Unit-4

Product Strategy for International Market

What Is a Product ?

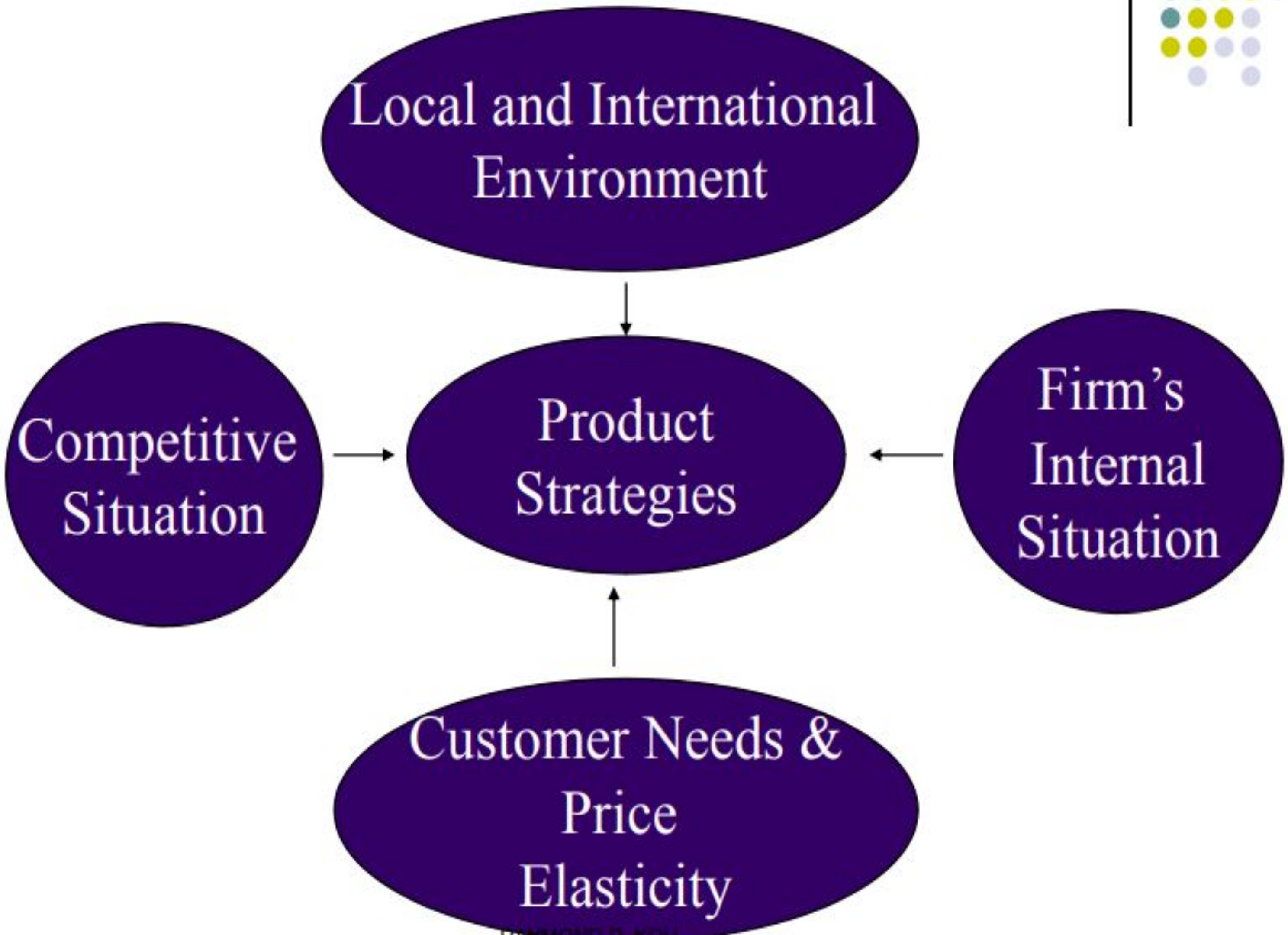
- A product is anything that can be offered to a market to satisfy a want or need.
- Product: A bundle of attributes
- The Total Product
  - Tangible attributes: materials, size, weight, design, packaging, performance, comfort
  - Intangibles: brand image, styling, other benefits (installation, delivery, credit, warranty, after-sale service, return policy)

Products that are marketed:

- Physical Goods
- Services
- Experiences
- Events
- Persons
- Places
- Properties
- Organizations
- Information
- Idea

Component of a Product

- **Core Component**
  It refers to the core benefits or problem solving services offered by the product.
- **Packaging Component**
  It includes the features, quality, design, packaging, branding and other attributes integral to the product's core benefits.
- **Augmented Component**
  It include the support services and other augmented components such as warranties, guarantees and after sales service.


