Block

2

INTERNATIONAL MARKETING STRATEGY

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Our E-mail id: cwfeedback@icfaiuniversity.in

Centre for Distance and Online Education (CDOE)
The ICFAI Foundation for Higher Education
(Deemed-to-be-University Under Section 3 of UGC Act, 1956)
Donthanapally, Shankarapalli Road, Hyderabad- 501203

BLOCK 2: INTERNATIONAL MARKETING STRATEGY

Not all business entities entering the international market taste the success of being a global or a multinational firm. This is because different markets require different, distinctive approaches based on consumer demand and competition. A calculated marketing strategy creates opportunities while a common approach could be perilous. Block 2 of the course on International Marketing deals with the 'International Marketing Strategy'. The block contains four units. The first unit throws light on the entry strategies in international markets. The second unit focuses on explaining the elements of marketing information systems and research. The next unit discusses the importance of segmentation, targeting, and positioning while venturing into varied markets defined by the specificities of the country under consideration. The last unit is about the planning process – planning that is involved right from pricing the product to its distribution system while handling international consumers.

A firm has to look into various aspects like culture, degree to adaptation to local market, risk of return on investment etc. while entering a foreign market. A 'standard' market entry strategy will not work. A marketer, therefore, has to seek variety of ways. Unit 5, Entry Strategies in International Markets, deals with different modes of entry that a multinational corporation can adopt to enter a new country, and the factors that need to be considered while choosing the mode of entry. It discusses the factors on which the timing of the entry into international markets is dependent upon. The unit ends with a discussion on how social ties help in communicating information about international opportunities among organizations.

Evaluating the performance of the firm is vital for making strategic future business plans. This precisely explains the need for a rigorous marketing research supported by a strong marketing information system. Unit 6, Marketing Information Systems and Research, is about the elements that define Market Information Systems. The unit discusses the vital role of conducting marketing research, and how to determine the information requirements. It also discusses the different levels of analysis and types of decision taken by the international sales and marketing managers. Data that can be gathered from primary and secondary sources are explained in detail with a hint on the problems involved in international marketing research.

Tapping the needs of the customers at the right time and aligning the products to meet their needs is the spindle that turns value-delivery to superior customer experience. Unit 7, Segmentation, Targeting and Positioning, defines and discusses global market segmentation. It discusses how to target international markets. The unit also examines the vitality of product positioning for the business unit, while playing in the global market. The unit winds up with a discussion on the marketing strategies that should be adopted in the less developed countries as the consumers of such countries also contribute to the market share of the businesses.

For scrutinizing the role of strategic market planning, planning process is necessary. This forms the core content of Unit 8, which is Planning Process. Capturing the market involves proper pricing. This unit examines pricing, distribution, and promotion strategies. The unit further explains product life cycle and the international product policy. The highly challenging competitive environment of the global market is discussed and the need for meticulous planning to take on such competition is illustrated emphatically. While the resources that will be available or used while doing international marketing is important to probe, equally important should be the knowledge on government actions while promoting products in international countries. Importance and role of such factors is provided towards the end of this unit.

Unit 5

Entry Strategies in International Markets

Structure

"There's no locality on the web - every market is a global market"

- Ethan Zuckerman

5.1 Introduction

Global companies have different modes of entry into various international markets. Internet and web are accelerating the globalization by removing the physical borders and barriers.

Of late, globalization has become a very popular concept with more and more organizations worldwide crossing domestic borders to enter into the international business arena.

A significant outcome of globalization has been the development of global brands by multinational firms in both developed and emerging markets. Global brands are brands that consumers can find under the same name in multiple countries that use centrally coordinated marketing strategies. Global brands exert considerable influence on economic, cultural, and psychological fronts. On the psychological front, in particular, they provide consumers with a sense of identity, belongingness, and accomplishment. In emerging markets, consumers prefer global brands for their globalness and derive self-expressive and status benefits from their consumption. This has created opportunities for national firms to develop global brands. Moreover, global firms are betting their future on the success of their brands in emerging markets. Hence the decision of entry becomes really crucial for the firms in order to succeed in worldwide markets.

In the previous unit, we discussed emerging markets and key trends therein. In this unit, we will first discuss the different modes of entry that a multinational corporation can implement, and the factors that need to be considered while choosing a mode of entry. We shall then move on to discuss the factors on which the timing of the entry into international markets is dependent upon. Finally, we shall end the unit with a discussion on how social ties help in communicating information about international opportunities among organizations, and also about the factors that need to be considered while entering into an international market.

5.2 Objectives

After reading through this unit, you should be able to:

- Rate the high control mode of entry for exercising higher control of operations in the international market
- List the different options available to a marketer when low control mode of entry is chosen, for ensuring consistent and moderate returns from international operations
- Measure the variables determining the entry mode to strike a balance between growth with market size and related risk
- Assess the factors behind the timing of entry into international markets to sustain competitive advantage
- Recognize the importance of social ties in providing information about opportunities in the international markets.

5.3 Modes of Entry into International Markets

Globalization of the markets is one of the vital evolutions facing companies around the world. The factors which led to the development, enhancing the pace of the global market amalgamation, include global investments, state of art production strategies, developments in the efficacy of the manufacturing process, and the rise of global media and the internet. Also the economic progress happening across markets is visible in the rise in education and literacy levels, increased rate of world travel and migration of population from various countries around the world. Consistent with current trends in globalization, many international companies have foregone their traditional multi-domestic approach, in which local subsidiaries market locally developed products to the local population, to a more global strategy, where, firms market their products on a global basis with standardized strategy with limited adaptation to local markets. For instance, Procter & Gamble and Unilever have greatly reduced their product portfolios, by reducing the local brands while investing resources on products with global potential.

Organizations go global for numerous reasons. Some try to expand their business, some try to reduce risk of market failure, while others try to market their products and/or services in other countries, once the domestic market itself has matured. The greatest challenge most organizations face in the international business arena is to operate successfully in different economies and cultures. In this context, international marketing is gaining importance.

International marketing refers to the application of marketing principles by organizations overseas or across national boundaries. Doole and Lowe (2008) defined international marketing as, “At its simplest level, international marketing involves the firm in making one or more marketing mix decisions across national boundaries. At its most complex level, it involves the firm in establishing manufacturing facilities overseas and coordinating marketing strategies across the globe.”

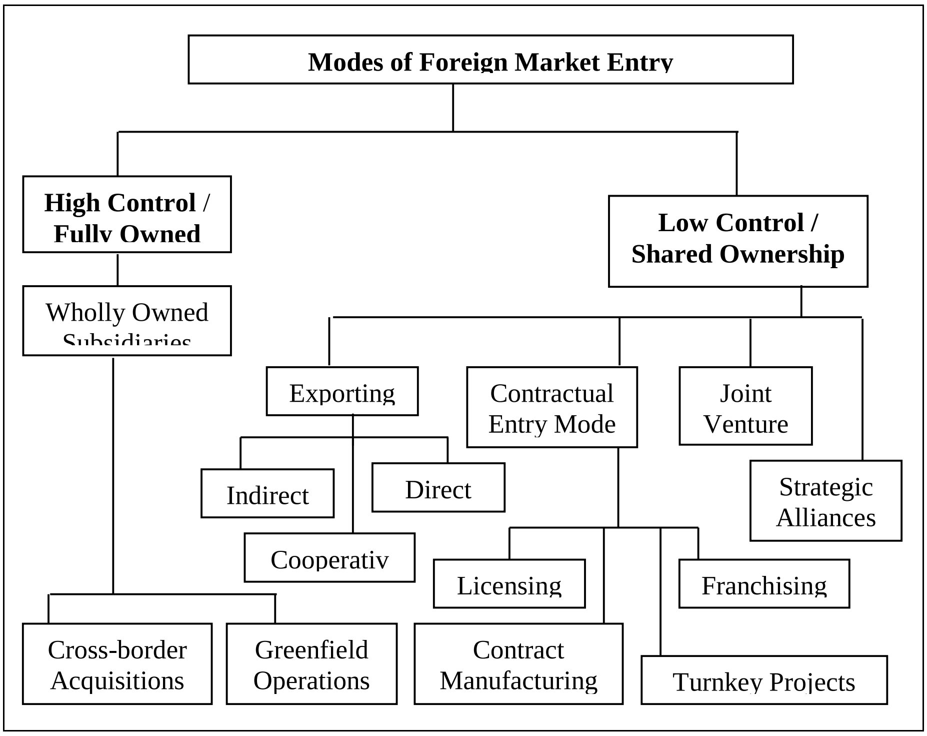
Firms seeking to enter international markets must first check if there is a potential market for their products in foreign markets. The second step is to choose an appropriate country. Firms planning to enter international markets for the first time, should ideally choose a friendly and easy-to-enter economy, and preferably one with which it has a common language. Then, they must decide the mode of entry. Different researchers have classified the entry mode choices available to a company in different ways. Some classify them as shared and full/wholly owned control modes, while others classify them as high control and low control modes (Refer to Figure 5.1).

5.3.1 High Control / Fully Owned Mode of Entry

A high control mode is where companies like to have greater control over their operations in international markets. It is more susceptible to environmental uncertainties and involves high risk. This mode of entry demands greater commitment of resources. Usually, it involves deployment of assets, which cannot be easily re-deployed without incurring substantial sunk costs (costs that have been incurred and cannot be reversed). But this mode of entry offers high returns.

When firms adopt a high control mode of entry, they have to develop a good knowledge base as regards the foreign market (establish independent information gathering units), and competencies to function effectively in the foreign market on their own. Firms having expertise in marketing and advertising, and research and development, prefer to enter foreign markets through wholly owned subsidiaries. In a wholly owned subsidiary, the firm owns 100% of the stock of the subsidiary. Wholly-owned subsidiaries can be established in a foreign country in two ways. A firm can set up new operations in the foreign country (Greenfield operations) or it can acquire a firm and promote its products through that firm (Cross-border acquisition).

Figure 5.1: Modes of Foreign Market Entry



Source: ICFAI Research Center

Cross-border Acquisitions

Kogut and Singh[1] (1988), define an acquisition as a "firm purchasing stock in an already existing company in an amount sufficient to confer control". Firms prefer this mode when the rules and regulations of the host country do not allow them to start a company from scratch. However, at times, firms voluntarily choose this mode to enter a foreign market.

According to Caves and Mehra[2] (1986), the size of the foreign firm, diversity of the product range and its degree of 'multi-nationality' (the number of countries in which a firm has subsidiaries) positively and significantly influence the decision to acquire. Their research shows that the firms that manufacture durable goods prefer to enter international markets through acquisitions than through Greenfield investments.

Acquisitions help firms save time. Acquisitions help the acquiring firm to have easy and quick access to the local markets. Firms can adapt to local markets and manage their marketing mix strategy well. However, acquisitions have some

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1 Bruce, Kogut and Singh, Harbir, 'The Effect of National Culture on the Choice of Entry Mode', Journal of International Business Studies, 19 (3), 1998, pp. 411.

2 Caves, R.E, Mehra, S.K., 'Entry of Foreign Multinationals into US Manufacturing Industries in Porter M.E.,' Competition in Global Industries, 1986, pp. 449-481.

disadvantages as well. First, they are very expensive. The acquiring company may also face problems (such as obsolete technology, tarnished brand names, unmotivated workforce, and heavy debts) with the acquired company. Problems may also crop up because of differences in the work cultures between the two companies. Indian business giant Tata group has made major acquisitions across global markets like Corus group and Jaguar and Land Rover. These acquisitions helped the group to establish its global presence and get access to the international markets. The problems faced by Jaguar-Land Rover on liquidity issues were dealt by the Tata group. They in turn got access to the luxury car market across developed countries.

Greenfield operations

In Greenfield operations, firms start business in international markets from scratch. This mode of entry offers firms the flexibility to choose their personnel, suppliers, distributors, technology, logistics, etc. However, this mode of entry faces both market risks as well as political risks. To an extent these risks can be minimized by employing local people and sponsoring local sports and cultural events. This method of entry is preferred especially in emerging markets where it is difficult to find a good prospect (to acquire).

A wholly owned subsidiary is often the preferred mode of entry if a firm's competitive advantage is its technological competence. In a wholly owned subsidiary, the firm has low risk of losing control over that competence. It is for this reason that many technology-driven firms prefer this mode of entry. Also, a wholly owned subsidiary gives the firm tight control over operations in different countries. A firm planning to establish a global production system requires a high degree of control over each affiliate's operations. Licensees or joint venture partners are unlikely to accept a high degree of control, and thus a wholly owned subsidiary seems the best option. A wholly owned subsidiary is necessary if a firm is trying to realize location and experience curve economies, as most firms pursuing global strategy tend to do.

5.3.2 Low Control / Shared Ownership

The low control/shared ownership mode is relatively less risky, but the returns are moderate. This mode of entry into international markets is suitable for firms which do not have good internal resources and cannot commit resources in a foreign land. These firms enter into a foreign market with the help of a local partner. A low control mode takes different forms like exporting, contractual entry mode, joint venture, and strategic alliances. Each mode of entry has its advantages and disadvantages. The method a company chooses depends on a variety of factors including the nature of the product or service considered and the conditions for market penetration in the foreign target market.

Exporting

Most firms begin their global expansion with exports and later switch to another mode. Factors that contributed to increased exports during the latter part of 20th century were (i) Globalization and liberalization, and (ii) European nations coming together and formation of European Union in 1993. The former opened the gates of developing countries to trade, in principle. The latter helped the European nations to consolidate their exports and gain in trade. Both expanded world trade.

Firms can avoid the high cost of establishing manufacturing facilities in the host country through exports. By manufacturing products in a centralized location and exporting it to different markets across the world, the firm can reap economies of scale. It was through exports that Sony Corporation became the leader in the global television market, and Japanese automobile companies made inroads into the US automobile market.

There are three forms of exporting – Direct exporting, Indirect exporting, and Cooperative exporting.

Direct exporting

Under this method, a manufacturer exports the products directly. There are different ways of marketing exports. The following three are the most common modes.

- Companies establish their own branches or their personnel travel abroad
- Companies use a foreign import agent
- Companies use a foreign distributor

In direct exporting, the manufacturer can establish contact with the prospective foreign buyers directly by mail, facsimile, through the internet, participation in trade shows or through personal contacts. Using this method, the firm may have greater control over the operations and may be able to observe the market trends more closely. They can also develop their own network and develop a good rapport with their final customers. Sales as well as the returns are usually higher in this method than in indirect exporting. But the major disadvantages may be that firms have to commit resources and may have to undertake more responsibility.

Indirect exporting

In this method, a firm sells its products in the foreign market with the help of an intermediary, may be an Export Management Company (EMC) or trading house or a broker. This mode is most suitable for firms which are entering into the international markets for the first time. This method has several advantages. The risks involved in this method are very low. The company doesn’t have to commit its own resources for marketing. The company is assured of returns as it gets the payment for its goods even before they are sold in the market. It can obtain export expertise with the help of the export agent and can familiarize itself with the corporate methods of the host country. The export agent gives all the required information regarding the packaging, labeling, and transportation. So, the manufacturer can avoid the problems involved in exporting. With minimum effort and no commitment of resources, companies can gain a market share in international markets.

But there are certain disadvantages in this method. The profit margin obtained is relatively low. The company has to depend completely on the export agent and cannot have direct contact with the customers. It has no control over the marketing mix decisions. If the intermediary does not take a proper interest, the company's export potential may suffer.

Indirect exporting is usually adopted to learn about the potential markets in foreign countries. If the product is successful in the international market through indirect marketing, the manufacturer can adopt a different mode to expand its exports in the international markets.

Cooperative exporting

This method is best suited to companies which prefer some control over the foreign market operations without having any resource commitment. One of the most popular forms of cooperative exporting is piggyback exporting. In this method, a company uses the distribution network of an existing local or foreign firm to market their products in the foreign land.

Contractual entry mode

Under this method, firms have tie-ups with companies in the host countries. Firms enter international markets with the help of these contracts. Contractual entry mode takes four forms - licensing, contract manufacturing, turnkey projects, and franchising.

Licensing: Licensing is an arrangement whereby a company (licenser) grants the rights to intangible property like patents, inventions, formula, process, designs, copyrights and trademarks to another company (licensee) for a specified period of time. The licenser receives a royalty fee from the licensee. The well-known brand in the beverage industry, Coca-Cola, and firms like Microsoft and Walt Disney Corp. are doing profitable business through their licensing mode of entry in foreign markets.

Licensing offers a small business many advantages such as rapid entry into foreign markets and virtually no capital requirements to establish manufacturing operations. Returns are usually realized more quickly than for manufacturing ventures.

The disadvantages of licensing are that control may be lost over manufacturing and marketing and more important, that the licensee may become a competitor if too much knowledge and know-how is transferred. Care should be taken to protect trademarks and intellectual property. One way to help ensure that the licensor's intellectual property is protected is to secure a proper patent and trademark registration. While the patent is being filed, the licensor may ask the potential licensee to sign a confidentiality and non-disclosure agreement barring the licensee from manufacturing the product himself/herself, or having it manufactured through third parties. Such agreements should not be in violation of the laws of the host country. Patent rules vary from country to country, so it is important to consult a competent international patent and trademark attorney. Licensing the rights to the licensor's product to a foreign company requires a carefully crafted licensing agreement. Consulting an attorney is critical since rules on licensing also vary from country to country. The agreement should not violate the host country's anti-trust laws. According to the anti-trust laws of many countries, the licensee cannot set the price at which the product will be resold by the licenser.

According to Davidson and McFetridge[3] (1985), direct investment is preferred to licensing when there is a greater similarity in demographic characteristics and greater geographic proximity between the host and source countries.

Contract manufacturing: In contract manufacturing, some components of the product/s may be manufactured in the local market (host country). The responsibility of selling the product lies with the firm from the home country. Nike follows this mode of entry. Product designing, and marketing strategies are decided by the company while manufacturing is outsourced.

This mode of entry has several advantages. The major advantage is lower costs. The manufacturing of the product can be outsourced to places where the cost of manufacturing is low. By contracting out the manufacturing, companies can save energy costs, raw material costs, labor costs, etc. But this mode of entry has certain problems associated with it. There is a potential danger that the contract manufacturer may become a future competitor. So, most firms prefer to do the proprietary design features in-house. Another possible problem is labor. Low labor cost countries usually have low labor productivity. In such cases the quality of the product cannot be assured.

Turnkey projects: In a turnkey project, the contractor handles every aspect of the project for a foreign client including the training of operating personnel. After the completion of the contract, the foreign client is handed the 'key' to the plant that is ready for operation. Turnkey projects are common in the chemical, pharmaceutical and petroleum refining industries.

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[6] Davidson, McFetridge, 'Key Characteristics in the Choice of International Technology Transfer Mode', Journal of International Business Studies, 16 (2), 1985, pp. 5-21.

The main advantage of turnkey projects is the high economic returns from the assets built. Turnkey projects are useful where FDI is restricted by the regulations of the host government. For example, many oil rich countries in the Middle East wanted to retain ownership of their own petroleum refining industry, and therefore restricted FDI in their oil and refining sectors. But since many of these countries did not have the technological know-how for petroleum refining, they entered into turnkey projects with foreign firms that had the technology. Through turnkey projects, foreign firms export process technology to the host country. Turnkey projects are favored by MNCs when the political and economic environment in the host country does not favor long-term investment.

The disadvantage of turnkey projects is that firms which enter a turnkey deal have no long-term interest in the foreign country. Plus, firms that enter turnkey projects with another enterprise may create a competitor. For example, firms that exported process technology to countries like Saudi Arabia, Kuwait and countries in the Persian Gulf found themselves competing with the same companies in the world oil market. By selling process technology that is a source of competitive advantage, a firm is also selling competitive advantage to potential competitors.

