions across countries and regions are becoming homogenized. Are countries and regions actually becoming more similar and less diverse? As globalization makes its mark on all cultures and societies, we need to analyze whether inevitable changes in cultural practices are resulting in different behavioral patterns. In this respect, two contradictory developments can be observed:

- Cultures are assimilating across borders and customer behaviors in different countries are converging.
- Resistance against such cultural convergence is increasing in many countries, with consumers turning back to regional and cultural products and consumption patterns. The consequences of such a reaction to cultural assimilation is especially evident when comparing the Western world to the Arab world.

Exercise

Levitt's convergence theory provides a clear explanation for this assimilation. Please read Levitt (1983). What reasons does Levitt state for the convergence of consumer needs?

Levitt (1983) postulates that there is an increasing homogenization of markets as well as the development of cross-culture and cross-national target groups with converging needs. Levitt lists the following reasons for the convergence of consumer needs:

- similar sociodemographic developments in many industrial nations (e.g. a trend towards smaller families, increasing life expectancy, etc.)
- societies increasingly experiencing and integrating foreign cultures (e.g. in educational institutions)
- improvements in transport (e.g. quicker and less expensive flights, proliferation of tourism) and communications technology (e.g. Internet and wireless technology)

Companies are increasingly reacting to converging consumer needs by standardizing what they offer consumers and increasing the centralization of decision-making and management. For instance, managers of American and Japanese companies in Europe tend to opt for standardized advertising strategies as they perceive the countries of the European Union to be very similar. Falling fixed-unit costs resulting from the production of higher volumes allows for the reduction of prices which strengthens the convergence of consumer needs even further.

Summary

Expanding business activities into more than one country does not gradually change the business environment; it changes the very scope of business itself. A move towards internationalization is usually characterized by higher complexity and uncertainty. It involves greater risk while at the same time increasing the chance of securing company success and demands greater flexibility in company strategy. International business often necessitates adjustments to local conditions while simultaneously realizing advantages gained from standardization. It requires increased efforts and intrastructure to handle the different national markets (i.e. managing supplier, consumer, and competitor feedback).

The environment of international marketing is characterized by technological, political-legal, and socio-cultural factors. In terms of technological factors, significant advances in communication and transport have occurred in the past decades. Abolishing cross-national trade barriers has been a significant development in the political-legal environment. As for socio-cultural factors, cultural differences between the individual countries are the most essential factor to consider when designing international marketing policies.

Differences between the buying behavior of individuals and organizations have to be taken into account. The buying behavior of individuals is largely the result of different socio-economic structures and values. The increasing centralization of procurement processes is of utmost importance when it comes to consider organizational buying behavior.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 2

International Marketing Strategies

STUDY GOALS

On completion of this unit, you will have learned …

… the difference between multinational and global segmentation.

… which criteria are used to divide the market into distinct segments.

… which strategies can be used to develop and operate within new national markets.

… the relationship between the timing of market entry and business success.

… what to expect when exiting a market.

2. International Marketing Strategies

Introduction

Porsche Philosophy: The Principle Performance

Today, Porsche is active in over 100 countries. We are a centrally controlled worldwide network. Thanks to our subsidiaries and other Porsche Services, we have a global presence and the Porsche brandname is recognized in virtually every language. Porsche has always been an export-oriented company. In the 1950s, cranes unloaded the first Porsche 356s in the harbor of New York which was a tremendous success for that time. Our concept works. Other companies know this too and approach us. We are happy to help—with the portfolio of our subsidiaries and other Porsche Services. […].

Source: Porsche, 2012.

2.1 Market Segmentation and Market Selection

Choosing which national markets to develop and classifying them into groups are two essential functions of international marketing. As with national marketing, **market segmentation** in an international context is comprised of two tasks: selecting the segments and developing them. Depending on the underlying strategic direction of the company, two different approaches can be taken here (Meffert, Burmann, & Becker, 2010):

Market segmentation
Market segmentation means dividing a heterogeneous market into homogeneous sub-markets by considering the distinct features of actual and potential buyers within them.

- Multinational (or multi-domestic) market segmentation focuses on the differences between countries. Multinational segmentation is a multi-stage process. The first step is to choose national markets that have potential for development. Afterwards, consumers are segmented. In some cases, transnational segments are created when similar target groups are identified in multiple countries. This approach emphasizes the differences between national markets. This strategy is ideal for highly differentiated products or products dictated by local preferences, e.g. confectionary.
- Global market segmentation is based on Levitt's convergence theory and focuses on the similiarities between countries. This approach views the world as a homogeneous market and tries to identify worldwide target groups (e.g. teenagers with same behaviors and interests, middle-aged women with disposable income, etc.). This type of segmentation is used for global brand management, often for fashion brands (e.g. Hugo Boss, Prada), cigarettes manufacturers (e.g. Marlboro), or technology products (e.g. Apple iPhones), which aim to adopt a widely standardized marketing approach.

Multinational and global market segmentation approaches differ in complexity. Multinational market segmentation makes sense for companies that have a polycentric orientation and perceive greater value in pursuing differentiated market development strategies. Multinational market segmentation is also common for companies with an ethnocentric orientation who perceive greater value in locating national markets that are similar to their domestic one. Global market segmentation, by contrast, corresponds with a geocentric or regiocentric orientation and global or transnational marketing strategies.

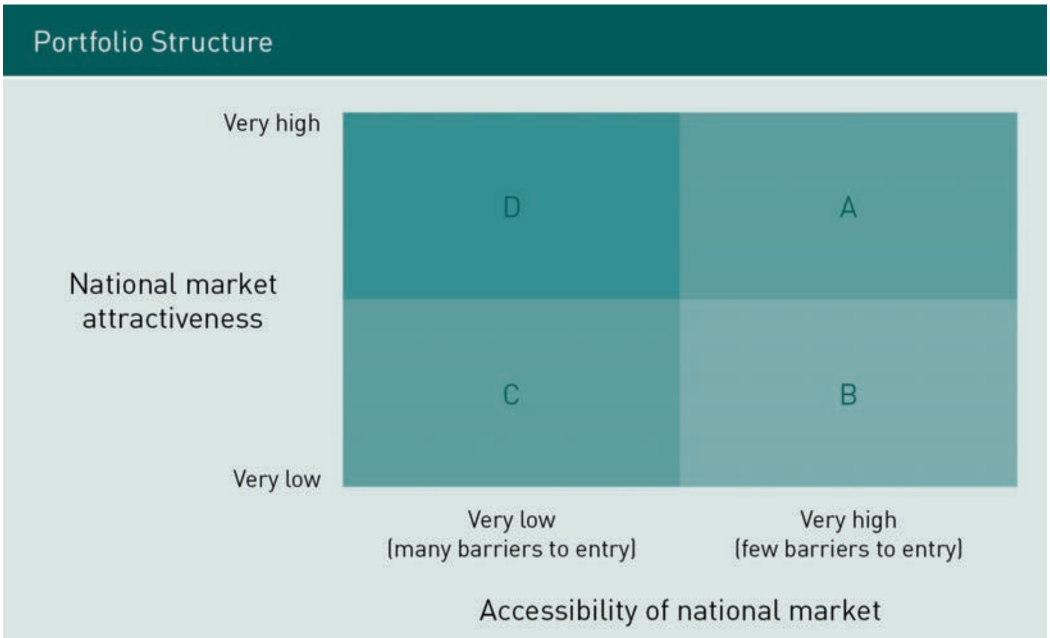
Multinational market segmentation is often more desirable in the early stages of internationalization as it is less complex and the methods for segmentation are comparatively easy. Global market segmentation is often the right approach for large, global brands in an advanced internationalization stage. “Born-global” companies, that is, companies that pursue a global marketing strategy right from the onset of operations, are the exception. Such firms can be found particularly in the IT industry—Google is a good example of a born-global company (Meffert, Burmann, & Becker, 2010).

We will now explore these two market segmentation approaches in greater detail.

Multinational Market Segmentation

This type of market segmentation and selection assumes that consumers in different countries will differ from one country to the next in their behavior, and that the different market conditions across different countries will result in specific markets appearing more or less desirable. The following case study looks at how this type of market segmentation and selection is implemented in practice.

Case study: Features of multinational market segmentation
BelaGreen AG is a corporation that sells high-end personal care products (e.g. suntan lotion, face care, etc.) for the most part within their domestic market of Germany. As sales and profits are declining as the result of increased competition in the German market, the board of directors considers expanding business into foreign markets. You are the assistant to the CEO and responsible for gathering available information on countries of interest for BelaGreen AG and recommending which markets to target. In doing so, you classify countries using the following portfolio structure (Homburg, 2011):



Countries of interest to BelaGreen AG are evaluated according to the following criteria.

Evaluation of Portfolio Structure (A)

	Italy	France	Hungary	Russia	Poland
Market growth for personal care products (high-price segment)	very low	very low	very high	very high	high
Political stability	medium	very high	medium	low	low/ medium
Norms and standards for ingredients in personal care products	high	very high	low	medium	medium
Price level	high/ very high	very high	low	very low	medium
Language difficulties	low	very low	medium	very high	high

	Italy	France	Hungary	Russia	Poland
Customer loyalty	high	medium	low	low	very low
Economies of scale of established competitors	high	very high	high	medium	low
Population growth	very low	very low	medium	medium	medium
Market volume	high	high	medium	low	medium
Competition within the market for personal care products	high	very high	low	medium	high
State regulations	low	very low	very low	medium	low
Possibility to establish own production site in the respective country	high	low	high	low	very high

Evaluation of Portfolio Structure (B)

	Egypt	Portugal	Brazil	South Africa
Market growth for personal care products (high-price segment)	low	medium/ high	high/ very high	very high
Political stability	very low	medium/ high	very low	very low
Norms and standards for ingredients in personal care products	low	medium	very low	medium

	Egypt	Portugal	Brazil	South Africa
Price level	low	high	low	high
Language difficulties	very low	low	low	very low
Customer loyalty	medium	very high	very high	high
Economies of scale of established competitors	low	medium	high	very low
Population growth	high	low	very high	very high
Market volume	medium	high	low	low
Competition within market for personal care products	low	very high	very low	very low
State regulations	medium	low	very low	low
Possibility to establish own production site in the respective country	very low	very high	low	medium

Market segmentation criteria
Market segmentation criteria can help to reasonably subdivide a market.

The first step in multi-domestic market segmentation is to exclude countries that do not meet the company's requirements. The following **market segmentation criteria** are usually utilized as part of the pre-selection process.

- Economic variables: Examples are per capita income of a population, the gross domestic product, or the level of consumption expenditure in a specific country.
- Sociodemographic variables: Factors such as age distribution, birth rates, educational level, or gender ratio may yield further information about potential target groups in a specific country.
- Political/legal variables: These variables give some indication of a country's stability, investment security, and the legal feasibility of the planned undertaking. In addition to these variables, barriers to entry, tariffs, import bans, guidelines for advertising, etc. also need to be considered.
- Geographic variables: In many industries, a country's geographical characteristics, such as the quality of transportation routes, climate, or raw materials, have a direct impact on product design and logistic systems.

- Technological variables: The stage of technological development such as the existence of broadband networks can be an important factor. A country's level of technological infrastructure is also important for designing communication policies.
- Cultural variables: These factors can include the level of individualism versus collectivism, power distance, and masculinity among others of Hofstede's cultural dimensions (Hofstede, 1997).

An evaluation using these criteria will assist a company to identify the potential benefits of entering a specific market (i.e. market attractiveness) and how potentially difficult it is to enter a specific market and establish a market share (i.e. barriers to entry). Segmenting a market using the aforementioned criteria is comparatively inexpensive and can be done quickly; in many cases secondary sources or the countries' statistical offices have all the necessary data readily available. However, in many cases, the quality of such data will strongly correlate with a country's level of development. Additionally, it might not be possible to compare data from one country with another as the definitions of the variables can differ. Furthermore, there is a possibility that the supplied data might be influenced by the respective political situation, particularly in the case of totalitarian systems. Traditional strategy evaluation methods such as checklist or scoring techniques are recommended for further assessment of the national markets in such cases.

For BelaGreen AG, market attractiveness and barriers to entry can be evaluated using the following criteria:

Evaluation Criteria	
Criteria for evaluating market attractiveness	Criteria for evaluating barriers to entry
• Market growth for personal care products (high-price segment) • Political stability • Price level • Population growth • Market volume • Possibility to establish own production site in the respective country (i.e. found own subsidiary/joint venture)	• Norms and standards for ingredients in personal care products • Language difficulties • Customer loyalty • Economies of scale of established competitors • Competition within market for personal care products (number of similar products) • State regulations

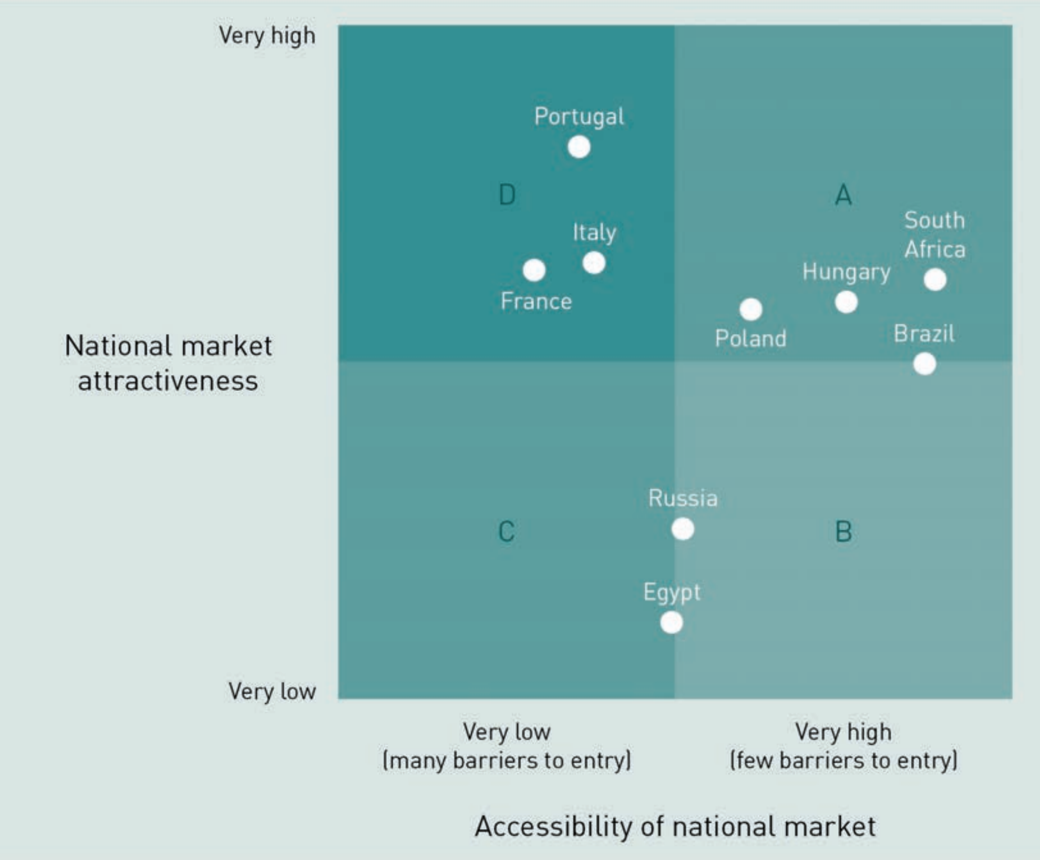
Combining all qualitative criteria related to market attractiveness and barriers to entry results in the following assessment:

Qualitative Evaluation		
	Market attractiveness	Accessibility of the national market
Italy	2 x very low, 1 x medium, 2 x high, 1 x high-very high = medium	4 x low, 2 x high = low-medium
France	2 x very low, 1 x low, 1 x high, 2 x very high = medium	3 x very low, 1 x medium, 2 x very high = low-medium
Hungary	1 x low, 3 x medium, 1 x high, 1 x very high = medium-high	1 x low, 1 x medium, 3 x high, 1 x very high = medium-high
Russia	1 x very low, 3 x low, 1 x medium, 1 x very high = low-medium	1 x very low, 4 x medium, 1 x high = medium
Poland	1 x low-medium, 3 x medium, 1 x high, 1 x very high = medium-high	2 x low, 1 x medium, 2 x high, 1 x very high = medium-high
Egypt	2 x very low, 2 x low, 1 x medium, 1 x high = low	1 x very low, 1 x low, 1 x medium, 3 x high = medium
Portugal	1 x low, 2 x medium-high, 2 x high, 1 x very high = medium-high	2 x very low, 1 x low, 1 x medium, 2 x high = low-medium
Brazil	1 x very low, 3 x low, 1 x high-very high, 1 x very high = medium	1 x very low, 1 x low, 1 x high, 3 x very high = high
South Africa	1 x very low, 1 x low, 1 x medium, 1 x high, 2 x very high = medium-high	1 x low, 1 x medium, 1 x high, 3 x very high = high

As seen in the table above, market attractiveness and accessibility of the national market are evaluated by combining the criteria for each of these factors. In Italy, for instance, both the growth of the market for high-price segment personal care products and population growth are low. Averaging all six criteria for market attractiveness in Italy results in the rating of "medium." Brazil, by contrast, has very few norms and standards for the ingredients in personal care products, which makes this national market very accessible. When entering this market, additional investments required to comply with these standards are relatively few. Averaging all six criteria of market accessibility, accessibility in Brazil is rated "high."

Findings from this qualitative evaluation for each country can then be plotted on the portfolio structure grid according to market attractiveness and accessibility as shown in the following figure.

Classifying National Markets in the Portfolio Structure



The countries that BelaGreen AG chooses to target are South Africa, Poland, Hungary, and Brazil. Portugal, Italy, and France definitely show some attractiveness and BelaGreen AG should check what is causing the poor accessibility of these national markets and whether these factors can be altered in the long term. BelaGreen AG might consider questions such as: “Have we already competed with the same competitors on our domestic market?” and “Will it pay off in the long term to become active on this comparatively attractive market in spite of the predictable short-term losses?”

Global Market Segmentation

Global market segmentation
Global market segmentation is an approach where customers are segmented across national borders without reference to countries.

Having explored the process of multinational market segmentation, we will now turn to the process of **global market segmentation**. Global market segmentation is a one-step approach of developing segments without choosing specific national markets beforehand. This means that consumers are directly segmented across national borders. Global market segmentation can be conducted worldwide or for specific regions, e.g. Europe. This type of segmentation is usually based on the classification of consumers according to lifestyle and behavior.

Case Study: BMW Target Consumer Profile

[SIGMA was the company charged with researching the market for BMW focusing on future trends.]

What Sigma’s research found was the “I’ve made it” attitude of the 1990s BMW driver, what they called the “social climbers” was now changing to a more family friendly group. They foresaw that as the yuppies declined, other groups with different upscale mindsets would increase in number. They suggested four segments going forward and BMW reacted to the new segments by introducing a car to match three of them:

1. “Upper liberals” includes socially conscious, open-minded professionals often with families who were successful in the 90s. They were predominantly Volvo, Saab, and SUV drivers

What did BMW do? For upper liberals, BMW added the X5. This is a SUV that the company prefers to call a “sports activity vehicle,” in a bid to appeal to this group’s active lifestyle.

2. “Post-moderns” are high-earning innovators like architects, entrepreneurs, and artists. They are highly individualistic and gravitate toward head-turners like convertibles and roadsters.

3. “Upper conservative” are wealthy, traditional thinkers. They’ve never been that interested in driving sporty cars like BMWs, and consider luxury and comfort over driving performance. They would normally purchase the Mercedes S-class and Jaguars as they strive for elegance and sophistication.

What did BMW do? BMW-developed the Rolls Royce Phantom, which sells for about $325,000, and is intended for the very wealthiest upper conservatives.

4. “Modern mainstream” are family-oriented, active, and normally purchase the near-premium brands like Honda or Volkswagen: BMWs were considered too expensive for them. But increasing numbers of them are looking to move up above the middle class and are open to purchasing luxury-brand cars.

What did BMW do? In 2001, BMW launched the new Mini, aimed at upper-middle-class buyers who were not quite affluent enough to buy a real BMW. This group is also the target market for the new BMW compact, the 1 Series. The Mini brand provided the company with the opportunity to enter a very different segment of the automobile market whilst reducing the risk of affecting perceptions of their existing brand.

Source: BMW12, 2012.

Global segmentation of mass markets is generally based on classifying consumers according to cross-national sociodemographic, psychographic, or behavioral characteristics. Social demographic information is often used to develop initial insights e.g. dividing consumers according to age, household size, income, etc. However, a multi-dimensional approach based on either single constructs of lesser complexity (such as perceptions or attitudes) or multi-attribute constructs of greater complexity (such lifestyle) are also standard practice for global segmentation.

In contrast to segmentation using single-dimension criteria such as age, segmentation according to **lifestyle** allows companies to develop cross-national target groups based on patterns of buying behavior. The cross-national target groups identified in this process will react similarly to marketing measures as they share largely the same values, attitudes, and behaviors (Berndt, Fantapié Altobelli, & Sander, 2005; Keegan, 2002).

Lifestyles
Lifestyles are complex behavioral patterns influenced by constructs such as values and personality.

In Germany, the study “GfK Roper Consumer Styles” by the Gesellschaft für Konsumforschung (GfK) [Society for Consumer Research] is often used as the empirical foundation for global market segmentation (n.b. this study is available in English and German). It is the advancement of the famous “Euro Socio Styles” study, which has been conducted in 15 European countries since 1989 (Becker & Schnetzer, 2006). However, while “Euro Socio Styles” only analyzes Europe, “Roper Consumer Styles” evaluates the whole world, identifying eight global lifestyle segments. The GfK lists the following segments (Meffert, Burmann, & Becker, 2010):

- Dreamers: motivated to achieve happiness
- Adventurers: driven by passions
- Open-minds: seek a balance between self-actualization, social responsibility, and pleasure
- Homebodies: desire material security and status
- Rational-realists: value hard work and responsibility
- Organics: search for sustainability and self-actualization
- Settlers: long for peace and harmony
- Discerners: seek a balance between responsibility, duty, and pleasure

In the US, lifestyle segmentation is conducted according to the "Values and Lifestyles" (VALS) framework developed by SRI International (Franzen & Moriarty, 2009). Consumers are segmented according to their primary motivation and resources into following eight segments:

- Innovators
- Thinkers
- Believers
- Achievers
- Strivers
- Experiencers
- Makers
- Survivors

Apart from using standardized typologies such as the Gfk "Roper Consumer Styles" or VALS, companies can also segment consumers according to their particular circumstances. Such criteria can be found throughout marketing literature and is not necessarily specific to the international context (Bock & Uncles, 2002). Examples of these criteria include:

- preferences for specific product characteristics
- interaction effects with and among customers
- obstacles for making decisions (such as information gaps)
- buyer power and negotiating power of consumers
- individual customer profitability

Market Segmentation in the B2B Sector

While adopting either a multinational or global strategy is helpful for segmentation in the consumer sector, how ~~are~~ important are these approaches in the business-to-business (B2B) segment? We will look at a second case study now to explore how segmentation is conducted in this sector.

Case Study: Long-Term Client Cooperation of Voith AG

Voith is a global provider of leading-edge technology and industrial services. Voith offers a broad portfolio of systems, products, and services that serve the five essential markets of energy, oil & gas, paper, raw materials, and transport & automotive in all regions of the world. Voith's operating business is bundled in four group divisions: Voith Hydro, Voith Industrial Services, Voith Paper, and Voith Turbo. Much of the worldwide paper production is produced on Voith paper machines. One quarter of the world's hydropower is generated using Voith Hydro turbines or generators. Voith Turbo drive elements are used around the world in industrial plants or for road, rail, and marine applications. Europe's largest companies rely on technical services delivered by Voith Industrial Services.

Source: Voith, 2016.

In general, global segmentation of clients in B2B markets is easier than consumer markets as there are fewer potential clients to analyze. Additionally, these clients are often already international companies, which in turn facilitates the segmentation of new markets. In some cases, potential customers can be analyzed according to qualitative criteria (such as values, policies, etc.) in addition to quantitative criteria (such as procurement potential, market power, or even ordering patterns in the context of specific sales strategies).

At least three options can be differentiated for segmenting the B2B sector (Zentes, Swoboda, & Schramm-Klein, 2010).

- Producers of industrial or consumer goods that offer standardized product ranges and that have comparatively large groups of customers can use an approach similar to customer segmentation. This is the case for Voith AG.
- Producers of industrial or consumer goods that offer rather differentiated, specialized product ranges (e.g. specific technology) and are aware of only a few potential customers, can segment target groups across borders by means of concrete customer contacts.
- Producers with less fixed customer relations do not have to segment at all; establishing customer relations on a 1:1 basis can result in a “follow the customer” strategy that does not require marketing strategies to fit the characteristics of multiple target groups.

2.2 Market Entry Strategy

When working in new national markets, companies can choose to adopt different market entry strategies and overall market development strategies. There is a great deal of research on such strategies. To develop an appropriate strategy, management has to make two important decisions:

- Which mode of entry (e.g. export, franchise, joint venture, etc.) should be used to enter and subsequently develop the market?
- What timeline for entering the market should be implemented?

We will explore both these decisions in the following case study.

Case study: How to develop international markets
Your Spanish company, Cars Moviendos SA, is active in the automotive supply industry, specifically machine engineering, and wants to enter the booming Chinese market. Your position as Vice President of Marketing means that you have been asked to recommend the most appropriate type of market entry. You begin by considering the following **modes of entry** (Homburg, 2011).

Mode of entry
First step of interna-

tional market development: choosing the mode of entry (i.e. type of organization).