Local and International Environment
Competitive Situation
Product Strategies
Firm's Internal Situation
Customer Needs & Price Elasticity

Identification of Product in International Market

- Firm needs to carry out preliminary screening for the identification of markets and products by conducting market research.
- A poorly conceived product often leads to marketing failure.
- Kellogg’s, Pizza Hut, McDonald’s and Dominos have all run into trouble in Indian market at one point of time or other.

The basic mistakes that these firms made were:

- Gross overestimation of spending pattern of Indian consumers:
- Despite the ability to buy products, the consumers in South Asia are very cautious and selective when spending. They look for value for money in their purchase decisions compared to their western counterparts.
- Gross overestimation of the strength of their transitional brands:
- These MNCs estimated their brand image very high in the international market and the globalization of markets was considered to be a very potent factor for getting a large number of customers for their products, as happened in African and east Asian countries.

- Gross overestimation of the strength of the ethnic Indian Product:
- As Indian food is traditionally prepared on small scale and mass manufacturing and mass marketing of Indian products was missing, it was wrongly believed that the food products manufactured by multinationals would change the traditional eating habits of Indian consumers. They fail to recognize the variety and strngth of ethnic Indian foods.

Developing Products for International Markets

- Ethnocentric approach
- Polycentric approach
- Regiocentric approach
- Geocentric approach

Standardization VS Adaptation

- A firm operating in international markets has to make a crucial decision, whether to sell a uniform product across countries or customize the product to meet different market requirements.
- Firms needs to carry to careful cost-benefit analysis before arriving at a decision.
- It has been observed that most firms attempt to project a uniform product image across global market but often customize the perceived value of the product to suit customer sin the target market.

- While retaining its brand name, firm attempts to customize the augmented product component such as feature, packaging and labeling.
- The support service component including warrantees, delivery schedule, installation and payment terms are most often adapted to suit the needs of the target market.
- Generally industrial product and services are insensitive to cross-country preferences and may be marketed as standardized products, whereas foods, fads, fashion and styles are highly sensitive and customer preferences for these products vary widely among markets.

Example - McDonalds

- It serves *hamburger* in USA*, teriyaki chicken* and *teriyaki McBurger* in Japan and has replaced its traditional *Big Mac* with the *Maharaja Mac* in India.
- Despite the image of a family restaurant MacDonald's serve beer in Germany.
- In New Zealand McDonald's serves its *Kiwiburger with beetroot sauce.*
- In Singapore it serves fries with chilli sauce besides chicken rice.
- The Dutch veggie burger, made of spiced potatoes, peas, carrots and onions is served in Dutch market.

Product Standardization

Product standardization refers to the process of marketing a product in overseas markets with little changes except for some cosmetic changes, such as modified packaging and labeling.

- Projecting a global product image.
- Catering to customers globally.
- Cost savings in terms of economies of scale in production.
- Designing monitoring various components of marketing mix economically.
- Facilitating the development of a product as global brand.

- Factors favoring product standardization:
- High level of technology intensity
- Formidable adaptation cost
- Convergence of customer needs worldwide.
- The country of origin impact

Product Adaptation

- Making changes in a product in response to the needs of the target market is termed as product adaptation or customization.
- Adaptation of a product may vary from major modifications in product itself or to its packaging, logo, or brand name.

- It enables a firm to tap markets, which are not accessible due to mandatory requirements.
- It fulfils the needs and expectations of customers in varied cultures and environments.
- It helps in gaining market share

Mandatory Factors Influencing Product Adaptation in International Market

Customizing products includes modifications that a firm has to carry out in international markets not as a matter of choice but as a compulsion.

- Government Regulations:
- FDA (Food and Drug Administration) approval in USA.
- Codex Standards in EU.
- Use of natural dyes instead of azo dyes in EU.
- Anti-smoking warning in India and some other developing nations.

- Standards for Electric Current

  The electric current standards varies form country to country. In India electric current of 220 volts at a frequency of 50 Hz is used, while in USA it is 110-120 volts at a freuency of 60 Hz.
- Operating System
- Measuring System: (Kg/M/L)/(Pond/feet/gallon)
- Packaging and Labeling Regulations:

Voluntary Factors Influencing Product Adaptation in International Markets

- Consumer Demographics





- Culture
- Local Customs and Traditions
- Condition of use
- Price

Trade-Off Strategy between Standardization and Adaptation

- A firm operating in international market should carry out a cost-benefit analysis.
- Selling standardized products in international markets leads to economies of scale but the purpose of business is not to save on cost but to maximize market share. And profitability
- Customization of products involves substantial commitment of financial resources and adversely affects economies of scale. Therefore a trade-off has to be evolved for the extent of product adaptation in international markets

Product Quality Decisions for International Markets

- Product Quality is defined as a set of features and characteristics of a good or service that determine its ability to satisfy needs.
- In international markets quality plays an important role in maintaining goodwill and image in the market.
- A firm has to not only adapt mandatory quality requirements of the target market but also achieved quality excellence.