Franchising: Franchising is similar to licensing except that it requires long-term commitments. In franchising, the franchiser not only sells intangible property to the franchisee, but also insists that the franchisee abide by the rules as to how he does business. In some cases, the franchiser also assists the franchisee in running the business. The franchiser receives a royalty payment that is usually a percentage of the franchisee’s revenues. Service companies usually opt for franchising. For example, McDonald’s pursues its expansion abroad through franchising. McDonald’s sets down strict rules for the franchisees to operate their restaurants. The rules extend to cooking methods, staffing policy, and design and location of the restaurants. McDonald’s also organizes the supply chain and provides management training and financial assistance for the franchisees. Similarly, in a range of related categories, franchisees can exist. Subway a fast-food retailer is also successfully following similar strategy. The point of differentiation is there among the businesses and their operations are different from McDonald's.

Through franchising, a firm can avoid the costs and risks of opening a market in foreign countries on its own. The franchisee bears the costs and risks. With a franchising strategy, a service firm can build a global presence quickly, and at low costs and risks, just like McDonald’s has done

The disadvantage of franchising is the requirement of quality control in all the franchised outlets. For example, a customer of McDonald’s (New York) expects the same quality of food and service at an outlet in New Delhi. The McDonald’s name is supposed to guarantee consistent product quality, which requires strict control on the part of the franchiser. The task becomes more difficult when the number of franchisees is very large. Local culture and the psychology of the customers usually prove to be hurdles for franchising. The customization in the menu and other service deliverables might also lead to dilution of standardized strategy and erosion of cost benefits. Many of the franchisee business also have to manage local networks to maintain the quality standards. But managing the contracts and ensuring the timely and quality supply of the raw materials can become a major bottle neck. Franchisees have to operate under the broad ecosystems of a particular geography. Regulatory bodies and legal obligations can arise given the channel partners are in conflict on various issues. Here the franchisee can encounter not only a monetary loss but also a loss of reputation among various stakeholders.

Joint ventures

Kogut and Singh (1988) define joint ventures as "vehicles to share complementary but distinct knowledge which could not otherwise be shared or to co-ordinate a limited set of activities to influence the competitive positioning of the firm". In contrast to licensing and franchising arrangements, joint ventures allow companies to own a stake and play a role in the management of the foreign operation. Joint ventures require more direct investment and training, management assistance and technology transfer. Joint ventures can be equity or non-equity partnerships. In some countries, a joint venture is the only way for a foreign company to set up operations.

Joint ventures help a firm to benefit from the local partner's knowledge of the host country's culture, language and political systems. Also, when the costs and risks of opening a unit in the foreign market are high, a firm can share the costs and risks with a local partner. Companies can also enjoy the advantage of 'synergy'.

In R&D intensive industries like pharmaceuticals, chemicals, electric and non-electric machinery, the joint venture is popular as a mode of entry.

India has seen many joint ventures from diverse industries. Recently India has become an attractive destination for the foreign players. Many policy steps such as Make in India have given confidence to the foreign players to benefit from joining hands with the Indian companies. On economic parameters like GDP growth and purchasing power parity India has shown promising trends. For instance, Moody's Investor Services upgraded India's credit ratings, due to these economic reforms giving boost to foreign direct investment and foreign institutional investment. While there are many firms who have subsidiaries in India, yet the joint collaboration is modest. A growing number of companies are now envisaging interest in opening Joint Ventures in India.

Some examples from diverse industries are discussed hereafter. The joint venture between Tata Sons and Singapore Airlines, is the full service carrier airline known as Vistara. Here Tata group holds the majority fifty one percent stake whereas remaining is held by Singapore Airlines. Since its launch the company has shown promise with a massive growth in passenger preference for the airline. Bharti AXA General Insurance Co Ltd is a joint venture between India's leading business firm Bharti Enterprises and insurance giant from France, AXA. The company began its working in August 2008 and is under the regulatory influence of IRDA (Insurance Regulatory and Development Authority of India). The Indian enterprise offers a large customer base of telecom subscribers in India to the insurance player, who brings their expertise from the insurance domain. Mahindra-Renault Ltd., started a joint venture in the year 2007, as an alliance of two similar kind of businesses. Both manufacture automobiles, yet the collaboration proved fruitful for both as India gets the French technology and French car automobiles maker got the assemblage of component parts in the host country. Lastly from the government side, BrahMos Aerospace entered a joint venture to strengthen the defense program of India. The venture involves the exchange of technical knowhow related to various defense projects of Indian government.

A major drawback of joint ventures, particularly in countries that limit the participation of foreign companies to 49 per cent or less, is the loss of effective managerial control. This can result in reduced profits, increased operating costs, inferior product quality and exposure to product liability and environmental litigation and fines. Cultural differences between the home and the host countries can lead to the failure of a cross-border joint venture. However, according to Franko[4] (1976), and Stopford and Wells[5] (1972), cultural differences can be bridged if the firm which has entered an international market hires local people and establishes good relationship with suppliers, buyers and government. Joint ventures can be successful if the firms choose proper partners. The top management of the two firms should have a good understanding between them. The partners should clearly define goals and mode of operations. A step-by-step approach to achieve the objectives should be adopted to make the joint venture successful.

Example: Top Joint ventures @ Indian Insurance Sector

Indian Insurance sector provided opportunities to many international firms to enter Indian market in the JV mode. The following table illustrates Top Joint Ventures of International companies with Indian companies in Indian Insurance sector:

Contd….

4 Franko L.F., "The European Multinationals: A Renewed Challenge to American and British Big Business", Stampford CT: Greylock Publishers, 1976.

5 Stopford J.M. & Wells L.T., "Managing the multinational enterprise: Organization of the firm and ownership of the subsidiaries", Basic Books, London, 1972.

Top Joint Ventures in Indian Insurance Sector				
S.No.	**JV Company**	**Indian Company**	**International Firm**	**Total Sales in Rs. Crores**
1	SBI Life Insurance	State Bank of India	BNP Paribas Cardiff-France	50,570
2	ICICI Prudential Life Insurance	ICICI	Prudential plc – Britain	41,053
3	HDFC Life Insurance	HDFC Ltd	abrdn plc (formerly Standard Life Aberdeen plc)- UK	40,894
4	ICICI Lombard General Insurance	ICICI	Fairfax Financial Holdings Limited-Canada	9,804

Sources: Raveendran R (April, 2022), "Top 7 Insurance Companies in India 2022", https://indiancompanies.in/top-insurance-companies-india/ (accessed on 11/10/22).

Activity 5.1

The US-based leading fast-food giant, McDonald's, has expanded its business across countries by taking the franchising route. It has operations in more than 100 countries around the globe. What is franchising? Discuss the possible advantages and disadvantages of franchising in general and for McDonald's in particular.

Answer:

Strategic alliances

Strategic alliances can be described as a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial. Companies come together to exchange new technology, new marketing techniques or new methods of operations and logistics techniques and to share risks and costs.

Companies form alliances to maintain their leadership position and protect their core business. Sometimes, they come together to face a big and powerful competitor.

Check Your Progress – 1

1. Firms that invest more in upstream activities prefer which of the following?
   a. The low control mode of entry.
   b. The low control and equity mode of entry.
   c. The low control and non-equity mode of entry.
   d. The high control mode of entry.
   e. Both high and low control mode of entry.
2. In which of the following does a firm purchase sufficient amount of stock in an already existing firm to gain control?
   a. Joint venture
   b. Franchising
   c. Strategic alliance
   d. Greenfield operations
   e. Acquisition
3. In which of the following methods does a firm start business in international markets from scratch?
   a. Cross-border acquisitions
   b. Greenfield operations
   c. Turnkey projects
   d. Strategic alliances.
   e. Joint venture
4. Which of the following modes of entering international market is relatively less risky but the returns are moderate?
   a. Partially owned subsidiaries
   b. Greenfield operations
   c. High control mode
   d. Fully owned subsidiary
   e. Low control mode
5. An international marketer enters a new market either by setting his own establishment with his personnel or through a foreign import agent or distributor. Which of the following methods represent this condition?
   a. Direct exporting
   b. Cooperative exporting
   c. Contract manufacturing
   d. Indirect exporting
   e. Joint Venture

Activity 5.2
Syndy Pharma is a fast growing Ayurvedic pharmaceutical company in India. The great demand for herbal products in the world markets has encouraged the company to enter international markets. What are the various entry strategies available for pharma companies and which strategy should new entrants into international markets like Syndy Pharma adopt? **Answer:**

5.3.3 Choosing an Entry Mode

Firms should evaluate several dimensions of international environmental uncertainty (multiple international risk measures) before choosing an entry mode. This allows them to optimize their returns for the risk assumed. According to Agarwal and Ramaswami[6] (1992), a firm is expected to select an entry mode that offers the highest risk-adjusted return on investment. Researchers have tried to identify the link between international entry modes and the performance of firms. A few researchers have used the multiple international risk measures suggested by Miller[7] (1992), to choose superior performing entry modes. They suggest that firms choosing a strategy that incorporated international risk performed better than those that did not take the risk into consideration.

Entry mode choice and performance

Woodcock, Beamish and Makino[8] (1994), made three points with respect to the relationship between choice of entry mode and performance. First, firms have to consider the risk of exposing their core resources to other organizations while selecting an entry mode. Second, in acquisitions, firms risk paying a premium price for the target firm, and therefore reduce their future performance. Third, joint ventures and turnkey projects reduce the impact of acquisition risk.

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6 Agarwal S. and Ramaswami S.N., 'Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization factors', Journal of International Business Studies, Volume 23, No.1, 1992, pp.1-27.

7 Kent D. Miller, "A Framework for Integrated Risk Management in International Business", Journal of International Business Studies, Volume 23, No. 2 (2nd Qtr., 1992), 1992, pp. 311-331.

8 Anand, Jaideep and Delios, Andrew, "Absolute and Relative Resources as Determinants of International Acquisitions", Strategic Management Journal, Volume.23, 2002, pp. 119-134.

According to Anand and Delio[9] (2002), a firm's ability to exploit existing resources determines the performance implications of the different modes of entry. They opine that turnkey projects perform best when existing resources can be exploited, but acquisitions and joint ventures perform better when new competencies are required.

Researchers also point out that wholly-owned subsidiaries and equity joint ventures perform better than contractual joint ventures. This conclusion is based on two arguments. First, the total costs of establishing and controlling a wholly-owned operation are less than for a joint venture. Further, contractual arrangements are more expensive than equity joint ventures. Second, management control reduces costs for wholly-owned subsidiaries compared to equity joint ventures.

Risk, entry mode choice and performance

According to Anderson and Gatignon (1986), there are two types of risk: internal risk and external risk. They are of the opinion that firms are interested in subsidiary control as a means of controlling risk and improving performance. The greater the external risk (country risk), the higher the control sought by the firms. They also suggest that the internal risk (international experience) influences the choice of entry mode and performance. According to Kwon and Konopa[10] (1993), the type of control attained can moderate the level of risk.

Multiple measures of risk

Most entry mode studies examine only one type of risk, namely, country risk. But a few studies have examined multiple measures of risk. Multiple international risk measures affect a firm's performance in three ways: one, by influencing the entry mode selection directly; two, by interacting with industry type to influence entry mode selection, and three, by interacting with entry mode type to produce a strategic fit which in turn affects performance satisfaction.

Studies have shown that by considering the multiple dimensions of international risk when selecting the entry mode, MNCs will not only be more satisfied in terms of quantitative performance measures, such as increased sales, profits, sales growth and market share, but also in terms of qualitative performance such as their reputation in the host country market, and increased host-country market access, and with their marketing efforts and distribution in the new foreign market.

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[9] Anderson, Erin and Hubert Gatignon, 'Modes of Foreign Entry: A Transaction Cost Analysis and Propositions', Journal of International Business Studies, 11 (Fall), 1986, pp. 1-26.

[10] Yung Chul Kwon, Leonard J. Konopa, "Impact of Host Country Market Characteristics on the Choice of Foreign Market Entry Mode", International Marketing Review, Volume 10, Issue: 2, 1993.

Market size and growth rate

The market size and growth rate is one of the critical factors that determine the entry mode decision of a company. The current and the potential size of the market is the motivating factor in choosing the mode of entry. If there is a possibility of growth in the market size and demand for the product, companies prefer to invest, and take greater risk. This motivates the companies to opt for high control modes of entry.

Government regulations

Companies consider the trade regulations and agreements of the host country with other countries before choosing the mode of entry. When a company is entering an international market for the first time, it should choose an economy where the regulations are less stringent. Where the regulations are more stringent, firms prefer to opt for a low control entry mode.

Competitive environment

The competitive environment in the host country influences the decision mode entry of a company. Economies, which have fair and healthy competition, motivate companies to take more risk and commit resources.

Local infrastructure

Countries, which have good physical infrastructure, attract more companies in the high control mode. Good infrastructure reduces costs and enhances the profitability of companies.

Marketing strategic variables

Marketing strategic variables influence the entry mode decision of a firm primarily through the control requirements they entail. The marketing strategy variables are: market diversification vs. market concentration strategy; value added in upstream vs. downstream activities; stage of life cycle and level of demand uncertainty.

Market diversification vs. market concentration strategy

Every company going global will adopt either a market diversification or a market concentration strategy. Firms adopting a market diversification strategy will try to get more returns without taking much risk and committing a lot of resources. They search for readily available markets. Such firms opt for low control and non-equity modes of entrance. Firms, which adopt a market concentration strategy, prefer to choose high control entry modes.

Value added in upstream vs. downstream activities

The upstream activities are R&D, manufacturing, etc., while the downstream activities are marketing, distribution of services, etc. Firms that invest more in upstream activities prefer a high control mode of entry, while firms which add more value to the downstream activities, opt for a low control mode of entry.

Stage of life cycle, and level of demand uncertainty

In economies where there is uncertainty of demand in the introductory and decline stages of a product, firms prefer a low control entry mode.

Activity 5.3

A new regional Indian airline Flybig launched operations on 3 January 2021 with an inaugural flight connecting Indore, the airline's base, to Ahmedabad. CEO Srinivas Rao said to Money Control that in the first couple of weeks, it will operate thrice a week, and it will later be scaled up to five flights a week, from mid-February. The airline's business model is to serve Tier 2 cities in India with population of between 50,000 and 100,000. Discuss the factors that a company should consider while evaluating the market entry strategies.

Answer:

5.4 Timing of Entry into International Markets

According to Green, Barclay, and Rayons[11], (1995), the competitive position, specifically the ability and competencies of a firm to realize its objectives in attaining or sustaining a competitive advantage is affected by the timing of entry of the firm. The timing of entry in international markets depends on the following:

5.4.1 Level of Internationalization

Li[12] (1995), and Sullivan[13] (1994), define the level of internationalization as the "degree of involvement of a firm in the international markets". According to Chang[14], (1995), Shaver, et al.[15] (1997), firms which have good exposure in international markets will enter new markets earlier. They leverage their experience and exposure and exploit new markets early. So, firms, which have greater level of international experience, enter new markets at an early stage.

[11] Green Donna, H, Donald W.Barclay and Adrian B.Ryans, "Entry Strategy and Long Term Performance: Conceptualization and Empirical Evidence", Journal of Marketing, Volume 59, 1995, pp. 1-16.

[12] Li, Jiatao, (1995), "Foreign Entry and Survival: Effect of Strategic Choices on Performance in International Markets", Strategic Management Journal, Volume 16, 1995, pp. 333-351.

[13] Sullivan, Daniel, "Measuring the Degree of Internationalization of a Firm", *Journal of International Business Studies,* Vol. 25 (2), 1994, pp. 325-342.

[14] Chang, Sea Jin, "International Expansion Strategy of Japanese Firms: Capability Building Through Sequential Entry", Academy of Management Journal, Volume. 38(2), 1995, pp. 383-407.

[15] Shaver J. Myles, Will Mitchell, & Bernard Yeung, "The Effect of Own Firm and Other Firm Experience on Foreign Direct Investment Survival in the United States", Strategic Management Journal, Volume 18(10), 1997, pp. 811-824.

Example: Level of Internationalization @ Unilever

On 2 September 1929, Dutch based Margarine Unie and British Lever Brothers merged to create Unilever. Unilever has good exposure in international markets as it had entered international markets earlier. First it expanded in Europe, and later new ventures were launched in Latin America. In 1950s Africa and Asia provided Unilever opportunities for expansion. Its flagship brands like Sunsilk were sold in 18 countries worldwide during 1950s and by 2005 it reached to 40 countries. As of 2022 Sunsilk brand is sold in 80 countries. It housed many brands like Sunsilk which are sold in many countries since many decades.

Source: Unilever (2022). "1900 – 1950 – Joining forces, Unilever comes to life", https://www.unilever.com/our-company/our-history-and-archives/1900-1950/# (accessed on 12/10/22)

5.4.2 Size of the Firm

According to Chandler[16] (1962), Hymer[17] (1976), and Knickerbocker[18] (1973), the size of the firm determines its market power both in the domestic and international markets. Big firms can enter international markets early using their resources, and economies of scope and scale. They can take risk and go in for a high control entry mode. They also "invest heavily in building a strong market position". In markets where there are stiffer regulations, they opt for joint ventures. They easily gain access to suppliers and other scarce resources.

But small firms with small cash flows cannot commit high levels of resources and take risk. They enter foreign markets either through exporting/licensing/ franchising. They do not make huge investments in the first place. Usually, they are late entrants.

5.4.3 Economies of Scope

Firms, which offer a wide range of services or products, have a better chance to enter new markets. Such firms are better prepared and can handle uncertainties regarding the types of products that are required in the new markets. Firms which offer a wide range of products/ services can develop "synergy" across products/services which make them efficient and maintain high quality at every stage of manufacturing and marketing. So, these firms take more risk and enter new markets at an early stage. Small firms may not be able to meet uncertainties in the foreign markets. So, they do not take a chance.

[16] Chandler. Alfred, "Strategy and Structure: Chapters in the History of Industrial Enterprise", Cambridge, MIT Press, 1962.

[17] Hymer, Stephen, "The International Operations of National Firms", Cambridge M.A: MIT Press, 1976.

[18] Knickerbocker, Fredrick, "Oligopolistic Reaction and Multinational Enterprises", Boston, M.A, Harvard University Press, 1973.

5.4.4 Availability of Information

According to some researchers, the "firm's ability to obtain the market signals and opportunities" is an important aspect that affects the actions of the firm. Availability of information is another important factor that affects the actions of the firm. For example, an industrial equipment-manufacturing firm in the Midwest of US foresaw the saturation of the domestic market and employed one of its team members to explore new markets. Subsequently, they entered international markets even before the home market was saturated. Though they experienced hardships in the beginning, soon they started earning profits. This deliberate trade-off strategy resulted in the increase of their international sales from five per cent of total corporate revenue to 50 per cent in 15 years.

5.5 Social Ties and Entry into International Markets

Information is the key for any firm entering international markets. The strategies adopted by firms to enter a specific market depend upon the availability and quality of information. Social ties are very helpful in obtaining information. Information can be easily obtained through social interaction and a wide network of contacts. Firms which interact with different social clusters obtain information about the opportunities in new markets more easily than firms which interact within the (same) cluster. The study of Styles and Ambler[19] (1995) showed that interaction and discussion with channel members are also an important way to obtain information. Thus, firms benefit by interacting with varied social groups.

So, information availability depends largely on the network and social interaction of the individual firm. The network and social interaction of a firm are affected, to an extent, by the size of the firm. Larger firms will have a greater network and easier access to information than smaller firms. Smaller firms try to obtain information by attending trade fairs and through third parties like government agencies, and existing social ties. Social ties are useful in evaluating and assessing the potential partner. The individual contacts of the firm are of more help in framing strategies and taking decisions than the information disseminated by governments. The study of Alston[20] (1989), Bjorkman and Kock[21] (1995), explains how that 'introductions' by 'go-betweens' sometimes fetch "access to potential exchange partners".