Market Entry Type	
Direct export	Sales without intermediaries, usually through sole agencies, representative offices, and permanent establishments.
Indirect export	Contract acquisition and distribution through intermediary third-party companies.
Licensing	Licensor grants licensee the right to use intellectual property with the latter paying a fee that either depends on actual usage or a contractual basis.
Contract manufacturing	Third parties produce a product or individual modules on a contractual basis.
Joint venture	Founding of a jointly controlled company to which the partners contribute funds, expertise, and often already existing company shares. They can be classified as majority, equity, or minority joint ventures, depending on the allocation of capital shares, ownership, and supervisory rights.
Subsidiary	Direct investment on the national market without any partners. There are different types of subsidiaries, ranging from distribution-only set-ups to independent R&D activities.

As the Vice President of Marketing, you will have to consider the following factors and their impact on potential market entry strategies:

- The market is extremely attractive for many competitors as the Chinese automotive market is steadily growing.
- Some competitors of Car Moviendos SA have failed to successfully enter the Chinese market, which indicates that the right market entry strategy has to be carefully considered.
- China's accession to the WTO (2001) has considerably improved conditions for potential investors, in part because: 1) the obligation to have a balanced foreign exchange account was abolished, 2) companies producing in China no longer have to reach an export quota of 50 %, and 3) investors now benefit from numerous "tax reliefs," especially in the regions of Central and Western China.

Cars Moviendos SA has the following qualifications for international business activities.

- The company has existing subsidiaries in France, Italy, and Poland.
- As an adequate “cultural fit” was lacking, a previous joint venture between Cars Moviendos and another cooperating company failed.
- Many Cars Moviendos SA clients are already located in China and are looking for a competent supplier in the country.

Exercise

Please discuss which type of international market entry could work for Cars Moviendos SA, taking into account the aforementioned technological, political-legal, and socio-cultural factors as well as the company history of international business activities.

There is extensive literature about the different methods for companies to enter and subsequently develop markets. However, in order to evaluate these methods and decide on a basic strategic orientation, emphasis should first be directed towards a number of different factors. Firstly, you should consider the advantages of differentiation and standardization as these advantages will support your strategic decisions. Secondly, you should gather information about the resources and competences of your company; it is advisable that you only opt for strategies that match your profile of existing competences (Kotabe & Helsen, 2008). Thirdly, you should evaluate the degree to which your company will be able to exercise control in the foreign country. Finally, any evaluation of market entry type should be complemented by an evaluation of risk. Risk emerges when a decision made under uncertain circumstances cannot be revised without disadvantages or changed at the company’s discretion. However, any evaluation of market entry types should not be limited to these factors; there are many other considerations to be taken into account.

The following figure summarizes the different evaluation criteria and the questions that need to be answered when choosing the right market entry strategy.

Evaluation Criteria and Questions Regarding the Market Entry Strategy

Evaluation criterion	Question to be answered in order to select the right market entry strategy
Realizing advantages through differentiation	To what extent does the selected strategy aim at adjusting marketing activities to the requirements of the location?
Realizing advantages through standardization	To what extent can cost advantages be realized through economies of scale?

Evaluation criterion	Question to be answered in order to select the right market entry strategy
Risk	What risks does the market entry type entail?
Opportunities to exercise control	To what extent will the company be able to influence decisions abroad?
Dependency	How heavily does the company want to depend on cooperations with other firms?
Resources needed	What resources are needed to implement the strategy?
Requirements concerning replication	Does the strategy entail high demands on the company to efficiently and effectively transfer its existing resources and competences to a new country?
Requirements concerning reconfiguration	Does the strategy entail high demands on the company to efficiently and effectively developing new country-specific resources and to combine them with the existing resources and competencies?

For Cars Moviendos SA, the following aspects suggest the optimal strategy would be a direct investment in China, in the form of either contract manufacturing, developing a joint venture, or establishing a subsidiary.

- Developing local representation will facilitate direct access to the market and enable flexible adjustments to be made in response to China's dynamic market conditions.
- Becoming active abroad allows the company itself to establish more of a presence in China, which is particularly important in this market.
- It will be easier to develop long-term relationships with clients, which is especially important for attracting and retaining Chinese clients.
- It will be easier to control local activities, which is particularly important in a foreign market such as China.
- The fact that many Cars Moviendos SA clients are already active in China gives the company an advantageous initial position.

However, there are also aspects that indicate a direct investment in China is not the most favorable strategy, and that indirect strategies such as indirect/direct export or licensing should be the preferred option. These reasons include (Homburg, 2011):

- lower capital expenditure and thus lower risk of losing capital,
- quicker exit is available if sales drop, and
- no direct contact to Chinese clients currently exists.

Upon evaluating all these factors, founding a joint venture or a subsidiary appears to be the best method for Cars Moviendos SA to enter the Chinese market. The fact that the Cars Moviendos SA clients are already active on the market significantly facilitates the company's market entry and this advantage should be capitalized upon. Furthermore, entering a joint venture would allow the company to tap into local knowledge, e.g. regarding existing distribution channels in China.

The **timing** for the start of international market development is the second critical factor determining a successful market entry. Two important decisions need to be made here. The first decision is how should the order of entry into different national markets be coordinated? Which country or countries should go first, and which countries should follow? The second decision to make is when exactly is the right time to enter each country, considering the competition present on the respective national markets. With both of these decisions, it is important to differentiate between country-specific and transnational timing strategies.

Timing
Timing strategies refer to when to start developing a market and can be differientiated into country-specific and transnational timing strategies.

There are two typical **cross-national timing strategies** to choose from: 1) the waterfall strategy, which involves gradual market entry, and 2) the sprinkler strategy, which involves simultaneous market entry. When implementing the waterfall strategy, markets are entered successively, according to their level of attractiveness. A company will first strengthen its position in a strong market and only then enter the next one. Implementing the sprinkler strategy means that the company enters all selected markets at once. The waterfall and sprinkler strategies can, of course, also be combined with one another.

Cross-national timing strategies
Cross-national timing strategies refer to timing strategies for entering multiple markets.

Advantages of the waterfall strategy are that less resources are required, which results in lower risk, the possibility to stop entering new markets, and the creation of "strategic bridgeheads." Creating a strategic bridgehead is where establishing a presence in one foreign market enables or facilitates entry into the next foreign market. Disadvantages of the waterfall strategy include the potential for competitors to introduce imitation products on markets not yet developed and the risk of making premature decisions about the progression of new market entries. A company might be successful in new markets even if it failed in a previous market; however, there is a risk with the waterfall strategy that past performance in specific markets will unduly (and perhaps unwisely) influence decisions about entering further markets.

The comparative advantages of the sprinkler strategy include better prospects to enter markets before competitors, and better protection against the product becoming obsolete. By implementing this strategy, a company may even be able to establish barriers to entry for competitors. It is also possible that the company can balance risks between the different national markets. For products that have a short life cycle, high research and development costs may only be amortized through activity on all relevant markets simultaneously.

In such cases, there is essentially no alternative to the sprinkler strategy. Disadvantages of this strategy are the need for considerably higher financial and personnel resources and the higher level of coordination required.

Country specific timing strategies
Country specific timing strategies refer to timing strategies for entering a specific national market.

There are two typical **country-specific timing strategies** to choose from: 1) the pioneer strategy, where the first international company on the foreign market is the pioneer, and 2) the follower strategy, where companies will wait for competitors to "test the waters" before they enter.

Implementing the pioneer strategy means that the company is ahead of competitors when it comes to developing marketing expertise. The pioneer may even be able to establish barriers to entry for other competitors to ensure a larger market share. Disadvantages of this strategy are potentially higher costs associated with actually developing the foreign market. Competitors can enter this market at a later date at much lower costs, essentially as "free riders." Additionally, the trajectory of market development may be uncertain, which entails another major risk.

Advantages associated with adopting the follower strategy include lower market development costs, improved ability to assess how demand will develop, and a more detailed picture of consumers' needs on this foreign market. Disadvantages of the follower strategy are that the company may face barriers to entry that were established by pioneering competitors and lost opportunity to realize competitive advantages (resulting from an initial lack of competition).

Case study: Market entries by Tesco
British grocery and general merchandise retail chain Tesco is active on more than a dozen national markets and is the world's fourth largest retailer. The company generates 70 % of its revenue from its domestic market, the UK. Tesco entered its first foreign market, France, as late as 1993—almost 70 years after the company was first founded. In the 1990s, Tesco developed other selected European markets, namely markets close to the UK, both in geographical and cultural terms, that offered great market growth potential. In the late 1990s/early 2000s, Tesco shifted its internationalization efforts towards Asia. In 2007, Tesco entered the US market with the new, innovative soft discount convenience brand "Fresh & Easy."

Exercise

What type of market entry strategy did Tesco implement? How do the features of this strategy differ from the alternative strategy the company could have chosen?

The timing of market entry is an essential factor influencing a company's success. The pioneer and the follower strategy are the two basic options, with the latter being subdivided into early and late followers. Pioneers usually apply a waterfall strategy, followers a sprinkler strategy. Decisions about when and over what period to enter a market are usually interdependent.

2.3 Market Exit Strategy

Examples from the business world show us that market exits are on the rise, and even though **market exits** are to be expected in the course of internationalization, such exits are not often anticipated by the companies themselves. While there is a great deal known about business growth, there are comparatively few insights into matters of divestment, negative growth, and market exit. Much more information is needed, not only because the number of market exits are on the increase, but also because studies show that most market exits are actually reactions to earlier developments (Dranikoff, Koller, & Schneider, 2002).

Market exits
Market exits refer to the process of leaving a market completely.

Companies completely leaving a market can be analyzed at the level of individual industries. In Europe, industries such as the textile industry, consumer electronics, and cellphone manufacturing have all been significantly affected in the past decade, as European companies are not really able to compete on procurement and production markets and have had to undertake a process of exiting from multiple markets. Trading of consumer goods is a sector that has in the recent years experienced a massive and, in some cases, obviously hasty internationalization, leading to a huge number of market entries and exits. For example, Dohle's retreat from Poland in 2002 (Dohle is a German family-owned trading company) was part of a cross-national growth strategy with the market exit resulting from an attractive takeover offer. For other companies, a radiating domestic market (in the case of Marks & Spencer) or a new management board (in the case of Carrefour) have been important influencing factors (Zentes, Swoboda, & Schramm-Klein, 2010).

Case Study: Tchibo to Pull Out of UK

Tchibo, the German coffee chain, is pulling out of the UK in the face of the country's deteriorating economic climate and weak currency.

The family-owned company, whose shops sell coffee and a rapidly changing array of consumer goods, has put the leases of its 51 UK stores up for sale. It is also closing its 100 coffee shop concessions in Sainsbury and Somerfield supermarkets.

Tchibo entered the UK market with great fanfare in 2000, and expanded quickly from its first shop into London into the rest of the country.

Paul Chadderton, managing director of Tchibo Coffee UK, said in hindsight the company "probably expanded a little faster than we should have". He said some of the company's UK stores were lossmaking, and the portfolio as a whole was not operating "at the level we required" […]

The company's earnings before interest and tax dropped from €45 m in the first half of 2007 to €7 m in the first half of 2008 as Europe succumbed to the economic slowdown. However, Mr Chadderton said the Tchibo group was still strong and would maintain its presence in Germany, Switzerland, Austria, and Eastern Europe.

Source: O'Connor & Wiesmann, 2009.

Such a complete exit from a foreign market or even a partial retreat (such as when a trading company closes operations in all smaller towns) can have a variety of consequences. These can be divided into 1) internal effects, which include the effects on the company's economic results (for the market and the company as a whole) as well as the company structure and ongoing processes within the firm, and 2) external effects, which include effects on the industry as a whole, as well as stakeholders, and shareholders in either that single national market or, as is often the case, in multiple markets.

Market exits can also be obstructed or impaired significantly by specific barriers to exit. There are three main types of **barriers to exit** (Nargundkar, Karakaya, & Stahl, 1996).

Barriers to exit
Barriers to exit include economic, strategic, and management-related barriers.

- Economic barriers include asset durability, the intensity of capital activities on respective markets, and binding ties resulting from personal contacts. Special attention should be paid to the sunk costs that many companies rightly or wrongly perceive as an economic barrier to exit.
- Strategic barriers include close **vertical integration** (both forward and backward), customer and supplier power, and difficulties associated with ensuring an operative and marketing-related fit between the remaining company divisions if a partial exit is to be undertaken.
- Management-related barriers include management staff being personally affected, or perceiving/fearing damage to their personal or company image. Compensation claims are an additional example of management-related barriers.

Vertical integration
Vertical integration occurs when companies within the supply chain are owned by the company itself.

Sunk costs
When leaving a market, different types of sunk costs can occur.

The concept of **sunk costs** warrants additional explanation. Sunk costs are those costs incurred by a company to enter a market, continue to be active on that market, and remain competitive. They are costs that, in essence, cannot be recovered, i.e. investments that cannot be sold. When opting to leave a specific market, a company may recoup some investments by selling assets such as manufacturing equipment to competitors.

There are different types of sunk costs. We can differientate here between tangible and intangible assets, or rather exogenous and endogenous sunk costs. Exogeneous sunk costs occur for all companies entering a market. They are discrete investments such as start-up costs or costs associated with building infrastructure. Endogeneous sunk costs emerge for specific companies who invest in strategies that seek to stimulate customer demand (Shaanan, 1994; Sutton, 1991). Examples of endogenous sunk costs include fixed capital for specific purposes, production expertise, market conditions, employment relationships, advertising expenses, market research, research and development, and under-utilization/over-utilization of machines or infrastructure. Amortizations associated with direct investments are especially important. As companies are not necessary aware of sunk costs until they leave the respective market, they usually cannot be quantified beforehand. However, sunk costs should definitely be calculated before a market exit (Zentes, Swoboda, & Schramm-Klein, 2010).

Summary

Choosing the path and mode of internationalization involves a number of complex decisions for companies. Segmentation is a useful process for deciding which target groups (multinational or global) to focus on. A similar process can be undertaken for the B2B sector depending on the level of standardization/differentiation, however, additional options such as the “follow the customer” strategy are also available to companies.

Market attractiveness and barriers to entry are important considerations when selecting specific markets for expansion. A country’s degree of political, economic, and financial risk are important factors influencing market entry and a company’s overall success. This holds especially true for developing countries and emerging markets. They are characterized by a certain level of uncertainty, which is why many companies hesitate to invest there. In this way, however, they neglect the development of long-term growth potentials and the establishment of strong brand positions. Another success factor for developing foreign markets are low barriers to entry, which represent a country’s openness towards foreign investors. Many countries try to protect their domestic economy with protectionist measures and in this way inhibit both the development of their national economies and the success of companies entering their markets.

Choosing the type of market entry and the timing of this entry are the most important strategic decisions to be made when entering new markets. The high degree of control, provided by market entry types such as joint ventures and subsidiaries, can have a positive effect on market success but also entails higher demands on a company’s resources and competences. When considering the right timing for entering a market, companies can choose between cross-national and country-specific market-entry strategies and opt for either a sprinkler and a waterfall strategy. When applying a sprinkler strategy, several national markets are developed simultaneously, which requires a widely standardized marketing. Implementing a waterfall strategy means slowly developing new markets one by one, aiming to secure markets sequentially and prevent cross-national failures. In many cases, large companies have better resources and more competences that could be relevant for developing the new market and realizing economies of scale.

Different factors lead to market exits. Typical reasons for exiting a market include coordination problems related to specific national markets, profits, and the extent of anticipated sunk costs.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 3

International Market Research

STUDY GOALS

On completion of this unit, you will have learned …

… what is qualitative and quantitative primary research.

… the role of market research for internationally active companies.

… how to conduct an international survey.

… what needs to be considered when organizing an observation.

… what are internal and external sources of international secondary research.

3. International Market Research

Introduction

Information Required for Making International Marketing Decisions

Adding an international dimension to existing national marketing activities means that decision-makers not only require more information (i.e. quantity of information) but, in many cases, different types of information altogether (i.e. quality of information). An increased amount of the information required is the natural result of expanding business activities to a wider geographic area. The actual amount of information required will often depend on the approach taken towards international marketing and the specific strategies adopted for market expansion, market entry, and market development. In general, more information is required a) the further a company shifts away from their home country orientation, b) the more foreign markets are to be developed, and c) the more differentiated the development of the foreign markets needs to be.

However, decision-makers in international marketing not only need more information, they also need different types of information, or rather, more diversified information. There is an obvious shift in the type of information required when other relationships, environments, and influences need to be considered. This is also the case when a company has limited country-specific, experience-based knowledge.

In this unit, we will explore the various methods for sourcing the desired quality and quantity of information.

3.1 Qualitative and Quantitative Primary Research

Primary market research
Primary market research refers to data that a company or market research institutions have gathered that is particularly tailored to the individual needs of that company.

Primary market research involves collecting data that is specific to a company and their needs, conducted by the company itself or a market research company contracted to provide this type of research. Examples of primary research include focus groups, surveys, field tests, interviews, and observation of consumer behavior, all of which can be qualitative or quantitative in their design. Quantitative international primary research collects data using measures that can be applied to many countries or markets within a country and lead to numerical, representative results. Qualitative international primary research, by contrast, collects data that does not allow statistical inferences to be drawn. Such measures aim instead to collect data to develop a more in-depth picture of that country or market; they don't seek to measure the distribution of specific attributes within a population but rather aim at characterizing the facets of those attributes (Kepper, 1994). We will look at a case study now to illustrate the purpose and functions of these different forms of research.

Case study: All-Sports GmbH
All-Sports GmbH is an internationally active sporting goods producer based in Germany that has been facing declining sales figures in recent years, despite generally positive trends occurring within the industry. Management assumes the company's product range, which has not changed for years, is one of the primary reasons for unsatisfactory sales. The company has decided to analyse this hypothesis and gather the necessary information for it to take steps to improve sales.

Generally, market research involves gathering, analyzing, and interpreting information about companies. For All-Sports GmbH, market research performs the following functions:

- Stimulating function: Market research can be a stimulus for new marketing decisions. In the case of All-Sports GmbH, research could reveal new market segments with untapped sales potential. Options for reorganizing the product range can be discovered via research findings such as introducing specific pieces of popular sporting equipment.
- Predictive function: Market research can be utilized to estimate changes in marketing-relevant factors and their potential impact on the business. For this sporting goods producer, research can be used to forecast future sales that result from different marketing strategies. Market research can provide All-Sports GmbH with answers to the following questions:
  - What will happen to sales in the coming years if the company sticks to its product range?
  - How would focusing on specific sports (i.e. shrinking the product range to focus on a limited number of sports) affect sales?
  - In what way would expanding the product range affect sales?
  - Are those sports that are currently popular likely to be equally popular in five years?
  - How will the willingness of consumers to pay for specific pieces of sports equipment change in the coming years?
  - Will the popularity of sports as a recreational activity increase or decline in the coming years?
- Evaluative function: Market research supports decision-makers to evaluate and choose alternate market approaches. All Sports GmbH can gather information about which product policy has been most successful in the past. Based on these insights, it is possible to assess alternatives for different product policies and make an informed decision about future strategies.
- Controlling function: Market research allows a company to collect information about their position in the market and the effectiveness of the marketing measures that they are currently using. All-Sports GmbH can use market research to monitor

change in sales figures, turnover of stock, consumer perception of price, degree of brand awareness, etc. and thus monitor the success of any marketing measures implemented (e.g. changes in product range, sales promotion campaigns, etc.).
- Affirmative function: One of the functions of marketing research is to provide insights into what has led to specific results. After adjusting the product range (e.g. adding specific items for popular sports), All Sports GmbH may find that sales have in fact increased but that these improvements are the result of natural fluctuations in sales rather than the result of specific marketing initiations.

All-Sports GmbH can utilize market research to answer the following marketing questions:

- Market development: Has the market potential changed as a result of changes in the population of different countries?
- Behavior of market players: How do customers and key competitors behave?
- Effects of marketing tools: To what extent can the effect on sales be attributed to changing the product range (i.e. expanding or reducing it), communication policy (e.g. promoting the new product line through advertising), and pricing policy (e.g. reducing prices to tap into new customer segments)?
- Monitoring company-specific marketing factors: To what extent can conclusions about changes in market potential be drawn from ongoing monitoring of sales statistics?

3.2 International Surveys and Observations

In order to obtain good quality international primary research, a central requirement must be satisfied: the data gathered from different national markets or segments must be comparable. As each country is characterized by distinct qualities, any data collection must be nationally differentiated. The non-experimental survey is the most widely used method for gathering information in international market research. In such surveys, a group of people, which are ideally representative of a particular population, are asked to respond to questions about specific issues by an investigator who does not exert any bias on the answers of respondents. Non-experimental surveys can shed light on a broad range of issues affecting marketing and can be undertaken in a number of ways. The non-experimental survey is an instrument of quantitative primary research. It is used to systematically gather information about relevant issues from a group of representatives. What is particularly significant about this method is that the investigators cannot influence results.

A qualitative form of primary research is the non-experimental observation, which involves watching and analyzing the actions of research subjects in natural or staged conditions. Researchers directly observe the actions of people as they respond to specific stimuli and make assumptions about products and services regarding their preferred features, patterns of usage, etc. based on the behavior of the research subjects. Modern methods of observation include the use of cookies tracking website traffic and use, and customer loyalty programs that track the purchases of repeat customers.

Instrument-based surveys that gather data through the use of technical instruments are growing in use in national marketing research, in contrast to non-experimental observation of subjects where the results are always influenced by the specific biases of the investigator. Non-experimental observations are thus limited in their value and their use is not expected to increase in the future (Bauer, 2009).

Secondary research draws on existing data and can be differentiated into secondary research with internal and external sources. In exceptional cases, secondary research can actually replace primary research completely, e.g. when sufficient data has already been collected on a specific issue and is not yet outdated. Even though primary research collects up-to-date data, it should always be complemented by secondary research.

Secondary market research
Secondary market research uses existing data sourced by businesses, institutions, and other organizations e.g. census data or Nielsen ratings.

Case study: The fast food chain EAT Ltd.
EAT Ltd. is an internationally active fast food chain that is considering whether or not to enlarge the product range for its restaurants in three European countries. In order to work out which type(s) of products to add to their portfolio, secondary research needs to be conducted. Data can be gathered using various methods.

New product concepts and respective prototypes are therefore developed and tested with consumers. The company can generally expect to gather useful hints from observing how potential consumers react to these new products.

Exercise

- What is the difference between secondary and primary research? Differentiate between the two approaches (without referring to the actual instruments they utilize).
- Which internal and external sources of secondary research could be used by EAT Ltd. to decide which type of products to introduce in their restaurants?
- The fast food chain decides to not only conduct secondary research but also to survey restaurant guests, inquiring about their basic food habits. What are the arguments for undertaking a written survey versus a survey interview with an investigator?
- In the process of initial testing of the prototype with potential customers, what are the advantages of conducting an observation of consumers versus conducting a survey?

For this case study, the following secondary research external and internal sources could be used.

External sources:

- Official national, federal state, municipal, and city statistics (e.g. data on societal changes, eating behavior, health awareness, income, etc. can indicate whether there is a market for new products)
- Investigation results and reports from market research institutions, associations, chambers of industry and commerce, and universities (e.g. research on societal changes)
- Public information on other fast food companies (e.g. brochures, annual reports, and media reports)

Internal sources:

- EAT Ltd.'s own business statistics (e.g. sales figures by region, age, sex, etc.)
- Complaints sent to the company ("I would like ...", "I was not satisfied with...")
- Data regarding experiences EAT Ltd. has had with new product launches in other countries
- Older market research studies conducted by the company

EAT Ltd. could then consider conducting primary research to source additional data that is more specific to their strategic decision-making. To examine the food habits of their current or potential clients, the fast food chain can either conduct a written survey or an in-person survey interview. The type of survey selected by a company will generally depend on the individual circumstances and the type of information required. There are arguments for and against both survey types when considering the type of data required, the survey target group, etc.

In the case of EAT Ltd., the following arguments are in favor of conducting a written survey:

- It is comparatively easy for the company to conduct a written survey. The questionnaires could easily be handed out in the EAT Ltd. restaurants along with the food ordered by guests.
- The questionnaire does not have to be extensive as it deals with a relatively limited range of issues, e.g. food preferences, price preference, etc. (n.b. surveys asking about a range of topics in greater depth are generally better conducted as in-person interviews).
- Given the type of data required by EAT Ltd., it is not necessary to create a controlled interview situation through a personal survey. A question such as "How many times a week do you eat meat?" does not require any support or explanation by an interviewer; an interviewee can easily answer it on their own.
- Respondents consider written surveys to more anonymous. In-person surveys generally carry a higher risk of interviewees giving false answers than written surveys because interviewees can be either too ashamed to answer a question honestly or want to appear at greater advantage in front of an investigator.

In contrast, the following arguments favor conducting an in-person survey:

- Giving out questionnaires in the company’s restaurants means that only existing customers will be interviewed, distorting results about “potential” sales.
- In personal surveys, it is easier for the interviewer to control the course of the survey, ensuring that questions are relevant to specific interviewees and leading them to provide additional information. For example, if an interviewee states that they often have vegetarian meals, the interviewer could inquire why this is their preference. This question can easily be omitted for interviewees who do not eat vegetarian meals. Such a control is also possible in written surveys using filter questions (such as “If answered no, proceed with question no. 3 …”), however, this increases the length of the questionnaire, which can potentially cause confusion and disinterest from interviewees particularly if non-customers are included.

The next phase of primary market research could involve testing new prototypes with potential customers. EAT Ltd. would likely conduct a trial of the new products with consumers and observe their behavior. The following arguments are in favor of conducting an observation over undertaking a survey:

- The behavior of consumers is studied at the time they actually exhibit the behavior, meaning that their reactions to the taste of the new product are recorded at the same time as they trial the product rather than asking them to recall their perception of taste by drawing on their memory.
- Behaviour of consumers that they themselves are not cognizant of can also be recorded (e.g. facial expressions when the experimentees see or taste the product for the first time indicating skepticism, curiosity, etc.)
- An observation does not rely on the consumers’ willingness or ability to provide information (e.g. they do not have to verbalize what they taste using precise language, rather their reactions are interpreted and recorded).

Summary

Quantitative international primary research uses measures that can be used across different countries or markets and lead to statistical results representative of a specific population. Qualitative primary research measures, by contrast, aim to collect data that provide a more indepth picture of that country or market and information about their specific attributes.