- Several Indian companies have achieved quality excellence and made their mark in international market.
- For instance General Motors awarded Sundaram Clayton its Best Supplier Award for two consecutive year.
- Ford presented the ‘Gold World Excellence Award’ to Cooper Tyres.
- TVS Motor Company was awarded prestigious Demin Prize for total quality management.

Indian companies receiving Demin Prize

- 1998 - Sundaram-Clayton Limited, Brakes Division.
- 2002 – TVS Motor Company and High Tech Carbon.
- 2003 – Brakes India Ltd, Mahindra & Mahindra, Rane Brake Lining Ltd., Sona Koyo Steering Ltd., Birla Cellousic.
- 2004 – Krishna Maruti Ltd (Seat division),
- 2007 – reliance Industries Ltd.
- 2008 – Tata Steel Ltd.
- 2010 - National Engineering Industries Limited (India)
- 2011 – Sanden Viaks (India)Ltd.

Product Life Cycle in International Market

- International markets follow a cyclical pattern over a period of time due to variety of factors such as :
- Level of innovation and technology
- Resources
- Size of market
- Competitive structure
- Taste and preferences of consumers

IPLC Stages

	Introduction	Growth	Maturity	Decline
Production	In country of innovation due to - Availability of technical know how - Manpower - Frequent product modifications	In innovating and other developed countries	Multiple Locations	Mainly in developing countries
Pricing Strategy	Product market at premium prices in other countries	Beginning of price competition and competition determines price	Product differentiation pricing	Intense competition based
Product Attributes	Emphasis on customer feedback and product modifications	Standardization of product attributes	Emphasis on creating product differentiation	Product attributes get well established and offered by several competitors
Marketing Strategy	Marketed primarily in home country; beginning of export to other developed countries	Export grows to other developed countries and some developing countries	The innovating company begins marketing from its production in other bases developed countries	Market develops in other developing and least developed countries

- Stage 1: Introduction Stage:
- Generally, majority of new products inventions are made in highly standardized and developed countries.
- Market Skimming Pricing Strategy
- In early stages, it is only within the means and capabilities of customers in high income countries.
- Stage 2:Growth
- The demand in the international market exhibits and increasing trend and innovating firms find more opportunities in export.
- Moreover as the market begins to mature in developed countries, an innovating firms face increased international competition in target market.
- In order to defend its position in international market, the firm establishes its production locations in developing countries.