Research shows that small firms which are very successful in the international markets "have fully integrated these activities into their overall corporate strategy". These firms establish and maintain relationships with loyal customers in foreign markets as they do in their home markets. They never undertake any activity or adopt any strategy that affects their relationship abroad.

[19] Styles, C., & Ambler, T., "Brand Management", in Cranier, S. (Ed.), Financial Times Handbook of Management, Pitman, London, 1995.

[20] Alston, J.P, "Wa, Guanxi, and Inhwa: Managerial Principles in Japan, China and Korea", Business Horizons, March-April, 1989, pp. 26-31.

[21] Björkman, S Kock, 'Social Relationships and Business Networks: The Case of Western Companies in China', International Business Review, Volume 4(4), 1995, pp. 513 – 535.

Some researchers are of the view that prior social interaction with the business partners goes a long way in international business. Prior acquaintance and personal relationships with the potential partner help to build trust in international business. The prior acquaintance of the exchange initiators (partners) encourages the host country partner to promote the product of this particular firm. Alston [22] (1989), Leung and Wong[22] (2005) and Wang[23] (2007), expressed the view that in emerging economies where there are no regulations, "social bonds" prove to be very helpful. Liang and Parkhe[24] (1997), in their study of importers found that "importer search efforts are more often likely to be based on known contacts than on objective information published by government agencies". Bjorkman and Kock (1995), pointed out that those who do not have social bonds and want to enter such economies, can do so by relying on "good connections of intermediaries".

Thus, social ties and bonds prove to be the base for communicating information regarding international opportunities among business firms.

Risk is defined as the political and financial uncertainty in the local market. In markets where there is higher risk, the bargaining power of the host country decreases. So, the firm's bargaining power will be high. In such economies, Japanese firms opt for high control modes. This gives them higher power to bargain and have greater control over the operations of their firms in foreign markets. As Japanese firms are likely to have long-term viability in their operations, they exploit the low bargaining power of host country with high risk to establish long-term control.

5.5.1 Resource Commitment

It is the "expectations of the firms in terms of resource commitment and scope of the project". According to Taylor's research, the higher the resource commitment, the lower is the ability of the Japanese firms to negotiate for higher control over their venture. In cases where there is high resource commitment, they usually end up with low entry control mode.

5.5.2 Government Rules and Regulations

Contractor[25] (1981) and Root[26] (1994), point out that rules and regulations can relate to "equity limits, local content requirements, and exchange controls. If the laws of the host country are highly stringent, restricting the entry of the firms, local content, foreign exchange, ownership level, etc., the Japanese firms cannot bargain for a high control mode.

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[22] Leung, T.K., Wong, Y.H., "The Roles of Xinyong and Guanxi in Chinese Relationship Marketing", European Journal of Marketing, Volume 39 (5/6), 2005, pp. 528-559.

[23] Wang, C.L., "Guanzi Vs Relationship Marketing: Exploring Underlying Differences", Industrial Marketing Management, Volume 36(1), 2007, pp. 81-86.

[24] Neng, Liang and Parkhe, Aravind, "Importer Behavior: The Neglected Counterpart of International Exchange", Journal of International Business Studies, Volume 28 (3), 1997, pp. 495 – 530.

[25] Contractor et al., "International Technology Licensing: Compensation, Costs and Negotiation", D.C. Health, 1981.

[26] Root, Franklin, "Entry Strategies for International Market", Jossey-Bass, 1994.

Example: FDI-Government Rules and Regulations in Indian Retail

Indian government in order to protect domestic players imposed stringent restrictions on FDI in Retail sector. In 2015 it allowed foreign retailers to open multi-brand retail outlets with 51% ownership. In October 2020 it allowed 100% ownership in Cash & Carry, Single Brand Retailing, E-Commerce (marketplace model). These restrictions made it difficult for International Retailers like Carrefour, Tesco etc. to enter Indian Retail sector.

Source: Department for Promotion of Industry and Internal Trade Ministry of Commerce and Industry, Government of India (Oct, 2020), "Consolidated FDI Policy", https://dpiit.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020.pdf (accessed on 12/10/22).

5.5.3 Need for Local Contribution

Need for local contribution may be explained as the "the degree to which an MNC needs local capital, technology, or other resources to ensure the success of the venture. The research of Yan and Gray[27] (2001) shows that if the need for local contribution for a firm is high, its dependence on the host country will be high. So, the bargaining power for the host country will be high. Hence, it may force the firm to accept a low entry control mode. But the research of the Osland, Taylor, and Zou[28] (2001), shows that when Japanese firms have more need for local contribution, they opt for a reasonably high control mode of entry. Fear of too much dependence on local firms and loss of proprietary knowledge/ technologies may increase the drive to possess greater control in such circumstances. When there is a greater demand or need for local contribution, the Japanese firms first try to establish their own operations and become 'insiders', so that they can contribute locally

Check Your Progress - 2

6. In which of the following may some components of the product/s be manufactured in the local market (host country)?
   a. Contract manufacturing
   b. Cooperative exporting
   c. Turnkey projects
   d. Exporting
   e. Licensing

[27] Aimin Yan and Barbara Gray, "Antecedents and Effects of Parent Control in International Joint Ventures", Journal of Management Studies, Volume 38(3), 2001, pp. 393 – 416.

[28] Gregory E Osland, Charles R Taylor, Shaoming Zou, "Selecting International Modes of Entry and Expansion", Marketing Intelligence & Planning, Volume 19(3), 2001, pp. 153.

7. Identify the factors that need to be considered by organizations while choosing an entry mode.
    i. Entry mode choice and performance
    ii. Multiple measures of risk
    iii. Market size and growth rate
    iv. Stage of life cycle, and level of demand uncertainty
    a. Only i, ii and iii
    b. Only i, ii, and iv
    c. Only i, iii and iv
    d. i, ii, iii and iv
    e. Only i & iii
8. Identify the statements that hold true regarding the relationship between entry mode choice and performance.
    a. In acquisitions, firms risk paying a premium price for the target firm, and therefore enhance their future performance.
    b. Turnkey projects perform best when existing resources can be exploited, while acquisitions and joint ventures perform better when new competencies are required.
    c. Wholly-owned subsidiaries and equity joint ventures perform better than contractual joint ventures.
    d. Wholly-owned subsidiaries and equity joint ventures perform poorly than contractual joint ventures.
    e. Turnkey projects perform poor when existing resources can be exploited, while acquisitions and joint ventures perform better when new competencies are required.
9. Which of the following can be defined as the degree of involvement of a firm in the international markets?
    a. Economies of scope
    b. Timing of entry
    c. Scope of the firm
    d. Size of the firm
    e. Level of internationalization
10. Identify the statements that do not hold true regarding risk in international markets.
    a. It can be defined as the political and financial uncertainty in the local market.
    b. In markets where there is higher risk, the bargaining power of the host country and the firm will be high.

c. In high risk markets, Japanese firms opt for high control modes.

d. In high risk markets, Japanese firms exploit the low bargaining power of the host country with high risk to establish long term control.

e. In markets where there is higher risk, the bargaining power of the host country and the firm will be very low.

Activity 5.4

Japanese firms have extended their operations to different parts of the world and even established their units in all corners of the globe. Their success can be attributed to the entry mode strategies they adopt. However, their entry mode strategies in turn depend on the bargaining power of both the parties i.e., the firm that is planning to enter a new market and the host country government. In this context, explain the concept of bargaining power and the factors that affect the relative bargaining power of the Japanese firms.

Answer:

5.6 Summary

- In the present era of globalization, many firms do not confine themselves to their domestic market but choose to enter international markets at some point.
- There are two modes for entry into international markets. These are: low or shared control modes and the high or full control modes. Firms entering international markets should make a careful study of the pros and cons of each entry mode.
- Firms which are large, and have ambitious objectives, and those which are willing to take risks, prefer to have greater control over their operations in international markets. So, they either acquire firms in international markets or start their own operations, both of which are high control modes. High control modes of entry also offer high returns.
- Firms which do not take risk or cannot commit resources opt for a shared/low control mode. This can be in the form of exporting, contractual entry mode, joint ventures, or strategic alliances. The returns are moderate in the low control mode.

- The choice of the entry mode depends on a set of internal and external factors relating to the firm. The social ties of a firm also affect the choice of entry mode choice for the firms.
- Firms which interact with different groups, get information very easily. Firms often prefer to do business with acquaintances in foreign markets or with parties who are introduced by their common friends.
- After choosing the entry mode, the right timing for entry into the international markets is critical. The factors that are specific to a firm, industry, and to the host country will have a combined influence on the timing of the firm's entry.
- Social ties and bonds prove to be the base for communicating information regarding international opportunities among business firms.

5.7 Glossary

Contract manufacturing: In contract manufacturing, some components of the product/s may be manufactured in the local market (host country). The responsibility of selling the product lies with the firm from the home country.

Cross-border Acquisitions: Acquisition is when a firm purchases stock in an already existing company with an amount sufficient to confer control.

Franchising: In franchising, the franchiser not only sells intangible property to the franchisee, but also insists that the franchisee abides by the rules as to how he does business. It is similar to licensing except that it requires long-term commitments.

Greenfield operations: In this mode of entry, firms start business in international markets from scratch. This offers firms the flexibility to choose their personnel, suppliers, distributors, technology, logistics, etc.

Joint ventures: Joint ventures are vehicles to share complementary but distinct knowledge which could not otherwise be shared or to co-ordinate a limited set of activities to influence the competitive positioning of the firm.

Licensing: Licensing is an arrangement whereby a company (licenser) grants the rights to intangible property like patents, inventions, formula, process, designs, copyrights and trademarks to another company (licensee) for a specified period of time. The licenser receives a royalty fee from the licensee.

Strategic alliances: Strategic alliances refer to a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial. Companies come together to exchange new technology, new marketing techniques or new methods of operations and logistics techniques, and to share risks and costs.

Turnkey projects: In a turnkey project, the contractor handles every aspect of the project for a foreign client including the training of operating personnel. After the completion of the contract, the foreign client is handed the 'key' to the plant that is ready for operation.

5.8 Self-Assessment Test

1. Most firms choose to enter international markets at some point or the other in this highly dynamic competitive business environment. What are the various modes that an organization can use to enter an international market?
2. What factors should an organization consider while choosing an entry mode? Explain.
3. The competitive position is affected by the timing of entry of the firm in a foreign market. What are the different factors on which the timing of entry of a firm in international markets dependent upon? Explain.
4. Social ties are very helpful in obtaining information which is the key for any firm to enter international markets. Explain how social ties affect a firm's entry into international markets.

5.9 Suggested Readings / Reference Material

1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations"*, 17th Edition, Pearson, 2021.
2. Masaaki (Mike) Kotabe, Kristiaan Helsen and Prateek Maheshwari, "International Marketing 8e (An Indian Adaptation)", Wiley India Pvt Ltd, 2021.
3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
4. Keegan, W.J., "Global Marketing Management", Pearson Education; Eighth edition, 2017.

5.10 Answers to Check Your Progress Questions

1. (d) The high control mode of entry

A high control mode entry is where companies like to have greater control over their operations in international markets. It is more susceptible to environmental uncertainties and involves high risk. This mode of entry demands greater commitment of resources.

2. (e) Acquisition

In an acquisition, a firm purchases stock in an already existing company in an amount sufficient to confer control.

3. (b) Greenfield operations

In Greenfield operations, firms start business in international markets from scratch. This mode of entry offers firms the flexibility to choose their personnel, suppliers, distributors, technology, logistics, etc. This mode of entry faces both market risks as well as political risks. This method of entry is preferred especially in emerging markets where it is difficult to find a good prospect (to acquire).

4. (e) Low control mode

The low control/shared ownership mode is relatively less risky but the returns are moderate. This mode of entry into international markets is suitable for firms which do not have good internal resources and cannot commit resources in a foreign land. These firms enter into a foreign market with the help of a local partner.

5. (a) Direct exporting

Under this method, manufacturer exports the products directly. There are different ways of marketing exports, the most common ones being – (a) companies establish their own branches or allow their personnel to travel abroad; (b) companies use a foreign import agent; or (c) companies use a foreign distributor.

6. (a) Contract manufacturing

In contract manufacturing, some components of the product/s may be manufactured in the local market (host country). The responsibility of selling the product lies with the firm from the home country. Product designing and marketing strategies are decided by the company while manufacturing is outsourced.

7. (d) i, ii, iii, and iv

Firms should evaluate several dimensions of international environmental uncertainty (multiple international risk measures) before choosing an entry mode. This allows them to optimize their returns for the risk assumed. Some of these factors are – entry mode choice and performance; risk, entry mode choice, and performance; multiple measures of risk; market size and growth rate; government regulations; competitive environment; local infrastructure; marketing strategic variables; market diversification vs. market concentration strategy; value added in upstream vs. downstream activities; and stage of life cycle, and level of demand uncertainty.

8. (a) **In acquisitions, firms risk paying a premium price for the target firm, and therefore increasing their future performance**

   Statements (b) and (c) are true regarding the relationship between entry mode and performance, while statement (a) is false.

9. (e) **Level of internationalization**

   Li and Sullivan define the level of internationalization as the "degree of involvement of a firm in the international markets".

10. (b) **In markets where there is higher risk, the bargaining power of the host country and the firm will be high**

   All the statements are true regarding risk in international markets, except statement (b). In markets, where there is higher risk, the bargaining power of the host country decreases. So, the firm's bargaining power will be high.

Unit 6

Marketing Information Systems and Research

Structure

"Marketing without data is like driving with your eyes closed."

- Dan Zarella

6.1 Introduction

Marketing can never be successful without information or data related to customers, competitors and other stakeholders. Marketing information and research aids the organizations providing the necessary data and information required to understand the customer needs in various international markets.

In the previous unit, we discussed the entry strategies in international market. In this unit, we will first discuss marketing information systems and its elements. We shall then move on to discuss marketing research, and how to determine the information requirements. We shall also discuss the different levels of analysis and types of decision taken by the international sales and marketing managers, units of analysis in market research, how to select information sources, and the primary and secondary data sources. We shall conclude this unit by discussing the problems involved in international marketing research.

6.2 Objectives

After reading through this unit, you should be able to:

- State what kind of Marketing Information System (MIS) is instrumental to a company's performance
- Underline the elements of MIS on which the organization functions
- Recall the definition of marketing research which facilitates identification of right marketing mix strategy of the firm
- Tell the type of information required based on the firm's level of international business operations
- Align primary and secondary sources of data that suits the objectives of the firm
- Foresee problems that may arise in international marketing research so that they can be averted

6.3 Marketing Information Systems

Have we ever thought that swiping the loyalty card in the grocery story is information to marketers on our purchase pattern? This information provides considerable insight to a marketer to organize his marketing campaigns.

Marketing Information is the key to the success or failure of a company's marketing strategies. Every organization needs timely and correct information on every aspect of marketing, for proper decision-making. So, there is a need for continuous flow of information on various aspects of marketing. This cannot be achieved unless a proper system is in place. Marketing Information Systems deal with the systematic collection and processing of data, storage, and transmission of information, among the various units of the organization.

Smith, Brien and Stafford[29] (1968) define Marketing Information System as "a structured, interacting complex of persons, machines, and procedures designed to generate an orderly flow of pertinent information, collected from both intra-and-extra firm sources, for use as the basis for decision-making in specified responsibility areas of marketing management". The characteristics of a good Marketing Information System are relevance, objectivity, clarity, precision, brevity, accuracy, confidentiality, timeliness, authenticity, and strategic value. Marketing information systems contain data related to several aspects of marketing like internal operational data, market intelligence, market research data, and external data.

According to Raymond, Brisoux, and Azami[30] (2001), an efficient Marketing Information System influences the market decisions of a firm. Firms can adopt

[29] Samuel Smith, Richard Brien and James Stafford, "Readings in Marketing Information Systems", Boston Mass, Miflin Company, 1968, pp. 399.

[30] Louis Raymond, Jacques Brisoux & Abdellah Azami,, "Marketing Information Systems Practices in Small Manufacturing Firms: Antecedents and Consequences", Journal of Computer Information Systems, Volume 41(3), 2001.

better marketing strategies if the performance of their marketing information systems is good.

Example: Marketing Information Systems @ Amazon

Amazon uses marketing information gathered from customers while they browse to build and fine-tune its recommendation engine. The more Amazon knows about them, the better it can predict what they want to buy. And, once the retailer knows what customers might want, it can streamline the process of persuading them to buy it. Amazon also knows the time spent by its customers for browsing its web pages. It tales help of external datasets, such as census data and gathers customers demographic details.

Source: Bernard Marr (July, 2021), "Amazon: Using Big Data to understand customers", https://bernardmarr.com/amazon-using-big-data-to-understand-customers/ (accessed on 12/10/22)

6.4 Elements of Marketing Information Systems

Information is the key element that helps in the functioning of an organization. All the information required by the organization may not be available. So, a good marketing information system makes a trade-off between the required information and available information. Marketing Information gathers info in two steps:

1. Information subject agenda
2. Scanning modes

6.4.1 Information Subject Agenda

As a first step, the lists of all subjects—the subject agenda, for which information is required, is framed. The subject agenda must be prepared keeping in mind the objectives and specific needs of a company. There is no common or ideal subject agenda. It all depends on the organizational needs. It is only a "starting point in the construction of a specific agenda for any particular organization". It shows six broad information areas with 31 information categories.

6.4.2 Scanning Modes

Once the subject agenda is finalized, the next step would be the collection of actual data. The collection of data is known as 'Scanning'. Scanning can be done in two ways — surveillance and search modes. In the surveillance mode, the scanner tries to obtain the information that "crosses his scanning attention field". In the search method, the scanner deliberately searches for all the information, in the environment, that he finds relevant to the problem. The search is conducted in the form of a research project.

Example: Scanning Modes @ Retail Sector

According to IBEF 'Retail Industry in India' report, India's retail industry is expected to grow at 9% during 2019-2030. The Indian e-retail market is projected to grow to US$ 120-140 billion by 2026, growing at 25-30% per annum in the next 5 years (from 2021). This report thus scans the environment in Indian retail and shows the potential of the Indian Retail market. Many international companies like Walmart, Amazon etc. could use such research reports published by research consulting firms like IBEF (Indian Brand Equity Foundation) for scanning modes/ scanning the environment.

Source: IBEF (2022). "Retail Industry in India", https://www.ibef.org/industry/retail-India (accessed on 12/10/22)

6.5 Marketing Research

American Marketing Association defines Marketing Research as "systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services." It includes the research of markets, products, price, sales promotion, distribution, and customers. Marketing research provides information regarding whether a market has potential or not and when to enter/ leave a market. It also provides information related to 'market performance, market shares, and sales analysis and forecasting.' Marketing research helps an organization to come up with the right market entry strategies and marketing mix decisions. A typical example of marketing research is given in Example below.

The increasing globalization has increased the importance of market research. Earl Naumann, Donald W. Jackson. Jr. and William G. Wolfe[31] (1994), in their study found that Japanese firms give utmost importance to marketing research and make a thorough research of the markets before entering them.

Example: Marketing Research by ACSI

The American Customer Satisfaction Index (ACSI) is the only national cross-industry measure of customer satisfaction in the United States. The Index measures the satisfaction of U.S. household consumers with the quality of products and services offered by both foreign and domestic firms with significant share in U.S. markets. It conducted study on Automobile sector. The ACSI Automobile Study 2021-2022 findings are: 1) Under the Mass-Market category, Subaru & Toyota bagged the top position with a score of 80. 2) Under the Luxury category, Lexus Toyota bagged the top position with a score of 84 followed by Acura-Honda, Audi-Volkswagen and Infiniti-Nissan at second position with 82 Score. Such Marketing Research help companies to better understand the customer pulse and aid in decision making.

