CHAPTER 20: TAPPING INTO GLOBAL MARKETS

Major decisions in international marketing

Deciding whether to go abroad

Deciding which markets to enter

Deciding how to enter the market

Deciding on the marketing program

Deciding on the marketing organisation

Deciding on whether to go abroad

Factors that draw companies into the international arena:

- Some international markets present better profit opportunities than the domestic market.
- The company needs a larger customer base to achieve economies of scale.
- The company wants to reduce its dependence on any one market.
- The company decides to counterattack global competitors in their home markets.
- Customers are going abroad and require international service.
- Favorable government policies
- Financial strength of the company
- Rapid technological growth
- Geographic Factors
- Greater choice for consumers
- Exchange of technical know-how
- International co-operation and understanding

Before making a decision to go abroad, the company must also weigh several risks:

- The company might not understand foreign preferences and could fail to offer a competitively attractive product.
- The company might not understand the foreign country’s business culture.
- The company might underestimate foreign regulations and incur unexpected costs.
- The company might lack managers with international experience.
- The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property.

The internationalization process typically has four stages:

Stage 1: No regular export activities

Stage 2: Export via independent representatives (agents)

Stage 3: Establishment of one or more sales subsidiaries

Stage 4: Establishment of production facilities abroad

Deciding which markets to enter

Waterfall approach - gradually entering countries in sequence

Sprinkler approach - entering many countries simultaneously

Born global approach

Entry into developed countries, developing countries, under-developed countries

Neighbouring countries, Non-neighbouring countries

Market Attractiveness is influenced by income and population, product and communication adaptation costs, dominant foreign firms as barrier to entry, political-legal-culture environments

Market risks

Competitive advantages on 4P’s – product, price, place, promotion, marketing infrastructure (technology), management and human resources, and capital resources

Regional Trade Areas and Agreements

1) The European Union

27 member nations, Common currency – Euro, Official languages – 24

2) NAFTA (North American Free Trade Agreement)

Member nations – USA, Canada, Mexico

3) MERCOSUR

Member nations - Argentina, Brazil, Paraguay, Uruguay

Adding to this - 7 associated members

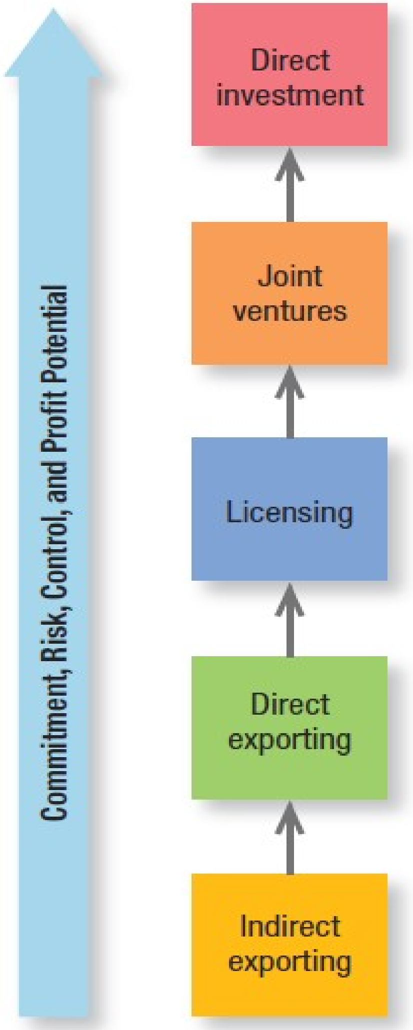
4) APEC (Asia Pacific Economic Cooperation)

21 member nations

5) ASEAN (Association of Southeast Asian Nations)

10 member nations

Deciding How to Enter the Market



Once a company decides to target a particular country, it must choose the most suitable mode of entry.

Its broad choices are

- Indirect exporting
- Direct exporting
- Licensing
- Joint ventures
- Direct investment

Each succeeding strategy entails more commitment, risk, control, and profit potential.

1) Indirect export

Domestic-based export merchants: buy the manufacturer’s products and then sell them abroad.

Domestic-based export agents: including trading companies, seek and negotiate foreign purchases for a commission.

Cooperative organizations: conduct exporting activities for several producers—often of primary products such as fruits or nuts—and are partly under their administrative control.

Export-management companies: agree to manage a company’s export activities for a fee.

Merits

- Less investment: The firm doesn’t have to develop an export department, an overseas sales force, or a set of international contacts

- Lesser risk

Demerits

- Lower profit margin

- Dependence on commitment of the partner

2) Direct export

• Domestic-based export department or division.

• Overseas sales branch or subsidiary: The sales branch or subsidiary handles sales and distribution and promotion as well. It often serves as a display and customer service center.

• Traveling export sales representatives: Home-based sales representatives travel abroad to find business.