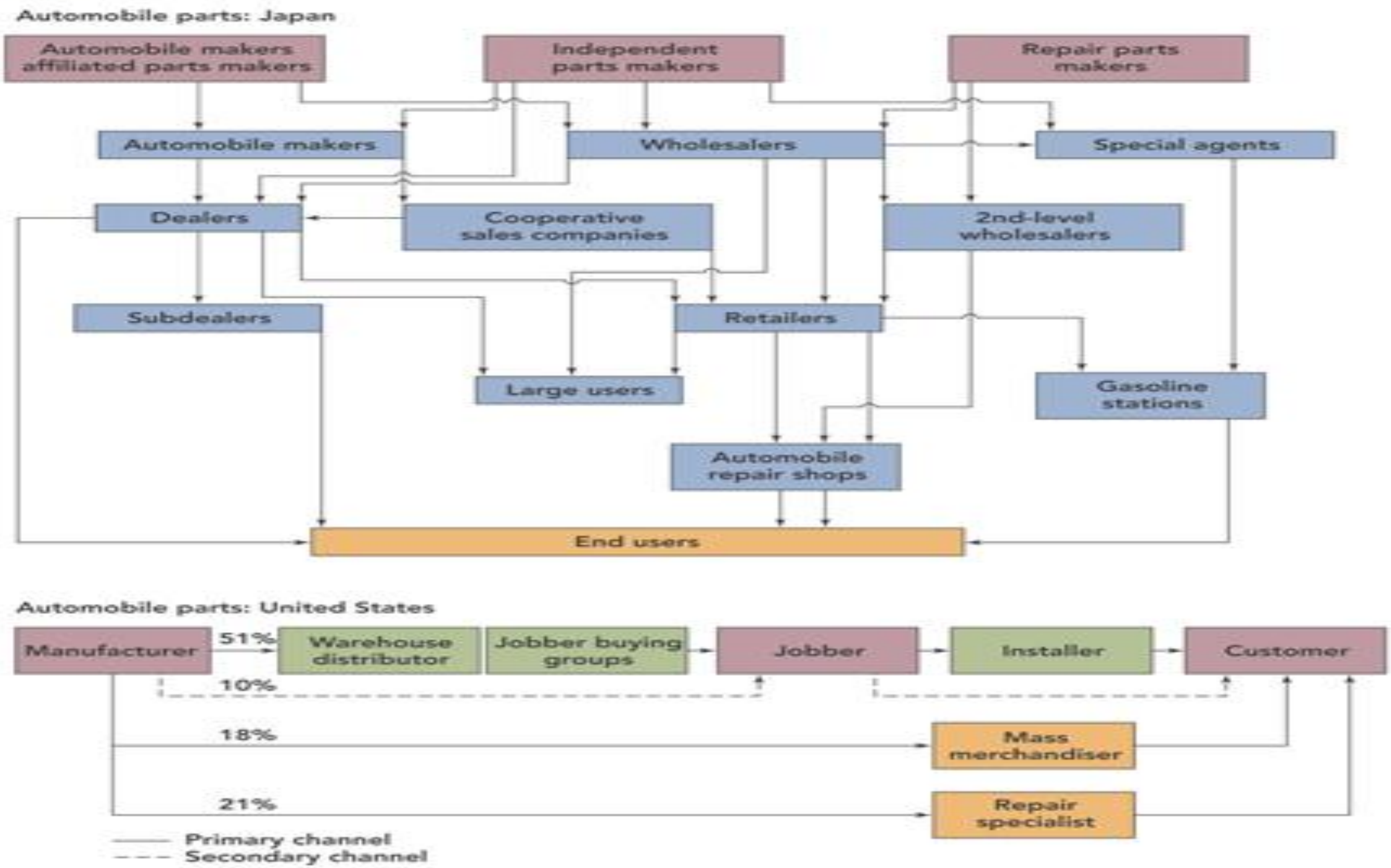
Global Distribution and Logistics

International Logistics

- The word '*logistics*' is derived fro a French word '*loger*' that means the art of transport and supply of troops.
- Conceptualization, design, and implementation of a system for direct flow of goods and services across national borders in termed as international logistics.
- The logistics consists of planning and implementing the strategy for procuring inputs for the production process to make goods and services available to the end consumers.

Structure of Distribution Channel in International Markets

Exhibit 14.1 Comparison of Distribution Channels between the United States and Japan