Source: ACSI (2022), "American Customer Satisfaction Index-Benchmarks-Automobiles", https://www.theacsi.org/industries/manufacturing/automobiles/ (accessed on 13/10/22)

[31] Earl Naumann, Donald W. Jackson. Jr., and William G. Wolfe, "Comparing U.S. and Japanese Market Research Firms", California Management Review, Volume 36, Summer 1994, pp. 49-69.

6.6 Determination of Information Requirements

Information requirements of each firm are different. A firm present in an international market seeks different kinds of information compared to the one that is planning to enter the international market. Firms that are planning to enter the international market for the first time need to decide upon aspects like – target market, entry methods, product specification, pricing and market logistics techniques, and documentary requirements. Firms that are present in the international market, look for information that helps them in consolidating and expanding the market share, performance evaluation in terms of numbers, and reaching the physical targets. Therefore, the information requirements of an international marketer are firm-specific and cannot be generalized.

Example: Information Requirements @ TCS

TCS is a leading global IT services, consulting and business solutions firm. It generated consolidated revenues of around US $22.2 billion in 2021. It is one of the largest IT service providers in the UK with around 19,000 employees. Being one of the leading firms in IT and consulting in UK, it wanted to find out its information requirements regarding customer satisfaction through marketing research to delight them. It took help of Whitelane Research firm to conduct an independent survey of leading IT enterprises to find out customer satisfaction at National level. From the Survey it found out that TCS was ranked number one by customers in the UK with an overall satisfaction score of 83%.

Source: TCS, (2021), "TCS Ranked Number One in Customer Satisfaction and Business Understanding by Leading UK Companies", https://www.tcs.com/tcs-ranked-number-one-customer-satisfaction-business-understanding-leading-uk-companies

6.7 The Level of Analysis and Type of Decision

MIS is required at various levels as it aids in management's decision making that helps in meeting their strategic goals and objectives. Once the information requirements at the firm-level are determined, the Marketing Information System tries to identify the information requirements of the sales and marketing managers. The decisions taken by the international sales and the marketing managers may be classified into strategic, operational, or tactical categories. These decisions are taken at the top and middle levels of the organization. Therefore, the information requirements of these levels differ.

6.7.1 Information for Strategic Decisions

Strategic decisions include decisions regarding entry into new markets, expansion of markets, decisions related to product life-cycles, new product development, positioning of the product, investment decisions, and database development decisions. These decisions are usually taken by the top management as they imply the overall allocation of the company's resources. Information necessary at this level will not be available easily. Utmost care should be taken while collecting information for this level. The risk involved, the rules and regulations of the host country, and the cultural differences between the home country and the host country should be considered.

Example: Information for Strategic Decisions @ Indian Insurance Sector

Indian life insurance sector witnessed a growth of 11% CAGR during 2017-22 and it is expected to grow at 9% CAGR until 2027. International companies entering Indian (host country) Insurance sector had stringent rules and regulations previously up to 2021 when government allowed FDI only up to 49%, but as of 2022 it has raised the FDI limit to 74%. The above information regarding host country rules and regulations help International firms like Prudential plc, AXA, etc. to make strategic decisions.

Source: Indian Economy (2022), "FDI limit in various sectors of the Economy", https://www.indianeconomy.net/splclassroom/fdi-limit-in-various-sectors-of-the-economy-consolidated-fdi-policy/ (accessed on 13/10/22)

6.7.2 Information for Operational and Tactical Decisions

Operational and tactical decisions include decisions related to sales and marketing budgets, database management, distribution channels and logistical choices, consumer research, competitor tracking, setting short-term prices, packaging, planning sales territories, and short-term agency agreements. These decisions are taken by the middle level managers.

The information required to take these decisions can be obtained only by entering into different markets and understanding their cultures. The process involved is very tedious and complex. The data obtained should be carefully processed to suit the needs of the middle level managers.

6.8 Unit of Analysis

The study of unit of analysis is the next step after deciding the level of analysis and type of decision. G.C.Beri[32], in his book 'Marketing Research: Research and Design' (2007), defines unit of analysis as "individuals or the objects whose characteristics are to be measured. The unit always identifies the objects to be studied."

The units in the market research may be:

- Region or Country grouping
- Country
- Sub-groups within the countries

International market research calls for a complex, multi-tier research process.

[32] Beri, G.C., 'Marketing Research', Tata McGraw-Hill Education Pvt. Ltd., 5th edition, 2013.

6.8.1 Region or Country-Grouping

This refers to a particular geographic region or a group of countries that a firm is considering to enter. This grouping may consist of developed or developing nations. The firm needs to study the group of countries, their market potentiality, market position, and their culture and business styles before taking an entry decision. Usually, international organizations like EEC (European Economic Community) or LAFTA (Latin American Free Trade Association) provide secondary data related to these regions. Country–wise data is taken from this large pool of data and processed to suit to the requirements of the firm. Helsen, Kristiaan, Jedidi, Kamel, and DeSarbo, Wayne S[33] (1993) express that comparative cluster analysis is used as a tool to cluster various markets into homogeneous segments.

Example: Region or Country-Grouping @ McDonald's

McDonald's operates fast food chains across the globe. To easily manage its global operations McDonald's follows the region/country grouping in the markets where it operates. The region/country grouping of McDonald's are North America, South America, European Markets, African Markets, Asian & Oceanic Markets. In North America it operates in 11 countries & 17 countries in South America, 38 countries in Europe, 4 countries in Africa and 31 countries in Asian & Oceanic Markets. India is a part of Asian & Oceanic Markets region/country grouping.

Source: Mc Donald's, (2022), "Where We Operate", https://corporate.mcdonalds.com/corpmcd/our-company/where-we-operate.html, (accessed on 13/10/22)

6.8.2 Country

This is the most commonly used unit of analysis. The required data is collected at the country level. The study for a country can be made at single dimension using GDP, GNP, and per capita income, or on multiple dimensions like socio-economic, political, and cultural criteria (like population, price trends, consumption expenditures, market trends, and industry trends). In countries where there are a number of sub-regions and groups, the study of country analysis may give an illusion of homogeneity and correct data may not be obtained. Therefore, it is better, if the firm also studies the sub–groups within the country.

6.8.3 Sub-groups within the Country

In heterogeneous countries where there is lot of diversity, it is necessary to study the sub-groups within a country. The sub-groups within the country may be

[33] Kristia Helsen, Kamel Jedidi, Wayne S. DeSarbo, 'A New Approach to Country Segmentation Utilizing Multinational Diffusion Patterns', The Journal of Marketing, Volume 57(4), 1993, pp. 60-71.

formed because of differences in language, culture, geography — planes & hills, demography, density of population, and social aspects. While undertaking the study, it is assumed that the sub-groups within various countries have similar problems and behavior. Marketing strategies for these sub-groups are framed on the basis of the study reports. The strategies are applied for various sub-groups on a global basis. The study of such groups is not easy. Obtaining secondary data is very difficult and collecting primary data proves to be very costly. Firms also face difficulties in defining the scope of each group.

6.9 Selecting Information Sources

Evaluating the information for its relevance, quality and usefulness in marketing research decides why a specific information source is selected. Selecting information sources is the next step after determining the unit of analysis. The two important sources of data in domestic or international market research are primary and secondary sources. Primary data is very costly and time consuming while secondary data is not always reliable. Therefore, an international marketeer has to make a trade-off between the two. He can select the source of information keeping the objectives of research in mind. If he needs information for a specific product in a particular market, he may not get the information from secondary sources. He needs to conduct his own research and obtain the information from primary sources.

6.9.1 Primary vs. Secondary Data

Tony Hines (2004), defines primary data as "data collected by the firm for a specific purpose to answer a specific research question." Primary data is collected in the field. Therefore, it is also known as "Field Research".

The advancement in technology made primary research possible in international markets. Primary data is more useful to arrive at decisions related to market segmentation, promotion of a particular product in a specific country, distribution methods to be adopted, and advertising strategies. Information obtained through this mode is first hand and can be reliable. Different techniques of data collection may be employed to collect primary data. Qualitative data collection techniques like interviews, observations, experimentation, questionnaires, consumer panels, and quantitative techniques like surveys are used to obtain primary data. Obtaining primary data is costly and time consuming.

Secondary data is not collected for a particular purpose. The data has already been collected for a different purpose. Secondary data is easy to obtain. Usually, it is not very costly and is freely available. Secondary data sources include paper-based sources, electronic sources, government/official sources, unofficial or general business sources, the published data of international organizations, trade journals, yearbooks, and the Internet. At the outset, secondary data was the only source material available to international market research. However, the rapid changes taking place in the international scenario make secondary data obsolete, forcing organizations to opt for primary data sources.

Example: Primary vs. Secondary Data @ IKEA
Kearney, an international research consulting firm developed GRDI (Global Research Development Index) 2021 for finding out the most attractive countries in Emerging markets and India stood at top 2nd position after China in the rankings. International retailers like IKEA use secondary data like GRDI research reports for better understanding of the international markets. IKEA also uses primary data collecting directly from consumers through surveys and other research studies.

Source: Kearney, (2021), "Leapfrogging into the future of retail0The 2021 Global Retail Development Index", https://www.kearney.com/global-retail-development-index, (accessed on 13/10/22)

6.9.2 Internal Vs. External Data

Another classification of information sources in international market research is internal and external.

Internal data provides information about "profitability and growth trends for specific products and the effectiveness of different marketing tools". This helps an organization correct its mistakes and come up with better strategies. External data, generally, provides information related to environmental trends, demand patterns, competition, and the distribution network. It also provides data related to "market shares, characteristics of leading competitive products, policies of leading competitors, and the impact of economic, social, and political developments on general business and industry characteristics."

According to the study of Eldon (1997), small manufacturing units depend more on the accounting data as their major source of internal data. The book of Johny K.Johansson and Ikujiro Nonaka[34] (1997), titled 'Relentless: The Japanese Way of Marketing' - shows that Japanese firms rely heavily on two sources of information for their market research. One of them is the "data obtained from channel members and from visits to dealers. This type of data is called 'soft data'. The other form is 'hard data' which is about shipments, inventory levels, and retail sales." The senior and middle level managers of an organization are involved in obtaining the soft data. They use the soft data in the development of strategies and policies, while they use hard data to compare their stocks movement with that of their competitors.

[34] Johny K. Johansson and Ikujiro Nonaka, "Relentless: The Japanese Way of Marketing", Harperbusiness, 1997.

Check Your Progress - 1

1. Which of the following deals with the systematic collection and processing of data, storage, and transmission of information, among the various units of the organization?
   a. Marketing research
   b. Management information system
   c. Marketing information system
   d. Information management system
   e. Data management system
2. Which of the following is called the collection of actual data?
   a. Surfing
   b. Detailing
   c. Browsing
   d. Measurement
   e. Scanning
3. Which of the following can be defined as 'systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services?
   a. Product research
   b. Marketing research
   c. Marketing intelligence
   d. Marketing information systems
   e. Consumer market research
4. Which of the following refer to the decisions regarding the entry into new markets, expansion of markets, product life cycle, new product development, positioning of the product, investment decisions, etc., are known as which of the following?
   a. Operational decisions
   b. Corporate decision
   c. Tactical decisions
   d. Financial decisions
   e. Strategic decisions

5. Which of the following refers to the measurement units into which data is divided, while what being explained as the number of characters that are assigned to objects, persons, states, or events as per the established rules?
   a. Unit of analysis; units in research
   b. Units in research; unit of analysis
   c. Unit of analysis; measurement
   d. Units in research; measurement
   e. Unit in research; Unit of measurement

6.10 Primary and Secondary Data

Analysis of the data collected from market research is the stepping stone to making marketing decisions. This data can be collected from two sources, namely, primary source and secondary source. Information collected by the researcher that is tailored to the objectives of the research study is called primary data while secondary data refers to the readily available source for which data is collected.

6.10.1 Primary Data

"Primary data is gathered for the first time by the researcher". [35] Primary data is obtained by undertaking research. It is conducted with a specific objective in mind. Observations, questionnaires, sample surveys, and interviews are used to obtain data from primary sources. Collection of data from this source is very time consuming and costly. The researcher has to first decide upon the technique and opt for a suitable research plan to obtain the data. Technical expertise is required to obtain data from a primary source. The communication ability and willingness of the respondents pose a challenge to an international marketer when he tries to obtain data from this source. This type of research is primarily undertaken for firm-specific needs and when secondary sources are not suitable.

Primary data can be collected in two ways: ad hoc and continuous. Ad hoc study is made only on one occasion for a set of respondents. When a given set of respondents are observed or interviewed over a period of time to obtain certain information to deal with a specific problem, then it is called continuous research.

Mr. A is a research scholar at a renowned institute. He has undertaken a project to study the shopping behavior of women. He has developed a questionnaire for taking personal interview. For this, he has targeted the shoppers in five upmarket retail stores. What type of data collection is he following?

[35] Ramaswamy, 'Marketing Management: A Strategic Decision Making Approach', McGraw Hill Education; 5th edition, 2017.

Research plan

Research plan is nothing but the process to obtain data. The process of designing the research plan at the international level is similar to that at the domestic level. However, collection of data at the international level is more complex than at the domestic level. The research at the international level involves a number of stages and often requires the integration of secondary data with primary data.

Designing the research plan involves the following steps:

1. The research plan should clearly specify the variables that are to be examined. The plan should also specify how the variables are divided into categories.
2. The second step would be to decide upon the research techniques that are to be adopted. Research techniques may be quantitative or qualitative. Careful study should be made while choosing the techniques.
3. As the research is conducted in an international arena, the instruments adopted should be suitable in all countries where the research is undertaken.
4. After deciding upon the research instruments, the sampling procedure should be decided.
5. The data obtained should be carefully processed and the information should be distributed among the units of the organization for analysis and decision-making.

Questionnaire

A questionnaire is a formal sequential array of questions designed to elicit the desired information from respondents by a researcher on a specific topic. Questionnaire designing should be done very carefully as the results affect the decisions of the organization. Questionnaires have many advantages over other methods. This method is very cheap and does not need prior arrangements. It gives ample time to the respondent to think about a particular subject. It can be mailed or faxed. This method is away from personal and interview bias.

However, proper care should be taken while constructing the questionnaire. Clear-cut instructions should be given to the respondents on how to fill up the questionnaire. The questionnaire should appear neat and legible. Due attention must also be given to the length and to the questions and the order in which they are placed.

Semantic differences should be taken into consideration as the questionnaire is meant for customers. Pilot survey should be made before the questionnaire goes to the final respondents. This provides an opportunity to correct errors, if any.

Sample survey

G.C. Beri (2007), defines sample as "a part of population or a subset from a set of units, which is provided by some process or other, usually by deliberate selection with the objective of investigating the properties of the parent population or set".

There exists a close relationship between the choice of data selection source, and sampling methods. Sampling is done in different ways, which are broadly divided into:

1. Probability Sampling Methods
2. Non-probability Sampling Methods.

1. **Probability Sampling Methods:** Under this method, each member of the population has an equal chance of being selected. Randomness ensures that the selection of units take place by sheer chance. Different techniques are adopted under this method, such as:
   - Simple Random Sampling
   - Systematic Sampling
   - Stratified Sampling
   - Area Sampling

   - **Simple Random Sampling:** The best example for simple random sampling is the "lottery method". Under this method, "all items of the population are given equal chances of being selected." This method is suitable when the size of a population is very large. The random tables developed by the statisticians are used to select the samples from large populations. This method is not applicable when the size of a population is infinite.
   - **Systematic Sampling:** Under this method, after randomly choosing the beginning unit, every *nth* unit of a population is selected. The fixed interval 'n' is obtained by dividing the population by the sample size.
   - **Stratified Sampling:** Based on common characteristics, an entire population is divided into strata. Stratified sampling is obtained by randomly selecting the units from each stratum.
   - **Area Sampling:** Under this method, a sampling frame is developed over a period of time, in a number of stages. Maps are used in area sampling to develop a sampling frame. The entire area is divided into smaller areas/ zones, and samples are selected randomly from each area/zone. Area sampling is done in places where it is difficult to "find a satisfactory sampling frame, such as population tests".

2. **Non-probability Sampling Methods:** Under this method, sampling is done in four ways, such as:
   - Convenience Sampling

- Quota Sampling
- Judgment Sampling
- Panel Sampling
- **Convenience Sampling:** Under this method, the sample is selected at the convenience of the researcher. This is also known as 'Accidental Sampling'. Scientific methods are not followed. There is a possibility that the respondents may not represent the sample of a population. There is a higher chance for personal bias. Therefore, this method is not suggested for research. However, this method may be used in "exploratory research where the focus is to obtain new ideas and insights"
- **Quota Sampling:** Quota sampling is a frequently used method. This method is used when there is a time constraint. Under this method, the researchers fix certain quotas and the interviewers fulfill these. This method is economical. However, supervision and control of operations in the fieldwork become difficult in quota sampling.
- **Judgment Sampling:** In judgment sampling, the researcher or some other "expert" uses his/her judgment in selecting the units from the population for study based on the population's parameters. This type of sampling technique might be the most appropriate if the population to be studied is difficult to locate or if some members are thought to be better (more knowledgeable, more willing, etc.) than others to interview. This determination is often made on the advice and with the assistance of the client. For instance, if you wanted to interview incentive travel organizers within a specific industry to determine their needs or destination preferences, you might find that not only are they relatively few, but they are also extremely busy and may well be reluctant to take time to talk to you. Relying on the judgement of some knowledgeable experts may be far more productive in identifying potential interviewees, than trying to develop a list of the population in order to randomly select a small number.
- **Panel Sampling:** Panels may be of different types like consumer panels and expert panels. This method is used to measure shifts in buying patterns and brand loyalties. The members of the panel are used selectively and not randomly. They do not represent the whole market.

Mr. B puts 3 red balls and 5 white balls in a bag. He then puts the balls on a lottery machine. He runs the lottery machine while the balls churn in it. What type of sampling method is he employing?

Measurement

Measurement may be explained as the number of characters that are assigned to objects, persons, states, or events as per the established rules. Every object is measured by the number of characteristics it has. Measuring instruments are of utmost importance. Proper results cannot be obtained without proper measurement instruments even if there are very good samples and best-laid research plans. While developing the measuring instruments, utmost care should be taken to ensure that they work in all cultures and in different nations. The instruments should be reliable and valid under different circumstances. In international markets, in particular, this issue is of great importance.

Activity 6.1 In order to regain its market share, a mobile phone manufacturing company plans to find out the reasons for its loss of market share by analyzing primary data. Discuss the various ways or sources through which the mobile phone manufacturing company can obtain primary data. **Answer:**

6.10.2 Secondary Data

Secondary data is published data. A firm tries to obtain the required information through secondary data, first, as it is readily available and cost effective. It does not involve much time. Government reports, trade journals, newspapers and magazines, on-line subscription databases, and data on the Internet constitute secondary data.

Information Sources

Information is the key element in taking decisions. The strategies of an organization are affected by the quality of information. Therefore, information collection should be done carefully and the sources of information should be selected consciously. A systematic collection of the published data is called desk research or secondary research. Secondary data sources include all those sources that provide general economic, political, social, and demographic information to specific industry sources worldwide. However, general sources provide general information and industry sources provide more industry specific information. The "accuracy and the frequency with which they are updated" vary considerably between the sources.

The following paragraphs describe how international marketers obtain economic and industry information in international markets.

Economic Data: Macro-economic data is very essential for an international marketer. He needs to know the economic conditions of the country he is planning to enter. International organizations like the United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Program (UNDP), and the World Bank, provide the necessary global economic information to international marketers through their year-books and annual reports.