Market research performs the following functions: stimulation, prediction, evaluation, control, and affirmation. Companies can additionally analyze segments in terms of their market development, behavior of market players, and the effects of marketing tools as well as monitor company-specific marketing factors.

The most common and valuable method for gathering information in international market research are non-experimental surveys. In such surveys, respondents are asked to provide their opinion about specific issues using written or in-person survey tools that cannot be influenced by the biases of those conducting the research. Non-experimental observations, by contrast, are used to analyze the actual (rather than the reported) behavior of consumers.

Secondary research complements primary research and involves analyzing pre-existing data. The company may use both internal and external sources of secondary research.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 4

International Marketing for Specific Sectors

STUDY GOALS

On completion of this unit, you will have learned …

… which specific features of different industries need to be taken into account when making marketing decisions.

… which factors lead consumer good producers to prefer vertical integration.

… what are the basic options for wholesale and retail companies when marketing their product ranges.

… which factors have to be considered when marketing services.

4. International Marketing for Specific Sectors

Introduction

In this unit we will explore the features of international marketing specific to the following sectors: 1) the industrial goods sector, 2) the consumer goods sector, 3) the wholesale and retail sector, and 4) the service sector. We will introduce the basic features of each of these sectors before exploring them in greater depth in this unit.

Firstly, consumers in the industrial goods sector are mostly organizations, which require specific and targeted marketing approaches across international markets. Most organizational buying processes are undertaken by multiple people and entire or even multiple departments. Large parts of the industrial goods sector are characterized by international business activities: this sector is marked by a strong and ever increasing reliance on the strategic procurement of resources from international markets.

Secondly, the majority of consumer goods producers face challenges associated with the fact that they are not in direct contact with their actual consumer target groups. In most cases, producers sell their products through distribution companies that act as intermediaries between producers and consumers. The consequences of specific distribution policies are the main challenges in international marketing for consumer goods producers. The relationship that a producer has with their distribution partners is critical for international marketing. Two key questions for companies in the consumer sector to address are 1) how to maintain an influence on the market appearance and presence of products and 2) how to control distribution channels.

Thirdly, the wholesale and retail sectors are highly influenced by local market conditions. The pattern of internationalization of distribution companies also points to this increasing emphasis on local activity: while their procurement activities have been internationalized for many decades, international sales activities really only began increasing in the early 1980s. Companies within wholesale and retail sectors pursue many different strategies for distributing their products internationally; while some simply transfer their retail formats or product mix policy from one country to the next, others adjust their activities significantly with respect to country-specific factors.

Lastly, the provision of services (as compared to physical products) is characterized by 1) a greater diversity of products, 2) specific factors associated with distributing a non-material product, and 3) the integration of external factors. These features mean that “confidence-building measures” are critical to marketing services on an international scale. This is because consumers of services often have no experience, knowledge of, or access to services prior to their provision.

4.1 Industrial Goods Sector

The industrial goods sector is often called the business-to-business (B2B) sector as in this sector companies sell to other companies and not to end-consumers or individual customers. There are many industrial goods producers providing a broad range of products. Despite the quantity and diversity of producers, they share many common features.

- Marketing industrial goods is characterized by the fact that the consumers are **organizations** (e.g. industrial companies, public authorities, etc.) rather than individuals.
- Marketing of industrial goods can be undertaken directly or indirectly through intermediaries.
- Purchases of industrial products tends to involve multiple people often working across multiple organizations.
- It is common to see project-specific cooperations (or communities) arising between industrial goods providers. Such communities often emerge as a result of the sheer complexity of the product being produced.
- Market development is not directed towards an anonymous market but towards individual consumers, which requires a more interactive style of marketing. Business relationships beyond individual transactions often grow in importance.
- Industrial goods producers operating internationally, even those with a traditionally strong orientation towards technology, realize the need to consistently optimize benefits to their consumers, given the ever-increasing changes to the market landscape.

Organizations
In the industrial goods sector both consumers and suppliers are organizations rather than individuals.

Producers within this sector can be categorised according to their business type, however any analysis of business type should be complemented by a careful assessment of actual market activities (Backhaus & Voeth, 2010):

- Product: These producers supply prefabricated, standardized products which are purchased by consumers for use at their own discretion. The level of product specificity is low and consumers are generally not known prior to supply. When marketing such products, it is useful to select national markets and employ typical exporting strategies. Which markets to select depends on the locations of potential consumers and the general attractiveness of market conditions.
- Investment: These producers supply complex products which are generally sold prior to manufacture. Customised components are usually assembled into functioning products at the location of the consumer. These products naturally have a high level of specificity. The option of becoming active in a market may result from previous projects that the producer can showcase or via the process of tendering. Depending on complexity and extent of the investment, a “follow the customer strategy” could also be an option where the components are made according to the consumer’s specifications.
- Systems: These producers supply products designed for either an unknown consumer or a specific market segment. The products are interlinked and designed to be bought in gradual succession by consumers. The strategies of “follow the cus-

tomer" and customer segmentation tend to play a significant role for systems producers. Market expansion is often connected to national markets selected by the respective consumer.
- Supply: These producers supply specific products developed for individual customers. Producers aim to establish long-term business relationships characterized by an ongoing supply of products. Depending on the focus of the producer—directed toward important customers or general market potential—the "follow the customer" strategy or active selection of markets with potential for growth may be utilized. The customer-supplier relationship is usually paramount for this type of producer.

Considering the distribution of potential consumers, industrial goods producers are increasingly adopting international "area" strategies under which industrial goods are marketed globally or regionally. In the past three decades especially, industrial goods producers have increasingly assessed the potential to become active internationally as an essential challenge and competitive opportunity that is distinct from their domestic markets (Hayes, Jenster, & Aaby, 1996).

When contemplating the question "How can we become internationally active?" industrial goods companies have a myriad of possible strategies to choose from. The consumers of these products are organizations located worldwide that are increasingly engaging in the strategic procurement of products on a global scale. Relationships between consumers and producers in the industrial goods sector are typically ongoing and long-term in nature, in contrast to other sectors where transactions are often either short-term or non-recurring. The importance placed on establishing long-term relationships is why international relationship marketing is especially important in this sector (Ambler & Styles, 2000). That said, it is often quite difficult to build relationships internationally owing to greater geographical distances and differences in language and culture as well as different codes of conduct and behavioral patterns. Conflict and withdrawing from business relationships is therefore a common occurence (Dominguez & Zinn, 1994). Careful preparation and consideration of concepts such as the "buying center" can help to direct the relationship building process.

Case study: Roles in a buying center
You are working as a sales manager for an internationally active packaging materials company and are about to receive a major order from a cereal producer. Before entering the critical sales negotiation, you are considering the participants in this negotiation from the cereal company who will be responsible for decisions making. This is the information available to you (Homburg, 2011):

- Mr. Paul Smith is the Head of Manufacturing and a respected expert in packaging technology.
- Dr. Ulrike Jüsten works in the division of Business Affairs and is in charge of handling important procurement projects. She leads most negotiations.
- Mr. Steve Wyre is Dr. Jüsten's assistant. He is in regular contact with potential providers and evaluates offers based on their feasibility and accuracy.
- Dr. Naga Kumar is a member of the managing board and heads the cereal division.

You consult the buying center approach in order to optimize the offer to the negotiation participants. The buying center approach identifies five key roles involved in the buying decision process: user, buyer, influencer, gatekeeper, and decider. An important feature is that one person can play several roles and several people can play the same role at any one time.

As the packaging order is of essential strategic importance for the cereal company, you expect Dr. Kumar to have the final say. However, he usually lets Dr. Jüsten and Mr. Smith make the majority of decisions. Who will play which role in this negotiation?

It is anticipated that the distribution of roles will be as follows:

- Mr. Smith: user and influencer
- Dr. Jüsten: buyer
- Mr. Wyre: gatekeeper
- Dr. Kumar: decider, as this is a major order (with Mr. Smith and Dr. Jüsten having only limited decision-making power)

4.2 Consumer Goods Sector

As the importance of international trade increases, the marketing of consumer goods producers is increasingly directed towards both consumers as well as the trade sector. Consumer-oriented marketing measures include the use of sales instruments in the areas of product, communication, distribution and, to a limited extent, pricing. Trade sector-oriented marketing measures include the coordination of all marketing activities in order to secure important players within the trade sector who will work with consumer good producers to promote their products (Zentes, 1989).

In a **vertical marketing system**, the main members of a distribution channel—producer, wholesaler, and retailer—work together to meet consumer needs. This type of system can be contrasted with conventional marketing systems, where all members of a distribution system see themselves as separate businesses that aim to maximize profits. Vertical marketing systems can take several forms: one member of the distribution system owns the other members or independent firms are joint by a contract, e.g. a franchising contract. International vertical marketing mainly focuses on developing relationships between producers and intermediaries that are active at an international, or cross-border level. The respective competitive position of the company is critical for the relationship between a producer and an intermediary.

Vertical marketing
Vertical marketing is an approach where the main members of a distribution channel work together to meet consumer needs.

The power of the manufacturer's brand on the respective markets, the question of how important the sales rates of the individual trading companies are for the producers, the extent to which the trade sector can choose alternative products, and the contents of existing contracts are important parameters in this respect. When it comes to the **position of power**, the trading companies dominate in many cases. This is supported by the way that information is distributed in the sales channel. Trading companies realize information advantages as they are in direct contact with the consumers on the respective markets. These advantages are further pushed through the establishment of POS systems, loyalty cards and the like, as such instruments enable the trade sector to collect detailed national market-related information on the customers (Palmer, 1996).

Distribution policies of producers are increasingly characterized by a tendency towards verticalization, reflected in the fact that sales activities are often tightly controlled and coordinated. Vertical sales cooperations of producers can range from loose collaborations to tight systems. Producers seek to secure their sales channels through **controlled distribution**. Controlled distribution concepts significantly contribute to strengthening a brand, as vertical systems improve the producers' implementation of sales and marketing strategies. This is significant, especially in the international context. It is better for a producer to present its product range in an outlet bound to specific producers than through independent retailers, as the former allows for a comprehensive presentation that matches the companies' respective strategies. The advantages of international controlled distribution include (Zentes, Swoboda, & Schramm-Klein, 2010):

Controlled distribution
Tight forms of controlled distribution are also called contract distribution.

- securing the brand image and strengthening the brand
- increasing customer trust
- securing quality at POS (e.g. quality of service, quality of customer advice)
- reducing time to market
- independence of distribution partners (such as traders)
- securing target group congruence of the product and the selling points
- more efficient physical flow of goods

Direct distribution systems (i.e. secured distribution) give producers even more possibilities to enforce their measures. These systems are types of integrative distribution approaches.

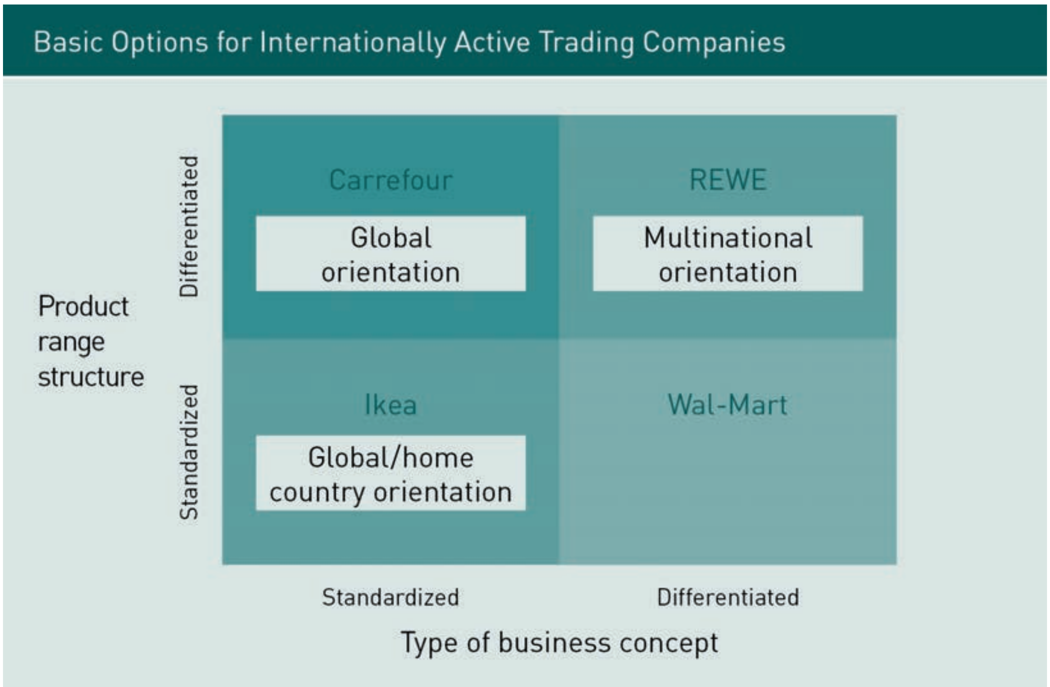
Case study: Mustang's verticalization strategy
Over the past decades, jeans and denim fabric producer Mustang has both established a strong manufacturer brand/brand-name products and a reputation for being a reliable partner in the specialized trade sector. When the trade sector changed in the 1990s resulting in disruption to the traditionally specialized fabric sector and shifting of distribution channels, pressure on the company grew. Mustang countered these sector developments with guerilla and event marketing measures (such as establishing their own radio and TV shows and sponsoring measures). Through implementing various "pull" measures directed towards consumers, Mustang attempted to also influence the trade sector. However, Mustang soon noticed that such measures only delayed a decline in sales rather than prevented it. This is why the company fundamentally realigned its distribution activities (Zentes, Neidhart, & Schee, 2006).

Mustang's subsequent vertical orientation can be explained as a retail-partnership and franchise concept, using vertical cooperative elements that are tools of controlled distribution. The stores that the company runs itself represent integrated distribution channels, or rather, secured distribution. The retail-partnership concept was introduced to multibrand stores in 2004. Within the company, this strategy was called "area cooperation." Under the concept, Mustang and the assigned distribution intermediaries entered into intensive talks regarding the size of a sales area, the anticipated sales, and the trade margin. Issues such as the share of tops or denim as well as pre-order cycles and the share of stock in the respective stores were coordinated in these talks. Mustang is in charge of deciding which products to put onto the sales floor and employees regularly visit the commercial partners in the stores. In addition to the area cooperation, Mustang has been intensifying international expansion, e.g. on the German market, and in Italy and Eastern Europe, through vertical-cooperative franchising with stand-alone shops since 2005.

4.3 Wholesale and Retail Sector

Business concept, distribution policy, and product range policy are all relevant to marketing decisions for wholesale and retail companies. By opting for specific types of business and distribution formats, these companies essentially shape their business structure, product portfolio, and market presence. The fundamental question for wholesale and retail businesses operating internationally is whether or not to standardize or differentiate their business concept (Müller-Hagedorn & Natter, 2011).

National markets differ in terms of the type of business concepts found within them. There may be preferences within particular markets for specific types of businesses supplying different product groups. Product range policy is also an important issue for trading companies. A distinction needs to be drawn between the strategic elements of product range policy and the actual product ranges selected for different national markets. The strategic selection of products in this sector is closely connected to the type of business concept adopted. The following figure shows that product range and business concept can be used to identify the basic strategy of internationally active trading companies.



Home Country Strategy

This strategy aims to address different markets in a standardized way; a single business concept and product range is selected for all foreign markets. Under a home country oriented strategy, a company multiplies the wholesale or retail concept utilized for its domestic market. This standardized strategy not only creates economies of scale, spill-over effects, and image effects, but also enables companies to benefit from synergy effects by developing and producing standardized store brands or cross-border sales promotion measures (Zentes & Morschett, 2002).

Multinational Strategy

Under this type of strategy, product range and business concepts are optimized for each market. They are adjusted according to country-specific consumer needs and accommodate for differences in communication, pricing and distribution conditions, and legal frameworks. Such a differentiated approach seems to make sense for trading companies that take over local companies that are already well-established and positioned on respective foreign markets (Zentes & Morschett, 2002).

Differentiated product ranges enable companies to be closer to customers and services can be adjusted to local needs. This is why the trade sector primarily pursues quality- and service-oriented formats. A multinational strategy may influence the actual retail brand on local markets, e.g. by using national or regional store names, which convey the character of the company in that specific area (Zentes, Swoboda, & Schramm-Klein, 2010).

Global Strategy

Many trading companies pursue mixed strategies, trying to balance the cost advantages of standardization and the advantages of adjusting the marketing concept to specific national conditions. Many mixed strategies have been caused by historical developments or result from takeovers of stronger retail brands on foreign markets. However, they may also be caused by the need to adjust individual elements to local market conditions. This is often the case for companies operating in the groceries sector.

Case study: Growing with Kipa
The Kipa supermarket in the city of Bodrum, Turkey, was the first one Tesco opened after it acquired Kipa in 2003. Philip Clarke, International Operations Director at Tesco, said on the occasion of the opening that Tesco would stick to the name Kipa in order to expand further in Turkey. The name would be an established brand in the country and Tesco aimed to operate 35 supermarkets throughout Turkey in the next four years. "[…] We acquired Kipa in order to expand with this brand in Turkey and we will open new Kipa markets in Antalya and Canakkale this year. We have spent the last 18 months learning to better understand the Turkish market", said Clarke. Today, Tesco runs 170 Kipa markets in Turkey, having a staff of 9,600. Tesco is also active in another 10 national markets across Asia and Europe (Tesco, 2016).

Exercise

Which of the basic options (i.e. home country, multinational or global strategy) has Tesco pursued? Where would you put the company in the figure at the beginning of this section titled "Basic Options for Internationally Active Trading Companies?"

4.4 Service Sector

Due to the nature of service provision, the traditional marketing mix concept (drawn from the consumer goods industry) is often expanded for the marketing of services. Complementing the well known **4 Ps of marketing**, three additional instruments can be differentiated for the services marketing mix. These are human resource policy ("people" or "personnel"), process policy ("process"), and physical evidence, resulting in the "7 Ps" (Booms & Bitner, 1981; Magrath, 1986; Morschett, 2002). Each of these additional P's warrant further explanation.

4 Ps of marketing
= product, price, promotion, and placement

People/Personnel

As employees and customers interact via the purchase of services, company personnel are an essential element of the marketing mix. Human resource policy is for the most part about choosing and developing a company's staff. These tasks are closely connected to working sales markets, as in services provision staff often directly interact with customers. Emphasis is placed on factors such as expertise and friendliness, as staff provide sales incentives and hint at the services offered, which are themselves intangible (Berry & Parasuraman, 1992). In international marketing, choosing the right staff also raises the question of employee nationality. In general, a company could either employ people from its home country, from the respective national market, or from other countries. In this regard, a particular issue faced by companies providing services are potential differences in culture and interaction patterns between staff and customers (Berndt, Fantapié Altobelli, & Sander, 2005).

Process and Physical Evidence

The process of provision characterizes services to a greater extent than their output. This process is usually not that important for customers of products but for services, process is often decisive in any customer assessment of quality. Process management refers to the actions and/or activities associated with the provision of a service. Customers are integrated into the process of service provision. It is thus particularly important to make the customer's processes transparent (Doole & Lowe, 2004). In an international context, customers differ in their demands on such service provision processes (e.g. their willingness to integrate or interact, acceptance of service problems, etc.).

As services are immaterial, it is of utmost importance that the environment of the services, especially the physical environment, is designed with customer preferences in mind. This allows companies to convey a positive image of the service provider's potential using the visible elements of the services infrastructure (Homburg & Krohmer, 2009).

A service provider's capacity management is also important in this respect. Capacity management refers primarily to the provision of staff and resources (e.g. the number of employees in a call center). Focus is placed on providing an adequate number of employees for securing service provision at an optimal level of quality while considering cost effects. Some capacities may be used cross-nationally (e.g. through new information and communication media), depending on the type of services and the extent customers are integrated into the provision process.

Physical evidence refers to creating an environment the customers understand quickly and get an overview of the services offered in a comparatively easy manner. In this respect, creating the right atmosphere also plays an important role in service provision. It has to be consistent with the respective service and the specific national requirements (Homburg & Krohmer, 2009).

In communicating an image of the company through features such as company buildings, service environment, facilities, number of staff, etc., companies try to make their services more "tangible" to the customers. These features should serve as an indicator of the quality of services offered and ideally foster consumer trust. In this context, communication through the brand plays a very important role in promoting the service.

Case study: Services marketing
You have been running an amusement park abroad for five years. Your first years with the company were very successful but recently your sales have started to slump. You assign your Head of Marketing to personally interview a random sample of 100 customers. After the survey, he summarizes the statements of your customers as follows: "The employees in direct contact with the customers seem to handle the requests and problems of our visitors in a very bureaucratic way. They can sense immediately that everything has to be handled by the book. In this way, however, we often lose the personal touch that is so important to this leisure experience. Furthermore, the customers find our employees very unenthusiastic. Some of them even seem to give the impression that they are sad. Many customers have also said that our processes contain errors. One example: our daily program tells the visitors when our main attraction, a production of 'Genghis Khan', starts; however, the production is frequently delayed and the customers only learn about this from loudspeaker announcements when they have already been seated. Furthermore, they told me about constant problems with vouchers that were sent via e-mail that our staff at the register do not accept because the promotion period has expired. Some clients have also stated that it is difficult to reach our park using public transportation. Many take a cab from the central station and are then annoyed with the additional costs."

Exercise

List some possible starting points to addres some of these issues, using the additional elements of the services marketing mix (i.e. personnel policy, process policy, and physical evidence) to improve the quality of services in your amusement park (Homburg, 2011)

Possible starting points to improve the quality of services:

- People/personnel: At present, employees in direct contact with visitors cannot quickly and flexibly respond to the requests and problems reported by customers: they have to be granted adequate decision-making to be able to do this. The issue of poorly motivated employees can be addressed through the targeted promotion of service-oriented behavior by creating adequate incentive and target systems (e.g. rewards for customer satisfaction). Management can set an example of service-orientation by hiring personnel with a strong motivation for providing excellent services, thus creating a desirable corporate culture.
- Process: Errors in the process of services provision can be addressed by determining clear responsibilities to employees with regard to the quality of services, defining internal standards for behavior and quality, and developing a system for describing/documenting the process of providing services to customers. A lack of process

flexibility can be addressed by determining standards regarding deviations from processes in order for employees to immediately respond to (minor) changes in individual customer preferences.
- Physical evidence: The problem of physical location and lack of transportation options can be addressed by schemes such as offering regular bus transfers from the central station.

Summary

Industrial goods producers have organizations as their customers. Purchasing patterns within this industry involves multiple personnel and multiple organizations. Project-specific supplier communities commonly occur in this sector. Another characteristic of this sector is the fact that companies often target individual customers rather than an anonymous market. Businesses in this sector can be categorized into four types: product, investment, systems, and supply businesses. Industrial goods companies often pursue an area strategy when developing markets. A critical issue for marketing efforts in this sector is the relationship between producers and clients.

For consumer goods producers, international vertical marketing mainly focuses on developing the positions of power between the companies themselves and the trading companies that they are linked with. Distribution policies of producers are increasingly characterized by a tendency towards verticalization. Controlled distribution concepts contribute to securing the producer’s distribution channels and significantly strengthen the company brand.

The type of business, distribution policy, and product range policy are particularly important for retail and wholesale companies making marketing decisions. Companies need to address the question of whether or not to standardize or differentiate their business concept and product range. The home country oriented strategy, the multinational strategy, and the global strategy are the basic options for internationally active trading companies.

In services marketing, the 4 P’s are complemented by the three additional marketing instruments: people/personnel, process, and physical evidence.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 5

International Products

STUDY GOALS

On completion of this unit, you will have learned …

… which demands to make on a product’s core benefit and on its additional benefit.

… how to assess a product’s degree of innovation according to each country.

… how to introduce a new product.

… which demands to make on the design of a company’s product mix and when to implement product standardization.

… how international brand management should be done.

5. International Products

Introduction

Case Study

Since entering its first national markets outside of the US in 1967 (with restaurants in Puerto Rico and Canada), McDonald's has generally been pursuing a standardized product policy. It aims to offer the same basic, strictly defined product range all over the world, in keeping with the "sameness" slogan that Ray Kroc, the company's founder, established (Rohleder & Hirzel, 2006). Customers can have a Big Mac, a McChicken, fries, or soda in almost every McDonald's restaurant worldwide. The company's market entry in Japan showed that this product policy works. Before McDonald's entered the market in 1971, a cup of noodles or a miso soup had been what the Japanese understood to be fast food (Dana, 1999). Many experts thought that the first McDonald's restaurant in Japan would not last. Five years later, there were already 100 restaurants in the country. By the end of 2011, this number had increased to 3,302. McDonald's only expands its product range to include country-specific foods when a national market shows very specific customer preferences. In Arabic countries, for instance, McDonald's restaurants serve "halal" menus, meaning that Islamic rules are observed when preparing these dishes. No ham is served in Muslim countries, as Islam forbids the consumption of pork. Hinduism does not allow for eating beef, which is why McDonald's offers lamb instead. In Japan, the product range includes rice dishes, teriyaki burgers, and chicken burgers served with soy sauce and ginger. In Australia, the company offers the McOz, which is similar to the Big Mac but served with beetroot, a popular side dish eaten with hamburgers in this country. In the Philippines, McDonald's offers McSpaghetti noodles, and customers in Norway can have a McLak—a tuna filet sandwich (Schneider, 2007).

5.1 Product Policy

Product policy is a pivotal parameter in international marketing. It encompasses all decisions about what products to offer and how to offer them on the respective national markets. According to Kotler (1967), the benefits provided by products can be divided into three levels: core benefits, tangible benefits, and augmented benefits. We will now look at each of these levels.

Core benefit
Core benefit is a product's main benefit that makes it valuable to a consumer.