- High Density of Middlemen
- Channel Control
- Business Culture
- Legal System

India-example of Spice

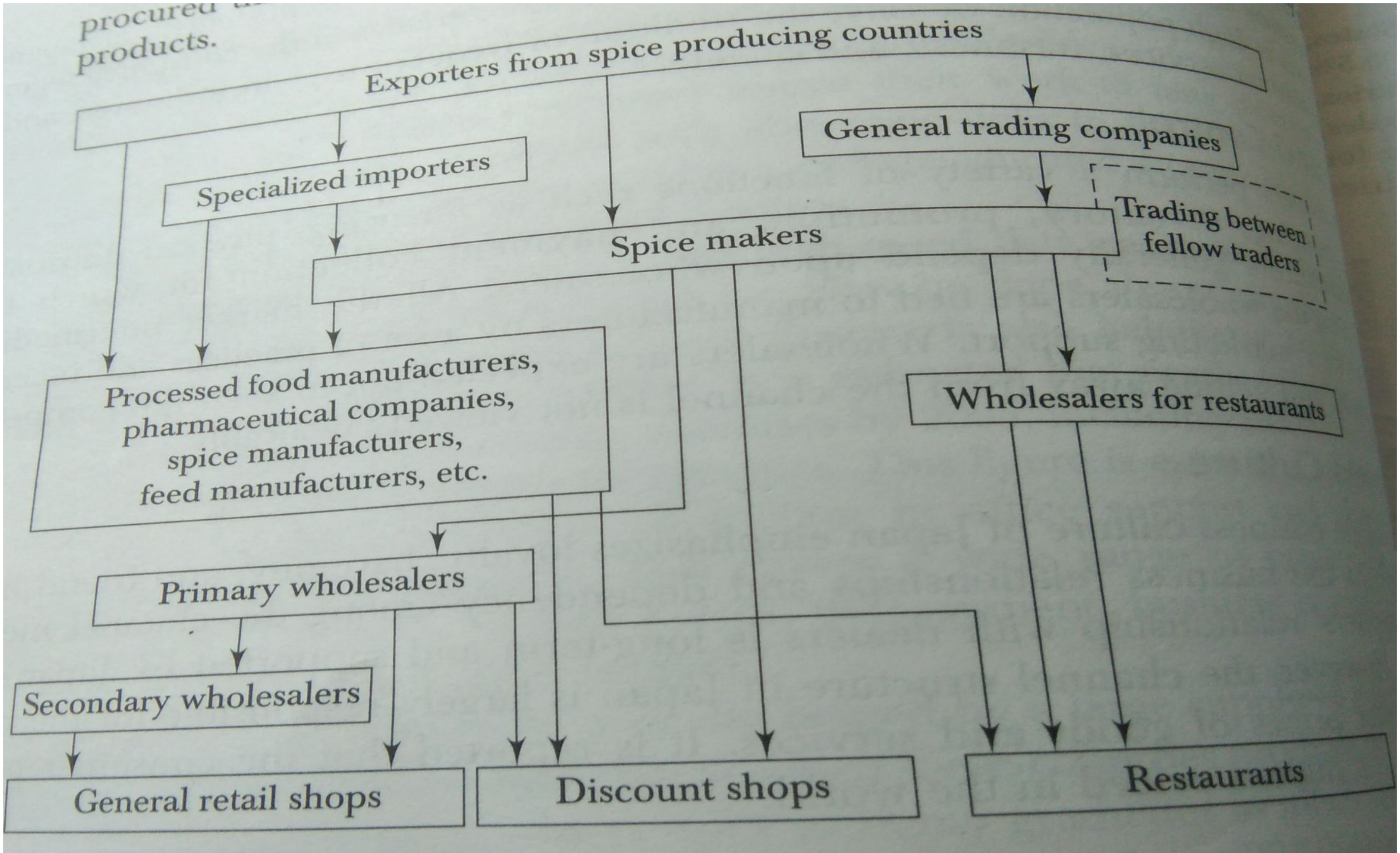
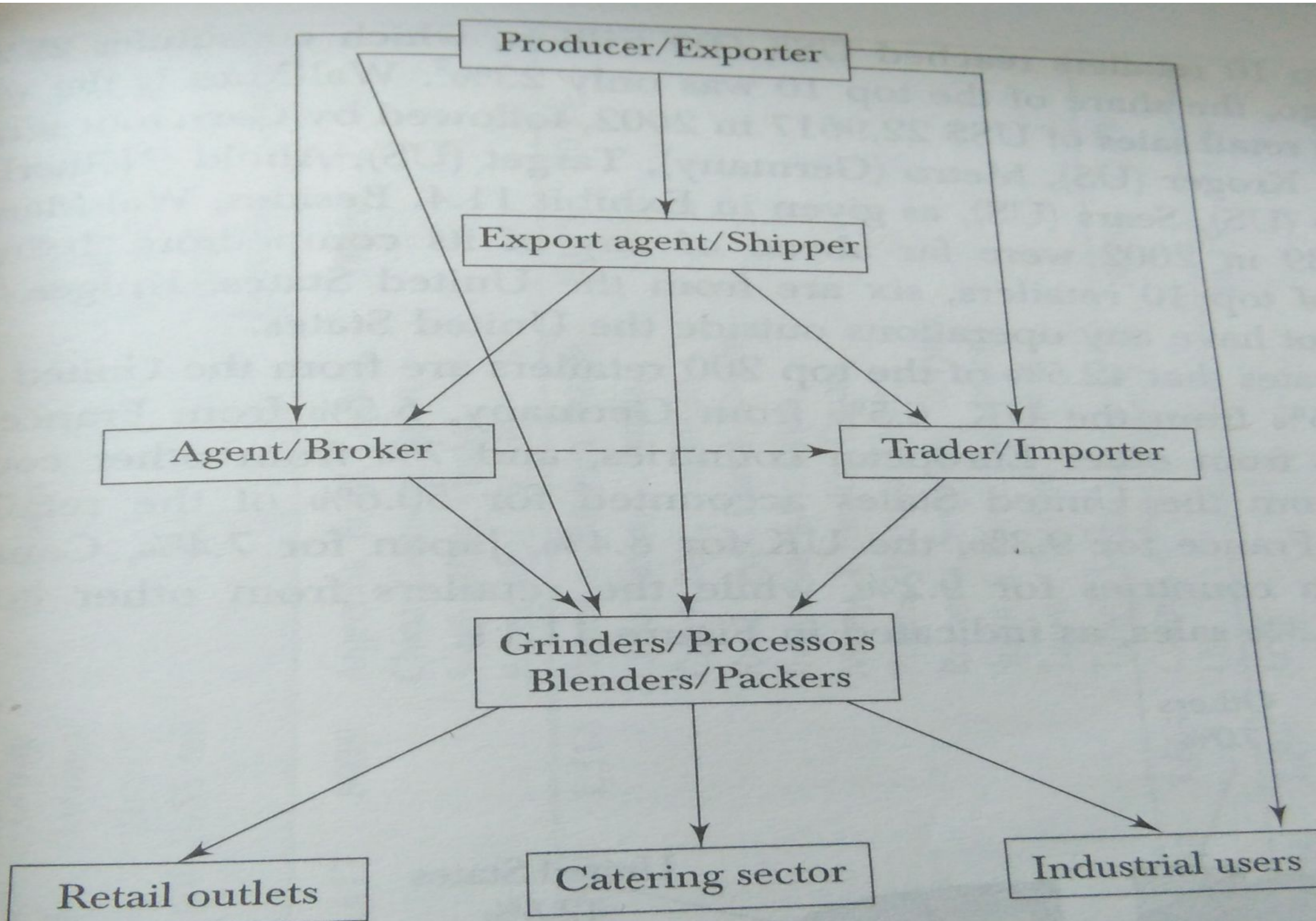