United Nations: International marketers can obtain the necessary information from the reports of various bodies of the United Nations, such as the United Nations Development Program, the United Nations Educational Scientific and Cultural Organization (UNESCO), the United Nations Conference on Trade and Development (UNCTAD), and the United Nations Development Program (UNDP). These organizations provide information regarding the general conditions of a country. They cover various topics like population, manpower, education, science and technology, agriculture, culture, forestry, fishing, industrial production, mining and quarrying, manufacturing, conservation, internal trade, external trade, transport, communications, consumption, conservation, balance of payments, health, housing, development assistance, energy wages and price, national accounts, finance, and public finance.

World Bank: The World Bank helps developing countries find solutions to face the toughest global and local development challenges. It provides information regarding the Gross National Product, Gross Domestic Product, Per capita income, inflation, literacy percentage, growth in the market conditions, and demographic and social statistics of a particular country. The international researchers can get comprehensive, reliable, and valid data by relying on such sources. However, World Bank statistics help more in the analysis of past data rather than in the projection of future trends. The World Bank publishes comprehensive reports in two series and provides data of various countries.

Industry Data: Apart from general economic data, international marketers seek information related to a particular industry. The above-explained sources do not give much data related to specific industries. Therefore, firms look for specific industry data sources. These include reports of the government, private market research institutes, annual reports of international organizations, and trade journals.

United Nations Yearbooks: The Yearbooks of the United Nations give details regarding the number of establishments, salaries of employees, Gross Output Value of stocks, cost of goods, and industrial services consumed, of certain industries in all member nations. Extractive, manufacturing, electricity and gas industries are covered by the United Nations Yearbooks.

The Economist: The London based Economist Intelligence Unit quarterly publishes many reports and surveys that is useful in evaluating the international marketing opportunities in Europe. It provides information related to various aspects of three sets of industries in 200 countries. The Economic Intelligence Unit also publishes a number of special reports related to certain industries.

World Casts: It gives detailed statistical data related to various products and markets. The data is divided into geographical units and products. World Casts not only publishes the past data but also the detailed projections. This publication predominantly projects data related to commodities and industrial product markets.

Background Data: An international marketer often looks at the background of the industry in a country where he is planning to make an entry. The historical data of the industry helps him to frame strategies and policies. Usually, government reports, economic surveys, and country handbooks provide the required information.

Information requirements

The strategies and decisions of an organization depend upon the information sources it has. Firms need specific data on certain aspects for the formulation of effective strategies and policies. Management looks for four types of information. They are:

1. Political, Financial, and Legal data
2. Infrastructure data
3. Marketing data
4. Product Specific data

1. **Political, Financial, and Legal Data:** Firms can assess the risks associated with the operations in a foreign market, from the political, financial, and legal scenario of a country. Let us assess each of them individually.

   - **Political Data:** The political environment of a country plays a very influential role in the business of the country. The risk varies from firm to firm and industry to industry. Knowledge of the political environment of a host country helps an organization to frame strategies.
   - **Financial and Foreign Exchange Data:** The financial and foreign exchange risks (like rate of inflation and currency depreciation) in a country, affect the profitability of a company operating within it. The resource allocation and development of strategies by an organization are affected by the financial risks of the host country. The amount of risk varies from industry to industry and from firm to firm. For example, consumer credit card companies are severely affected by interest rates. Fluctuations in the interest rates of the host country affect the operations of a firm.

- **Legal and Regulatory Data:** Restrictions on imports and exports, specifications on modes of operations, and tariff barriers are impediments to market entries and growth. The regulations on certain industries like banking, insurance, leasing, wine distribution, and tobacco, are very high in certain countries. And the laws vary from country to country. Therefore, knowledge about the legal and regulatory environment of a host country helps an organization in doing business in the foreign market.

2. **Infrastructure Data:** Information related to integrative networks (like physical structures, retail and distribution networks, availability, and costs associated with them) is known as infrastructure data. These networks "affect the costs of exploiting market potential and the feasibility of utilizing specific types of marketing programs and strategies." Therefore, infrastructure data is required to estimate the probable costs associated with alternative modes of operations. Some important aspects covering infrastructure data are as follows:
   - **Distribution Networks:** Distribution networks affect the marketing strategies of a company. A firm requires thorough knowledge of the nature of the channels of distribution, and distribution networks in a host country, to market in that area. Obtaining global data on distribution is a challenge for international marketers.
   - **Communication Networks:** Communication networks are further divided into mass media and inter-personal media. Mass media affects the feasibility of using "different strategies and also the extent to which appeals can be targeted to a particular market segment". The inter-personal media affects the efficiency and costs of using different promotional strategies and conducting surveys within a country.
   - **Service Organizations:** The decisions of the company, such as to what extent the company can utilize the services of outside parties like market research agencies, are influenced by the service organizations of the host countries. Therefore, information related to the various service organizations, and their styles of functioning is essential for international marketers.

3. **Marketing Data:** Demographic, economic, geographic, technological, and socio-cultural factors indicate the marketing environment of a nation. These are the "surrogate indicators of the market size and growth rates". Information related to the marketing environment helps an organization in many ways. While gathering information, specific market indicators that are relevant to the international corporate objective of the firm, should be selected. The characteristic features of each factor can be summarized as thus:
   - **Demographic Characteristics:** The demographic characteristics of a country represent the potential market size of the country. These

characteristics vary from country to country, and from product to product within the country. The demographic characteristics of a country indicate whether there is demand for a particular product or not. For example, in a country where there are more children, there will be a large demand for children-related products.

- **Economic Characteristics:** The affluence of a market can be known only through the economic characteristics of a country. In a weak economy, where there are a large percentage of lower middle-class people, costly and luxurious goods will not have demand. Therefore, an international marketer should gather data and understand the economic characteristics of a country before entering it.
- **Geographic Characteristics:** The geographic characteristics of a nation also influence the demand for a product. These play an important role in "influencing the ability and ease of exploiting market opportunities. The market for products like ice-creams, umbrellas, fur coats, air conditioners, and sunglasses are greatly influenced by the geographic characteristics of a country. Therefore, an international marketer should know the geographical conditions of the country where he is operating.
- **Technological Characteristics:** Educational levels and peoples' exposure to technology in a country also influence the international marketing strategies of a company. Products like electronic games, books, and personal computers, may not have markets in weak economies. Technological characteristics influence the costs of alternative modes of entry and operations within the country.
- **Socio-Cultural characteristics:** These are very important factors that influence market response. The cultural values, lifestyle patterns, linguistic fragmentation, cultural and ethnic homogeneity constitute the socio-cultural characteristics of a nation. Food, garments, and many other industries are influenced by the socio-cultural characteristics of a nation. Therefore, an international marketer should understand the socio-cultural characteristics of a host country.

4. **Product Specific Data:** Products may be consumer goods or industrial goods. Information like the type of the product, its stage in the life cycle, its complementary products, its substitutes, consumption data, production data, market share data, and its growth in the market, should be obtained to evaluate the current and future market potential, and profitability of a product.

Thus, a company has to collect information related to various aspects before entering an international market. Failure in doing so can cost the firm.

Example: Secondary Data- Industry Data @ ACSI

Retail and Consumer Study 2020-2021 is an Industry Data report compiled by ACSI- The American Customer Satisfaction Index. ACSI is an American Industry research firm conducting research on various industries like Retail, Manufacturing, Travel etc. where it benchmarks the performance and compares the performance of top companies. Many international firms use such secondary data to understand the US market under various industries.

Source: ACSI (2022), "American Customer Satisfaction Index-Benchmarks", https://www.theacsi.org/our-industries/ (accessed on 13/10/22)

Activity 6.2

A retailer like Bonobos, a men's fashion and business attire retailer in the US, were to expand its physical stores in various locations within US. What type of market research should it undertake to obtain relevant information on the location?

Answer:

6.11 Problems in International Marketing Research

"Customers identify at the national level, and marketers need to remember that every country has its own local laws, cultural norms, forms of currency and payment, and unique business practices[36]" (HBR-2015).

It is very difficult to do marketing research at a global level because of the differences among nations, uncertainty in the markets, lack of proper information networks, increasing costs because of geographical distances, problems in decentralization, and changing foreign exchange rates. The problems faced by an international researcher may be summed up as under:

1. Problem of numerous markets
2. Problems with secondary data
3. Comparing several markets
4. Problems with primary data
5. Infrastructure constraints

[36] Nataly Kelly, "The Most Common Mistakes Companies Make With Global Marketing", Harvard Business Review, September 7, 2015.

6.11.1 Problem of Numerous Markets

Marketing research in international markets requires lot of financial, human, and technological input. Obtaining reliable data becomes difficult, especially, in developing and less developed countries. Researchers also find it very difficult to define the sample and undertake research in international markets. Analysis of the data obtained from different sources also becomes a challenge.

Another constraint is the limited budgets of the organizations.

6.11.2 Problems with Secondary Data

Obtaining secondary data from various countries, especially developing countries, is difficult. According to Subhash C. Jain, "the availability of reliable secondary data is directly related to the level of economic development of a country." Data collection is an expensive and a tedious process. Therefore, if the government does not have financial resources, it may not be interested in collecting data. Moreover, secondary data often becomes outdated.

Example: Problems with Secondary Data @ Samsung

J.D. Power is an international research consulting firm. According to US Appliance Satisfaction study 2022 conducted by the consultancy, it found out that across all appliance segments, consumers are considering multiple brands. Such secondary data like Appliance Satisfaction study conducted by J.D. Power is helpful for International Appliance companies like Samsung for making crucial decisions. Through the appliance study it also came to know that there are supply chain and labor shortages in the market. These study findings gave an edge to firms like Samsung in their decision making.

Source: J D Power, (2022), "Appliance Satisfaction Remains High Despite Supply Chain and Labor Shortage Issues" https://www.jdpower.com/business/press-releases/2022-us-appliance-satisfaction-study# (accessed on 13/10/22)

6.11.3 Comparability of Data

The data obtained from different sources need to be analyzed and compared to have an understanding of the international markets. However, this is not possible because of the differences in definitions of the variables and differences in base years. For example, the definition of "Construction Equipment, Machinery and Tools" in Malaysia includes huge bulldozers as well as hand operated drills, whereas in many other countries that is not the case. Therefore, an international researcher will not be able to compare the data between different nations.

According to Ravi Parameswaran and Attila Yaprak[37], (1987), the "same scales may have different reliabilities in different cultures, and that the same scales may

[37] Parameswaran Ravi and Yaprak Attila, "A Cross-National Comparison of Consumer Research Measures", Journal of International Business Studies, Volume 18(1), 1987, pp. 35-49,

exhibit different reliabilities, when used by the same individual in evaluating products from different cultures". The differences in "levels of awareness, knowledge, familiarity, affect with peoples, products in general, and specific brands from chosen country-of-origin," cause differentials in the reliability of similar scales when used in multiple national markets.

6.11.4 Problems with Primary Data

It is not easy to obtain data from primary sources in international markets. International researchers face a lot of problems because of the differences in socio-cultural factors and level of economic development in a country. First, researchers face problems in defining the sample. A good sample should represent the entire population. This may be possible in a domestic survey but not in an international survey. Most samples obtained will be biased. Especially in developing countries, where there are no proper infrastructure facilities, representing the entire population is not possible.

Semantic differences pose another problem. Different countries have different languages. Everywhere the questionnaire has to be translated into the native language, which is not an easy task.

International market researchers also face the problem of non-response. This may be because of various reasons like cultural differences, language barriers, and time constraints. Respondents may often not be honest or may be unwilling to share their feelings with the researchers.

In many countries, researchers do not find established marketing research institutions and may have to depend on temporary sources that may not be fully reliable.

6.11.5 Infrastructure Constraints

Researchers may face a number of technical problems while collecting data in foreign markets. Particularly in developing countries the problems in collecting data are multi-fold. Poor infrastructure facilities like slow and unreliable postal system, lack of telephone facilities, lack of transportation facilities, lack of exposure to technological devices, and poor standard of research support infrastructure force researchers to confine their activities to a limited area and a limited number of people, and not consider the entire population.

Activity 6.3

'My-Care' is a fast-growing Korean firm producing and marketing personal care products. The firm wants to expand and globalize its operations and intends to conduct marketing research before launching its products globally. What could be the difficulties and problems that My-Care may face while conducting marketing research at a global level? Discuss them in detail.

Answer:

6.11.6 Minimizing the Problems in International Marketing Research

Good research not only depends upon proper designing but also upon the mode of implementation, which is influenced by a number of factors beyond the control of the researchers. There are no ready-made solutions to the aforesaid problems. However, international researchers can try to minimize the problems by undertaking the following measures:

1. The costs of gathering data and finding the necessary manpower in international markets can be reduced to a large extent by having a tie-up with local established institutions. The international researcher may give instructions regarding their requirements, and the local research institutions should collect them the way they want.
2. An international researcher can avoid problems of local culture and languages by hiring a local person who is conversant with marketing techniques and local culture.
3. By taking some extra care in the preparation of the questionnaire, a lot of semantic errors can be avoided. The questionnaire should be translated into different languages through a local person who can understand the language the questionnaire is in, and properly translate it into the native language. The translated version should then be compared with the original version and errors, if any, should be rectified. Finally, it must be checked whether the questions reflect the same meaning in the local language.
4. The researcher should apply appropriate measures while drawing the sample and adopt proper methods while analyzing the data.

Check Your Progress – 2

6. The process of obtaining data is called as which of the following?
   a. Browsing
   b. Research techniques
   c. Scanning
   d. Surfing
   e. Research plan

7. Which of the following methods is used when the size of the population is very large?
   a. Area sampling
   b. Systematic sampling
   c. Stratified sampling
   d. Simple random sampling
   e. Cluster sampling
8. Which of the following sampling methods is used to measure shifts in buying patterns and brand loyalties?
   a. Quota sampling
   b. Panel sampling
   c. Area sampling
   d. Incidental sampling
   e. Convenience sampling
9. Which of the following types of data is required to estimate the probable costs associated with the alternative modes of operation?
   a. Hard data
   b. Financial data
   c. Infrastructure data
   d. Product specific data
   e. Soft data
10. Which among the following measures should be taken by researchers to minimize the problems encountered in international marketing research?
    i. By having a tie-up with local established institutions
    ii. By hiring a local person who is conversant with marketing techniques and local culture
    iii. By translating the questionnaire into different languages and get it checked whether the questions reflect the same meaning in the local language.
    iv. By applying appropriate measures while drawing the sample and adopting proper methods while analyzing the data.
    a. Only i, ii, and iii
    b. Only i, iii, and iv
    c. Only ii, iii, and iv
    d. i, ii, iii, and iv
    e. Only i & ii

6.12 Summary

- Every organization needs a marketing information system for the collection, processing, storage, and distribution of data.
- A marketing information system provides information on every aspect of marketing and helps an organization come up with effective strategies. Utmost care should be taken while developing a marketing information system.
- The marketing information system of an organization collects the required information in two stages. In the first stage, a list of subjects for which information is required is framed. In the second stage, data is searched for the specified requirements. This is known as 'scanning.' Scanning is done in two ways: (i) Surveillance, and (ii) Search modes.
- Marketing information research provides data related to markets, customers, products, price, distribution, and promotion. The research related to markets is known as market research.
- Market research deals with market potential, market entry or exit decisions, market segmentation, market performance, market shares, sales analysis, and forecasting.
- Firms that are entering into international markets for the first time need different kinds of information from the ones that are already in the market. A marketing information system needs to collect data for different purposes and needs to provide information at different levels.
- After determining the information, a number of appropriate units of analysis should be determined. Units refer to the characteristics of an individual or an object that has to be measured.
- The units of market research may be divided into three categories: Region or Country grouping, Country, and Sub-groups within the countries.
- After studying the unit of analysis, a researcher should identify the information sources. The information sources can be broadly divided into primary and secondary sources.
- Secondary data is the data that is already collected and published. Secondary data is obtained from various sources like government reports, international organizations, and private market research firms.
- One more way of classifying data is internal or external. Internal data is the data within the organization and external data is the data obtained from external parties.
- An international researcher should decide on the source first. A company has to collect economic, industrial, political, financial, legal, marketing, and specific product data before entering into a country.

- The problems of international market research are multifold. The data obtained from each country will be different. Obtaining reliable secondary data is extremely difficult, especially in less developed economies. Similarly, obtaining primary data is also difficult as the researcher may face problems related to infrastructure, time, and non-response.

6.13 Glossary

Area Sampling: Under this method, a sampling frame is developed over a period of time, in a number of stages.

Judgment Sampling: Depending on the number / size of the population, the researcher himself judges the size of the sample based on knowledge and professional expertise.

Marketing Research: American Marketing Association defines Marketing Research as a "systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services." It includes the research of markets, products, price, sales promotion, distribution, and customers.

Operational and Tactical Decisions: Operational and tactical decisions include decisions related to sales and marketing budgets, database management, distribution channels and logistical choices, consumer research, competitor tracking, setting short-term prices, packaging, planning sales territories, and short-term agency agreements. These decisions are taken by the middle level managers.

Panel Sampling: Through random sampling methods, a group of participants are selected and obtaining information from the group several times over a period of time is called Panel Sampling. Panels may be of different types like Consumer Panels and Expert Panels.

Primary Data: Primary data is gathered for the first time by the researcher. It is conducted with a specific objective in mind

Quota Sampling: Representative individuals who are chosen out of a specific group is known as Quota sampling. This method is used when there is a time constraint.

Secondary Data: Secondary data is published data.

Simple Random Sampling: Under this method, "all items of the population are given equal chances of being selected".

Strategic Decisions: Strategic decisions include decisions regarding entry into new markets, expansion of markets, decisions related to product life cycles, new product development, positioning of the product, investment decisions, and database development decisions.

Unit of Analysis: Unit of analysis refers to "individuals or the objects whose characteristics are to be measured". The unit always identifies the objects to be studied.

6.14 Self-Assessment Test

1. Every organization needs timely and correct information on every aspect of marketing, for proper decision-making. Explain the concept of marketing information systems. What are the elements of information systems?
2. 'Marketing research helps an organization to come up with the right market entry strategies and marketing mix decisions' - Substantiate.
3. Information requirements of each firm are different. In what ways can these be determined?
4. The decisions taken by the international sales and the marketing managers may be classified into strategic, operational, or tactical categories. Explain the levels of analysis involved and the types of decision taken in these levels.
5. Explain these sources of data. What are their advantages and disadvantages?

6.15 Suggested Readings/Reference Material

1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations"*, 17th Edition, Pearson, 2021.
2. Masaaki (Mike) Kotabe, Kristiaan Helsen and Prateek Maheshwari, "International Marketing 8e (An Indian Adaptation)", Wiley India Pvt Ltd, 2021.
3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
4. Keegan, W.J., "Global Marketing Management", Pearson Education; Eighth edition, 2017.

6.16 Answers to Check Your Progress Questions

1. (c) Marketing Information Systems

Marketing information systems deal with the systematic collection and processing of data, storage, and transmission of information, among the various units of the organization. It contains data related to several aspects of marketing like internal operational data, market intelligence, market research data, and external data.

2. (e) Scanning

The collection of actual data is known as 'Scanning'. Scanning can be done in two ways — surveillance, and search modes.

5. (b) Marketing Research

American Marketing Association defines Marketing Research as "systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services". It includes the research of markets, products, price, sales promotion, distribution, and customers.

4. (e) Strategic Decisions

Strategic decisions include decisions regarding entry into new markets, expansion of markets, decisions related to product life cycles, new product development, positioning of the product, investment decisions, and database development decisions. These decisions are usually taken by the top management as they imply the overall allocation of the company's resources.

5. (d) Units in Research; Measurement

Units in research are the measurement units into which data is divided. Measurement may be explained as the number of characters that are assigned to objects, persons, states, or events as per the established rules. Every object is measured by the number of characteristics it has.

6 (e) Research Plan

Research plan is the process of obtaining data. The researcher has to first decide upon the technique of data collection, and opt for a suitable research plan to obtain the data.