The main benefit of a product to a consumer is its **core benefit**. This core benefit can be very concrete, e.g. a car provides transport for a consumer, or abstract, e.g. lipstick makes a women feel more attractive. A product can have different core benefits for consumers but within specific segments of consumers, this core benefit is largely the same, e.g. for athletes, running shoes are important athletic equipment. Whether or not a product can be internationalized often depends on whether its core benefit can be transferred onto the targeted national markets. Even though the core benefit can be transferred in many cases (as most products satisfy specific consumer needs), country-specific differences may very well emerge. Take, for example, a bicycle—in developing and emerging nations a bicycle is primarily used for getting from one place to another while in industrial countries it is mostly used for recreational sporting purposes.

The **tangible benefits of a product** go beyond its core benefit and can generally be subdivided into two categories: aesthetic benefit and prestige benefit. Aesthetic benefit means the satisfaction of one's needs through a product's aesthetic features e.g. product design, color, quality, etc. Prestige benefit represents a product's social appeal. Prestige benefits are higher for products that are considered status symbols and social recognition arises from possession of them. Of all the types of product benefits, prestige benefit is most closely connected to a product's branding e.g. possessing a Western brand-name product is a status symbol especially in developing and emerging countries (Batra, Ramaswamy, Alden, Steenkamp, & Ramachander, 2000).

Product's tangible benefits
The extent of a product's tangible benefits depends both on the product and on its status in the respective countries.

A **product's augmented benefits** refers to the customer service included with the product. It can be classified into the following elements: advice, cost estimates, finance options, assembling, maintenance and repair, delivery, returns and warranties, and training. The extent of these augmented or extended benefits primarily depends on the product and the features of specific markets. Maintenance and repair services, for instance, are more important in countries where products are likely to wear quicker as a result of extreme climate conditions. For example, Audi offers its customers in Saudi Arabia a "roadside assistance" service, which is an on-site emergency assistance service for Audi owners for the lifetime of their vehicle. In an international context, there are numerous features of individual national markets that have to be considered when setting up customer service. These are often independent of a product's actual characteristics, for instance, statutory minimum requirements (e.g. return rights) or consumer expectations (e.g. bagging services at grocery stores in the US).

Product's augmented benefits
A product's augmented benefits refer to the associated features of a product, apart from its physical attritbutes.

Apart from product-related aspects, developing different national markets also affects the **product mix policy**, which refers to all decisions on innovation, modification, differentiation, and elimination of products within and across national markets. Product mix policy tends to become more complex the more national markets are developed, especially when products have to be adjusted to suit individual markets.

Product mix policy
Product mix policy refer to the number of product lines offered by a company.

Assessing a product's degree of innovation relative to a specific national market is a key element to consider when designing a company's product policy. There are four dimensions of innovation (Meffert, Burmann, & Becker, 2010):

- Subject dimension: Which consumers will find this product innovative and new? It is critical to distinguish between products that are new for consumers and products that are only new for the supplier.
- Intensity dimension: Just how innovative is the product? A product's degree of innovation can be determined based on the novelty of its technology and the degree of benefit to consumers when compared with products already on the market.

- Time dimension: When does innovation begin and when does it end? The international product life cycle concept illustrates that the period in which a product is considered innovative may vary from country to country.
- Spatial dimension: Where is the product new? A product already sold in one domestic market may be considered innovative elsewhere.

A significant advantage of international companies (compared to companies supplying to a domestic market) is that it is less expensive for them to generate ideas for new products. Generating ideas is the first step companies take when planning new products. An internationally active company, as compared with a company operating only on a domestic scale, has greater access to information sources and more channels for generating ideas. While staff belonging to a centralized management group in Germany may not be able to put themselves in the position of Zimbabwe's middle class to fully understand their needs, local employees working within the country may be able to contribute helpful and realistic ideas. When collating new ideas in the early phase of new product planning, local meanings should be carefully considered. This will improve the actual evaluation of ideas and enable the integration of concepts successful in one national market into international product planning (e.g. a product idea tailored to meet the needs of consumers in Zimbabwe after careful consideration of local meaning can then be transferred to other national markets). A central interface coordinating international exchange and the cooperation of national offices is thus needed within the company to optimize such transfer of knowledge and ideas.

The process of developing a product tailored to the needs of a developing or emerging country and then offering it in industrialized countries is called reverse innovation. Take for instance the multinational cooperation General Electric, which developed a portable electrocardiogram (ECG) costing 1,000 USD for the Indian market and a portable ultrasonic device costing 15,000 USD for China. Today, the company offers both these products in the USA (Immelt, Govindarajan, & Trimble, 2009; Meffert, Burmann, & Becker, 2010).

Case study: Launching a new product
Autobau AG is a global automotive manufacturer that decided, in the light of high gasoline prices, to produce a car that uses solar power instead of fossil fuels. Thanks to advances in technology, tiny photovoltaic cells can now generate comparatively large amounts of energy using even diffused daylight. This solar-powered car performs more or less the same as a gasoline-powered one. The “Vega” model, utilizing this technology, is soon to be mass-produced (Bruhn, 2009).

Exercise

Describe the measures Autobau AG should consider in order to establish the Vega as an innovative product on the international market. What steps have to be taken when introducing the car to the customers? Which groups is this model designed to target? Why would it be helpful for Autobau AG to approach innovators and early adopters in a different way to the other consumers?

To establish the Vega as an innovative product on the international market, different departments within the company will have to coordinate their actions. Ideally, those responsible for marketing the Vega will work closely with the research and design (R&D) and production departments, coordinating the different marketing tasks and timelines. Network analysis is ideally used to define the related projects, determining all activities and schedules necessary to move the new product towards market maturity, e.g. the legal department must secure trademark rights internationally for the brand name “Vega”; the marketing department has to reserve “advertising space” as early as possible; sales promotion for the Vega should be addressed early, for example, by offering ownership or test drives in a lottery, or through assigning print orders for multilingual brochures. At the same time as all these external marketing measures are being planned, it is important to attend to internal marketing within the company. Attention needs to be paid to those Autobau AG employees who may be resistant to this type of innovation. Such resistance has to be anticipated and addressed as early as possible by measures such as involving these employees in the innovation process.

Strategies to promote the acceptance of the Vega by consumers on the international market also have to be developed. Awareness of the consumer adoption process for new products can often play an important role in successful marketing approaches. The five typical phases for most products are:

- Product awareness: The target consumers notice that Vega is available on the market but do not have any particular concrete information about it.
- Product interest: The target consumers are interested in Vega and are looking for more specific information such as price, motor performance, etc.
- Product evaluation: The target consumers examine, compare, and evaluate the Vega and decide whether they are for or against the new car model.
- Product trial: The target consumers test the Vega, visiting a showroom or taking it for a test drive.
- Product adoption: The target consumers decide to buy the Vega.

Information is required to discover and analyze the determining factors for consumers to adopt the Vega as their preferred vehicle. It helps, for instance, to collect information on the target group’s demographic, socio-economic, and psychological attributes. In the case of the Vega, the target group is mainly younger people, aged between 20–40, who are environmentally aware and embrace eco-friendly technology, have medium to high incomes and are willing to spend more money on such products, and generally see themselves as progressive.

The “diffusion of innovation” process refers to the pattern of product adoption over time. It is advisable to identify and address the needs of so-called “innovators” and “early adopters” separately to the majority of consumers, as specific attributes of these groups differie from the majority of other consumers. It makes sense to specifically approach innovators and early adopters as they can accelerate the diffusion of innovation process. These two consumer groups are the first to become interested in products and have distinct information seeking patterns. In this case, innovators and early adopters would likely be those who are very interested in technological and/or ecological issues and read professional journals. These people are especially important for the

Vega product, as they are often considered to be experts and opinion leaders. They support the process of product adoption through providing good word-of-mouth. As such, a two-step process (addressing the innovators and early adopters followed by the majority) should be considered a promising strategy for introducing Vega on the market (Meffert, Burmann, & Becker, 2010).

5.2 Product Mix and Degree of Standardization

International product mix policy is about determining the respective product range and deciding upon the number and type of products to be offered in particular national markets. A portfolio analysis will lead to the development of generic strategies, which are, in turn, subject to a more detailed profitability analysis. The following are different international product mix policy strategies:

- transferring the existing product range onto the foreign markets
- reducing the product range to offer a limited range of products (e.g. only "stars" which are those products that have a high market share in markets that are expanding), or reducing the width or the depth of the product range compared to the domestic market
- expanding the product range by adding country-specific products to the existing product range or offering product variants that address country-specific differences

Transferring the existing product mix in its entirety from one domestic market onto target foreign markets will result in a standardized product policy strategy across markets. Such an approach can only be chosen if the domestic market and the targeted foreign markets are very similar, especially in terms of legal norms and consumer preferences, needs, and buying behavior. This approach is possible for companies that:

- are only active in a few, comparatively homogeneous national markets,
- offer products that are not strongly connected to cultural features, and
- whose product mix is relatively limited.

In many cases, a company's international product range is smaller than its domestic one. This is especially true for first market entries and for companies with an orientation towards cultural specificity in their products. Often it is just a small range of successful products that act as the stimulus for initiating international business activities in the first place. Some companies even manage to offer only star products in their international program, meaning that their international product mix consists of only products with high competitive advantages in attractive markets (Berndt, Fantapiè Altobelli, & Sander, 2005). It is obvious that this marketing strategy offers the highest level of standardization. However, many companies will carry out numerous local product adaptations. Whether and to what extent products can be standardized depends on both the legal and technical norms for the market and, of course, consumers' needs. From a technical point of view, a product's core benefit is seldom adapted (e.g. a Ford

Focus is used for transportation both in the USA and Europe irrespective of whether it contains identical components or not). The core benefit is thus used as the basis for positioning a product within a market and for developing the other levels of benefit.

Products may have to be adapted due to legal regulations e.g. when the alcohol content of a drink or the composition of a medicine is subject to country-specific rules. Safety regulations and standards differ from country to country as well, e.g. fitting of vehicles with seat belts or airbags (Kapferer, 2005). In order to optimize the tangible benefit of the product for local consumers, the respective product should be optimized to cater for the cultural and socio-demographic characteristics of individual national markets. For example, disregarding cultural matters, such as the kosher preparation of food or limited types of meat permitted by specific religions, may in the worst case, destroy overall consumer benefit. Similarly, a vehicle in South America is driven in warm, humid conditions and thus requires a different type of cooling system. High horsepower sportcars perform well on European motorways but less so on the dirt roads of central India. Failure to account for these market characteristics will be extremely detrimental to achieving market penetration.

The prestige benefits that arise from possessing or using a product are mainly based on the reactions of others within a consumer's social environment and the consumer's own culturally determined identity. Differences between countries in cultural characteristics such as power distance and individualism particularly influence prestige benefits. This results in different foci when it comes to designing products. The prestige benefit of a car can be increased, for instance, by adding chrome detailing or placing logos in prominent locations in cultures characterized by great power distance where products serve as status symbols (e.g. Russia, India, and China). Contrast this with cultures that have a strong emphasis on personal safety; prestige benefits can be increased by equipping cars with additional safety systems such as airbags or distinct components to improve the protection of children (Stolle, 2010).

Depending on the cultural characteristics of consumers, the physical features of a product can be either standardized, modified, or differentiated to optimize the product benefits. Please read the following case studies and identify which type of product standardization has been used and suggest why this type of international product mix policy has been adopted.

Case studies: Product standardization

1. Producers of electrical devices face the challenge that many national power networks have different voltages and/or access specifications. Users of electrical devices are thus asked to adjust their devices to match the respective characteristics of the national power network (e.g. 110 V or 220 V) using a designated switch. Some producers of electrical devices are incorporating adaptive technology into the product design that enables users to connect their device to a power outlet irrespective of the national grid specifications (Backhaus & Voeth, 2010).
2. Consumer goods companies Unilever and Procter & Gamble offer different products internationally. Both firms sell, for instance, different types of washing agents on the respective national markets. This results, in part, from cultural differences in behav-

ior: French consumers use hot water for washing their clothes whereas Australians use cold water. The ingredients of the washing agents sold in these two countries thus differ to match consumer preferences (Doole & Lowe, 2004).
3. In the automotive industry, a basic product is adapted to specific national markets through changes in its assembly. For example, the height of the bumper varies in accordance with different national norms and the position of the driver seat is adjusted to accommodate for left-hand or right-hand driving.
4. Beiersdorf offers self-tanning products under the brand name “Nivea Sun Touch” on European markets and whitening products such as Nivea Body UV Whitening in Asian countries. The Asian ideal of beauty includes a light, almost white skin, contrary to what Europeans consider to be beautiful; in Asia, tanned skin reflects poverty and difficult, manual work in an outdoors environment (Ergenzinger & Krulis-Randa, 2007).
5. PC producers sell identical computer monitors, USB flash drives, hard disks, mice, webcams, etc., worldwide. There is no adjustment required for these products to suit different national markets.

The first case study illustrates a type of in-built flexibility. In this case, an advanced level of standardization can be assumed. The product can be used in different technological environments, as the design allows for necessary adjustments to be made; a standardization model can thus be distributed without modification of the actual product. The adjustment is transferred to the consumer, who then has to execute the actual adaptation process.

The second and fourth case studies refer to differentiated products: the product mix policies of these companies are characterized by a high degree of country-specific adaptation. For such products, there are no standardization efforts at all, neither for the actual product nor for associated features.

A modular design approach can be used when consumers in different countries more or less have the same requirements for a given product, as seen in the third case study. Specific product components are altered for each country only when technical or legal requirements make this necessary. In such cases, a core product already offered on one national market can be adjusted to another specific national environment by separately assembling specific components.

Standardized products, as seen in the fifth case study, are identical products offered by a company all over the world. The company does so because it either has no possibility or no incentive to differentiate the products. Such unmodified marketing has been observed in the consumer goods markets for products such as watches and cameras since the 1980s.

5.3 Brand Policy

International brand policy or brand management is a critical component of international product policy. In an international context, this specific area of policy refers to brand range, brand positioning, and brand architecture. International brand policy focuses on the long-term, consistent, logical, holistic, and coordinated configuration of all branding elements in an international context (Linxweiler, 2004).

Decisions regarding a brand's range refer to the extent of the geographic region that the brand is designed for and how it is used in this region. The range of a brand can either extend to parts of a country (regional brand), an entire country (national brand), or several national markets (international brand). Brands addressing the consumers in the worldwide market or large parts of it are often called global brands (Schuiling & Kapferer, 2004).

Brand positioning refers to a brand's position on a respective market. The most important aspect of brand positioning is the consumers' actual perception of the brand. Factual/functional features (e.g., durability and functionality) or emotional features (exclusiveness, fun, etc.) can be used as starting points for positioning a specific brand. It can involve both positioning new brands and also changing the positioning of existing brands (repositioning).

However, the positioning of a product relates not only to consumer perceptions but also the position of competing products. There are two basic types of positioning (Keller, 2008; Esch, 2011):

- Point of difference positioning (differentiation strategy) focuses on what distinguishes the brand from its competitors and what makes it special.
- Point of parity positioning (similarity strategy) focuses what is the same or similar relative to competing brands, benefitting from the spillover of consumers from strong brands.

It is important to not only consider these brand positioning alternatives for the respective national market, but also to take into account the relationships and interdependencies between different national markets and alternative products. When positioning a brand internationally, a company can either aim to position it differently on each national market or position it similarly (in a standardized way) in the different countries.

Brand architecture refers to the different roles of products associated with a company's brand and the relationship between these products. Internationally active companies have to make decisions about the structure of their brand portfolio or brand architecture. There are four basic "traditional" brand strategies (Meffert & Bolz, 1998; Douglas, Craig, & Nijssen, 2001; Doole & Lowe, 2004; Meffert, Burmann, & Kirchgeorg, 2008):

- Single-brand strategy: A distinct brand is created for each product. These brands each target specific market segments and the company name plays a less significant role (e.g. the confectionary company Ferrero brands Ferrero Rocher, Kinder Surprise, Nutella, and Raffaello).
- Multi-brand strategy (also called parallel branding or multi-branding): One product sector has several brands operating within them and all of them are on the market simultaneously. Each brand addresses a specific market segment (e.g. in the clothes washing detergent market, Persil, Spee, and Terra Activ are all brands supplied by Henkel, and Dash and Ariel are brands supplied by Procter & Gamble).
- Umbrella brand strategy (also called corporate branding or umbrella branding): All company products are bundled under one brand (e.g. BMW vehicles, Microsoft products). An established umbrella brand is characterized by brand affinity and in this way supports the products offered under it.
- Family brand strategy (also called product line branding or range branding): Several products are offered under a consistent brand (e.g., Nivea and Dove body care products). This strategy is a hybrid of the single-brand and the umbrella brand strategy.

The following table illustrates the advantages and disadvantages of these strategy options in an international context (Zentes, et al., 2010).

Advantages and Disadvantages of Traditional Brand Strategies

	Advantages	Disadvantages
Single-brand strategy	• specific positioning • potential for a global/regional brand • few negative spillover effects on other brands • few coordination needs between the brands • market share and economies of scale effects	• one product bears costs for the brand • greater need for coordination between countries • low flexibility regarding country-specific product life cycles • amortization problems when product life cycles are short

	Advantages	Disadvantages
Multi-brand strategy	• high market exploitation • possible to keep consumers who may consider changing brands • covering a lot of shelf space • weak negative spillover effects • possibilities to differentiate across countries • protecting other products through introducing a “**fighter brand**”	• risk of oversegmentation • cannibalization • low market share and economies of scale effects
Umbrella brand strategy	• new target groups are addressed by market expansion • allows for country-specific differentiation • risk of failure is decreased • strong acceptance in trade sector • products share costs for the brand	• more difficult to achieve unambiguous brand recognition • negative spillover effects between brands/ national markets • many brand-specific coordination needs • risk of substitutions • risk of “inflating” the umbrella brand product range across countries
Family brand strategy	• high brand exploitation • risk of failure goes down • strong acceptance in trade sector • transferring brand affinity • similar advantages of umbrella brand strategy	• risk of negative spillover effects when using different marketing mix strategies • many coordination needs • similar disadvantages of umbrella brand strategy

In many cases, internationally active companies do not use these simple brand architecture types, choosing instead much more complex structures. Examples of these structures include brand alliances or complex brand architectures, which combine several brands in different hierarchical levels (e.g. company brand, product brand). British-

Dutch company Unilever, for instance, offers the "Heartbrand" brand of frozen desserts in more than 40 countries, maintaining a local brand name in each of the countries it operates in. These include "Langnese" in Germany, "Streets" in Australia, "Inmarko" in Russia, etc. The "Heartbrand" brand operates on the hierarchical level right below the company brand, which in turn carries subordinate brands such as "Magnum" and "Cornetto." These brands are arranged in an ambiguous hierarchy (Esch, Bräutigam, Möll, & Nentwich, 2004; Esch & Bräutigam, 2005).

Brand name
A brand name links a product with its producer.

Trademark
A trademark is a sign or design associated with a product, service, or brand name.

Branding, in general, includes all measures for making a product stand out from the crowd and enabling the benefits of a product to be atrributed to a specific brand (Esch, Bräutigam, Möll, & Nentwich, 2004). Determining the brand name and the trademark are two of the most important elements of branding. The **brand name** is the linguistic marker of a brand, e.g., Schweppes or Toyota. Naming is especially complex in international branding, as cultural and language differences can result in unintended variations in understanding. Phonetic, semantic, and morphological differences in languages means that the brand name can be interpreted very differently across linguistic groups. The **trademark** is strongly linked to the brand name. Trademark refers to the typographic design (logo) and/or visual design of the brand name e.g. the cursive script and red colour of Coca-Cola. Again, national and cultural differences have to be taken into account when designing trademarks as a result of the different meanings of colors and symbols.

International branding is the foundation for a brand's image and thus for the brand's assertiveness in the respective target markets. The following aspects are essential considerations in international branding (Zentes, Swoboda, & Schramm-Klein, 2010):

1. Branding should contribute to the desired positioning of products both across countries and on the individual national markets.
2. The brand name and the trade mark should employ good design principles, i.e. they should be simple and unique. This should make it easier to memorize the trademark and push brand recognition.
3. The brand name and the trademark should contribute to a differentiation from competitors. Furthermore, they should be designed in such a way as to avoid the confusion of this brand with competing brands.
4. The brand name should be easy to pronounce in all languages.
5. The brand name and the trademark have to be interpreted correctly, understood, and accepted in all relevant languages and cultures. Furthermore, they must comply with international trademarking requirements.

Exercise

1. When choosing the name for a car, the automotive industry has to be careful that it does not elicit unhelpful associations in the different countries. Why was the Porsche vehicle “Cayenne” the wrong choice for the French market? Why were the Fiat vehicles “Regata” for Sweden and “Uno” for Finland as well as the Mitsubishi vehicle “Pajero” for Spain equally unsuitable?
2. Other industries also experience such difficulties when choosing product names. A Chinese brand manufacturer tried to market a lipstick under the brand name ‘Fang Fang’ in Europe. In Chinese, this word is associated with beauty and a pleasant fragrance. Why was this name inappropriate for the British market?
3. Trying to tap the German market with the Irish whiskey ‘Irish Mist’ sparked unfavorable associations among the consumers, even though the word was very popular at the English company. Why?

In France, the name Porsche “Cayenne” did not elicit the association with fiery cayenne pepper but with the Cayenne labor camp in French Guiana. In Sweden, Fiat “Regata” translates into grumbler; in Finland, Fiat “Uno” means fool. When opting for Mitsubishi “Pajero,” the company missed that “Pajero” in Spanish means softie. Due to this translation problem, the car was then sold under the label “Montero.”

In the case of the “Fang Fang” lipstick marketed in Europe, the Chinese word “Fang” translates into poison or carnassial (i.e. long, sharp tooth of a carnivore) and the customers did not buy this product. The company wanting to sell the whiskey “Irish Mist” also did not think about the German translation (dung or manure). Another example of difficulties associated with this word as a brand name was when Clairol brought a curling iron named “Mist Stick” onto the German market.

Summary

Product policy is one of the most critical tasks of international marketing. The key value derived from a product is its core benefit. The tangible benefits goes beyond the core benefit and can be subdivided into aesthetic benefits and prestige benefits. A product’s augmented benefits first and foremost refer to the level of customer service attached to a product. Assessing a product’s degree of innovation by country is another essential element to consider when designing a company’s product policy. There are four main dimensions of innovation: subject, intensity, time, and space. A significant advantage of international companies is that it is less expensive for them to generate ideas for new products.

International product mix policy is about determining the respective product range. There are several options for establishing an international product mix policy: chiefly, transferring, reducing, or expanding the existing product range. Transferring the existing product mix in its entirety from one domestic market onto target foreign markets will result in a standardized product policy strategy across markets. In many cases, a company's international product range will be smaller than its domestic one. Products may have to be adapted due to legal regulations and cultural and sociodemographic characteristics of the target market.

International brand policy is a critical component of international product policy. Decisions regarding a brand's range refer to the question of the geographical area that the brand is designed for and how it is used in this region. Brand positioning refers to a brand's position on a relevant market. There are two basic types of positioning: point of difference positioning and point of parity positioning. Brand architecture refers to the roles of products associated with a company's brand and the relationship between these products. There are four basic "traditional" brand strategies: single-brand, multi-brand, umbrella brand, and family brand. In many cases, internationally active companies do not primarily use these brand architecture types, choosing instead much more complex structures. Branding includes all measures for making a product stand out from the crowd and enabling the benefits of a product to be attributed to a specific brand.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 6

International Pricing and Terms of Sales Policies

STUDY GOALS

On completion of this unit, you will have learned …

… the different approaches for pricing.

… the types of price discrimination utilized by companies.

… which demand- and supply-related factors affect price discrimination.

… the different ways companies design their discount policy.

6. International Pricing and Terms of Sales Policies

Introduction

International Price Difference

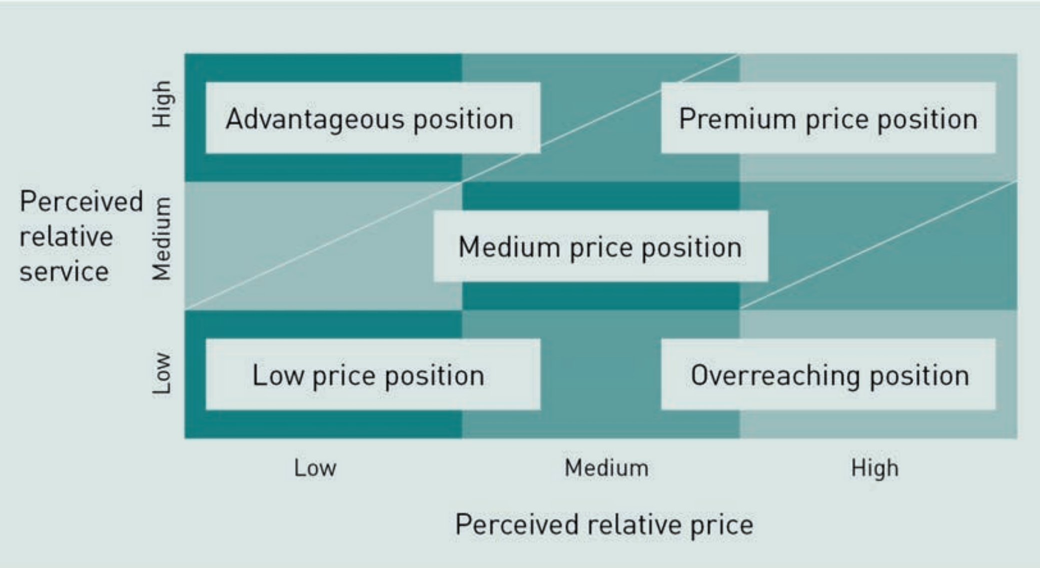
Simon and Fassnacht (2009) examined international price discrimination (also called price differentiation) by analyzing different industries. They provided some excellent examples of how prices can differ across markets, reporting, for instance, that prices for rental cars in European cities vary between 75.4 % and 137.9 % from the average: while a compact car costs €247 per week in Berlin and €292 in Paris, it costs nearly double in Warsaw at €452 per week. Another example reported by Simon/Fassnacht relates to the tobacco industry. The price for a pack of Marlboro cigarettes differs drastically throughout Europe: the price in Norway (€8.38) is 63 % higher than the average price, while the price in Poland (€1.78) is 65.4 % lower than the average. The comparison of prices for a bar of Ritter Sport chocolate showed that major international price differences also exist in the confectionery industry: while a 100g bar costs €0.75 in Berlin, it amounts to €1.19 in Madrid and €1.58 in Sydney.