Fig. 11.8 Distribution Channels for Spices in Japan



Producer/Exporter
Export agent/Shipper
Agent/Broker
Trader/Importer
Grinders/Processors
Blenders/Packers
Retail outlets
Catering sector
Industrial users

Logistics has two distinct component:

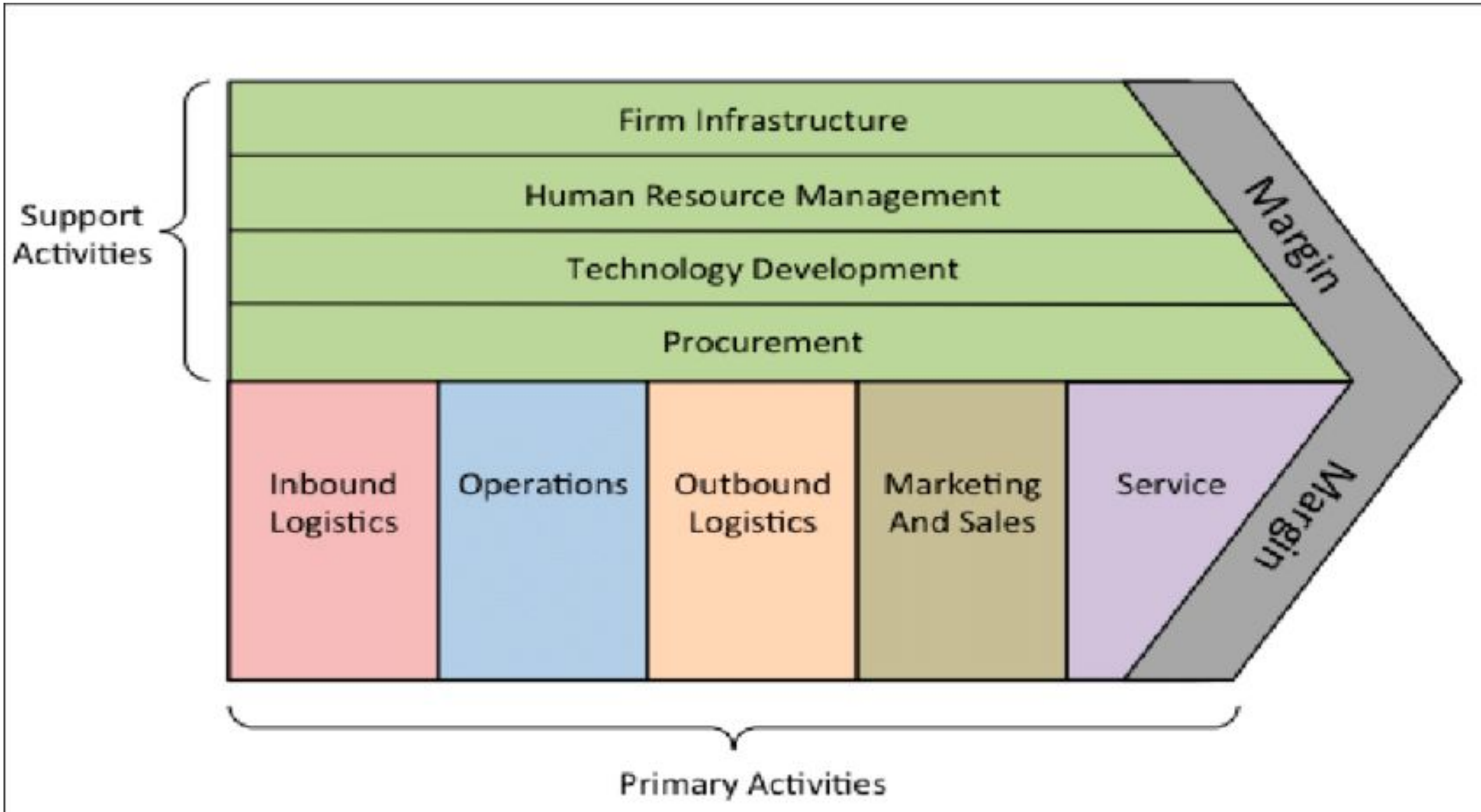
- Materials Management

  In involves procurement of inputs such as raw materials and components for processing or value addition by the firm and is also known as inbound logistics.

- Physical Distribution

  It involves all the activities such as transportation, warehousing and inventory carried out to make the product available to the end customers. It is also known as outbound logistics.

Logistics and Value Chain Concept



Channels of International Distribution