7. (d) Simple Random Sampling

Under the simple random sampling method, "all items of the population are given equal chances of being selected". This method is suitable when the size of a population is very large. The random tables developed by the statisticians are used to select the samples from large populations.

8. (b) Panel Sampling

Panel sampling method is used to measure shifts in buying patterns and brand loyalties. Panels may be of different types like consumer panels and expert panels. The members of the panel are used selectively and not randomly. They do not represent the whole market.

9. (c) Infrastructure Data

Infrastructure data refers to the information related to integrative networks (like physical structures, retail and distribution networks, availability, and costs associated with them). These networks affect the costs of exploiting market potential and the feasibility of utilizing specific types of marketing programs and strategies.

10. (d) i, ii, iii, and iv

Researchers can minimize the problems encountered in international marketing research by taking the following measures:

- The costs of gathering data and finding the necessary manpower in international markets can be reduced to a large extent by having a tie-up with local established institutions.

- An international researcher can avoid problems of local culture and languages by hiring a local person who is conversant with marketing techniques and local culture.
- By taking some extra care in the preparation of the questionnaire, a lot of semantic errors can be avoided. The questionnaire should be translated into different languages through a local person who can understand the language the questionnaire is in, and properly translate it into the native language. The retranslated version should then be compared with the original version and errors, if any, should be rectified. Finally, it must be checked whether the questions reflect the same meaning in the local language.
- The researcher should apply appropriate measures while drawing the sample and adopt proper methods while analyzing the data.

Unit 7

Segmentation, Targeting and Positioning

Structure

"There is only one winning strategy. It is to carefully define the target market and direct a superior offering to that target market."

- Philip Kotler, The Marketing Guru

7.1 Introduction

Marketing leaders credit segmentation, targeting and positioning for efficient, streamlined communications to customers. Whether you are new to the strategy or a veteran, it is useful to do a double-check of every opportunity to reach, interact, convert and engage with the customers.

The success of Nike INC., the world's first sports-fitness equipment company, can be attributed to its proper segmenting, targeting and positioning strategies.

In the previous unit, we discussed the importance and the role played by marketing information and marketing research in international market. In this unit, we will first discuss global market segmentation. We shall then move on to discuss how to target international markets. We shall also look at product positioning in the global scenario. Finally, we shall discuss marketing strategies in the less developed countries.

7.2 Objectives

After reading through this unit, you should be able to:

- Outline the meaning of market segmentation that helps the firm to segment its customers
- Match the relevant marketing mix to the right group of customer segmentation
- List out the factors that form the bases of segmentation and help the marketer allocate resources accordingly
- Examine the various types of product positioning for establishing the product image
- Identify the right target group in the international markets to enhance the firm's capabilities
- Develop the right Product Positioning Strategy that suits the image of the organization.

7.3 Global Market Segmentation

Royal Enfield Motors, makers of bullet motorcycles, have been slowly expanding in the mid-sized motorcycle markets in the developing and mature markets with decent success. Like India, developing markets of South-East Asia and Latin America showed characteristics of lack of middle-weight bullet motorcycles, more associated with the status symbol in comparison to the bland commutation-only motorcycles. But in countries like the US, Australia and UK where super-heavy, super-fast motorcycles that are expensive is the flair, they are targeting consumers who want fun-to-ride, yet less-expensive motorcycles. This differentiation in segmenting their markets has helped them establish in all these markets. To market successfully in a heterogeneous global market, international marketers like Royal Enfield need to identify the patterns of similarity that act as a platform for global integration at the strategic and operational levels. "The process of identifying groups or sets of potential customers at either the national or sub-national level that are likely to exhibit similar buying behavior is known as segmentation".

Market segmentation helps organizations to identify the groups that respond differently to their marketing mix and allows them to frame a tailored marketing mix for different segments. The effectiveness of the marketing activity improves when the markets are segmented. Segmentation also helps in better allocation of scarce resources.

Different researchers have come up with different bases for segmentation. They have identified nine factors for dividing markets. But the most popular among them is segmentation on the basis of individual characteristics. Demographic, psychographic, and behavioral criteria form the bases for segmentation under this method. The following paragraphs discuss each of them in detail.

7.3.1 Demographic Segmentation

According to Peter G. P. Walters[38] (1997), "demographic variables have obvious potential as cross-national segmentation criteria".

Certain measurable characteristics of an individual like age, gender, education, income levels, occupation, culture, etc., form the base in demographic segmentation. Certain global demographic trends like the changing roles of women, fewer married couples, fewer children, higher incomes and living standards, urbanization degree, birth/death rates, ethnic composition, etc., are also taken into consideration. People who exhibit certain common characteristics of the above factors are grouped under one head. This helps the companies understand the needs and behavior of the various segments and to market their products accordingly.

Here is a detailed look at some of the demographic factors.

Age: Age is a significant demographic factor. Based on age, companies segment markets into adults, teenagers and children. Different strategies are framed to attract the customers in different segments. For example, in the US, in the children's category, marketers may segment the markets into pre-school goers, early pre-school (between three–five years of age) and older pre-school goers (five–ten years of age), etc.

Toys, games and magazines may be manufactured and marketed according to the age groups.

According to Warren J. Keegan[39] (2014), the author of the famous book *Global Marketing Management*, teenagers around the world show a remarkably consistent behavior and so can be classified as global teenagers. They show a consistent behavior because of their exposure to and interest in music, fashion and lifestyle. Their common interests, desires, needs, and fantasies help organizations to group them under one head, and use a common marketing program. Coca-Cola, Reebok, Nike, Swatch, and Benetton are examples of companies that cater to the needs of the global teenagers.

Gender: Markets are segmented on the basis of gender. Industries like textiles, cosmetics, toiletries, magazines, hairdressing, and shoes, especially, use gender segmentation.

Education: Many services and manufacturing industries segment their market based on the educational qualifications of customers. For example, pharmaceutical companies adopt different approaches towards doctors and the general public.

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[38] Peter G. P. Walters (1997), "Global Market Segmentation: Methodologies and Challenges," Journal of Marketing Management, Volume 13, Issue 1-3, "Internalization," 1997, published online on May 6, 2010.

[39] Warren J.Keegan, Global Marketing Management, Pearson Education; Eighth edition , 2017.

Income levels: At the global level, all countries are divided into three main categories based on income ─ high, middle, and low-income groups. The lifestyle and standard of living of different income levels differ. International marketers should adopt different strategies to attract these varied groups.

Culture: The culture of different segments varies. The local customs, beliefs and social norms play a dominating role. Hofstede has given five dimensions for classifying economies on the basis of culture.

They are: Individualism vs. Collectivism, Power Distance (PD), Uncertainty Avoidance (UA), Masculinity vs. Femininity, and Strategic Orientation (Long-term vs. Short-term). Firms operating in international markets should understand the cultural differences of the segments and design their marketing efforts accordingly. For example, Austria, Germany, Switzerland, Italy, Great Britain, and Ireland are high masculine economies with medium to high levels of individualism.

Example: Seniority Store Leverages on Demographic Segmentation

Seniority was a Pune-based retail company. It offered products for senior citizens with more than 5,000 varieties. The portfolio included products from medical to lifestyle for senior citizens. As per "National Statistical Office's Elderly In India", report of 2021, the elderly population in 2001 was 76.6 million and in 2011 it was 103.8 million. The projection states that it would grow up to 137.9 million and would touch 193.8 million by 2031. Seniority harnesses on this opportunity building on the demographic segmentation.

Sources: i) (August, 2021). Retrieved from https://www.seniority.in/about-us. Accessed on 25-10-2022.

ii) (October, 2022). Retrieved from https://startup.outlookindia.com/analysis/age-is-just-a-number-a-big-one-for-indian-start-ups-news-6466. Accessed on 25-10-2022

7.3.2 Psychographic Segmentation

Under this method, the markets are segmented on the basis of attitudes, beliefs, values, opinions, personalities, and lifestyles of the customers. Psychographic segmentation is otherwise called "State-of-Mind" segmentation. According to Peter G. P. Walters[40] (1997), "lifestyle" factors are used to segment the market. The "way of living" of people at work and at leisure is taken into consideration. Questionnaires are used to obtain related data. The respondents have to indicate the extent to which they agree or disagree with a series of statements. They are then grouped based on similarity of opinions or beliefs. Psychographic segmentation is popularly used to market environmentally friendly products. Psychographic segmentation gives valuable data and a better explanation for consumer differences than demographic segmentation.

[40] Peter G.P. Walters, "Global market segmentation: Methodologies and challenges", Journal of Marketing Management, Volume 13, Issue 1-3, 1997.

Many market research organizations undertake psychographic segmentation to study lifestyles, personalities, goals, motivations, and values of people in various countries. For example, the global advertising agency, Backer Spielvogel & Bates Worldwide (BSBW), made a psychographic segmentation study of 18 countries known as "Global Scan Presentation" in 1989. The study gives a description of five global psychographic segments known as strivers, achievers, pressured, traditionals, and adapters.

Strivers are young people, around 31 years of age. They are highly motivated towards success and lead a hectic life. They are basically materialistic pleasure seekers and have little time and money.

Achievers are older than strivers. These people have already achieved some success and are on the way to achieve more. They are quality and status conscious.

The Pressured segment comprises mostly women of different age groups. They face a constant financial and family pressure.

Traditionals are "rooted to the past" and do not ever want to change. They give utmost importance to their heritage, and the values and culture of their country.

Adapters are older people who are content with their lives. They try to manage their values and at the same time, are open to change.

This study helps in identifying similar groups across nations and also in identifying the strongest group in a particular country. Similarly, Porsche AG, luxury carmakers, has identified five different groups among its customers. They are Top Guns, Elitists, Proud Patrons, Bon Vivants, and Fantasists. Each group has distinct characteristics and lifestyles.

- **Top Guns:** Driven, ambitious. Want to be noticed.
- **Elitists:** Individuals from 'Old money' (i.e. blue blood – in other words, persons of noble birth) belong to this group. A car is just a car, no matter how expensive.
- **Proud Patrons:** Ownership an end in itself, earned by hard work; no need to be noticed.
- **Bon Vivants:** Worldly jet-setters and thrill-seekers. Car heightens the excitement in their already passionate lives.
- **Fantasists:** Their car is an escape, uninterested in impressing others, may feel a little guilty about owning a Porsche.

7.3.3 Behavioral Segmentation

Behavior segmentation is based on the general behavior of customers towards a product. It tells whether certain customers buy a product or not, and if they do, how often they buy it and how frequently they use it. So, behavioral segmentation classifies markets on the basis of knowledge, attitudes, uses, and responses of the customers towards a product. Occasions, usage rate, benefits sought, loyalty status, user status, and buyer readiness stage are the commonly used traits in behavioral segments.

Occasions: Markets are segmented on the basis of various occasions, whether customers buy on a regular basis or only for specific occasions.

Usage rate: Groups are formed based on the usage rate like heavy, medium, light, and non-users. An example for this may be consumption of cigarettes.

Benefits sought: At times, people buy products based on the benefits they seek from the products. Those who buy only for the sake of benefits may be grouped under one head. Consumers look at the extra benefits they get other than the qualitative and economical aspects when they purchase the product.

Loyalty status: Based on this trait, customers may be grouped under different heads like "hard-core loyals", "soft-core loyals" and "switchers". Hard-core loyals are people who stick to only one brand or product. Soft-core loyals usually stick to a brand or product but buy other brands at times. And switchers are not loyal to any brand or product; they keep changing. Brand loyalty is seen usually in toiletries like soaps and creams.

User status: Depending on the user-status, groups may be formed like potential users, ex-users, regulars, first-timers, users of competitors' products, non-users, etc.

Buyer readiness stage: Under this trait, customers are grouped based on their readiness to purchase a product. The buyer readiness stage may be divided into six stages like awareness, knowledge, liking, preference, conviction, and purchase. This is very useful in "formulating and monitoring marketing communication strategies employed to move consumers towards purchase of a product or brand."

Check Your Progress – 1

1. Which of the following can be termed as the process of identifying groups or sets of potential customers at either the national or sub-national levels that are likely to exhibit similar buying behaviors?
    a. Targeting
    b. Segmentation
    c. Positioning
    d. Branding
    e. Focus group

2. Which of the following helps organizations to identify groups that respond differently to their marketing mix and allow them to frame a tailored marketing mix for different segments?
   a. Market segmentation
   b. Positioning
   c. Targeting
   d. Geographic segmentation
   e. Demographic segmentation
3. Which of the following types of segmentation is done on the basis of factors like age, education, income, gender, occupation, cultures, etc.?
   a. Psychographic segmentation
   b. Behavioral segmentation
   c. Demographic segmentation
   d. Product segmentation
   e. Geo-demographic segmentation
4. Which of the following types of segmentation is done on the basis of attitudes, beliefs, values, opinions, life styles, and personalities is called as which of the following?
   a. Demographic segmentation
   b. Psychographic segmentation
   c. Behavioral segmentation
   d. Market segmentation
   e. Psycho-demographic segmentation
5. Which of the following is referred to when the market is segmented on the basis of the general behavior of customers towards a product?
   a. Psychographic segmentation
   b. User benefits segmentation
   c. Demographic segmentation
   d. Product segmentation
   e. Behavioral segmentation

7.4 International Targeting

International targeting is about segmenting and targeting potential global customers that is profitable.

Targeting is the process of selecting the highest potential customers with whom the organization wants to do business. It can also be described as the process of eliminating the undesirable market segments while choosing a few. In the words of Warren J. Keegan, (2014), targeting may be defined as "the act of evaluating and comparing the identified groups and then selecting one or more of them as the prospect(s) with the highest potential." After selecting the target markets, a suitable marketing mix is framed for those markets. This mix gives the organization the best returns while generating the maximum amount of value to the customers.

So, global targeting can be explained as "identifying market segments throughout the world, targeting a few segments, and designing suitable marketing mix strategies for each of these segments. The process of targeting involves balanced view of company resources and capabilities."

7.4.1 Criteria for Targeting

The criteria for targeting are the same for domestic as well as for global markets. The three main criteria are: current size and growth potential; potential competition; and compatibility and feasibility.

Current size and growth potential

While targeting a segment, the first thing that a company looks into, is whether the segment will give reasonable returns or not, if not now, at least in the future. One major advantage of targeting the global market is that a company can profitably serve even a narrow segment in a single-country market with a standardized product.

Potential competition

It is ideal not to enter a market segment where there is high potential competition. The 'level of competition and aggressiveness of the threat' should be considered from the point of view of current and potential competitors. If a company wants to enter a highly competitive market, it should check thoroughly beforehand whether there is proper availability of raw materials and whether the firm can establish vertical relationships in the market. The company should also consider the performance of substitutes and their effect on the target market.

Compatibility and feasibility

This is the last criterion that a company considers. If there is no tough competition in a particular segment or if the competitors do not pose great obstacles, a company might enter that segment. But, before doing so, it should also consider the laws and environmental restrictions of the segment. For example, the restrictions on the advertisement for cigarettes have seriously affected the promotional flexibility of the tobacco companies in many countries. The company should check whether its capabilities, resources and long-term objectives match with those of the target segment.

Activity 7.1
Effervescent Ltd. (Effervescent), is a new cigarette manufacturing company. The company wants to launch the product in international markets. What criteria should the company consider for targeting international markets? **Answer:**

7.4.2 Selecting a Global Target Market Strategy

After setting the criteria for the target market, global target market strategy has to be selected. There are three global targeting strategies for companies. They are the undifferentiated global marketing strategy, the concentrated global marketing strategy, and the differentiated global marketing strategy (refer Table 7.1). Companies should study the pros and cons of each of these strategies thoroughly before taking a final decision.

Table 7.1: Types of Global Target Market Strategies

Features	Undifferentiated Global Market Strategy	Concentrated Global Market Strategy	Differentiated Global Market Strategy
No. of Market Segments	Multiple	Single	Multiple
Marketing Mix Strategy	Single	Single	Multiple
Niche Marketing Segments	Ignored	Not Applicable	Will be studied
Sales	Moderate	Limited	Large

Source: ICFAI Research Center

Undifferentiated global marketing strategy

As the name indicates, in undifferentiated global marketing strategy, a single, undifferentiated marketing mix (same product, price, distributions, and communications) strategy is framed for an entire market. Marketers serve the market by developing a universal marketing mix strategy that serves the needs of most of the customers, ignoring the needs of a few. Though this strategy gives short-term cost savings, it may not work in mature markets where the needs of the customers are more diverse.

Concentrated global marketing strategy

Under this method, marketers concentrate only on one segment. Companies that adopt this strategy spend all their resources on understanding this segment. They design and develop the marketing mix according to the needs and tastes of this target segment. Usually, new firms with limited resources, which cannot compete with larger firms, opt for this strategy.

Though this strategy can prove fruitful, there are high risks associated with it. Any decline in sales or changes in the target market segment will affect the company seriously. According to Keith J. Blois (2000), "The short-sighted approach may leave a business ill-prepared for market changes." Firms adopting this strategy should keep their options open and should be able to shift to other areas in cases of failure of the segment.

Example: Gucci's Exclusive Appeal

Gucci is an iconic Italian luxury brand. It has been there for more than 100 years. It has turned into luxury conglomerate and a top fashion brand. Gucci holds its assortment with 40% trend-oriented items and around 60% of items of classic styles across its store. The CEO of Gucci, Marco Bazzarri told that, "The idea from the very beginning was to have a product that is exclusive but to create a culture of inclusivity."

Source: (March, 2021). Gucci's strategy: What does it take to be #1 hottest brand? Retrieved from https://www.lectra.com/en/library/guccis-strategy-what-does-it-take-to-be-1-hottest-brand. Accessed on 25-10-2022

Differentiated global marketing strategy

This strategy is otherwise called multi-segment strategy. Unlike in the case of concentrated strategy, firms concentrate on more than one segment in this strategy. They frame a separate marketing mix for each segment. Differentiated strategy gives an opportunity for firms to access a number of customers in different markets at a time. Sales will usually be large under this strategy. Blois (2000), states that for certain firms, differentiated strategy develops naturally from an effective concentrated strategy. Some businesses have a lot of production capacity that can be used effectively to exploit new segments.

The differentiated strategy demands more resources and is quite expensive to implement. Costs associated with R&D, production, sales, and marketing activities will be high for this strategy.

Activity 7.2

3W Concepts Inc. (3W Concepts), is a Palo Alto-based non-profit organization that consists of corporations and individuals. It promotes the growth of US manufactured technology along the Pacific Rim. It targets only that particular segment (Pacific Rim). Discuss the types of global target market strategies and explain the global target market strategy that the company has adopted. Also discuss in detail the advantages and disadvantages of the strategy.

Answer:

7.5 Global Product Positioning

After segmenting the market and targeting one or more segments, a marketer tries to sell his product. He does this with the help of product positioning. Warren J. Keegan (2014)[41], in his book *Global Marketing Management*, defines Product Positioning as "the process whereby a company establishes an image for its products in the minds of consumers relative to the image of competitor's product offerings". Johny K. Johansson and Hans B. Thorelli[42], (1985), describe product positioning as "an activity by which desirable positioning in the mind of the customer is created for the product." The perceptions of the consumers are vital in positioning a product. So, marketers should take care that correct information is passed on to the target segments. In the present day global markets, companies look for a global positioning strategy for their products.

Companies like Coca-Cola, McDonalds, Gillette, Dow Chemicals, IBM, and Himalaya Drug Company, among others, have already positioned their products in global markets.

A company can get numerous short-term and long-term benefits by positioning its product in global markets. The benefits of global positioning are explained below.

1. Companies will not be affected by any recession in the domestic market as their products are positioned in the global market.
2. Companies that position their products in the global market can enjoy tax benefits.
3. Even if the home market has stagnated and is not lucrative any longer, positioning the product in the global market can prolong its life.
4. By concentrating on global markets, the company can escape from or tackle any severe competition in the home market. Japanese Automobiles, for example, managed tough competition in the home market by concentrating on the global market.
5. A company can successfully leverage its strengths with the help of its global activity.