International price discrimination or differentiation occurs not only in the consumer goods sector, but also in the industrial goods sector, where international procurement is possible as a result of improved communication, greater opportunities to gather specific information, and comparatively low transportation costs. Major costs savings can be realized through global sourcing, as in many cases the least expensive offer can either be accepted or used to apply pressure in the course of price negotiations. Price differences between Europe and Asia in the business-to-business (B2B) sector can amount to as much as 300 % when comparing the price of a product from the most expensive European country to that of the least expensive Asian country (Mühlmeyer & Belz, 2000).

6.1 Pricing on International Markets

Determining the price of products for international markets is always a major decision, especially for companies introducing new products. However, questions of pricing also have to be resolved when products that are already established in one national market are being introduced to a new one. A company’s basic international price strategy is the starting point for making pricing decisions. This strategy is created by defining the general price bracket for respective national markets and determining the difference between prices for a company’s different product lines. How to design the price structure within a product line, meaning the prices for the individual products or product variants, also has to be determined as part of this strategy formation (Homburg & Krohmer, 2009). The target price positioning on the respective national markets is a critical area of decision-making, as it determines basic specifications for fixing individual prices. Price-performance (also called cost-performance or cost-benefit) considerations often take priority in this process of determining price as well as product-price positioning, which considers prices in relation to service. Both the price and the service components are then analyzed in relation to competition.

Product Price Positioning



The various positions in this figure are known as consistent positions, as they are fixed by relative price and relative service. Companies will often choose one of these positions and vary price and service to maintain their consistent position. A premium price position is part of a consumer preference strategy, which focuses on consumers paying more for high-quality services. Low price positions, by contrast, realize lower prices but need relatively lower levels of service.

It is not only important to position a product in relation to its competitors, but also in relation to the overall product range offered by a company. **Economies of scale** need to be considered as they often occur in an international context. As such, you have to keep in mind that individual products cannot be analyzed individually without considering the company's entire product range. If there are economies of scale or spillover effects in a product range, determining the price for a product may also affect sales of other products of the company (either positively or negatively). Determining prices for the product range is also referred to as developing a price lining (also known as product line) policy (Diller, 2008). Price lining policy is when products within a product line are set at different price points, e.g. a specific vehicle is available as three models: a value model, a standard model, and a limited edition model.

Economies of scale
Economies of scale are the cost advantages that arise from increasing the size, output, and/or scale of production, with cost per unit of output decreasing as fixed costs are spread over more units of output.

In an international context, the price structure for the targeted national markets has to be determined according to the **desired positioning** of the product or product range. A company may choose to either target a consistent position or develop a strategy that takes into account economies of scale or feedback effects. The latter is especially important for products in transparent markets where prices are visible to consumers who may adapt their behavior based on price comparisons. Mixed calculation strat-

Desired positioning
Determining the price structure depends on the desired positioning on the national market.

egies are of major importance for companies and can be especially complex in international price management. Strategic calculations may be employed, as in the case where companies deliberately accept insufficient profits or even losses for specific products in order to promote the sales of other company products—losses for one product are then compensated with profits generated by the other products. This enables a company to “finance” their entry into strategically important markets or strengthen their presence on such markets, thereby improving the company’s position in international competition.

International pricing policy is principally based on the same approach for pricing in a national context. However, international pricing is characterized by additional costs and risks that are only emerge when doing business on an international scale (Becker, 2001; Diller, 2008).

- Overcoming barriers to international trade entails additional procurement and distribution costs, e.g. export licenses, country-specific quality standards, accompanying export documents, etc.
- Processing and fulfilling orders as part of foreign business usually entails higher costs, e.g. skilled employees with experience in foreign transactions usually receive higher financial compensation.
- Specific logistic or contractual requirements (such as transportation, packaging, etc.) as well as specific liability or warranty claims may also cause additional costs.
- Further additional costs can result from necessary product modifications.
- Specific foreign trade risks and protecting the company against them (e.g. transport or warehouse insurance) may entail additional costs.
- Additional costs may be incurred because of changes in exchange rates or necessary hedging activities. High inflation rates are also a common risk in an international context.

At the operational level, international pricing approaches can be subdivided into cost-based, demand-based, and competition-based pricing approaches:

- Under a cost-based pricing approach, prices are based on cost accounting information. This means that prices are based on the cost of production plus a fixed amount or percentage profit. Such calculation methods are mainly used for determining lower price limits (Zentes, 2002). They are easy to apply and thus primarily used for export business, where companies do not need any differentiated information on the environment in the individual countries and can generally do without extensive market research activities. This approach is therefore quite inexpensive.
- Demand-based pricing means determining prices based on observing customers. In most cases, the primary question is at what price will buyers in the respective national markets purchase the product. The most important models informing demand-based pricing are Jacob’s (1971) price threshold approach, the price corridor approach of Simon and Fassnacht (2009), and Sander’s (1997) microeconomic approach.
- Competition-based pricing occurs when prices are based for the most part on the pricing strategies of competitors. Prices are primarily determined against the backdrop of a country’s competitive situation or by assessing cross-country competition.

A company can either aim to deliberately adjust their prices according to the behavior of competitors (e.g. as part of a defensive pricing strategy) or deliberately opt for an alternative strategy to its competitors (e.g., as part of an aggressive market development strategy that includes significantly undercutting competitive prices).

Case study: The US luxury car market
In the US, BMW and Mercedes developed into status symbols characteristic of the "extravagant" 1980s; BMWs were even termed "yuppie cars" by some. Eventually, both automotive manufacturers became aware that they had neglected a basic principle of pricing for too long, that is, wherever the price range is great, competitors will inevitably join the market. And this is exactly what happened. From 1985, Japanese luxury cars started to enter the market, supplying models that cost about 10,000 to 20,000 US dollars less than the BMW and Mercedes models. Keep in mind that a 190 Mercedes cost over $30,000 US at that time. However, this only lasted for the period of time that the economy was booming.

Mercedes and BMW sold the best quality cars for the highest prices in the US market. Back then, quality of cars in the US was unbalanced with the average sedan costing about $15,000. In May of 1992, BMW introduced its 318i sports sedan for $22,900, compared to the Mercedes 190 E2.3 costing $28,950. In the next price class, customers had to pay $38,600 for a BMW 525i, whereas a Mercedes 300 TE cost $53,900. Porsche sold its new 968 sports coupé for $39,850, replacing the 944, which cost $3,500 less. A 10 % tax had to be added to all these prices, as this is added when the labeled price exceeds $30,000. In 1991, buyers of these German manufactured vehicles paid about 85 % of the $220 million the US government took in that year.

Exercise

Considering the information presented here, how would you describe the market for luxury cars? What strategy did the German automotive manufacturers pursue on this market and what pricing mechanism did they build their strategy on? What do you think Porsche was trying to do by offering the 968 at a considerably lower price than the preceding model? In what way have the changes in exchange rate influenced the US market?

6.2 Types of Price Discrimination

Pricing policy is another area in which companies expanding into international markets have to decide whether to opt for standardization or differentiation; that is, whether and to what extent should prices be differentiated or standardized in different international markets. Price discrimination is a strategy that acknowledges differences in national markets and adjusts the prices accordingly in order to benefit from the fact that customers on the different markets are willing to pay different prices (Meffert & Bolz, 1998). This approach is based on determining the approximate national demand for each product, which is done with the help of expert evaluations, **customer surveys using conjoint analysis**, and analyses of historical market data. This type of price determination, however, can only be implemented when there are no strong interdependencies between established national markets and consumer-related factors.

Customer surveys using conjoint analysis
Customer surveys using conjoint analysis measure the value that the market places on a product and predicts the value of any trade-off between features.

However, price discrimination also has its limits. In industrial goods markets in particular, high market transparency means that companies are rarely able to charge different prices for identical products/services on different national markets. The ever increasing use of the Internet has also resulted in a greater price transparency on the consumer goods markets, so that companies now have to be careful when using a differentiated pricing strategy.

A number of factors influence the extent of price discrimination and standardization. These include supplier-, competition- and consumer-related factors as well as environmental conditions, as outlined in the following section (Backhaus & Voeth, 2010).

Consumer-Related Factors

- Image: Price discrimination can affect the image of the product. It may irritate consumers to discover that a company is offering the same service on different national markets at significantly different prices. If a company does not either succeed in either hiding these prices differences or reasonably explaining them to consumers, customer perception of the brand may change to the detriment of the company (Channon & Jalland, 1979).
- Levels of buying power in targeted countries: Standardizing prices may turn out to be a problem for companies intending to address similar customer segments in different international markets that actually have large variations in their degrees of buying power. Country-specific levels of buying power have to be considered when determining the level of price discrimination.
- Similarity of buyers' preferences: Analyzing only buyers' willingness to pay for a product without considering their actual buying power is problematic, as is analyzing the buyers' buying power without considering their willingness to pay. Considering both these factors in association will result in different recommendations for price discrimination.
- Arbitrage tendency: A consumers' tendency toward arbitrage is the subjective tendency of the buyers to procure a product from an alternate source (from a so-called "gray market") instead of through the producer's regular, national distribution channels if this offers a certain arbitrage profit (arbitrage profit = price difference – transaction costs). The arbitrage tendency of consumers does not only depend on individual price sensitivity, but whether there is a need for product clarification and whether the product quality can be assured. Arbitrage tendency can be identified by analyzing historical market data or the results of (direct or indirect) expert and customer surveys.

Supplier-Related Factors

- Company costs: The main argument for price discrimination abroad is that higher prices have to be charged in international market because transport costs account for a comparatively high share of the overall costs. Distribution channels are available to varying extents and there may be major differences in local trade margins leading to price discrimination across national markets. However, if the company establishes a local production site, it does not have any reason to pursue a policy of country-specific pricing.

Competition-Related Factors

- Competitive situation: The degree of competition present in various national markets also influences the extent of economically reasonable price discrimination. As a rule of thumb, the more different the competitive situations on the individual national markets, the stronger the tendency towards price discrimination.
- Existence of **re-imports:** The larger the price differences and the greater the estimated tendency for consumer arbitrage, the more attractive it is for a company to act as a re-importer. The existence of re-importers is affected by re-import or arbitrage costs as well as the actual extent of prices discrimination and the consumer arbitrage tendency.

Re-imports
Re-imports are imported goods that were actually initially exported from a country.

Environmental Factors

- Inflation and currency effects: The influence of these parameters on pricing should not be underestimated. On one hand, the profit generated by a company operating in foreign markets may depend on the exchange rates, with one currency fairing favourably in comparison with another. On the other hand, currency hedging can present a problem for transactions in foreign currencies when there is a time lag between an agreement and the actual date of payment. Fluctuating exchange rates will also directly affect the price differences arbitragers seek to take advantage of and thus affect their decisions to purchase products for a specific price.
- Tax differences: The tax systems and calculation rules may differ significantly between individual countries. Different tax rates or additional taxes, e.g. specific luxury taxes, force companies to establish differentiated prices. However, this will enable arbitragers to take advantage of net price differences. When buying a product in a country with high additional taxes, purchasers are refunded when the product is designated for export meaning the arbitrager usually only has to pay the net price in the country of supply. Local (sales) taxes have to be paid when importing the product into the target country but generally they are lower.
- Sales channel differences: The eventual price for a product paid by the consumer is usually influenced not only by the producer, but also by the sales channels. As only few producers have the power to affect local trade margins within existing sales channels, they have to consider them for their own pricing policy.

Case study: Price discrimination on the mineral oil market

You are working for a large mineral oil group where you are responsible for the gasoline prices in Germany and Switzerland. The market research division has determined the following demand functions for the two countries (sales volume x in million liters per day; price p in €):

$$\text{Germany (G): } x_G\left(p_G\right) = 3.6 - 1.8\ p_G$$

$$\text{Switzerland (S): } x_S\left(p_S\right) = 0.6 - 0.2\ p_S$$

The gasoline for both countries is produced in the same refinery. The following costs are incurred:

- fixed costs of €245,000
- variable costs of €0.40/l

Exercise

1. Determine a consistent gasoline price for the two countries. Identify the profit-optimized price, the sales volumes for both countries, and the overall profit. Round your results to two decimals.
2. Consider now differentiating the prices for gasoline in the two countries. One issue to consider is whether you can charge a higher gasoline price in Switzerland than in Germany. However, you must keep in the following in mind: if the price in Switzerland is higher than in Germany, some Swiss customers will drive across the border to Germany to get gasoline but German customers will obviously not go to Switzerland for gasoline. When considering customers travelling from Switzerland to Germany, you are aware of the following connection:
   - A price difference of 10 cents makes 2:70 of the sales you have generated in Switzerland with the consistent price migrate to Germany.
   - This share increases to 4:70 of the sales when the price difference amounts to 20 cents. Assume this correlation to be linear.

What is your overall profit when you fix a higher price for gasoline in Switzerland than in Germany? Which price do you determine and how many liters of gasoline will you sell per country per day? Does this strategy make sense when compared to the consistent price strategy? Round your results to two decimals (Homburg, 2011).

The profit-optimized consistent price is calculated by using the common demand function:

$$x(p) = 4.20 - 2p$$

Using the Cournot price (for the profit-optimized price in a monopoly, with linear demand function $x = a - b \cdot p$ and variable costs k.

- $p = 1/2\ (a + k) = 1/2\ (4.2/2 + 0.4) = 0.5 \cdot 2.5 = 1.25$
- $x_D = 1{,}350{,}000$ liters
- $x_S = 350{,}000$ liters
- $(€1.25/l – €0.40/l) \cdot 1{,}700{,}000\ l – €245{,}000 = €1{,}200{,}000$

Calculating the overall profit with price discrimination:

Demand functions considering migration movement:

$$x_D\ (p_D) = 3.6 - 1.8p_D + (p_S - p_D) \cdot 10 \cdot \frac{2}{70} \cdot 0.35 = 3.6 - 1.9p_D + 0.1p_S$$

$$x_S\ (p_S) = 0.6 - 0.2p_S - (p_S - p_D) \cdot 10 \cdot \frac{2}{70} \cdot 0.35 = 0.6 - 0.3p_S + 0.1p_D$$

The migration movement is calculated with the term

$$(p_S - p_D) \cdot 10 \cdot \frac{2}{70} \cdot 0.35$$

0.35 represents the sales volume of 350,000 liters, which is realized in Switzerland when a consistent price was determined. $10 \cdot 2/70$ stands for 2:70 of the sales volume, based on a price difference of €1.

- $p_D{*} = 1/2\ (a/b + k) = 1/2\ ((3.6 + 0.1\ p_S)/1.9 + 0.4)$
- I: $p_D{*} = 1.1475 + 0.0265p_S$
- $p_S{*} = 1/2\ (a/b + k) = 1/2\ ((0.6 + 0.1\ p_D)0.3 + 0.4)$
- II: $p_S{*} = 1.2 + 0.16667p_D$

Insert II into I and solve for p_D:

- $p_D = €1.18$
- $p_S = €1.40$
- $x_D = 1.498$ million liters
- $x_S = 0.298$ million liters
- $G\ (total) = 1{,}168{,}440 + 298{,}000 – 245{,}000 = €1{,}221{,}440$

The profit is higher in this second calculation. A price discrimination between the two countries thus makes sense.

6.3 Credit and Discount Policy

International credit policy is closely connected to the actual receipt of payment for a product(s), as the respective methods of payment may, depending on their design, also include credit functions. Credit policy focuses on financing goods and services. Payments upon order completion tend to be an exception, especially in industrial goods businesses and for large-scale projects, owing to the size and duration e.g. investment projects. Financing instruments are thus critical marketing measures in international business (Backhaus & Voeth, 2010). However, financial instruments also play an important role in the transactions between a company and consumers. Financing offers at reduced rates of interest or prolonged payment deadlines (e.g. slogans such as “Buy now, pay later!”) can reduce the initial financial burden for the customers and stimulate sales. Such consumer credits are especially important in the trade sector, in particular for the mail order business, where clients are more anonymous (Kotler, Keller, & Bliemel, 2007). Apart from national transactions on the respective foreign markets, foreign trade financing is of great significance.

There are different instruments for short-term as well as medium- and long-term foreign trade financing.

- Short-term foreign trade financing:
  - Export financing: pre-payments, bank credit, draft credit, letters of credit, and export factoring
  - Import financing: down payments, draft credit, trade credit, letter of credit, and international credits
- Medium- and long-term foreign trade financing:
  - Export leasing, forfaiting, credits from an export credit company or investment insurance agency, and other financing options of national and international institutions

In foreign trade financing, minimizing financing costs is the most important issue for both transaction partners; however, risk policy considerations for formulating credit policy goals must also be taken into account (Zentes, Swoboda, & Schramm-Klein, 2010).

International discount policy mainly focuses on designing discount policies for the respective countries and developing cross-country discount systems. Companies utilise discounts to achieve a variety of different goals. First and foremost, discounts can be leveraged for their psychological effects; customers receiving discounts generally feel that they are receiving better treatment than other market participants (Lichtenstein, Netemeyer, & Burton, 1995). Companies aim at specific discount policy targets, such as percentage of sales, customer loyalty, image targets, or a temporal allocation of contracts (e.g. for the purpose of streamlining production). In addition, price discrimination between different buying groups or country markets can be implemented through discretionary discounts (meaning that the basic price does not have to be changed between markets but different pricing structures can effectively be achieved) (Berndt, Fantapié Altobelli, & Sander, 2005). This can reduce and even eliminate problems such as issues of credibility or arbitrage.

Discount policies may be subject to different country-specific regulations. Price and terms of sale negotiations will often vary between countries as well. The degree of regulation can often relate to whether allowing discounts is common place in that market. Additionally, alternative types of discounts as well as the actual rates of discount given to the customers will also vary in the international context.

Summary

A company’s basic international price strategy is the starting point for concrete pricing decisions. This strategy defines the general price level and the structure of prices within a product line. The targeted price positioning on the respective national markets is a major decision field, as it determines basic specifications for fixing individual prices. Mixed calculation concepts are of major importance and especially complex in international price management. International pricing is furthermore characterized by additional costs and risks that are only emerging when doing international business. At the operational level, international pricing approaches can be subdivided into cost-based, demand-based, and competition-based pricing approaches.

Price discrimination recognizes the specific features of each national market and adjusts prices for each different country in an effort to benefit from the fact that customers on the different markets will have a different willingness to pay. A number of factors influence the extent of economically wise price discrimination and standardization respectively, including supplier-, competition- and consumer-related factors as well as environmental conditions such as inflation and currency effects.

International credit policy focuses on financing goods and services. There are different instruments for short-term as well as medium- and long-term foreign trade financing. International discount policy mainly focuses on designing discount policies in the respective countries and on developing cross-country discount systems respectively. Companies aim at specific discount policy targets, such as sales targets, customer loyalty, image targets, or a temporal allocation of contracts. It has to be considered that discount policy may be subject to different country-specific regulations.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 7

International Promotion

STUDY GOALS

On completion of this unit, you will have learned …

… the extent to which promotion policy strategies and measures have to be standardized or differentiated.

… the role of “below the line” advertising techniques in international marketing.

… how to design an international promotion mix.

… how to use social media for international marketing.

… how to implement direct marketing.

7. International Promotion

Introduction

Case Study

In many cases, companies can only purchase expensive advertising spots when pooling the advertising budgets of several national offices. For instance, Swiss company Nestlé Nespresso AG was only able to create and launch a number of TV commercials by centralizing advertising budgets. The commercials featured famous actors such as George Clooney and John Malkovich, famous directors such as Robert Rodriguez and Guy Ritchie as well as Oscar-nominated cameraman Rodrigo Prieto. The fee for George Clooney alone is estimated to have been 6 million CHF per commercial (Glüsing & Klawitter, 2010). However, it seems that these investments have paid off. In 2006, when George Clooney started to promote the brand, he generated additional sales of 85 million CHF for Nestlé Nespresso AG for that calendar year. In 2008, the company’s sales exceeded 2 billion CHF and it is, with an average annual growth rate of 30 %, the fastest growing division within the Nestlé Group (Griese, 2010).

7.1 International Promotion

When entering a new country market, international companies are faced with the question of whether and to what extent they can develop distinct promotion goals, strategies, and measures in this market. Promotion policy does not have to be strictly designed in a country-specific way. Other options are to adopt promotion policy elements already in use on other national markets or to coordinate promotion policies for existing and new national markets. As such, companies need to decide whether they will opt for differentiation or standardization when designing their promotion policy.

The main objective of international promotion policy is to influence the knowledge levels, expectations, and consequently the behavior of the target audience in such a way that the company can pursue its goals. Marketing communication focuses on current and potential customers as the target audience for promotional campaigns, however individuals and organizations that influence the buying processes of these targets also need to be considered. These can include media providers, promoters, opinion leaders, etc. (de Mooij, 2004).

Marketing communication always aims to reach a level of congruence between the intended message from the sender and the message actually understood by the receiver. In general, difficulties can arise that jeopardize this congruence, but particularly so when communicating internationally. When launching promotions in an international context, the use of signs and symbols is often problematic. Country- or culture-specific differences in syntax, semantics, and pragmatics of signs may result in different interpretations. This can in turn interfere with the achievement of promotional goals, e.g. specific advertising effects or certain buying behaviors (de Mooij, 2004). Problems can occur especially when the company and target audience are from different countries and there are different languages involved, when they have different cultural backgrounds, or when there is greater diversity in the targeted audience (such as several target groups or entire national markets).

The dilemma of standardization or differentiation is a central question in international promotion policy development; to what extent should promotion policy strategies and measures be standardized or differentiated? This question needs to be answered while at the same time considering the often conflicting issues of costs and desired outcomes. When considering cost, standardizing promotion policy tools can be advantageous when this reduces the costs of developing international markets. Developing a single promotion policy for several countries means that costs are limited to a single process of conceptualization, production, and controlling. A single promotion policy generally requires only one testing phase, executed in a single country, which also reduces promotion costs (Backhaus & Voeth, 2010). However, there are limits to the potential for cost-savings. At many international companies, conceptualization costs are less than 10 % of the overall promotion expenses (Merkle, 1984).

While standardizing promotion policy is advantageous with respect to limiting costs, it can also be the best strategy to achieve promotional outcomes. Companies achieve excellent results with a standardized promotion policy by using in-house transnational creative expertise, bundling financial resources, using international media, and/or capitalizing on spillover effects (Backhaus & Voeth, 2010):

- Using transnational creative expertise: Standardized promotion policy can be improved by utilizing the in-house creative know-how of staff working in different countries. Valuable marketing knowledge and skills present in the individual branch offices in different countries can be brought together through international working groups to achieve higher quality promotion efforts.
- Bundling financial resources: Pursuing distinct, country-specific promotional activities means that each national market only gets a respective share of the overall promotion budget. More complex marketing campaigns cannot be realized as they would exceed the individual countries' budgets. Bundling resources can often lead to more ambitious, complex, or widespread campaigns.
- Using international media: Standardizing promotion policy enables companies to approach international media. This is significant, given the growing importance of international media, particularly global data networks and satellite TV programs.
- Spillover effects: The impact of promotional efforts can be improved by taking advantage of so-called spillover effects. For example, national TV stations can be easily watched in neighboring countries; an advertisement in one national market may be viewed by consumers in another who are already familiar with this particular promotional campaign. This will result in repeated exposure to the advertising materials, anchoring the brand and reinforcing the intended effect of the promotional materials. A differentiated promotion policy, in contrast, will not have this reinforcing or cumulative effect and may even irritate or confuse consumers.

On the other hand, standardizing promotion policy can also have some negative effects. Implementing a consistent strategy in different national markets inevitably means that country-specific factors cannot be considered in a way that a differentiated promotion policy could. A promotion strategy designed for several countries using the same promotion tools can potentially reduce sales if consumers do not feel that they are being addressed by the company's non-specific communication and choose instead to purchase products from local firms. The standardized use of promotional tools (e.g. cross-country slogans or the use of the same pictures for commercials) may limit the effects of the advertising. This can certainly be the case when a company uses distinct visual information from their domestic market for the advertising materials in foreign markets. This visual information can evoke other associations for the potential customers, potentially reducing the positive effects of the promotion.

Case study: Mazda's "Defy Convention" campaign
In 2011, Japanese automaker Mazda launched its first Europe-wide umbrella brand campaign. To date, it had only promoted individual models in a country-specific approach. The new campaign focused on the company and its staff, from the CEO to the engineers. The 360-degree campaign was based on several 60-second TV commercials broadcast in 20 European countries and distributed via social networks. The advertisements were shown in Japanese with subtitles. What could Mazda expect from this cross-country campaign?

Using transnational creative expertise, Mazda presented its brand in an authentic way and referencing a number of functional and emotional features of the brand without referring to individual products. In the automotive market especially, customers will base their decision to buy a product not only on its functional features but also on the respective brand. Most of the funding needed for producing the TV commercials could be bundled, as the individual subtitles are the only necessary country-specific adjustments. Thanks to its new focus (i.e. Mazda as a Japanese manufacturer instead of individual products on respective national markets) and the multinational nature of the promotional concept (i.e. subtitles, one advertisement for all countries), the campaign facilitated an approach to international media and spillover effects.

7.2 International Promotion Mix

The tools used to implement international promotion policies are basically the same as those used for national promotion efforts.