• Foreign-based distributors or agents: These third parties can hold limited or exclusive rights to represent the company in that country.

Many Companies adapt their Web sites to provide country-specific content and services

Many companies use direct or indirect exporting to “test the waters” before building a plant and manufacturing their product overseas.

3) Licensing

The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty.

Management contract – Another firm performs the necessary managerial functions in return for a fee.

Contract manufacturing - the firm hires local manufacturers to produce the product.

Franchising - a more complete form of licensing. The franchisor offers a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchisor.

4) Joint venture

Joint Venture can be described as a business arrangement, wherein two or more independent firms come together to form a legally independent undertaking, for a stipulated period, to fulfil a specific purpose such as accomplishing a task, activity or project.

The firms joining hands in a joint venture are called Co-venturers. The co-venturers agree to share the profits and losses of the business in an agreed ratio. Once the term or purpose of the joint venture is complete, the agreement comes to an end, and the accounts of the co-venturers, are settled and then dissolved.

Why joint ventures?

- To enter foreign market and even new or emerging market.
- To reduce the risk factor for heavy investment.
- To make optimum utilisation of resources.
- To gain economies of scale.
- To achieve synergy.

5) Direct investment

The ultimate form of foreign involvement is direct ownership: The foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities.

Why direct investment?

- The firm can secures cost economies through cheaper labor or raw materials, government incentives, and freight savings.
- The firm can strengthens its image in the host country because it creates jobs.
- The firm can deepen its relationship with the government, customers, local suppliers, and distributors, enabling it to better adapt its products to the local environment.
- The firm retains full control over its investment and can develop manufacturing and marketing policies that serve its long-term international objectives.
- The firm ensures its access to the market in case the host country insists that locally purchased goods must have domestic content.

Deciding on the marketing program

International companies must decide how much to adapt their marketing strategy to local conditions

Globally standardized marketing program and adapted marketing program

Globally standardized marketing program

Advantages

- Economies of scale in production and distribution
- Lower marketing costs
- Power and scope
- Consistency in brand image
- Ability to leverage good ideas quickly and efficiently
- Uniformity of marketing practices

Disadvantages

- Ignores differences in consumer needs, wants, and usage patterns for products
- Ignores differences in consumer response to marketing programs and activities
- Ignores differences in brand and product development and the competitive environment
- Ignores differences in the legal environment
- Ignores differences in marketing institutions
- Ignores differences in administrative procedures

Hofstede's cultural dimensions theory

Individualism versus collectivism—In collectivist societies, the self-worth of an individual is rooted more in the social system than in individual achievement (high collectivism: Japan, Russia, India; low: United States).

High versus low power distance—High power distance cultures tend to be less egalitarian (high: Russia, India; low:Nordic countries).

Masculine versus feminine

Masculinity - a preference in society for achievement, heroism, assertiveness and material rewards for success

Feminine - a preference for cooperation, modesty, caring for the weak and quality of life

(highly masculine: Japan; low: Nordic countries)