- Channels of distribution or marketing are the set of the interdependent organizations involved in the process of making a product or service available for use or consumption.
- Major functions performed by distribution channels are:
- Physical flow of goods
- Transfer of ownership
- Realization of payment
- Flow of information
- Promotion flow

Selecting Channels or International Distribution

- International marketing objective of firm.
- Financial resources
- Organizational structure
- Experience in international market
- Firm’s marketing image
- Existing marketing channel of the firm
- Speed of market entry required.
- Legal implications
- Synergy with the elements of marketing mix

- Alternative channel strategies in terms of market coverage:
- Exclusive Distribution
- Selective Distribution
- Intensive Distribution

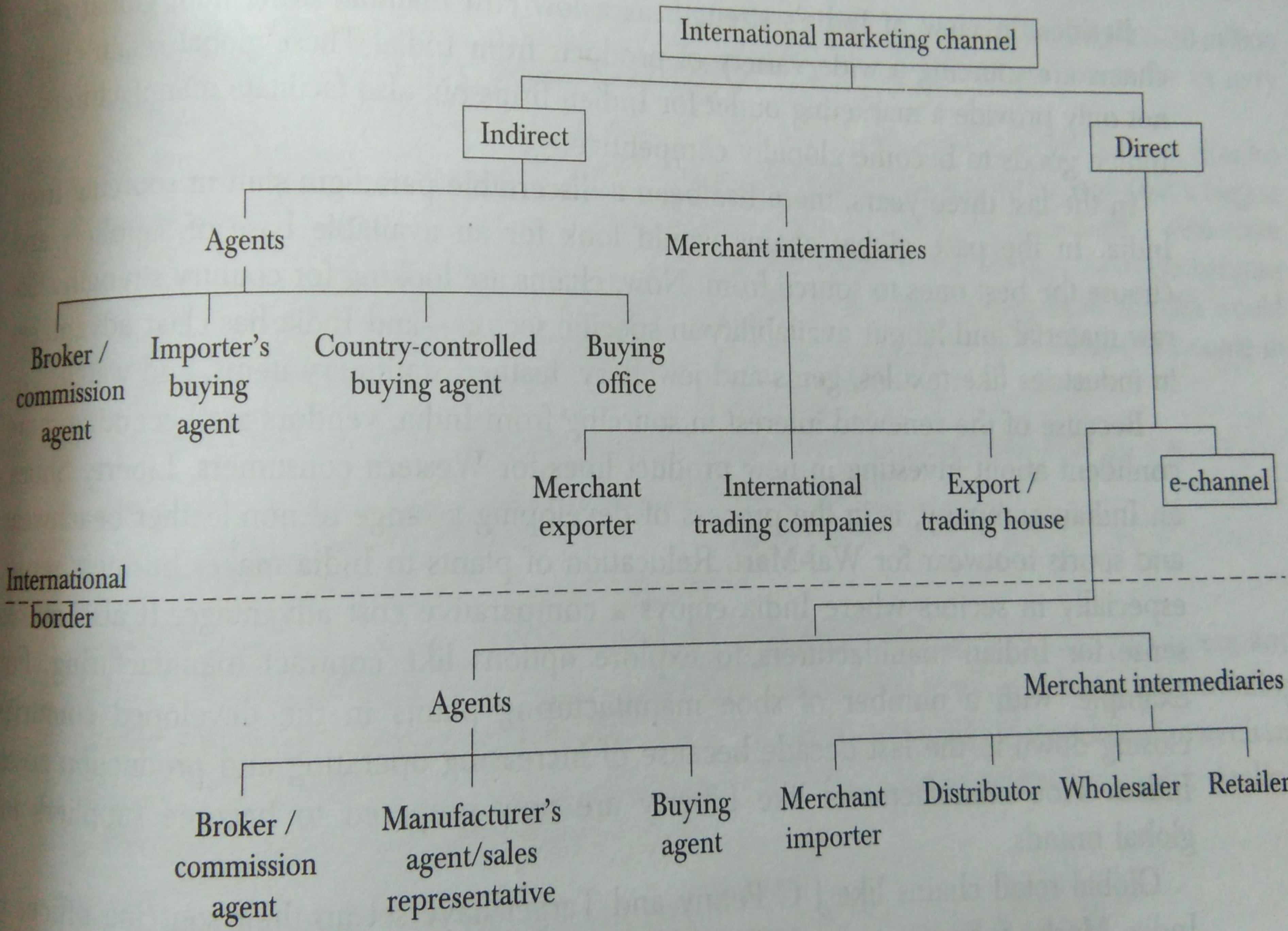
Types of International Distribution Channel