Promotion Policy Tools			
Direct (face to face)		Indirect (mediated)	
Unilateral	Bilateral	Unilateral	Bilateral
• Direct advertising • Sales promotion • POS/point of purchase advertising • Public relations	• Personal communication • Event marketing • Fairs/exhibitions • Sales promotion • Public relations	• Traditional medial advertising • Public relations • Sponsoring • Product placement • Kiosk terminals • Customer magazines • New media advertising	• Public relations • Call centers • Direct response measures • Coupons in print media • Web 2.0

Marketing communication measures are often subdivided into **"above the line"** and **"below the line"** activities. In international marketing, budgets are increasingly spent on below the line measures, as they have the potential to overcome the growing problem of information overload experienced by consumers, and focus the attention of the potential consumer on the actual advertisement. The field of below the line marketing measures is developing in a dynamic fashion with new forms of communication being added continuously, e.g. online communities, advertising in computer games, mobile marketing, etc.

"Above the line"
"Above the line" marketing techniques broadcast advertising to a mass audience.

"Below the line"
"Below the line" marketing techniques advertise towards a niche audience.

International advertisement is the international promotion policy tool that the majority of literature pays the greatest attention to. Apart from the advertising objectives and advertisement timing, the main parameters of international advertisement are designing the advertising message, choosing the advertising medium, and selecting the types of advertising materials (Thieme, 2000).

Advertising Message

Designing an advertising message means developing a clear message to communicate and planning its technical components (e.g. tone, images, colors, music, and advertising text). The values that the advertising message seeks to appeal to as well as the actual information and symbols included in the advertisement are of utmost importance in international marketing, as they may be perceived differently in different cultures or countries (Müller & Gelbrich, 2004).

When considering different countries and cultures, the actual information or content of the advertising materials will have different effects on consumers depending on the level of the information (e.g. detailed versus simple, descriptive or analytical) and the type of information featured (e.g. quality, price, appearance, and composition/ingredients of advertised object). In an international context, it goes without saying that advertising texts and slogans should not be used in their original form everywhere as customers in different markets will likely speak different languages. The information contained in the advertisement should vary in different countries as it will likely evoke differing associations and interpretations due to differences in comprehension and perception (de Moojo, 2004).

Advertising Medium

Choosing the medium of advertising is closely connected to selecting the actual type of advertising. Commercials are typically found on television or in the cinema, advertisements are run in print media, and banner advertisements are published on the Internet. The selection of the advertising medium will strongly depend on cultural or regional differences. On the one hand, the selection of the appropriate advertising medium will depend on how the target groups in that country perceive and interpret the features or design elements of advertising media. Different perceptions of image communication or text-related advertising are often cited as examples of such differences. On the other hand, legal limitations may restrict the use of specific advertising mediums or types of advertising (Harker, 1998; Taylor & Raymond, 2000).

Advertising Media Type

Selecting the type of advertising (or media type) means choosing the right type of advertising within a medium. While traditional advertising focuses on “conventional” types of media, advertising in new media is characterized by multimodality, digital integration, and interactivity, often in the form of dialogue components such as comments or “likes.” Important vehicles that may be used for multimedia advertising include (Bruhn, 2007):

- online platforms
- mobile storage media (e.g. CD-ROMS, USB flash drives)
- kiosk systems (e.g. point of information terminals, POS terminals, point of fun terminals)
- mobile communication media

Example: Ford “Kuga”
The following example explores how the use of different online communities supported the international launch of the Ford “Kuga.” A MySpace profile (a social networking platform predating Facebook) with the last name “Kuga” was created. This was then augmented with the personal data and interests of the consumer profile “James.” People visiting the MySpace profile could add the virtual personality “Kuga” to their friends lists and follow its blog entries. Another Kuga profile was created on Last.fm, where playlists with music that matched the brand’s personality were made. Users of the portal worldwide could listen to these playlists at no cost. Pictures and videos of the car were also published on the online communities Flickr and YouTube.

International Public Relations

Public relations are the extension of a company’s communication tools and aim at promoting the company as a whole. This field of international promotion policy has grown greatly in importance over the past years. An important goal of international public relations is to minimize the potential for conflicts between the company and its targeted countries. While advertising is primarily used to shape the image of products, product groups, or services, public relations aim to cultivate a specific, favourable image of the company. Specific public relation objectives of international companies include (Perlitz, 2004):

- identification with the interests of the countries of potential consumers
- contributing to the development of said countries
- establishing good contacts with government offices
- respecting cultural and social differences
- promoting the company image
- emphasizing the independence of foreign branch offices relative to the headquarters

External channels such as newspapers, magazines, TV, radio, and the Internet are especially important for public relations activities in an international context. Through these channels, media representatives spread information on or from the company. The role of public relations is to achieve widespread media coverage about the company that is generally as positive as possible. However, it is sometimes the case that editorial coverage in some of these media sources also contains negative information about the company, brands, or products. It is the responsibility of the PR division to react to this coverage, implementing strategies to avoid any or further damage to the reputation of the company, product, or brand (Freimüller & Schober, 2001). It must be taken into account that the media in general play many different roles and the various media outlets have different levels of credibility in an international context.

International Sales Promotion

Sales promotion measures are short-term, temporal instruments that are usually designed specifically for a local context. Such measures include (Gedenk, 2001):

- direct sales assistance (e.g. sales manuals, computer-aided selling systems, leaflets, catalogues, and support measures aiming at providing further information, such as training and professional literature)
- personal incentive schemes (e.g. sales competitions)
- maintaining contact at the individual level (e.g. product presentation, visits, gifts)

Country-specific legal regulations, the attitude of the local distributor towards a cooperative promotion of sales, and the attitude of the customers towards such tools are some of the challenges for sales promotion in an international context. As sales promotion measures are short-term instruments, companies may consider standardizing them via their own distribution system so that they can maintain complete control over the process (Meffert & Bolz, 1998; Berndt, Fantapié Altobelli, & Sander, 2005).

International Direct Marketing

International direct marketing, as previously mentioned, is a marketing approach that has developed in an especially dynamic manner, largely due to the progress of information and communication technology and efforts to individualize marketing approaches. Industrial goods companies often focus their activities on international direct marketing; however, such tools have also become increasingly important for addressing consumers. There are three types of direct marketing (Bruhn, 2007):

- Passive direct marketing: The attention of the consumer is drawn to the company's service offer without the medium itself establishing customer contact (e.g. advertising letters, catalogues, generic mail material).
- Direct response marketing: After being approached, the consumer has the opportunity to react (e.g. mail order packages with business reply cards, direct response advertising).
- Interactive direct marketing: The company enters into a direct dialogue with the consumer (e.g. telemarketing, e-mail communication).

The main reasons to conduct direct marketing activities include information brokerage, increasing consumer interest, and obviously, the eventual acquisition of new customers. In an international context, all direct marketing measures cannot be realized in the same form and intensity. Apart from objective reasons for this (e.g. literacy rate, available consumer contact information, media consumption habits, costs differences of direct communication, etc.), variation in the application of direct marketing measures is the result of cultural differences in terms of acceptance, credibility, or the general perception of such marketing tools.

Case study: Direct marketing
The company "Hole in One" offers a large range of golf products to international customers. Two thirds of total sales occur via selected retail stores, and the remaining third through direct sales via mail order or purchases from the multilingual online shop. In recent months, the firm has been struggling with declining sales. On one hand, this decrease is the result of declining revenue figures from the retail businesses. On the other hand, sales of the direct business are stagnating as the customers spend less

per capita and many regular customers have left the company. The company is considering trying to counteract the downward sales trends by using direct marketing measures.

Exercise

a. Define appropriate marketing goals for the case study, differentiating goals for existing direct sale customers, former direct sale customers, existing retail sale customers, and potential new customers.
b. Explain which forms of direct marketing qualify for each of these individual target groups and specify concrete direct marketing measures for each target group.
c. How do you assess the use of a direct marketing approach for dealing with this problem? (Bruhn, 2009)

Subtask a)
Addressing the target groups with direct marketing measures aims to achieve the following goals:

- Target group: existing direct sale customers. Bond existing direct sale customers to the company on a long-term basis and induce them to enter cross-selling deals.
- Target group: former direct sale customers. Analyze the reasons why the former direct sales customers turned away from the company. Try to win them back.
- Target group: existing retail sale customers. Bond existing retail sale customers to the company on a long-term basis and induce them to enter cross-selling deals.
- Target group: potential new customers. Draw the attention of potential new customers to the products and services that Hole in One offers. Encourage first-time buyers through the Internet, via mail order, or in retail stores. As a second step, bond these customers to the company on a long-term basis.

Subtask b)
With regard to the individual target groups and the different goals pursued for each of these target groups, the following direct marketing forms and measures can be recommended:

- Target group: existing direct sale customers. These customers buy their products on the Internet or via mail order. The company knows the names of these customers and most likely has a lot of other information about them (e.g. former purchases, sales volumes, date of purchase). The main goal with this groups of consumers is to bond them to the company on a long-term basis. To do so, the company must try to enter into an ongoing dialogue with the customers using tools of interactive direct marketing. By means of a long-term communication exchange, the company maintains contact with customers and may be able to anticipate any intention of theirs to buy elsewhere as well as satisfy their individual needs in terms of interaction and demand. Possible concrete individual measures could include the following:

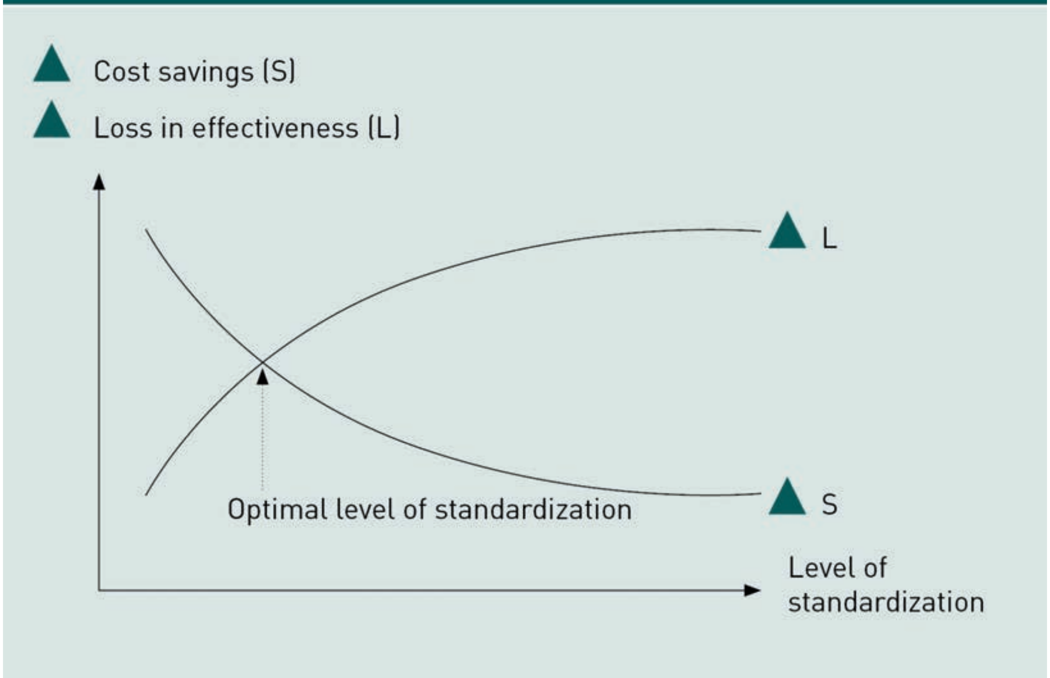
    - Contact customers by phone to present them with specific offers (such as “10 % discount on your next purchase” or “Buy one article, get one free”).
    - Mail letters to customers with specific offer and attached means of responding (e.g. business reply card with envelope).
    - Contact customers with an invitation to join a customer club. By joining the club, customers receive specific benefits (e.g. reduced fees when reaching a certain sales volume, regular delivery of a free customer magazine, invitation to events, etc.).
    - Conduct a survey on customer satisfaction by phone or letter with business reply card.
- Target group: former direct sale customers. The company has detailed information about these customers as well, as they purchased their goods on the Internet or via mail order. Direct response marketing measures are recommended as they provide the company an opportunity to enter into a dialogue with their former customers. Examples of such measures could include the following:
    - Mail letters with a business reply card and questionnaire about the reasons for no longer buying from the company (e.g. no further demand, stopped playing golf, unsatisfied with price-performance ratio, etc.).
    - Contact former customers via e-mail with a link to a customized website with specific, individualized offers.
    - Send a letter to former customers, drawing their attention to any aspets of the product range that have changed since their last contact with the company.
- Target group: existing retail sale customers. To reach the goal of bonding existing retail sale customers to the company on a long-term basis and inducing them to enter cross-selling deals, the company should enter into an ongoing dialogue with the customers. In contrast to direct sales customers, the company has a lot less information about retail buyers. Direct response marketing measures are recommended to involve these customers in more of a dialogue with the company. Instruments such as direct response ads or using interactive media can be used to directly engage these customers. These tools address currently unidentified members of the target group, inviting them to enter into a communication with the company and give up their anonymity. As a second step, the company may choose to directly contact customers. The following individual measures are examples of such efforts:
    - Run TV commercials showing the telephone number for contacting the company (e.g. combined with a sweepstake).
    - Run ads pointing to specific campaigns requiring the customers to get in contact with the company (e.g. 10 % discount for ordering in the online shop).
    - Run Internet banners with a link to the company’s online shop.
    - Run ads with a reply coupon to order the company’s catalogue (maybe connected with a small bonus for initial orders, e.g. 10 % discount).
- Target group: potential new customers. The main goal for these customers is to draw their attention to the products and services that Hole in One offers and encourage initial orders on the Internet, via mail order, or in retail stores. As establishing a dialogue with these customers is initially not important, passive direct marketing measures can be utilized and can include the following:
    - Distributing flyers indicating new products in the company’s portfolio.
    - Publishing leaflets as supplements in daily newspapers.

Subtask c)
Direct marketing has the advantage of establishing direct contact with target groups and target consumers, which reduces redundancy and enables companies to involve consumers in a dialogue. Such measures are easy to monitor and allow a company to develop a customized database of customer data. Furthermore, direct marketing can be linked to other promotion tools. Such advantages support the use of direct marketing measures by Hole in One, especially against the backdrop of declining sales figures. A possible disadvantage could be a potential backlash from the target groups leading to a paradoxical decrease in sales (e.g. due to over-saturation, lack of interest, or feelings of being harassed). It should also be noted that direct marketing measures are generally less suitable for the task of increasing and sustaining an awareness of the brand. This is why direct marketing is also used as a supporting instrument. Hole in One should complement direct marketing strategies with other mass impact promotion tools such as media advertising.

7.3 Optimal Standardization

When defining the level of differentiation/standardization to adopt in a promotion policy, it is important to determine the point at which the marginal cost savings of a standardization approach intersect with a loss in effectiveness (and subsequent decrease in revenues).

Level of Differentiation/Standardization



When determining the international company's level of differentiation/standardization for the respective national markets, alternative promotion policy measures and strategies (using different levels of differentiation/standardization) need to be considered. Cost and effectiveness (i.e. the degree to which the promotion strategies lead to increases in sales) are two parameters to be measured and compared for different promotion tools. e.g. international press advertising.

While it is relatively easy to determine costs, it is difficult to measure effectiveness. The reason for the complexity assosciated with determining effects of promotional strategies on actual revenue is twofold. Firstly, it is often difficult to measure the level of standardization of promotion policy tools relative to their effect. Secondly, it is difficult to match effects with revenue-related parameters (e.g. while a promotion activity may have a good effect on consumer brand awareness and affinity, it is difficult to measure the related effect on actual sales). It is already difficult to draw these conclusions in a national context, let alone in international one. When entering a new market, companies do not have the option to review historical data, which is why the impact of standardized/differentiated promotional approaches on revenues can often only be assessed qualitatively. Companies are only able to determine a hypothetical "optimal level of standardization" for promotion policy measures in the respective markets. Companies may thus not necessarily find the optimal differentiation/standardization level but they will often find at least a plausible level regarding the maximum difference between possible cost savings and added revenue-related effect losses (Backhaus & Voeth, 2010).

Case study: Parameters for comparing marketing effects in an international context
The cellphone service provider "Zilona" has one of the largest market shares. In order to remain competitive, the company considers reducing call rates in the long term and potentially standardizing them acroos national markets. This will only be possible if drastic savings are made within the company, which is why management intends to significantly reduce spending on marketing communication. You are responsible for promotion and consider this cut in spending as a threat to overall revenue creation. In your opinion, reducing and standardizing promotion efforts will result in a significant loss to current and future revenue.

You need to empirically prove the relationship between promotional activities and revenue creation. In order to do so, you need to identify performance parameters which will allow you to measure the contribution of marketing activities to overall revenue.

While there are a number of effective evaluation tools for monitoring pre-economic and psychological effects of promotion, suitable tools for measuring the contribution of promotional activities to revenue creation are still lacking. However, it should be kept in mind that promotion efforts aim to not only create short-term increases in revenue, but also long-term potential for success, thus contributing to sustained value creation.

Given the backdrop of competitive conditions, it will become increasingly important to expand the monitoring of pre-economic successes (e.g. consumer interest, website views, etc.) to include the measurement of strategic, economic outcomes—with the goal to measure all promotion-related effects. For proving the contribution of promotion to value creation in the company Zilona, promotion efforts have to be directly related to long-term, strategic performance parameters. These parameters can be divided into consumer-related and company-related parameters.

Consumer-related and company-related
Strategic consumer-related and company-related performance parameters inform promotion efforts.

- The **consumer-related performance parameters** are long-term parameters that measure the effect of promotion activities of the consumer perspective of brand value (e.g. brand awareness, image, satisfaction, trust, and commitment).
- The consumer-related performance parameters are the foundation for realizing **company-related performance parameters**, which include factors indicating customer loyalty (e.g. customer intention to make repeat purchases, tendency of consumers to recommend the company to others, and the customer willingness pay increased prices). Such behaviors are directly connected to economic success parameters such as sales, profit contribution, market share, shareholder value, etc.

To demonstrate the importance of promotional activities for increasing value, promotion-related data (e.g. advertising impact and quality) have to be connected to consumer- and company-related performance parameters.

Summary

The main objective of international promotion policy is to influence the addressees' knowledge, expectations, and consequently their behavior in a way that the company can pursue its goals. Communication aims to reach a level of congruence between the intent and receipt of communication. The question of standardization or differentiation is relevant to international promotion policy. While standardizing promotion policy is for the most part advantageous regarding cost savings, standardization results in very different effects and can reduce the impact of promotional activities.

The tools used in international promotion policies are essentially those used under national promotion policy approaches. International advertisement is the international promotion policy tool that usually receives the greatest attention. Apart from the advertising objectives and advertisement timing, the main elements determining the success of international advertisements are the design of the advertising message and choice of advertising media and vehicles. Public relations are the extension of a company's communication tools and aim at promoting the company as a whole. Sales promotion measures are short-term, temporal instruments that are usually designed specifically for a local context. Industrial goods companies often focus their activities on international direct marketing, however, such tools are becoming increasingly important for addressing consumers.

When defining the level of differentiation/standardization within promotion policy, it is the goal to determine the level at which marginal cost savings of standardization correlate with the simultaneously occurring losses of effects and revenues.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 8

International Distribution

STUDY GOALS

On completion of this unit, you will have learned …

… which distribution channels, intermediaries, and marketing organizations are involved in international distribution.

… whether multi-channel strategies are important.

… which organizational structures are suitable for developing international markets.

… which critical success factors are linked to the Internet.

… which standardization are provided by international distribution policy.

8. International Distribution

Introduction

Distribution Policy Decisions

Different market development strategies will lead to different transaction costs. Transaction costs include all costs for initiating, securing, and controlling the transactions required to tap into a national market. Companies can choose between different types of development, each differing in equity share and/or level of integration. Markets can be entered completely via company-owned institutions (a process known as integration) or in cooperatation with third party institutions (i.e. external partners). Companies will typically select the type of development that minimizes their production and transaction costs. Companies will choose a path of internationalization (i.e. establishing subsidiaries, managing direct exports through general agencies, licensing, etc.) when intra-company transactions are the most economically viable means of entering the market. Alternatively, a partner will be used to enter the market (i.e. via indirect export or licensing) when this is the least expensive option. Intermediate forms that integrate only some transactions may also be chosen; joint ventures, for example, with some type of equity participation combine elements of integration and cooperation. We will explore each of these options in this course.

8.1 Distribution Channels, Intermediaries, and Distribution Schemes

Internationally active firms have significantly more differentiated and complex options for designing their distribution policy than those companies just operating nationally. The following steps need to be followed when designing **distribution channels** (also known as distribution chains) (Zentes & Neidhart, 2006):

Distribution channels
Distribution channels are the means by which goods and services received by the consumer and exchanged for payment.

1. Select the institutions to be used in a distribution channel (e.g. direct sale, retail, wholesale, importer). This process is referred to as vertical selection. Companies can choose either direct or indirect distribution (also called intermediary distribution).
2. Determine the number of distribution institutions to be utilized in the individual stages of production and trade respectively, either single-channel distribution or multi-channel distribution. This process is referred to as horizontal selection. A company can choose to sell to as many intermediaries as it wants as often more intermediaries selling the product equates to more opportunities for sales.
3. Make appropriate contractual arrangements that determine the organization and intensity of the cooperation with the institutions in the distribution channel.

Traditionally, a distinction has been made between direct and indirect distribution channels or schemes. When using direct distribution schemes, producers enter into direct transactional relationships with the final customers. An essential feature of such schemes is that producers are able to direct the use of marketing tools to the level of the final customers. Usually, this entails the use of company-owned distribution institutions such as sales staff, sales divisions, or sales offices. Indirect distribution schemes involve assigning external intermediaries or sales partners. External distribution institutions include wholesalers and retailers in collaboration with sales representatives, agents, and commission agents, and it is these institutions and groups who are in direct transactional relationships with the final customers. However, indirect schemes do not necessarily preclude the establishment of any relationship between the producer and the final customers; marketing approaches such as direct marketing measures can be utilized alongside indirect distribution channels (Zentes, Swoboda, & Morschett, 2004).

When choosing the distribution channels, companies need to decide whether to apply a “single-track” distribution strategy, i.e. use one distribution channel, or establish a multi-channel system under which several distribution channels are used simultaneously. A multi-channel approach can be useful when trying to satisfy different national and regional conditions, as it allows for different segments and target groups to be treated differently. However, multi-channel strategies may also result in conflicts between competing distribution channels. Thus in designing the distribution channel, it is important to clarify whether a universal, selective, or exclusive system is to be adopted.

Basic options for a company’s distribution policy can be further classified according to the industrial organization types: “market cooperation” vs “integration/hierarchy.” Direct distribution schemes are considered integrative, as they establish a straight-forward hierarchy between producer and consumer. Indirect distribution systems, using legally and economically autonomous intermediaries, can be classified as market cooperations if the intermediaries’ contracts with the producers do not go beyond sales (i.e. they are not in any other contractual relationships with producers). Between these two types of transactions, there exists a broad range of vertical cooperation models for distribution.

Vertical integration (in the sense of expanding the depth of added value while focusing on the sales market) is one feature of integrative distribution systems. The producers are not only in direct contact with the final customers in terms of communication but also in terms of distribution. In an international context, this can have positive effects when a company wants to guarantee a certain image in foreign markets, its products or services need explanation, the company wants to avoid knowledge drain, or intends to locally realize specific services. Indirect distribution systems may initially help to save costs, however, they may also entail losses of control and dependencies on intermediaries. Furthermore, the company is not very close to the local customers, which is especially problematic when the sales markets are far away, either geographically or culturally (Meffert & Bolz, 1998).

In an international context, cooperative distribution strategies provide the opportunity to increase a company’s influence on the final customers and realize cost advantages in the distribution channels. Such strategies focus on the cooperation between producers and distribution partners, pursuing goals such as strengthening business relationships, cost-relat ed or efficiency-related objectives (synergy effects in supply chain management or market cultivation) or increasing customer loyalty on each of the domestic markets (strengthening the brand locally).

Case study: Sunshine GmbH
You work for the company Sunshine GmbH that produces alternative heating systems and has recently been granted a patent for a revolutionary Scandinavian-designed heating system that requires only one fifth of the energy used by a conventional system. Management is now considering how to introduce the new product “Skandisun” into selected international markets (Bruhn, 2009). You need to determine what type of distribution and which distribution channels should be used for this product as well as what level of vertical and horizontal integration is optimal.

Exercise

Consider the following options that Sunshine GmbH faces.

- Management have discussed the option of directly distributing the Skandisun. What would a policy of direct distribution mean for this product and what advantages /disadvantages would you expect this policy to have for the company?
- The alternate option is indirect distribution, which would involve deciding whether to use retailers and/or wholesalers to sell the product. What advantages/disadvantages would you expect this strategy to have for Sunshine GmbH?
- Management have also discussed a multi-channel strategy. What would this mean for the Skandisun? Which assessment tools would you recommend using for evaluating the suitability of these different distribution policies?

Determining the vertical distribution structure for Skandisun means defining the number of stages in the distribution process, whereas horizontal selection entails deciding on the number and type of intermediaries for each of these stages. Horizontal selection may, depending on the number of intermediaries for Skandisun, result in a universal distribution system (whereby the company accepts every intermediary), selective distribution (where selected intermediaries are engaged), or exclusive distribution (where only a few intermediaries are selected according to strict criteria). Determining the vertical distribution structure generally involves opting between direct and indirect distribution channels.

When adopting a direct distribution policy, the company is in direct contact with consumers and sells their products straight to their customers.

For the Skandisun, the advantages of this policy include the following:

- Each sale is personalized and the direct contact with the customer helps to ensure a predefined level of customer service. This argument is particularly relevant for the company Sunshine because the Skandisun heating system is a product that needs extensive explanation.
- Sunshine can easily identify the problems and requests of the customers early on, which is a critical advantage for a company that relies on supplying cutting-edge or technologically advanced products.

The disadvantages of this policy include the following:

- The company has to deal with many small clients that result in comparatively low sales volumes.
- Sunshine needs comprehensive distribution institutions (e.g. field service, shippers, etc.).
- The product range might have to be expanded to include external complementary products.
- The company itself is responsible for advertising the Skandisun.