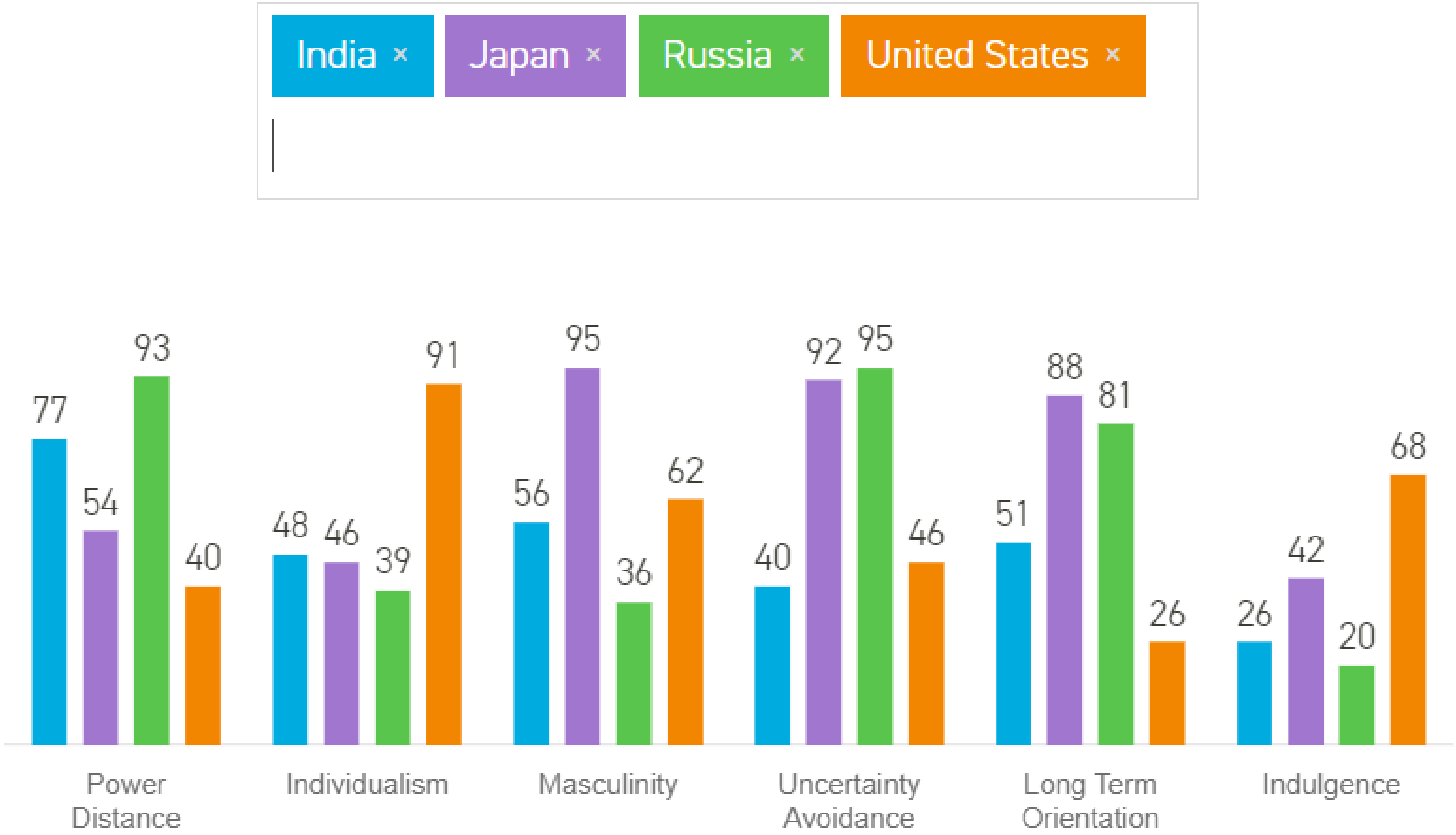
Weak versus strong uncertainty avoidance—Uncertainty avoidance indicates how risk-aversive people are (high avoidance: Greece, Russia, Japan; low: Jamaica).

Long-term versus short-term orientation (High: Japan, Russia; Low: USA)

Indulgence versus restraint

Indulgent cultures believe it is okay for people to have fun and enjoy life (USA)

Restrained cultures have strict social norms (Russia, UAE)


India ×
Japan ×
Russia ×
United States ×
77
54
93
40
48
46
39
91
56
95
36
62
40
92
95
46
51
88
81
26
26
42
20
68
Power Distance
Individualism
Masculinity
Uncertainty Avoidance
Long Term Orientation
Indulgence

Marketing adaptation

A company should review the following elements and determine which add more revenue than cost if adapted:

- Product features
- Labeling
- Colors
- Materials
- Sales promotion
- Prices
- Advertising media
- Brand name
- Packaging
- Advertising execution

Five international product and communication strategies

		Product		
		Do Not Change Product	Adapt Product	Develop New Product
Communications	Do Not Change Communications	Straight extension	Product adaptation	Product invention
	Adapt Communications	Communication adaptation	Dual adaptation	

Global Pricing Strategies

- Price escalation

Three choices for setting prices in different countries

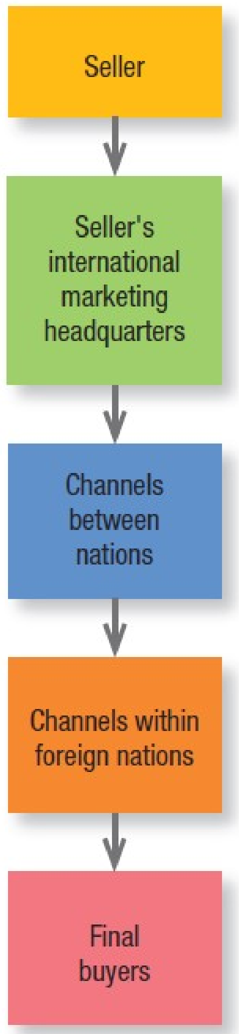
a) Set a uniform price everywhere

b) Set a market-based price in each country

c) Set a cost-based price in each country

- Transfer prices
- Gray markets
- Counterfeit products

Global Distribution Strategies



Channel entry

Seller’s international marketing headquarters - the export department or international division makes decisions about channels and other marketing activities.

Channels between nations - Decisions made in this link include the types of intermediaries (agents, trading companies), type of transportation (air, sea), and financing and risk management.

Channels within foreign nations

Channel differences – Distribution channels can vary across countries.

Country of Origin Effects

Building country images

Consumer perceptions of country of origin

Deciding on the marketing organisation

- Export department
- International division
- Global organization

THANK YOU