[41] Warren J.Keegan, "Global Marketing Management", Pearson Education; Eighth edition , 2017.

[42] Johny K. Johansson and Hans B. Thorelli, "International Product Positioning", Journal of International Business Studies, Volume 16(3), 1985, pp. 57–75.

According to a study, product categories that opt for either end of a “High-touch or High-tech” continuum have the most effective global positioning. Both types of continuum are characterized by a high level of customer involvement and share a common language.

7.5.1 High-Tech Positioning

Computers, cameras, video and stereo equipment, automobiles, financial services, sports equipment, etc., are examples of high-tech products. High-tech positioning has proven to be very effective for such products. High-tech products are purchased after thorough research and information based on product features. High-tech products are broadly divided into three categories:

1. Technical products
2. Special interest products
3. Demonstration products.

Technical products

Those who have a specialized need purchase technical product. Computers, chemicals, financial services, etc., are examples of technical products. Customers are knowledgeable about these products. These types of products can be effectively positioned by highlighting the features of the products.

Special interest products

Unlike technical products, special interest products are purchased for recreation and fun. Cameras and sport equipment are examples of such products. Customers who purchase such products share a common language and are aware of the product features.

Demonstration products

As the name suggests, demonstration products “speak for themselves”. The Polaroid instant camera has been the most popular and successful demonstration product throughout the world.

7.5.2 High-touch Positioning

Unlike high-tech products, high-touch products are more related to the emotions. These products require more emphasis on image than on information. Customers of high-touch products also share a common language and have certain symbols for themes related to these products.

There are three categories of high-touch products:

1. Products that solve a common problem
2. Global village products
3. Products that use a universal theme

Products that solve a common problem

Marketers give an image that the products under this category are the center of everyday life. Advertisements of these products show that they provide "benefits linked to life's little moments".

Global village products

These products position themselves as being cosmopolitan in nature. Examples of such a category may be fashions, fragrances, mineral water, pizza, etc. The price range under this category is very wide. They vary from high-quality, high-priced products like designer fashions to low-priced food products.

In global village products, the country of origin also plays an important role. Giving their country of origin will enhance their appeal for global consumers; e.g. Mercedes (German engineering), Sony (Japanese electronics), Kodak (American technology), etc.

Products that use universal themes

Some products use universal emotions like love, play, heroism, materialism, etc., to position themselves in the global markets. These themes are transnational and are acceptable in any country irrespective of the differences.

Example: Domino's Fast Delivery Yummy Pizza Positioning

Cheese melting on the hot slices of your favourite toppings with a mix of spicy sous delivered within 30 minutes. Did this reckon you of your most beloved pizza from Domino's?

In India Dominos emerged as a dominant player by adapting to Indian culture and taste buds and created a unique image with fast delivery. Domino's had more than 1,435 stores in India, at the end of quarter of FY2022 in India. Domino's Pizza offered different flavours of pizzas tailored to Indian population and carved a unique brand for itself.

Source: (December, 2021). Retrieved from https://www.forbesindia.com/article/take-one-big-story-of-the-day/delivery-is-on-can-pizza-hut-grab-a-bigger-slice/72061/1. Accessed on 28-10-2022

Activity 7.3

MIC Electronics Ltd. (MIC), is a Korean firm that manufactures electronic gadgets like TVs, DVDs, etc. The company wants to launch these products in international markets and position them as global products. With respect to global product positioning, the company can opt for either end of a "High-touch or High-tech" continuum for the most effective global positioning. Discuss High-tech and High-touch positioning in detail and suggest the continuum that MIC should opt for.

Answer:

7.6 Marketing in Less Developed Countries

Less developed and developing countries are generally agrarian with a majority of the population living in the rural areas. This shows that a global marketer has to keep in mind this potential segment too - the less developed and developing countries. Less developed countries are characterized by very little manufacturing activity and shortage of goods and services. Marketing in less developed countries offers firms with several advantages. Some of them are discussed below:

Unexploited markets: Less developed countries have huge unexploited markets. Many of these countries turn out to be attractive markets and have huge market growth rates. So, targeting such countries will be very beneficial for firms. Sometimes, grouping a few countries together will prove to be more profitable than aiming at one market.

Unexplored resources: Less developed countries have large unexplored resources, both human and natural. Skilled and semi-skilled labor can be easily and cheaply obtained in such countries apart from abundant natural resources.

Less competition: Competition in these economies is minimal and they have low levels of product saturation. So, choosing such economies will be profitable for the companies.

Tax advantages: Less developed countries try to attract capital and technology by offering a number of tax benefits, which are difficult to find in developed nations.

Companies can become market leaders by also expanding their markets into less developed nations. Companies, by understanding the tastes and preferences of the less developed nations, can design and develop products for them exclusively.

Example: Royal Enfield Commitment to South-East Asian Countries

Royal Enfield, the global leader of motorcycle segment, commenced its operations in Thailand. The move was planned to give a significant impetus to the company's business in South-East Asia. Further, it reiterated Royal Enfield's commitment to the Asia Pacific Region. The centre would act as a distribution hub catering to customers not only in Thailand but all other South-East Asian countries like Indonesia, Vietnam and so on.

Source: (November, 2021). Royal Enfield's CKD plant in Thailand begins operations. Retrieved from https://www.autocarpro.in/news-international/royal-enfields-ckd-plant-in-thailand-begins-operations-80535. Accessed on 27-10-2022.

Check Your Progress - 2

6. In which of the following global targeting strategies does a firm use a single marketing mix strategy for an entire market?
   a. Differentiated global marketing strategy
   b. Undifferentiated global marketing strategy
   c. Concentrated global marketing strategy
   d. Targeted global marketing strategy
   e. Focus strategy
7. Which of the following is used to refer to differentiated global marketing strategy?
   a. Local marketing mix strategy
   b. Global marketing mix strategy
   c. Concentrated global marketing strategy
   d. Undifferentiated global marketing strategy
   e. Multi-segment strategy
8. Which of the following strategies is expensive to implement?
   a. Differentiated global marketing strategy
   b. Undifferentiated global marketing strategy
   c. Concentrated global marketing strategy
   d. Local marketing strategy
   e. Multi-segment
9. Which of the following categories of products are marketed by companies as if they are the center of everyday life?
   a. High-touch products
   b. Global village products
   c. Products that use a universal theme
   d. Product that use global theme
   e. Products that solve a common problem
10. Marketing in less developed countries offers lot of benefits. Which among the following are the benefits of such marketing?
    i. These countries have huge unexploited markets, which may turn out to be attractive markets and have huge market growth rates.
    ii. These countries have large unexplored resources, both human and natural.

iii. Competition in these countries is minimal and they have low levels of product saturation.

iv. Less developed countries try to attract capital and technology by offering a number of tax benefits, which are difficult to find in developed nations.

a. Only i, ii and iii

b. Only i, iii and iv

c. Only ii, iii and iv

d. i, ii, iii and iv

e. Only i & ii

Activity 7.4 A France-based Company is involved in the production of apparels, cosmetics and shoes. The company has a presence in all the important markets of the world. It wants to enter developing countries like India and China as well as under-developed countries like Zimbabwe, Kenya and Uganda. Discuss the advantages the MNN would obtain by marketing its products in developing and less developed nations. **Answer:**

7.7 Summary

- Companies that serve global markets, divide them into several clusters on the basis of similarities. And each such cluster is known as a segment.
- Segmentation helps marketers to serve the markets in a better way. Markets can be segmented in nine ways, but the most popular form is on the basis of individual characteristics, which include the demographic, psychographic and behavioral segmentations.
- After segmenting the markets, one or more segments are chosen for trade to be carried out. The process of choosing the most potential market segment is known as targeting.
- The current size and growth rate of the market, potential competition, and compatibility and feasibility are the three basic criteria for targeting the markets.

- After targeting the market, companies should select a global market strategy. There are three types of global market strategies available for firms. They are: undifferentiated global market strategy, concentrated global market strategy and differentiated global market strategy.
- In the next step, firms should position their product in the global market. Product positioning is nothing but creating a favorable impression of the product against the competitor's products in the minds of customers.
- Product categories usually opt either for high-tech or high-touch positioning in global markets.
- Marketing in less developed countries offers several advantages to organizations. They can exploit the huge untapped markets and avail of tax benefits. By targeting the less developed countries, firms can expand their market share and become market leaders.
- Less developed countries provide certain special benefits for new firms to establish their operations in their countries. Thus, marketing in less developed countries proves to be very advantageous for firms operating at the global level.

7.8 Glossary

Behavioral Segmentation: It is based on the general behavior of customers towards a product. It tells whether certain customers buy a product or not, and if they do, how often they buy it and how frequently they use it.

Demographic Segmentation: Certain measurable characteristics of an individual like age, gender, education, income levels, occupation, culture, etc., form the base in demographic segmentation.

Differentiated Global Marketing Strategy: In this strategy, firms concentrate on more than one segment. They frame a separate marketing mix for each segment.

Global Targeting: It can be explained as, "Identifying market segments throughout the world, targeting a few segments, and designing suitable marketing mix strategies for each of these segments. The process of targeting involves balanced view of company resources and capabilities."

High-tech Products: These are purchased after thorough research and information based on product features.

High-touch Products: These products are more related to the emotions. These products require more emphasis on image than on information. Customers of these products also share a common language and have certain symbols for themes related to these products.

Product Positioning: It is the process whereby a company establishes an image for its products in the minds of consumers relative to the image of competitor's product offerings.

Psychographic Segmentation: Under this method, the markets are segmented on the basis of attitudes, beliefs, values, opinions, personalities, and lifestyles of the customers.

Segmentation: The process of identifying groups or sets of potential customers at either the national or sub-national level that is likely to exhibit similar buying behavior.

Targeting: Targeting is the process of selecting the highest potential customers with whom the organization wants to do business. It can also be described as the process of eliminating the undesirable market segments while choosing a few.

Undifferentiated Global Marketing Strategy: In this, a single, undifferentiated marketing mix (same product, price, distributions, and communications) strategy is framed for an entire market, that is, marketers concentrate only on one segment.

7.9 Self-Assessment Test

1. The effectiveness of the marketing activity improves when the markets are segmented. Define market segmentation. What are the different bases for segmentation of markets?
2. "Targeting can also be described as the process of eliminating the undesirable market segments while choosing a few." What are the various criteria used for targeting?
3. What are the various global target market strategies and how can a company select one among these?
4. "After segmenting the market and targeting one or more segments, a marketer tries to sell his/her product through product positioning". Explain product positioning.
5. Marketing in less developed countries offers firms with a number of advantages. What are these? Explain.

7.10 Suggested Readings/References

1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations"*, 17th Edition, Pearson, 2021.
2. Masaaki (Mike) Kotabe, Kristiaan Helsen and Prateek Maheshwari, "International Marketing 8e (An Indian Adaptation)", Wiley India Pvt Ltd, 2021.
3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
4. Keegan, W.J., "Global Marketing Management", Pearson Education; Eighth edition, 2017.

7.11 Answers to Check Your Progress Questions

1. **(b) Segmentation**

   Segmentation can be defined as “the process of identifying groups or sets of potential customers at either the national or sub-national level that are likely to exhibit similar buying behavior”.

2. **(a) Market segmentation**

   Market segmentation helps organizations to identify the groups that respond differently to their marketing mix and allows them to frame a tailored marketing mix for different segments.

3. **(c) Demographic segmentation**

   Measurable characteristics of an individual like age, gender, education, income levels, occupation, and culture form the base in demographic segmentation. Certain global demographic trends like the changing roles of women, fewer married couples, fewer children, higher incomes and living standards, urbanization degree, birth/death rates, ethnic composition, etc., are also taken into consideration.

4. **(b) Psychographic segmentation**

   Under the psychographic method of segmentation, markets are segmented on the basis of attitudes, beliefs, values, opinions, personalities, and lifestyles of the customers. Psychographic segmentation is also called as state-of-mind segmentation.

5. **(e) Behavioral segmentation**

   Behavioral segmentation is based on the general behavior of customers towards a product. It tells whether certain customers buy a product or not, and if they do, how often they buy it and how frequently they use it. Occasions, usage rate, benefits sought, loyalty status, user status, and buyer readiness stage are the commonly used traits in behavioral segments.

6. **(b) Undifferentiated global marketing strategy**

   In undifferentiated global marketing strategy, a single, undifferentiated marketing mix (same product, price, distributions, and communications) strategy is framed for an entire market. Marketers serve the market by developing a universal marketing mix strategy that serves the needs of most of the customers, ignoring the needs of a few.

7 (e) Multi-segment strategy

   Differentiated global marketing strategy is also known as multi-segment strategy. In this strategy, firms concentrate on more than one segment, and frame a separate marketing mix for each segment.

8. (a) Differentiated global marketing strategy

In the differentiated global marketing strategy, firms concentrate on more than one segment. They frame a separate marketing mix for each segment. The differentiated strategy demands more resources and is quite expensive to implement.

9. (e) Products that solve a common problem

High-touch products are more related to the emotions. There are three categories of high-touch products – products that solve a common problem; global village products; and products that use a universal theme. Marketers give an image that the products under the 'products that solve a common problem' category are the center of everyday life.

10. (d) i, ii, iii, and iv

Less developed countries are characterized by very little manufacturing activity and shortage of goods and services. Marketing in these countries offers firms with a number of advantages such as — huge unexploited markets; large unexplored resources, both human and natural; minimal competition and low levels of product saturation; and tax benefits.

Unit 8

Planning Process

Structure

"Without leaps of imagination or dreaming, we lose the excitement of possibilities. Dreaming, after all is a form of planning."

- Gloria Steinem (Leader and a spokeswoman for the American feminist movement)

8.1 Introduction

Imagination for future is planning and the business organizations have to creatively craft their marketing plans in the international markets to succeed.

Companies have been struggling to attain and build on their competitive advantage, in the ever changing markets. Strategic marketing planning helps firms to scan their internal and external environment and formulate clear and precise marketing goals along with enumerating the actions that are needed to achieve the said goals.

In the previous unit, we discussed segmentation, targeting, and positioning in international markets. In this unit, we shall discuss the process of planning that goes into the introduction of a new product in the organization. We would discuss the role of strategic market planning, and the pricing, distribution, and promotion strategies. We shall then move on to discuss product life cycle and the international product policy. We shall also discuss competition and international marketing strategies, consumers, government actions, and production resources in the international marketing scenario. Finally, the unit ends with a discussion on how to control the marketing effort.

8.2 Objectives

After reading through this unit, you should be able to:

- List out the role of strategic market planning that suggests ways to encounter problems that arise in forecasting and budgeting
- Select the appropriate approach to pricing strategy while introducing a product or a service in the international markets
- State the concept of Distribution Strategy that facilitates network of links with different groups of suppliers and customers
- Recognize the importance of Promotion Strategy to avoid probable failure in the foreign markets
- Analyze the Product Life Cycle of the product floating in the international market by matching the stage of the product
- Formulate a suitable international product policy for arriving to the right product mix decision
- Outline government regulations while undertaking promotional activities in foreign countries
- Enumerate the right mix of production resources that helps an organization to maintain a controlled production pattern

8.3 Role of Strategic Market Planning

Multinational firms are faced with multi-tasking multiple markets with different characteristics. To strengthen the long-term competitive advantage of a firm, the role of strategic planning of matching products to markets is essential.

The marketing function supports other functions, and ensures the success of an organization by providing a detailed analysis of future opportunities, and offering a professional approach to selling to well-defined market segments. The market planning process is concerned with identifying what and to whom sales are to be made in the long-term in order to meet sales targets. Most companies equate planning systems with forecasting and budgeting systems. Though forecasting and budgeting systems address the operational problems of the existing business, they cannot indicate suitable avenues for future growth. The following problems occur when firms rely solely on forecasting and budgeting systems for their planning work:

- Missed opportunities
- Unrealistic objectives
- Market information that is not useful in decision making
- Numbers in long-range plans that convey little information on growth opportunities
- Management frustration
- Pricing confusion
- Increased vulnerability to environmental change

The usefulness and effectiveness of a plan depends upon the quality of information available on the business environment. Objectives are realistic when they are in tune with the firm's particular capabilities such as assets, competences, and reputation.

Many companies assume that commercial success is a matter of setting profit targets. They believe that by decentralizing the firm into groups of similar activities, and making managers accountable for profits they can ensure the commercial success of the organization. The experiences of many British companies show otherwise. Though many British companies adopted profit as their sole objective, yet their performance in the long run has been disappointing. Top managers in these companies believe that their primary responsibility is simply to set profit targets, and leave the task of achieving the targets to middle-level managers.

The strategies of a firm should be formulated on the basis of its capabilities and the market-centered opportunities. Financial objectives are a good measure of the desired performance of a company. But they do not help in identifying strategies that match the firm's abilities with market opportunities. A number-oriented system, currently followed by most companies, prohibits managers from thinking in a structured way, about strategically relevant market segments. It also disallows collection, analysis, and synthesis of market data. Without such activities, managers will be forced to rely entirely upon intuition in making decisions about management of scarce resources.

8.3.1 Strategic Market Planning

Market planning is a logical sequence and a series of activities, leading to the setting of marketing objectives and the formulation of plans for achieving them. Strategic market planning needs more of a general management orientation than a functional orientation. The strategic market plan in general, comprises decisions related to defining the business, determining the goals and objectives of the business, formulating functional strategies, and budgeting. In order to define the business, it is important to know the purpose of the business. Product/market scope is another consideration for defining a business. Other considerations are the technologies to be mastered, product market segments, target markets, and competitive positioning. Performance goals and objectives that are quantifiable and achievable form the main constituents of a strategic plan. Once some measures of performance such as market shares, return on investment, and profit to sales ratio are defined, broad goals and specific objectives are identified for the business. The next step involves allocation of human resources and financial resources to support the programs developed in the functional plans. The final step involves measurement and review of the performance of programs. After the review, assumptions (based on which marketing planning process was designed) are renewed.

90% of industrial goods companies that participated in the Cranfield Study mentioned earlier, did not have an integrated, coordinated, and internally consistent plan for marketing activities. The benefits of market planning include:

- Active co-ordination among individuals in the organization whose actions are interrelated over time
- Anticipation of future developments
- Readiness to face changes that occur
- Enhanced communication among executives and minimization of conflicts

Example: Strategic Market Planning @ Reliance Jio

Reliance Jio's successful formulation and implementation of strategic marketing plan in Indian telecom sector made it to penetrate in the market as the number one player with 36% market share with around 403 million subscribers in wireless network market as of March 2022. Its critical strategic marketing plan objective was to grab the market share through low pricing initially and increase the price later. Through such strategic marketing planning it achieved its strategic marketing objectives and penetrated into the Indian telecom market.

Sources: Shangliao Sun September 12, 2022, "Wireless subscriber market share in India as of March 2022, by service provider", https://www.statista.com/statistics/258797/market-share-of-the-mobile-telecom-industry-in-india-by-company/ (accessed on 28/10/22)

Activity 8.1

Considering that the Indian cosmetic industry has been growing at a rate of 15 to 20 percent in the past few years, many international brands have either entered or are planning to enter the Indian market. Ricea, a Spanish cosmetic

firm, is one such firm. Ricea operates in more than 30 countries. The firm wants to target the upper and middle income urban women in the Indian market and wants to promote its product as an anti-aging and anti-wrinkle cream. Discuss the marketing strategies that Ricea should adopt to market its products in India. **Answer:**

8.4 Pricing Strategy

Pricing is an important aspect. International pricing decisions depend on factors such as pricing objectives, cost, competition, customer demand, and government requirements. In an empirical study, it was found that total cost is the most important factor in determining the price of a product. The other important factors are the competitor's pricing policies; the company's out-of-pocket costs, its return-on-investment policy, and the customer's ability to pay. Companies follow two approaches: the cost approach and the market approach, in determining the total cost.