Such disadvantages clearly indicate that Sunshine would have to spend a considerable amount of time and money if they choose to adopt a policy of direct distribution.

When adopting an indirect distribution policy, the company sells its products to intermediaries such as wholesalers and retailers. There are two options here: the company either directly delivers its product to retailers who sell the product to consumers or it delivers its product to wholesalers who in turn distribute the product to retailers.

For the Skandisun, the advantages of this policy include the following:

- Sunshine benefits from the trade sector's distinct market knowledge and the retailers handle some of the advertising.
- The company has to deal with fewer clients (i.e. the retailers and wholesalers instead of each consumer) who are then responsible for generating sales.
- Field service only has to be developed to a limited extent.

The advantages of indirect distribution through wholesalers are even greater than indirect distribution through retailers because the wholesaler handles advertising completely as well as the major part of distribution.

The disadvantages of this policy include the following:

- As a result of limited contact with the actual consumers and limited market presence, Sunshine GmbH might not be aware of relevant changes in the market affecting the company or its products (e.g. when and why consumers turn to specific forms of energy).
- There is also a risk that one or several retailers demand an exclusive license to sell the product, in the sense of exclusive supply contracts. This would create a considerable dependency for Sunshine on a few companies, to the extent where Sunshine could become no more than a basic supplier.

Multi-channel strategies are very common today. Under such a strategy, the Skandisun would be sold both directly and also through various different indirect distribution channels.

While we will not go into detail here about these approaches, useful assessment tools for choosing a distribution scheme include cost-utility analysis, SWOT analysis, gain and loss analyses, portfolio analyses, and capital budgeting approaches.

8.2 Organizational Forms for International Market Development

Companies can choose between various organizational forms for entering and developing foreign markets. Indirect export, direct export, license or franchise agreements, joint ventures, subsidiaries, and contract manufacturing are among the traditional modes of market entry. In real life, however, businesses apply diverse variants of these organizational forms. These variants can be compared (and thus evaluated) according to the following criteria (Berndt, Fantapié Altobelli, & Sander, 2005; Perlitz & Seger, 2000):

- Control: To what extent can the company influence the activities of intermediaries and distribution partners on the national markets?
- Transfer and contribution of capital: To what extent is capital transferred to the national markets?
- Focus of value added: When the organization for distribution is transferred abroad, is the focus of value added transferred as well?
- Transaction costs: To what extent are costs associated with transactions?

One of the primary advantages of using indirect export methods to distribute products is that initiating customer contact, order acquisition, and supply are carried out by intermediary third parties who are, in essence, legally and economically separate from the company. However, the strategy of marketing products via an intermediary, who is often working for several different companies, entails the risk that the quality of customer consulting and service decreases, as the intermediary naturally operates according to their own priorities. Different types of distribution agents may be engaged as intermediaries such as domestic export trading companies or branch offices for domestic trading firms (e.g. general trading firms). Often, these companies can offer distinct knowledge of the market and the industry.

By contrast, direct export means that the exporting company sells its products on foreign markets without engaging intermediaries. Direct export has the following advantages in comparison to indirect export: 1) the company is able to ensure that its own concept of quality is delivered and 2) the company is in a better position to protect its immaterial assets (Root, 1994). Not engaging an intermediary, however, may be more expensive if the internationalizing company decides to directly invest into distribution infrastructure on the foreign market.

In the following cases, companies export directly but do not invest directly.

- The company delivers its products directly to consumers abroad.
- The company delivers its products to a foreign importer who then sells the products to customers.

Companies exporting directly and opting for direct investments on the foreign country markets, may choose one of the following organizational forms for their operations:

- In most cases, representative offices involve only a low level of direct investment in the foreign markets. Individual company employees represent the company's concerns abroad, monitor the market, initiate and maintain business contacts, and carry out acquisition activities.
- Branch offices often evolve from representative offices and usually have more extensive decision-making powers.
- Sales offices are the most capital-intensive type of direct exporting, as they store the goods sold on the foreign markets and carry out maintenance and service features.

When an international company grants a license for a specific foreign market, the foreign license holder pays a fee for the right to use patents, utility models, registered designs, trademarks, and expertise (Berndt, Fantapié Altobelli, & Sander, 2005). Compared to direct export, this is often a less expensive option for the company. As a company within the targeted market is involved in this type of market entry, the problem of cultural differences can almost be completely resolved. However, this approach also has a major deficit: the transferring of specific knowledge about products and processes to the licensee carries with it the risk of imitation.

Franchising has a lot in common with licensing. The pivotal difference is that the franchisor is granted an extensive, stipulated right of direction and control. While franchising is similar to licensing in terms of probability of success and transactional parameters, it is linked to tighter control mechanisms.

Joint ventures are an organizational form that many industries favor when conducting international business. There are different types of joint ventures. In extreme cases, joint ventures encompass all activities of a company, which leads to significant capital needs. However, joint ventures do not only necessitate investments in physical, capital, and human resources, but also result in major coordination efforts, which again require resources. In international business, many markets are tapped through joint ventures. One important reason for this is that many countries only tolerate and support activities of foreign companies when they do so in the form of a joint venture. However, especially in the case of developing and emerging countries, engaging in joint ventures carries the risk that the foreign partners entering a national market will consider the joint venture as an opportunity to tap production and process know-how for their own subsequent use.

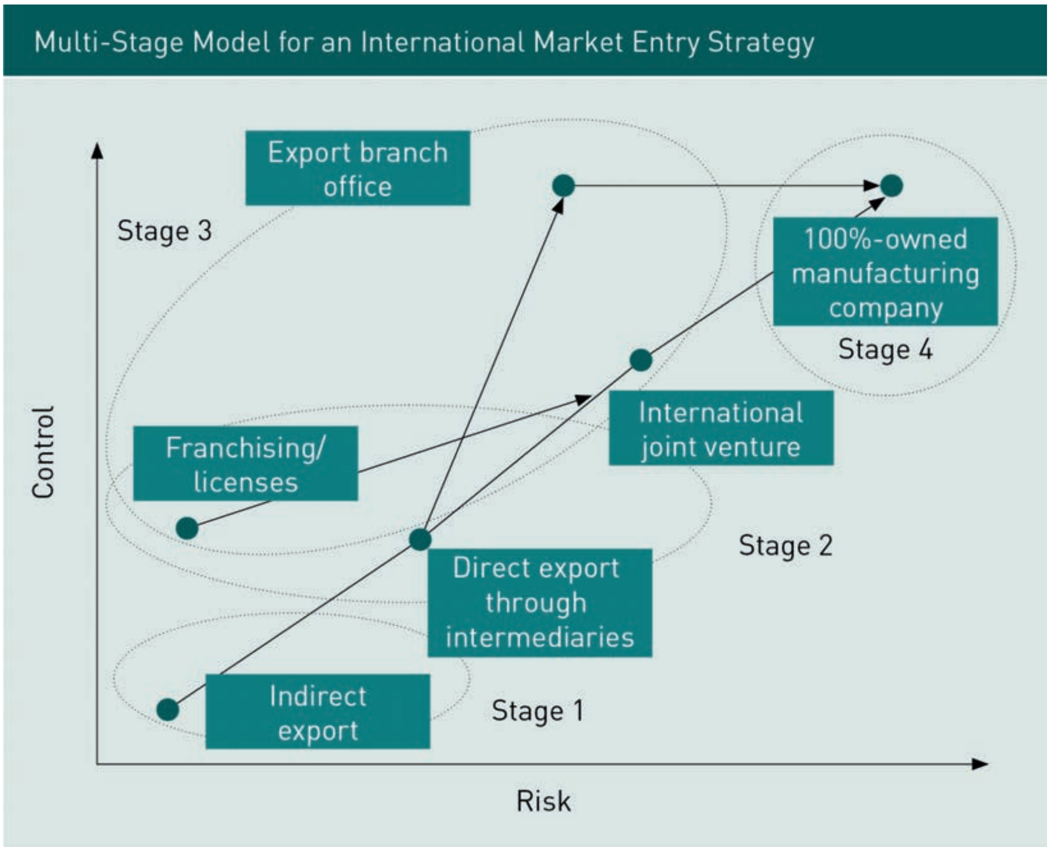
Another option is to found a subsidiary in the foreign market. Subsidiaries are legally considered autonomous and thus liable for the capital invested abroad. In the case of branch offices, the mother company can be held liable (Berndt, Fantapié Altobelli, & Sander, 2005). Founding a subsidiary is the most capital-intensive way of entering into and developing international markets; however, it also ensures sustained control over foreign business activities. A subsidiary may either be newly founded or acquired. Acquisitions usually result in much higher costs but have two fundamental advantages (Kutschker & Schmid, 2008):

- Market entry is quicker.
- Market development is more efficient and more effective as the company can fall back on an existing network of relationships.

Contract manufacturing means that an international company tasks a foreign partner with managing specific parts of the overall production process. The foreign partner is provided with information on the type, quality, and technical procedure of the production steps to be completed. Usually, the international company reserves the right to market the produced goods.

Case study: Internationalization strategies
A confectionery producer with two production sites in France wants to internationalize its business as part of its long-term marketing strategy. To reach the overall objective of establishing two 100 %-owned subsidiaries in Asia and Eastern Europe, a multi-stage market entry strategy needs to be developed, taking into account the dimensions of "time," "risk," and "control" for the long-term development.

Given the international context, three to four successive steps can be identified as part of an exemplary market entry strategy. The development towards a 100 %-owned subsidiary may happen through different organizational forms, depending on the dimensions of risk and control (Macharzina & Wolf, 2010). The following figure illustrates these steps in market entry.



In stage one, goods are indirectly exported on a sporadic basis. Relationships to the foreign market are weak and plans to develop the foreign market are not established within the company's organizational structure.

In stage two, the company seeking to internationalize its business attempts to penetrate the foreign market via direct, active exports, often by assigning intermediaries abroad. Exports are usually accompanied by licensing or franchising agreements. In many cases, national and international business remain separate at this stage; the export division of the company takes care of international business.

In stage three, the company enters international joint ventures for manufacturing abroad and in this way improves market penetration. This market entry strategy is complemented by further types of contracts. In this phase, the organizational structure is adjusted by establishing an international division, which replaces the export division and has full responsibility for foreign business. Another important feature of the third stage is that the activities pertaining to different foreign markets are only coordinated to a limited extent.

In stage four, the many foreign markets are handled by different, worldwide goods and services units, constituting an extensive network of delivery, services, and information relationships that, as a whole, manage all international and national activities. The dominant role of the domestic market as the focus of company activities is reduced to the point that it disappears completely. Many companies undertake a process of reorganization at this point to ensure the smooth integration of national and international business, where a structure oriented towards regional or individual product matters replaces the international division.

Innovative organizational forms for international market development shift their focus from managing the involvement of local intermediaries and methods of realizing capital transactions. They aim at reducing the number of capital-related activities in an international context whilst facilitating and accelerating critical transactions. Cooperations and networks as well as e-commerce are examples of innovative organizational forms.

Given that small and medium-sized companies often reach their limits very early in the internationalization processes, innovative organizational forms for international market development are usually based on a cooperative approach. The companies jointly tap foreign markets with one or several partners. Such cooperation often serves to close resource gaps. In this regard, cooperation is not only a type of market entry but also an approach that provides the resources needed for internationalization. Cooperation can thus be considered an instrument for facilitating and accelerating the development of new national markets. Another advantage of cooperation is that while the cooperation is often kept flexible, the partners nevertheless share the business risk (Bühner, 2004). However, the nonbinding element of the cooperation also entails disadvantages: the quality of the cooperation strongly depends on the commitment of the individual members to focus on their individual core competencies (Kutschker & Schmid, 2008).

Cooperatively tapping foreign markets broadens the strategic focus of the companies involved in this type of partnership, as not only is the position of the individual partners important but also the network's positioning on the market. The competitive position of the cooperation is, at times, more important for success than the role of each of the individual members of the network as partnered companies can only reach their objectives when their cooperation is successful.

The Role of the Internet

Any discussion of distribution would be incomplete without mentioning the role that the Internet has played (and continues to play) in the ability of companies to get their goods and services to consumers. The Internet fulfills two key functions in international marketing:

- It is a marketing tool with constantly evolving means for communicating and interacting with customers. In this respect, companies can use Internet platforms for directly addressing and engaging in ongoing dialogues with individual consumers.
- It is not only used for initiating business but is also a distinct virtual market place for goods that can be delivered directly through the Internet.

The Internet is increasingly influencing interactions between suppliers and consumers which directly affect decisions related to international distribution. Almost every region of the world can be reached through the Internet; as an instrument, it provides highly efficient, simultaneous access to almost all national markets which is especially advantageous for small and medium-sized enterprises.

Using the Internet successfully for international distribution depends on several **critical success factors**:

Critical success factors
Critical success factors for using the Internet for international distribution include accessibility.

- Accessibility: Target customers have to be able to access the Internet and have the skills to effectively navigate this technology. These opportunities differ considerably in the different countries.
- Cultural influences: These influences will strongly influence the acceptability of Internet use in purchasing behavior. Research has shown that the popularity of teleshopping and mail orders varies according to different cultural groups; the role of the Internet is not unlimited in this respect.
- Negative feedback within the distribution system: Using the Internet may result in negative feedback if the company's foreign distribution partners are afraid that they may be replaced by online distribution channels in the medium term. This can easily occur when the Internet is used parallel to a traditional distribution system and their spheres of action (e.g. target groups, products) overlap.
- Market transparency: Taking advantage of regional or national differences on interdependent markets is a major challenge of international marketing. Using the Internet can cause severe problems in that regard. One feature of the Internet is that everybody has universal access to information. By providing information about their goods and services, companies inadvertently contribute to increasing market transparency; consumers are able to gather a lot of information as they have access to the offers of many alternative suppliers. This market transparency supports external pressure to differentiate prices.
- Mobile applications: Even when companies do not use the Internet as an instrument for internationalization, consumers are increasingly able to exchange information and opinions about products using social media applications. The development of the Internet into more interactive forms has taken away companies' exclusive control over product and price information. Consumers do not necessarily need information from companies as they get, and many times prefer, relevant data from other consumers. This serves also to increase market transparency and puts pressure on producers to adequately respond to the preferences of consumers.
- Costs: An economic analysis of using the Internet as a distribution channel must consider both positive revenue-related effects and also the costs of maintaining a competitive website. These costs are often grossly inferior in contrast with the costs of developing a traditional distribution and partner network with comparable market coverage. However, an economic analysis shows that websites have to be planned, implemented, and controlled in a systematic fashion, just as with any other marketing tool.

8.3 Potential for Standardization

Standardization in distribution policy mainly refers to the design of distribution channels. In terms of branding, the goal is to pursue an internationally consistent brand presence at all brand **touch points**. To reach this goal, in all leadership and controlling decisions, the company needs to consider any possible implications for the cross-national target positioning of the brand. In real life, distribution policy is adjusted to the greatest extent out of all available marketing instruments (Powers & Loyka, 2010).

Touch point
A touch point refers to the interface between the brand and consumers or other stakeholders, i.e. any point of contact that consumers have with the company or its products.

Given the relationship between distribution and branding, the basic distribution channel structure should be standardized as much as possible on international markets. This is important in part because any significant differentiation has the potential to cause confusion regarding the brand image. When a company sells high-quality fashion items only in exclusive boutiques on its domestic market, both internal and external target groups will perceive this type of distribution as consistent with an upscale brand. If the company expanded their distribution channels abroad to include department stores, there is a possibility that the upscale image of the brand would not be transferred to the foreign markets. The use of different intermediaries could lead to a brand identity conflict between employees on the domestic market and in the foreign branch office. The two perceptions—exclusive fashion brand vs. compartment store brand—are not compatible and have the potential to disrupt consistent communication and coherent behavior between staff groups.

Producers have the greatest influence over brand management when establishing direct distribution in both national and international markets. There will be potential to standardize distribution channels internationally if the national markets to be developed are comparatively homogenous. In the example of the fashion brand, distribution channels could be relatively standardized by designing brand-specific stores and then employing and training staff according to specific criteria. However, if the countries are quite different, opportunities for standardizing distribution can be quite limited. Added to this, distinct local expertise is needed for choosing store locations and designing stores to appeal to a specific market. Without in-depth knowledge of the urban centers and settlement structures of the foreign market, it can be difficult to find and develop the right retail locations.

Authorized dealer systems also have great potential for standardization in international distribution policy. Under these systems, authorized dealers are contractually obliged to design distribution policy instruments as defined by the producer. The authorized dealer buys and sells the goods under his own name and on his own account but is often obliged to purchase certain minimum quantities of products. In contrast to franchising, authorized dealers are allowed to choose their own design for their company and combine this with the name and the trademark of the producer. Authorized dealer systems are often used in the automotive industry (Meffert, Burmann, & Kirchgeorg, 2008).

E-commerce is another type of distribution that has become increasingly important in past years for business-to-business transactions (e.g. CISCO), business-to-consumer (e.g. Amazon), and even consumer-to-consumer transactions (e.g. eBay). The website used to sell goods over the Internet may be standardized extensively across markets in terms of functionality, design, and product presentation. However, it should be adjusted to cater for country-specific conditions e.g. language, types of payment, and legal information. Amazon, for instance, offers different types of payment on its individual national platforms (e.g. customers in Japan can only choose "cash on delivery" payment). However, considerable price discrimination has to be viewed critically. As the consumers in e-commerce have access to the offers on all national markets, they can easily compare the different prices and, if prices differ significantly, they can also order goods in the least expensive country (Meffert, Burmann, & Becker, 2010).

E-commerce
E-commerce refers to business conducted through electronic means. By and large, it refers to business conducted over the Internet.

Standardizing a company's distribution policy often has a positive influence on branding and the profits of a company. A precondition for such an outcome is a strong match between the type of distribution channels and the positioning of the brand. A differentiated international distribution policy that ignores aspects that are relevant to brand positioning such as the selection of stores may have negative results.

However, various factors limit the development of internationally consistent distribution channels. The structure of national distribution networks has often evolved over decades. In the Middle East, for instance, it is still common to buy convenience goods on bazaars and markets whereas consumers in the Western industrial countries source almost all these goods from retail stores.

Finally, the potential for standardizing the personal sale of goods and services also has to be viewed critically in an international context. Personal sales are closely connected to a national market's cultural characteristics. "Silent language" aspects are especially important in this respect. These aspects refer to communication signals that are not based on linguistic expressions but on spatial factors (e.g. the size of an office as a symbol of hierarchic position) or temporal factors (e.g. different perceptions of punctuality in Scandinavia and Africa or South America). Infringing on "silent language" norms in meetings or negotiations will usually result in unsatisfactory results. Employees thus have to know the meaning of conventions and traditions in order to ensure congruency between the sender and receiver of messages (Birnik & Bowman, 2007).

Case study: International comparison of sales concept standardization
An American producer of electric cars has been successfully in US and European market for years. The company itself is characterized by an open culture of communication as well as sophisticated and strongly standardized sales and service guidelines. This approach has resulted the company being held in high esteem by its customers and being known for its capacity to innovate.

Backed by such successes, the company entered the Russian market three years ago. To consider the new market's specific cultural and economic features right from the start, management teams in the target country were mainly staffed by domestic experts who were assigned to implement the successful concepts of the mother company in Russia. Unfortunately, so far the company is far from reaching previously determined objectives, despite all employees making great efforts to try and achieve their objectives. Nevertheless, mistakes or problems cooperating with the Russians are regularly reported at a later stage or not at all. Furthermore, the new foreign branch office continues to show poor process quality.

Repeated requests for optimization proposals and a joint workshop of Americans and Russians have not resulted in noteworthy improvements. The company begins exploring possible causes for this lack of progress.

A careful analysis revealed that the concepts established for conducting personal sales and the suggestions aimed at generating innovation could not be used on the Russian market. The situation could not be improved, neither with the help of local experts nor in the joint workshop, because the perceptions of leadership and negotiations differed so considerably.

How Western and Russian Managers Perceive Leadership	
Perception of leadership of Western managers	Perception of leadership of Russian managers
• Proactive employees who introduce their own suggestions are welcomed and even expected. • Mistakes are seen as opportunities to improve, are reported where necessary, and should not be repeated. • Long-term, strategic thinking is a critical part of the company.	• Employees are expected to focus on the defined task according to their job description. • Mistakes are forbidden and should be sanctioned. • One’s own actions should not influence the job of other employees.

Summary

Internationally active firms have significantly more differentiated and complex options for designing distribution policy than companies operating nationally. The traditional differentiation in distribution policy is to distinguish between direct and indirect distribution channels or schemes.

A multi-channel system may be necessary in international distribution systems as it allows for a differentiated handling of different segments and target groups. An extensive verticalization of the producers (in the sense of expanding the depth of added value while focusing on the sales market) is one feature of integrative distribution systems. The producers are then not only in direct contact with the final customers in terms of communication but also in terms of distribution.

In an international context, cooperative distribution strategies provide the opportunity to simultaneously increase a company's influence on the final customers and realize cost advantages in the distribution channels.

Companies may choose between various alternative organizational forms for tapping foreign target markets such as indirect export, direct export, license or franchise agreements, joint ventures, subsidiaries, and contract manufacturing.

The Internet fulfills two functions in international marketing. Firstly, it is a marketing tool, developing new ways of communicating and interacting with customers. Secondly, it is a distinct virtual market place for goods that can be delivered directly through the Internet.

Standardization in distribution policy mainly refers to a standardized design of distribution channel structure. Producers have the greatest influence through direct distribution, both nationally and internationally. Authorized dealer systems also allow for a high standardization potential in international distribution policy to be realized.

E-commerce is another type of distribution that has become increasingly important in the past years. The site used to sell goods over the Internet can be standardized extensively in terms of functionality, design, and product presentation.

The respective positive contributions of standardization have to be considered, as they have the potential to counteract possible obstacles resulting from each national market's historical structures.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Unit 9

International Marketing Mix

STUDY GOALS

On completion of this unit, you will have learned …

- … how to design marketing measures with a domestic market orientation.
- … what needs to be considered for marketing measures with a global orientation.
- … how to adjust the marketing mix to match local conditions.
- … why “dumping” is a particular problem for companies with a multinational orientation.

9. International Marketing Mix

Introduction

The specific design of the international marketing mix essentially depends on a company's basic orientation. The main issues for companies to address are whether marketing instruments should be adjusted to the country-specific conditions of new markets and to what extent similar or even identical measures should be used on each market. Each company has to determine their own respective level of differentiation or standardization for each instrument and these decisions must be based on their underlying orientation.

"Home country orientation" (associated with an "ethnocentric" approach) and "global orientation" (associated with a "geocentric" approach) are both characterized by the use of highly standardized marketing tools. Companies with home country orientation focus on their domestic markets as the starting point for standardization and then transfer the established marketing concepts to the foreign markets, adjusting these to only a minor degree for each national market. Companies with a global orientation focus on the global market as their starting point. They base their selection and use of marketing tools on the commonalities between national markets. Thus global orientation has a solid international basis whereas home country orientation is characterized by a strong national starting point. By contrast, "multinational orientation" (associated with a "polycentric" approach) entails a greatly differentiated marketing mix, which includes the development of national marketing strategies that are adjusted to the respective specific conditions of the individual countries.

9.1 Home Country Orientation

Companies with a home country orientation transfer the marketing mix they have developed for their home market to foreign markets. Under a so-called lead country approach, the concepts utilized for market development on the domestic market ("lead country") are implemented on all markets abroad.

A pivotal feature of home country orientation is that companies hardly adapt their marketing policy to accommodate features of international markets. In many cases, the only exceptions are adjustments made for legal reasons or as a result of different technical standards. The home country orientation, with its underlying ethnocentric philosophy, is usually based either on the assumption that concepts implemented in the home country will have positive effects on international markets or that foreign business is not important enough to further adjust or adapt marketing measures.

An approach based on home country orientation can usually only be used when the characteristics of the foreign markets such as communication requirements, distribution structures, possible use of products, etc., are for the most part the same as the home market. If this is not the case, implementing a home country orientation approach for market development needs to be reconsidered (de Mooij, 2004). We will now explore the features of international product, pricing, promotion, and distribution policy for companies with a home country orientation.

Home Country Orientation: International Product Policy

Companies with a home country orientation transfer their largely unmodified products from their domestic markets onto other markets. Such a transfer is based on the underlying attitude that it is not necessary or desirable to adjust to foreign markets. This is also referred to as “ethnocentric standardization” of product policy (Bolz, 1992). Companies will often aim to not only standardize the core features of a product but also all additional components such as packaging, marking, and product-related services. However, changes may have to be made if there are significant language differences, different legal provisions, or deviating technological standards. If there are components that need to undergo major changes before being brought to international markets, companies with home country orientation will often opt to not develop these markets, as this type of orientation is most often linked to realizing economy of scale effects (which are especially relevant in international product policy).

Case study: Built-in flexibility of mobile devices
The cellphone market is a good example of a market where products cannot be globally standardized owing to differences in local technical restrictions. American GSM networks work at frequency ranges of around 850 or 1,900 MHz whereas typical frequency ranges in Europe are around 900 or 1,800 MHz. Mobile device producers have solved this problem by developing triband or quadband phones with built-in flexibility, meaning that they work at both the US and European frequency ranges. Users just have to switch between the different modes. Apart from the major advantage for companies, who can now standardize their products, customers benefit considerably from the capacity to use the same mobile device on different continents.

Brand policy is another important issue. Companies with a home country orientation standardize their brand policy across countries, taking the domestic market appearance of the brand (i.e. brand name or trademark) and transferring it to foreign markets. In doing so, they have to consider aspects such as linguistic or visual differences that may entail small adjustments even when a home country-related approach is pursued (Zentes, Swoboda, & Schramm-Klein, 2010). A commonly cited example is expansion of the fast-food chain KFC “Kentucky Fried Chicken.” As a result of strict laws in Quebec, Canada require businesses with an English name to create a French equivalent, and thus in cities such as Montreal, KFC is known as PFK, “Poulet Frit Kentucky.”