Indirect Channels

- Since the firm has to deal with the market intermediary in the domestic market, it needs little investment and market experience.
- Low cost
- Dependence
- Share in profit
- Little knowledge about market
- No contacts with direct marketing channels in overseas market

Direct Channels

- Close relationship with buyers
- Insight of market and consumer needs
- Greater control.



International marketing channel
Indirect
Direct
Agents
Merchant intermediaries
Broker / commission agent
Importer's buying agent
Country-controlled buying agent
Buying office
Merchant exporter
International trading companies
Export / trading house
e-channel
International border
Agents
Merchant intermediaries
Broker / commission agent
Manufacturer's agent/sales representative
Buying agent
Merchant importer
Distributor
Wholesaler
Retailer

Indirect Channels

(1) Agents:

- Broker/Commission Agents
- Importer's Buying Agents
- Country-Controlled Buying Agents
- Buying Offices (Wallmart, JC Penny, Taregt, Mark and Spencer)

(2) Merchant Intermediaries:

- Merchant Exporter

  The merchant exporter collects produce from several manufacturers or producers and export directly in their own name.

- International Trading Companies

  Generally large company that accumulate, transport and distribute goods in various markets e.g. East India Company (1600), Dutch East India(1602), French *Compagnie des Indes Orientales (1664).*

- Among the top 10 global trading companies, 5 are from Japan

- Export/Trading House
- These are the domestic market based large firms involved in a certain minimum level of export activities. State Trading Corporation (STC), Metals and Minerals Trading Corporations (MMTC)

Direct Channels

(1)Agents (Located in overseas markets, do not take title of the goods and operate on behalf of principal)

- Overseas based Commission Agents/Broker
- Manufacturers’ Export Agents or Sales Representative
- Overseas based Buying Agents

(2) Market Intermediaries:

Distributor

- The distributor in the target market purchase goods and subsequently sell them to either a market intermediary or the ultimate customers.
- The distributor take title of goods and assume full risk and responsibility of the goods
- The distributor have contractual agreements with the exporting manufacturers and deal with them in long term basis.
- Under the contract, distributors are authorized to represent the manufacturer and sell their good sin assigned foreign territory.

The basic functions of distributors are:

- To estimate market demand
- To conduct customer’s need analysis and provide consistent market feedback.
- T break bulks
- To process orders and proper documentation and billing.
- To store goods and maintain inventory
- To transport goods
- To undertake sales promotion and advertising
- To offer market credit
- To handle complaints, guarantees, maintenance, after sales service, repair and instructions for use.

Wholesaler

- Overseas-based wholesaler purchases the goods from merchant exporter or distributor and generally sell them to retailers.
- In high-income countries, a limited number of large wholesalers serves a large number of retailers.
- In Finland the largest wholesaler, Kesko, serves more than 11500 retailers across the country.

- Retailers
- Retailers buy goods from wholesalers or distributors and sell them to the ultimate customers in international market.
- Retailers performs crucial function of carrying inventories, displaying products at the sales outlet, point of purchase promotion and extending credit.
- Retailers do provide market feedback

- E-Channels
- The breakthrough in information technology has revolutionized the international marketing channels.
- It has facilitate din overcoming logistics barriers such as distance, speed and cost of transport to international markets, especially in sectors related to service.