Home Country Orientation: International Pricing Policy

Of all the different marketing mix instruments, pricing policy is perhaps the most influenced by local factors. While price discrimination recognizes the different economic features of each national market and adjusts the prices per country in an attempt to take advantage of consumer willingness to pay different prices, a home country orientation results in an international standardization of prices. This can be done by determining a consistent net price **ex works**, regardless of where the products will be sold eventually. Costs for transport, customs, insurance, or local services then have to be added at the buyer's expense and risk. This approach of "cost-related pricing" corresponds to a dual pricing strategy. However, the focus on determining net prices may lead to the problem that prices on foreign markets are significantly higher than on the home market. This is also called "price escalation." Home country-oriented pricing policy is characterized by the fact that it is neither geared towards consistent net prices nor towards completely standardized retail prices. It is rather geared towards price orientation or price levels on the domestic market.

Ex works
Ex works is an international trade term used when a producer makes a product available to the consumer at the site of their business but all other costs associated with transport are at the buyers expense.

Home Country Orientation: International Promotion Policy

International promotion policy for companies with a home country orientation is based on the promotion strategy already realized on the domestic market. In general, the same communication messages and media are used on all markets (Pepels, 2001). A precondition for such an approach is that the message communicated in promotional activities can both be understood and evoke positive associations on international markets.

Such a standardized promotion policy entails cost advantages, e.g. the possibility to avoid spending money on international promotion policies more than once. Another essential advantage of a standardized approach is that companies may develop an internationally consistent image. In this way, the image remains distinct and the company can utilize synergies that occur through the overlapping of international media (Doole & Lowe, 2004). However, there are disadvantages to standardized promotion policies, resulting from ignoring cultural- and country-specific considerations.

Case study: Ethnocentric promotion policy
US brands such as Polo Ralph Lauren or Tommy Hilfiger utilize standardized ethnocentric promotion strategies. The companies clearly emphasize that the brands come from the USA through the product design (e.g. red, white, and blue colors or integrating/printing the USA flag onto the products) and when designing communication media and messages.

Home Country Orientation: International Distribution Policy

International distribution for companies with a home country orientation involves transferring the distribution strategy from the domestic market onto foreign markets. However, the concepts realized on the home market are only the starting point for determining the distribution strategy; the international distribution policy often entails the development of a more specific distribution system, i.e. establishing "more direct" distribution channels on the markets abroad. Apart from establishing their own distribution institutions such as field service and sales offices (which is often especially important for companies with a home country orientation), the development of contractual distribution systems also plays a major role in establishing distribution channels.

Transferring the home market concept entails one major advantage; that is, the company can use their previous experience to inform policy decisions. The option to develop a standardized (and centralized) distribution system and potentially coordinate distribution across multiple market can result in other advantages. However, to realize such advantages, the internationally active company has to balance potential opportunities (such as market position on the targeted markets and transfer of experience for managing distribution channels) with risks (e.g. dependency on intermediaries) in determining whether a home country distribution policy will work on a foreign market. The company has to decide whether cooperating with the same intermediaries as on the domestic market is a good strategy as well; a standardized approach that falls back on the same intermediaries on different country markets may facilitate and accelerate the access to the new market but it also has the potential to inhibit it.

9.2 Global Orientation

Global orientation, just like home country orientation, is characterized by an extensive standardization of marketing tools, i.e. largely identical product lines, global brands, widely consistent advertising and sales promotion measures, standardized distribution structures, and high levels of international integration. However, this type of standardization is not based on the unmodified transfer of domestic market concepts. Rather, it is designed, right from the start, to cater for the global market (Townsend, Yeniyurt, & Talay, 2009).

As is for home country orientation, country-of-origin aspects may play a role in the degree of standardization. However, **country-of-origin effects** (also known as "made-in image") are more important for companies with a global orientation than home country orientation strategies (Zentes, Swoboda, & Morschett, 2004). Shifting production to foreign markets may result in a "blurring" of the products' original image because the products are no longer necessarily produced in the country in which the brand was created. Internationally active companies with global orientation thus have to decide to what extent they can and want to be perceived as "made-in" their country of production. Depending on the country, the "made-in" association may have positive or negative connotations. When value creation across borders is strong, companies tend to detach their brand from a national image and no longer label the products with "made in", but with "made by" (Pries, 1999). Such a made-by orientation only works with strong brands and, in most cases, is still connected to a certain image of the respective home country.

Country-of-origin effects
Country-of-origin effects refer to the change in consumer attitude towards a product when it is labelled with the country it was "made-in" or "made-by."

Case study: Made-in versus made-by effects
Why does promoting a brand with the label "made by" not always lead to significant effects? The significance of "made by" strongly depends on the respective industry. Volkswagen uses the expressions "Made by Volkswagen" or "Engineered by Volkswagen"

in order to transfer the same values inherent in the label “Made in Germany” to all Volkswagen products, regardless of where in the world they are actually produced. “Made by Mercedes” has also been used for years, focusing on the brand instead of the specific production site. In the automotive industry, however, more than simply using the label “made by” has to be done in order to distinguish the brands. While the “made by” label is very important, consumers still perceive a brand’s home country as extremely significant. For other industries, “made by” is the only relevant factor. This holds especially true for the textile industry. Companies such as Adidas or Nike no longer manufacture their products in the brands’ home countries, but mostly in East Asia. Though consumers are generally aware of this situation and may have some reservations about their clothing being manufactured in these countries, they accept it often because the focus is placed on the brand: the “made by” effect (Brandmeyer, Wittig, & Haller, 2003).

Let’s look now at features of international product, pricing, promotion, and distribution policy for companies with a global orientation.

Global Orientation: Product Policy

Global orientation entails extensive product standardization. Products are designed to address an international target group and companies do not plan to make any adjustments to accommodate for specific national conditions. Products are developed in such a way to allow for a consistent range of use and are only adapted in the face of specific technical or legal regulations in each national market. Built-in flexibility (such as in the case of mobile phones) can be one strategy to realize this type of standardization.

Global products are designed to satisfy the demands of the global market. One option for such conceptual designs is to consider cross-country commonalities (the “common denominator approach”) to create a standardized product (the “premium prototype approach”) (Walters & Toyne, 1989). This approach is more frequently seen with expensive products, as “wealthier” consumer segments show very strong tendencies towards convergence across markets. Using a **premium prototype approach**, products are tailored to a high-end consumer segment and then sold worldwide in a standardized form (Bolz, 1992). Products that are not oriented towards a specific culture such as luxury, investment, and high-tech goods are especially suitable for such global strategies.

Premium prototype approach
A premium prototype approach is when a company identifies the most essential features or demanding customers or conditions of use and designs a standardized product to meet these conditions.

Case study: Barbie goes around the world
Large toy manufacturers have abandoned one of their fundamental beliefs: that children of different nationalities want different kinds of toys. This has had far-reaching consequences, both for children and companies. In the past, major toy manufacturers such as Mattel, Hasbro, and Lego varied their products from country to country. Today, they are essentially developing and selling the same toys in all countries. This has stimulated wide-spread marketing campaigns, in which boys and girls around the globe are introduced to masses of identical dolls, cars, and other toys. Mattel, for instance, brought their “Barbie as Rapunzel” doll onto 59 national markets simultaneously in 2002. In 12 months, the US company generated sales of about 200 million US-dollar

with the Barbie doll and the connected merchandising products, almost 50 % of which was generated from abroad. In many countries, the doll made it onto the list of the 10 best-selling toys, among them the UK, the US, Italy, Spain, France, and Germany. And the doll also become a moneymaker in Asia, prompting Mattel to stop the production of dolls with Asian features (Der Tagesspiegel, 2003).

Global Orientation: International Pricing and Terms Policy

A standardized pricing policy approach is another feature of global orientation. As with home country orientated companies, companies with a global orientation aim to establish a consistent price level on different foreign markets. However, in contrast to the ethnocentric approach, prices are not determined by transferring a lead country's price level to other foreign markets, but rather by determining a level that can be realized on all foreign markets (Doole & Lowe, 2004).

Standardizing prices under a global orientation approach mainly refers to price levels and price positioning. Implementing a consistent price level depends particularly on whether the target groups in the different countries have a similar capacity and willingness to pay. The degree to which markets are related to one another (otherwise known as the level of integration), whereby activity on one market affects activity on another, also plays a key role in price standardization as shown in the following table.

Factors Influencing Price Standardization on Non Integrated and Integrated Markets

Factors	Non integrated markets	Integrated markets
Price discrimination may cause image problems	Comparatively unproblematic as information transparency is low	Problematic due to ongoing and frequent exchange of information
Level of buying power in target countries	Varying	Converging
Preferences of consumers	Varying	Converging
Tendency towards arbitrage	Very low	High
Cost situation	Generally differs	Tends to be similar
Existence of re-importers	Rather isolated	More common

Factors	Non integrated markets	Integrated markets
Inflation and currency risks	May be significant	Generally low; nonexistent in monetary unions (e.g. Eurozone)

Globally oriented companies often address whole global segments as target groups, and these target groups are often characterized by a high level of international transparency. Thus any attempt at price discrimination has the potential to damage the company image and increase uncertainty among consumers. This can in turn increase the risk of grey markets or re-imports (Bradley, 2005).

Case study: European pricing policy of automanufacturers triggers grey markets
Within the EU, almost all car manufacturers pursue differentiated pricing policies, while implementing a high level of standardization in their models. Such an approach makes sense because the willingness to pay for specific cars differs across Europe. This is based on different earning capacities and variations in consumer use (e.g. transportation, leisure, prestige) but it is also connected to different control systems and assemblies in the EU countries. Reduced prices on some markets may result in larger market share and profit growth for these markets but at the same time lead to declining profits on markets with quite high prices. This leads us to the issue of gray markets.

Gray market
A gray market is a market where a product is bought and sold outside of a company's regular distribution channels.

On **gray markets**, goods are legally sold while circumventing private-law agreements, recognized commercial practices, or fiscal regulations. This circumvention is possible because traders or consumers use regional price differences. In this way, individual market participants try to gain advantages. Types of gray markets include (Simon & Wiese, 1992; Diller, 2008; Markus & Chen, 2002):

- Parallel imports: These are non-authorized exports from the product's home country. Parallel imports happen when the price in the home country is lower than in the country where the exports are headed.
- Re-imports: These are non-authorized returns of products to their home country. This practice makes economic sense when the prices in other markets are lower than in the home country.
- Lateral gray markets: This term refers to the non-authorized flow of goods between different countries (independent of the home country). When the home country exports to a second country, the products may be sold on from this second country to a third country where higher prices can be realized. Lateral gray markets are the most difficult to manage for producers.

Global Orientation: International Promotion Policy

Globally oriented promotion strategies involve the worldwide standardization of communication messages and instruments. They usually address a global target group and are not attached to a specific geographical area. The communicated message and the overall appearance of promotional efforts are geared towards cross-country target groups and implemented in a standardized fashion throughout the world. Standardizing promotion policy entails many advantages, in particular, benefits associated with economies of scale (i.e. fixed costs for promotional activities from conceptualization right through to rolling out the international strategy are lower per unit).

Developing a consistent image internationally is one of the essential objectives of a promotion policy. However, standardized approaches are especially problematic when it comes to communication policies. Globally oriented approaches have to consider differences in cultures, languages, and legal regulations (such as advertising bans, constraints regarding the use of specific sales promotion instruments, etc.). This is why, from the very outset of conceptualizing the product and brand, it must be kept in mind that promotion strategies have to be used globally. Companies often respond to this challenge by limiting or avoiding linguistic elements so that the marketing instruments may be used throughout the world. If linguistic elements have to be used, one common approach is to use English as this language is relevant and accepted in many countries. Using English is an example of the common denominator strategy.

In many countries, different types of communication media are available and used to varying extents by the different target groups. Such variety in media consumption and availability is especially important for global promotion policies, even if promotion activities are focusing on converging segments with similar features and behaviors (Czinkota & Ronkainen, 2004). Apart from country-specific media, cross-country media also plays a role for globally oriented promotion strategies, especially as many households have satellite or cable TV, and younger populations are increasingly consuming television via the Internet. Public relations are a major challenge for companies with a global orientation; not only are local target groups are important for international public relations, but the role of cross-country and “global” interest groups continues to grow, and specific instruments need to be used to access these groups.

Global Orientation: International Distribution Policy

Companies with global orientation also standardize their international distribution policies to a large extent. Vertical distribution channels can especially affect the global appearance of the brand. For companies with global orientation, consideration of this effect often result in efforts to develop independent distribution systems. Strategies used to realize these systems are controlled distribution and secured distribution while using own or contractual/cooperative distribution channels.

Case study: EvoBus
Since it was founded in 1995, EvoBus GmbH has been responsible for the European distribution of the bus brands Setra and Mercedes-Benz, companies that both belong to the Daimler Group. Today, the company has its own sales companies in 20 European national markets which also distribute the bus brands, all of them controlled by the central headquarters in Stuttgart. This is almost a standardized distribution system; the form of the European sales companies, which are 100 %-owned subsidiaries, is an integral precondition for implementing such a centralized and standardized approach. The

main advantages of this distribution structure are that the company can get in direct contact with its international customers and maintain control over the entire distribution process from production to sales (EvoBus GmbH, 2016).

Logistics are closely connected to the selection and design of distribution channels. Companies with global orientation often standardize their logistics system as well. Realizing consistent logistics entails advantages such as cost savings (e.g. due to learning curve effects, economies of scale, etc.). However, country-specific conditions must be taken into account with logistics systems, e.g. the number and density or geographical distribution of the customers and suppliers, or different topographical or infrastructural conditions (Zentes, Swoboda, & Morshett, 2004).

9.3 Multinational Orientation

An essential feature of multinational orientation is adjusting the marketing mix to local conditions to the maximum extent possible. This involves country-specific or regional differentiation of the marketing tools. Contrary to the cost efficiencies associated with standardization under home country orientation or global orientation, multinational approaches have comparatively high costs for processes such as market research, product development and manufacturing, and promotion. The main criticisms of adopting a multinational orientation are potential duplication of processes and costs, intensive focus on local conditions at the expense of global growth, and limited capacity to utilize home country expertise and experience.

The following aspects are advantages of multinational orientation (Müller & Gelbrich, 2004):

- Developing markets in a differentiated way facilitates a better understanding of the local markets which improves the company's ability to react to local market requirements (e.g. when consumer behavior or competitive conditions change).
- Differentiation allows for increasing market shares and sales on the foreign markets as market development is more intense as a result of adopting targeted and individualized approaches. Local customers may feel more connected to the brand if considering country-specific conditions leads to the development of "local images" for products.

Multinational Orientation: International Product Policy

Product policy of companies with multinational orientation focuses on adapting products and services to the conditions and demands of local markets. The starting point for such country-specific adaptations is the basic conceptualization of the product mix for foreign markets. Whereas under standardized strategies, existing concepts are multiplied on the respective markets, multinational approaches entail adjusting the product mix to specific countries. This can either be done by diversifying the width or depth of the existing product mix or by using a completely different product mix on new markets.

Product differentiation does not necessarily have to be based on countries but may also be done at the following levels (Berndt, Fantapié Altobelli, & Sander, 2005):

Product differentiation
Product differentiation refers to the process of changing the features of a product to develop it for a specific target group.

- product variants for each country segment
- country-specific product variants in every target country
- a limited number of product variants for comparatively homogeneous country groups
- several product variants for cross-country target groups that have similar needs regardless of where consumers live

Differentiating the core of a product can make international products similar or completely different, depending on the level of modification. When looking at the different types of goods, consumer goods, and foods in particular, generally tend to have a greater level of differentiation than industrial goods (de Mooij, 2004).

Packaging is differentiated due to technical requirements (e.g. due to climatic conditions) as well as legal and societal framework conditions (e.g. regulations about information on ingredients or ecological considerations) which may all vary according to country. Such adaptations often take into account cultural, historical, and linguistic differences, which can be addressed by diversifying the colors, shapes, symbolism, and labeling of not only the product by also the packaging (Homburg & Krohmer, 2009).

Branding policy of companies with multinational orientation is characterized by a differentiated approach for designing trademarks and brand names. In this regard, multinational strategies mean “local brand strategies” or “regional brand strategies,” entailing the design of trademark and/or brand name by country or regions (Schuiling & Kapferer, 2004).

Differentiation efforts are the greatest when it comes to service components, i.e. customer service. Such service features play an important role in the investment goods sector. While clients perceive customer service, spare parts service, training, and the like (all components of aftersales service) as equally important, the service features provided during the sales process also need to be differentiated to a large extent, e.g. product descriptions have to be written in several languages and customer consulting has to be adjusted to specific cultural factors.

Multinational Orientation: International Pricing and Terms Policy

In order to take advantage of the different level of willingness to pay, companies with multinational orientation gear their pricing towards the individual national markets. Many local factors affect the differentiation of pricing policy.

Prices may be determined based on competition, costs, or demand. Different factors in each of the national markets will affect pricing policy in different ways. That said, a multinational price strategy may also lead to largely similar pricing structures on multiple markets if they have similar characteristics. From a macroeconomic or societal view, the following factors lead to different prices (Zentes, Swoboda, & Schramm-Klein, 2010):

- Economic development and buying power of a national market: In order to reach a critical mass of buyers, prices may have to be kept low on some markets. This may result in international price differences.
- Political and currency risks: Companies may have to safeguard themselves against such risks which will be reflected in pricing.
- Rate of inflation: This factor may necessitate differentiated pricing, especially in countries with high levels of inflation.
- Legal framework: This can affect the price range (such as maximum prices defined by the state or price intervals for specific products) or possibilities for vertical price fixing (which is illegal in many countries).
- State influence: International differences between prices may result from tax policies, customs, fees, or consumer protection and producer protection regulations. Multinational pricing policy furthermore has to consider cultural influences and the cultural background of the customers (Müller & Gelbrich, 2004):
- The role of prices and money in society: The attitudes towards money vary in the different cultures. While money is a taboo in some countries, money and wealth are proudly emphasized in others. Many cultures vary regarding the importance of the price level (i.e. saving money vs. ostentatious consumption).
- The role of price as a key stimulus: Prices can be perceived as indicators for product quality or brands. The extent to which this correlation exists depends on the different cultures.
- Perception and assessment of prices: Price perception varies according to culture.
- Willingness to pay: In different cultures, products correspond to specific values and moral concepts and the willingness to pay for them varies accordingly.

Dumping
Dumping is the act exporting a product to a country at a price lower than the standard price charged for that product or at a price lower than the cost of production.

A significant issue in international context is the problem of **dumping**. Dumping is a form of geographical price discrimination. Under dumping strategies, prices for a specific, standardized good that come from sources abroad are considerably lower than in the home country. However, even if such a price discrimination is justified (e.g. due to different market or competitive conditions), it is against international guidelines and illegal in many countries. It is widely considered an unfair and harmful practice, as it threatens the viability of local producers. Many countries implement quotas and tariffs to reduce the potential for dumping. The following article is an example of a long-standing issue with the dumping of steel products in the UK.

Case Study: Steel Imports from China Investigated by European Commission

The European Commission is opening three investigations into steel products made in China as cheap imports add to the woes of the UK industry.

It said it would not allow “unfair competition” to threaten Europe.

Producers of steel in the UK have laid off thousands recently and there have been warnings of more to come.

It is the latest probe into cheap imports from non-EU countries. There are nine other anti-dumping investigations already under way.

The EC said it was investigating steel products including seamless pipes, heavy plates, and hot-rolled flat steel.

Europe also brought in provisional anti-dumping duties on cold-rolled flat steel from China and Russia.

Recent months have been marked by a slew of job loss announcements from the UK's remaining steel producers, most of which is foreign-owned these days. [...]

EU Trade Commissioner Cecilia Malmstroem said in a statement: "We cannot allow unfair competition from artificially cheap imports to threaten our industry. I am determined to use all means possible to ensure that our trading partners play by the rules." [...]

Last month, the steel industry warned of more job losses as a result of the EU's failure to impose high import tariffs.

UK Steel said that Chinese companies have taken more than 45 % of one part of the market, the UK rebar market, having had none of it four years ago. [...]

Demand for steel worldwide has not returned to pre-financial crash levels. With economies—particularly China's—still seeing weak growth, global demand for steel is set to remain sluggish, falling by 1.7 % in 2015 and rising by 0.7 % in 2016. [...]

At the same time, global steel prices have fallen sharply. Meanwhile, China's own economic slowdown has led Chinese producers to seek export markets as their home demand has stalled.

As a result, UK imports of Chinese steel have increased dramatically. In 2014 the UK imported 687,000 tonnes of steel from China compared to 303,000 tonnes the year before.

Source: Bowler, 2016.

There are different types of dumping, depending on the respective objective being pursued. Such goals include a quick entry of foreign markets (penetration dumping), superseding potential competitors (defensive dumping), or compensating cyclical fluctuations in demand (cyclical dumping). However, dumping may also result from market-related forms of pricing (unintentional dumping) (Czinkoita & Ronkainen, 2004; Diller, 2008; Kostecki, 1991).

Multinational Orientation: International Promotion Policy

Multinational orientation implies that international promotion policy is adjusted to suit the local conditions (e.g. at regional or country level). Both the communication message and communication media should be adapted locally. The following list includes some of the parameters to be considered when designing international promotion policy (Papavassiliou & Stathakopoulus, 1997):

- Level of product and brand differentiation: Decisions to be made as part of a promotion policy are based on the design of product and branding policy respectively.
- Promotion policy targets and strategies: These can be geared towards country-specific goals or higher-ranking product life cycle phases.
- Structure of target groups and product range: These essentially determine the way customers are addressed through promotion measures and may eventually also determine the segment-specific buying and decision behaviors both in an individual-psychological sense and a collective sense (e.g. role allocation for shopping).
- Cultural influences and behavior patterns: These impacts vary according to country and target groups in the individual countries respectively.
- Linguistic aspects: In many cases it is not possible to use consistent linguistic elements. Translations do not often work for communicating the same message as the original marketing message.
- Availability of media: Relevant parameters are the types of media, journalistic formats, or broadcasting times.
- Legal frameworks, laws, and regulations: These are relevant to questions of comparative advertising, superlative advertising, or product-specific advertising bans, but also in terms of voluntary self-restriction measures such as advertising restrictions for specific products or target groups (e.g. tobacco products, alcoholic beverages, pharmaceutical products, etc.).

Not only the message but also the media to be used have to be adjusted to local conditions, taking into consideration that alternative communication tools may have different effects. The following table shows areas in which the outcome of communication may be different from the intent due to cultural differences.

Culturally Determined Differences in Communication

Instrument	Culture influences	Consequences for the communicator
Advertising	• Attitudes towards advertising • Decoding of ads	• Problematic due to the exchange of information

Instrument	Culture influences	Consequences for the communicator
Sponsoring	• Acceptance of private, non-profit activities • Binding character of contracts • Cultural matching of sponsors and those receiving sponsorship	• Has to decide whether sponsoring makes sense in the first place • Legal vs. social commitment • Analysis of cultural backdrop of players
Public relations	• To what extent public opinion can be influenced • Role of the media (for coverage of companies)	• Targeted choice of culturally adequate strategies
Sales promotion	• Effects of incentive systems	• Using specific incentives

Multinational Orientation: International Distribution Policy

As part of multinational orientation, country-specific distribution strategies are “customized” strategies. Adjusting to the conditions on the respective markets may even lead to distribution strategies being tailored to specific clients, e.g. in investment goods companies.

In distribution policy, decisions have to be made about both vertical and horizontal distribution, i.e. how many stages distribution should involve and how many players should become active in each of these stages. Distribution structures for multinational oriented companies are affected by some of the following factors (Meffert & Bolz, 1998):

- Product-related factors: the explanation required to use the product, product storage, stability, and transportability, etc.
- Consumer-related factors: market volumes, geographical distribution, buying habits, open-mindedness towards new distribution approaches, etc.
- Competition-related factors: type and number of competitors and competing products, distribution channels of the competitors, competitive pressure, etc.

- Intermediary-related factors: size, financial power, strategic importance of the country market, etc.
- Societal and legal factors: public opinion, moral concepts, existing distribution relationships, distribution excepted for specific intermediaries, etc.

These parameters not only impact the distribution channel structure but also the marketing logistics. Multinational orientation is characterized by adjusting transportation and storage structures to local conditions (e.g. different types of infrastructure, longer transportation routes, climatic differences, etc.), which may entail the use of different means of transportation or a peripheral storage location structure in order to meet these conditions (Zentes, Swoboda, & Schramm-Klein, 2010).

Summary

The marketing mix of companies active in international markets depends on their fundamental orientation: home country, global, or multinational.

Companies with a home country orientation transfer the marketing mix they have developed for their home market onto foreign markets. National products in the home market are transferred in a largely unmodified fashion onto other markets. International promotion policy for these companies is based on the promotion strategy realized on the domestic market. In general, the same communication messages and media are used on all markets. In distribution policy, consistent distribution channels are created by transferring the domestic market's distribution strategy to the foreign markets.

Similar to companies with a home country orientation, those with a global orientation are characterized by an extensive standardization of marketing tools. Global orientation leads to an extensive standardization of products, which are geared towards an international target group and thus not adjusted to local conditions in any way. In pricing policy, companies aim at realizing a consistent price level on different foreign markets. Globally oriented promotion strategies involve standardized communication messages and instruments worldwide. In distribution policy, particularly the vertical distribution channel structure assist in establishing a global appearance/brand.

The essential feature of multinational orientation is adjusting the marketing mix to local conditions to the greatest extent possible. Product policy of companies with multinational orientation focuses on adapting products and services to the conditions and demands of the local markets. Price determination is geared towards the individuality of the country markets. International promotion policy too is adjusted to local situations (e.g. at regional or country level). Country-specific distribution strategies are "customized" strategies.

Knowledge Check

Did you understand this unit?

Now you have the chance to test what you have learned on our Learning Platform.

Good luck!

Congratulations!

You have now completed the course. After you have completed the knowledge tests on the learning platform, please carry out the evaluation for this course. You will then be eligible to complete your final assessment. Good luck!

Appendix 1

List of References

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Appendix 2

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