8.4.1 Cost Approach

The cost approach is used in computing relevant costs. The desired profit markup is added to relevant costs to identify total cost. The cost approach is popular because it is easy to comprehend and use. And when followed, it can provide stable prices. However, there are two drawbacks with this approach. Problems arise when trying to define and compute total costs. The questions that arise are:

- Whether to consider fixed and variable costs together or just variable costs
- If fixed costs are included, what fraction of fixed costs are to be included
- Should costs pertaining to R&D and administrative overheads be included or not

Conservative executives prefer all the costs to be included in determining the total price. The profit markup is arbitrarily decided upon and added to costs in order to arrive at the final price.

8.4.2 Market Approach

Pricing is done in exactly opposite fashion when this approach is followed. First, the acceptable price in the target segment is estimated. Then this price is analyzed to see whether it can meet the company's profit objectives. If the price does allow the company to meet its profit objectives, then the alternatives are either to give up the business or to increase the price. Adjustments in price are made to cope with competitors, host country government demands, and other eventualities. The final price is determined based on the market.

Example: Market Approach Pricing Strategy @ Mercedes Benz

Mercedes Benz is one of the leading Luxury Car brands globally. Firstly, it estimates the acceptable price in the target segment of HNIs (High Net-Worth Individuals), Celebrities & Executives. These target segments give more value to quality than price. As Mercedes Benz had built its brand image among its consumers over the years as a premium luxury brand, it prices its products at a higher level to achieve handsome margins. This market approach of pricing strategy for its luxury cars had made it to meet its profit objectives.

Source: Adithya Sashtri (2022). "Our Strategy", https://iide.co/case-studies/marketing-mix-of-mercedes-benz/ (accessed on 31/10/22)

8.5 Distribution Strategy

Distribution channels link producers and customers through an intermediary. For example, in UK, consumer electrical goods producers like Sony and Panasonic sell their goods to large retailers and e-tailers like Amazon, Comet and Tesco. The latter, in turn sell them to consumers. A firm operating in international markets distributes its products either directly or indirectly. It distributes directly through a foreign firm or indirectly through an intermediary. An international marketer should not try to change the existing distribution system in the host country because each country has its unique distribution system which has evolved over time. For example, the distribution system in Japan is outmoded, complex, cumbersome, and inefficient compared to other developed countries. Developed countries have more levels of distribution, more specialty stores and supermarkets, more department stores, and more stores in the rural areas compared to the distribution network in the rural Japan. But MNCs operating in Japan should not attempt to change the distribution channels radically, but rather make efforts to fit into the country's established distribution channels.

Example: Distribution Strategy @ Patanjali

Patanjali, one of the fastest FMCG companies in India employed two-staged distribution strategy for its success. In the first stage it followed ADS (Alternative Distribution System) in the Indian market to create new demand for its products. In the second stage after creating huge consumer base, it focused on eliminating the wholesalers in its distribution channels to pass on the cost benefits to the consumers. As of 2022, its revenues were around 99 billion INR.

*Sources: Aditya Shastri **& S**tatista (2022), "Extensive Business Model of Patanjali",*

i) https://iide.co/case-studies/business-model-of-patanjali/ &

ii) https://www.statista.com/statistics/823142/india-patanjali-ayurveda-revenue/ (accessed on 28/10/22)

8.6 Promotion Strategy

GoPro is an action camera. It can capture still photos and extreme action video photography through its wide-angle lens. As of December 2016, GoPro page had more than 10 million followers. It had a subtle way of promoting its camera. Many of the contents and photographs shared on their webpage is from customers who use GoPro cameras. This way it is always on the Instagram – promotion done by its customers. A promotional strategy helps a firm to develop creative approaches to sell its product. Promotion can be defined as communication by the firm to its various audiences, with a view to informing and influencing them. International promotion is concerned with the management of promotion in different countries. International promotion is different from domestic promotion as far as the means of communication, audience, and company goals are concerned. Promotional strategy plays a vital role in the sustenance of the product and the organization. Unattended promotional strategy could sometimes prove to be disastrous as in the case of Starbucks.

International promotion principally involves advertising, personal selling, and sales promotion. An international advertising program faces two sets of constraints: the internal environment of the company and the international environment. Promotion in international markets is more difficult than promotion in the domestic market because of language differences, government controls, media availability, economic differences, local distributors, and agency availability.

Personal selling is another important tool, which is increasingly being used in international marketing. Personal selling involves direct personal contact. Whenever human interaction is involved, culture comes into the picture. Hence, personal selling is more culture bound than impersonal advertising.

Different constraints characterize different countries. In Saudi Arabia, it is difficult to find qualified sales representatives owing to the labor shortage and the low prestige of the selling profession. In India, sales force management is difficult because of varied language spoken in different parts of the country and due to sub-groups of people into different religions and communities which have their own set of cultural differences. In Brazil, sales force compensation is complicated by rampant inflation. An international marketer preparing a promotion strategy must clearly determine the role to be played by the people involved in personal selling in each market.

For cultural and legal reasons, sales promotions are more often national than international. For example, in Europe there are more differences between countries, in respect of regulation of sales promotion than in regulation of advertising. As a result, pan-European advertising is more common than pan-European sales promotions. An international marketer has to take all these aspects into consideration before formulating sales promotional strategies in different countries.

Example: Promotion Strategy @ 'ThumsUp by' Coca Cola

Coca Cola the market leader in the global soft drink beverage market is popular for its promotion strategies globally. In India it uses innovative local advertising through popular celebrities for its 'ThumsUp' brand. During the month of August, honoring 75 years of Independence for India in association with Brut India, it launched a promotional campaign called #HarHaathToofan. This campaign promoted stories of most successful Indians who took the country to the next level on a global platform. In the month of August 2022, it achieved a decade high market share of 20% in the 50,000 crore Indian soft drink beverages market.

Sources: Ratna Bhushan, ET Bureau & Social Samosa (August & September, 2022),

i) "https://www.socialsamosa.com/2022/08/brut-india-thums-up-celebrate-harhaathtoofan/", &

ii) https://economictimes.indiatimes.com/industry/cons-products/thanda-matlab-thums-up/articleshow/94359829.cms/ (accessed on 28/10/22)

Activity 8.2

ŤOIZ is a Singapore-based video games manufacturing firm. The firm has identified a great demand for video games especially in emerging markets like India and China. So, it decided to enter and promote the product in international markets. Discuss the various kinds of promotional strategies and the ones that are available for the company.

Answer:

8.7 Product Life Cycle / Market Life Cycle

Product life cycle (PLC) analysis is a valuable tool in the hands of an international marketer. For example, healthcare industry in developed countries like Australia and the United Sates have manifested and reached the point of providing ehealth, mhealth and wearable devices. With increased demand for healthcare, any further value addition by healthcare organizations would be feasible only by providing services with greater efficiency (product/service improvements) and innovations (development of a new product/service in healthcare). Therefore, the saturation point in healthcare industry has important implications for healthcare organizations' product planning. A typical product goes through four stages at the national level or the international level, in its life, namely (a) introduction (b) growth (c) maturity and (d) decline. And the pattern varies from product to product. Studying the patterns of PLC from time to time can help an organization to succeed in its marketing strategies. It gives marketers a better understanding of how to manage their profitable products and eliminate the unprofitable ones. As the product moves from one stage of its life cycle to another, marketers try to evaluate and adjust strategies for promoting, pricing and distributing the product. The various stages in PLC are explained below.

8.7.1 Introduction

In the introduction stage, the product is introduced to the customer. Introducing a new product is difficult because

(a) Only a few sellers can afford the technological know-how, marketing and other costs to launch the product and (b) The risk of new product failure is quite high. The introduction stage is marked by zero profits and negative or negligible sales. This is because initial revenues generated are low. Promotional expenses are at their highest because the company needs to (i) Inform the customer about the product (ii) Induce product trial and (iii) Secure distribution in retail outlets. Advertising is one of the most effective tools at this stage of PLC because marketers must communicate their product's features, usage and advantages to potential customers.

8.7.2 Growth

The introduction stage is followed by the growth stage. The growth stage is crucial for the product's survival in the market because the reactions of the competitors to the product's success will affect the product's life expectancy. This stage is characterized by increase in sales, heavy demand for the product and peaking of profits. New firms enter the market in the growth stage, attracted by the promising opportunities in the market. They introduce new product features and a wider distribution network. Companies increase their level of promotional expenditure to meet the competition. The profit of the firm increases initially as (a) promotional costs are spread over a larger volume and (b) the unit manufacturing cost falls. At a later phase in growth stage, the profits begin to decline as competition increases, forcing the lowering of prices and heavy spending on promotion.

Example: Product Life Cycle-Growth Stage@ Samsung

Samsung the market leader in global smartphone market is in the growth stage of PLC as of 2022. Even though the Global smartphone shipments fell by 11% YoY in Quarter 1 of 2022, Samsung topped the global market with 24% share followed by Apple with 18% market share. Samsung overtook Apple as the number one global smartphone company by pushing Apple into decline stage of PLC over the years.

Source: George Winslow (April, 29, 2022), "Smartphone Sales Decline, But Samsung's Grows Market Share", https://www.tvtechnology.com/news/smartphone-sale-decline-but-samsungs-grows-market-share (accessed on 28/10/22)

8.7.3. Maturity

During the maturity stage of international product life cycle, the sales for the product tend to increase gradually. The competition for the initially introduced product intensifies in the given foreign market. During this phase, counterfeit and imitation products start appearing in the market. The price level has to be maintained at a low rate by the original supplier of the product in order to retain his market share and sales volume. The competitors enter the market with many substitutes and alternative products which eventually make the rivalry more intense.

8.7.4 Decline

Eventually the sales and profits of almost all products and brands tend to decline. Some products experience a faster rate of decline while others experience a slower decline rate. The reason for decline in sales could be (a) technological advances (b) increase in competition and (c) shift in consumer's tastes and preferences, etc.

During the decline stage of PLC, the sales of the product fall rapidly, forcing firms to withdraw from the market. The size of the exit barriers influences the capacity of the firms to withdraw to a great extent. The lower the exit barriers, the easier it is for firms to leave the industry. Those firms that stay on in the market see the withdrawal by other firms as an opportunity to attract the withdrawing firms' customers.

Check Your Progress - 1

1. Which of the following can be defined as a logical sequence and a series of activities, leading to setting of marketing objectives and the formulation of plans for achieving them?
   a. Market planning
   b. Strategic planning
   c. Planning process
   d. Organizing
   e. Market strategy
2. The decisions relating to defining the business, determining the goals and objectives of the business, formulating functional strategies and budgeting, etc., are called as which of the following?
   a. Long-term plan
   b. Business plan
   c. Strategic market plan

   d. Planning
   e. Strategic plan

3. In which of the following approaches, is price of a product determined keeping in mind the expectations of customers in the target market?
   a. Cost approach
   b. Market approach
   c. Profitability approach
   d. Segment approach
   e. Traditional approach

4. Which of the following can be defined as communication by the firm to its various audiences, with a view to informing and influencing them?
   a. Publicity
   b. Advancement
   c. Preferment
   d. Promotion
   e. Advertisement

5. Which of the following is the second stage in the product life cycle?
   a. Introduction
   b. Decline
   c. Maturity
   d. Saturation
   e. Growth

8.8 International Product Policy

A marketing manager has to make product decisions in order to arrive at a product mix or product line. Product decision in the context of international marketing involves designing the product mix and deciding on the product line in the host country. Today, foreign markets are characterized by strong competition. A careful analysis and review is necessary before a product decision is made. The manager has to pay close attention to factors such as depth and breadth of the product line, and product innovation, when making product decisions.

8.8.1 Product Mix

The product mix is the set of all the products that an organization offers to its customers. For instance, Hindustan Unilever Limited (HUL) offers detergents, shampoos, hair-care products, cosmetics, beverages, health-care products, ice-creams, etc. A product mix consists of all the product mix lines and categories. It has certain characteristic features like product width, length, depth and consistency.

- **Width:** This is the total number of product lines a company carries
- **Length:** The length of the product mix is the total number of items in that mix. The average length of a line is obtained by dividing the total length by the number of lines
- **Depth:** The depth of a product mix is the assortment of sizes, colors and variations offered for each product in the product line.
- **Consistency:** Consistency refers to the closeness exhibited by the products lines in production requirements, distribution, end usage, etc. For instance, most of the HUL product lines are consistent as they are consumer goods, distributed by the same channels of distribution and are produced in similar manufacturing facilities.

8.8.2 Product Lines

A product mix consists of a number of product lines. Marketers normally develop a basic platform for the product around which additional features and modules can be built. This offers variety in the product and at the same time reduces the production cost. After analyzing the product line, managers need to take decisions about the length of the product line, its modernization and its pruning.

Example: International Product Lines @ Tata Motors

Tata Motors, one of India's most valuable companies, has presence in many international markets across the globe. It focusses on different product lines in different international markets. In the African market it offers Product lines like cars, buses, SUVs and trucks. In Latin American & Asia Pacific markets it offers Commercial Vehicle product line. It is also planning to launch this product line across the globe. In the Middle East markets, it offers product lines like medium bus, pickup and truck. It is maintaining dominant share in Asia Pacific markets for its CV product line and is on way for global market expansion strategy.

Source: Tata Motors (2022), "Markets", https://www.tatamotors.com/markets/ (accessed on 28/10/22)

8.9 Competition and International Marketing Strategies

International Marketing offers great opportunities on one hand and equivalent dosage of challenges on the other. To gain competitive advantage, differentiation of products through innovation is the key.

The phenomenon of the globalization of markets and competition is a relatively recent one. The global market-place has developed on account of the factors listed below:

- Explosive growth in world gross domestic product, especially in the developed countries
- Even more rapid expansion in merchandise trade (exports and imports) reflecting a new demand for goods from affluent customers
- Cost cutting and improvement of product quality by companies seeking competitive advantage, resulted in the growth of large corporations with worldwide operations. A revolution in manufacturing, distribution, and product quality control, further enhanced the competitive positions of these large corporations
- A revolution in communications technology

Other significant forces which have also been responsible for facilitating the rise of great global corporations are:

- Growth of large pools of liquid funds and more efficient capital markets to employ them quickly
- Improved financial, logistics and business management techniques

The ease with which technology is transferred globally and introduced into new products increases the intensity of global competition.

Companies from United States, Europe, and Japan are the leading players in the global market. Companies in these geographic regions possess enormous competitive strengths. For example, GE, General Motors, IBM (USA) Toyota Motors, Komatsu (Japan) in heavy construction equipment, Siemens (Germany) in electronics, Philips (Netherlands) in electronics, Nestlé (Switzerland) in food products, Bayer (Germany) in pharmaceuticals and chemicals, Royal Dutch/Shell Group (Great Britain and Netherlands) in oil, and Ciba-Geigy (Switzerland) in chemicals, are some of the largest players in their respective industries.

United States leads in IT related products. Japan’s strength lies in its transportation equipment and cameras. British companies are strong in the areas of publishing, consumer goods, and banking. Chemicals, machinery, and optics are the strong points of Germany. However, companies from all these countries including the United States, are handicapped by fluctuations in currency rates, government restraints on such matters as employment, and general domestic economic conditions.

Although the global competitive position of many leading companies of the world has strengthened significantly in recent years, there are still weaknesses that require correction. It is a challenge for both private and public sector companies to maintain and strengthen their competitive positions and to rectify their weaknesses. Certain policies and practices to move in this direction are suggested below:

According to Michael Porter, corporations should seek long-term investors and give them a voice in governance. A manager's compensation should be linked to the firm's performance. Improving worker-training programs in the company, collaborating with local educational institutions to advance worker-training programs, promoting managers with skills in dealing with global markets, increasing funding for basic research, and taking a special interest in adherence to international codes of social responsibility and ethics are other recommendations

Firms operating internationally adopt different strategies such as cost leadership, differentiation, and focus strategies based on their capabilities and objectives.

8.9.1 Cost Leadership

A firm with a cost leadership strategy aims to outperform competitors by producing products or services at a low cost. This strategy was prevalent in 1970s because of the popularity of the experience curve concept. According to this concept, organizations can achieve overall cost leadership in an industry by using a set of functional policies. Cost leadership demands construction of efficient-scale facilities, tight cost and overhead controls, avoidance of small customer accounts, and minimization of costs in areas such as service, advertising, research and development, and sales force. A high level of managerial commitment is necessary to attain these objectives. Producing and marketing goods at a low cost, without ignoring quality, is the main aim of this strategy.

Example: Cost Leadership @ Reliance Jio

Reliance Jio is the market leader in Indian Telecom. It achieved success through its cost leadership strategy and gave stiff competition to international players like VI-Vodafone-Idea and also to domestic players. It has grabbed 36% market share with around 403 million subscribers in wireless network market in India as of March 2022. Due to the cost-leadership strategy of Reliance Jio many domestic and international players were completely wiped off from the Indian market during 2016 to 2022. International companies Vodafone & Telenor (Indian Subsidiary of Norwegian company Uninor) merged with Indian companies Idea & Airtel respectively in 2018 due to the heavy competition form Reliance Jio.

Sources: Shangliao Sun September 12, 2022, "Wireless subscriber market share in India as of March 2022, by service provider", https://www.statista.com/statistics/258797/market-share-of-the-mobile-telecom-industry-in-india-by-company/ (accessed on 28/10/22)

Activity 8.3

Black and Decker is a global leader in the manufacture and marketing of power tools, accessories, hardware and home equipment products, technology- based fastening systems, etc. It wants to adopt the cost leadership strategy to sustain itself in the business. Discuss the factors that can help Black and Decker to emerge as a global cost leader.

Answer:

8.9.2 Differentiation

This strategy aims at creating a product that is perceived as unique in the market-place. A product can be differentiated on the basis of (among others) design or brand image (Mercedes in automobiles); technology (Macintosh in stereo components, Coleman in camping equipment); customer service (Crown Cork and Seal in metal cans); dealer network (Caterpillar Tractor in construction equipment), or features (Jenn-Air in electric ranges).

8.9.3 Focus

A firm focusing on a particular buyer group, segment of the product line, or geographic market, is following a focus strategy.

The main difference between the strategies of cost leadership, differentiation, and focus, is that while the first two are aimed at the total industry, the third is aimed at serving a particular target market. This strategy assumes that a firm can serve its strategic target market more effectively than its competitors who are serving a much bigger market. A firm can thus obtain the advantages of differentiation or low cost, or both. A focus strategy selects target markets where the firm is least vulnerable to substitutes or where competitors are the weakest.

Activity 8.4

McDonald’s is one of the leading firms in the fast food industry. The company is able to withstand competition as it is known for providing quality food, good service, and value for money, thus differentiating its products from that of competitors’ products. Comment on the competitive strategy that the company adopts.

Answer:

8.10 Consumers

It is important for a marketer to understand the true motives and needs of a consumer in buying a product. These motives and needs differ from country to country and between different market segments within a country. Hence, capturing market share by any product revolves around consumers. A consumer is a person who buys goods or services for his owns needs and not for resale or for use in the production of other goods for resale. While operating in international markets, a firm must try to identify similarities between different consumer segments based on demographic characteristics, economic characteristics, or similar interests. The similarity can also be in terms of needs. These needs and interests may be the same across different countries, but the size and relative significance of the segment may vary. For example, affluent women aged 40 or more who are interested in anti-wrinkle/skin-rejuvenating products may be spread across several countries. Their needs can create a market that extends beyond the boundaries of a single region or country.

In some customer segments, customer needs and interests are so homogenous and so small that segmentation and serving the different segments with different products would be highly uneconomical. For example, in hair coloring, the same product may fit the needs of women across all ages. There may not be any potential benefits to a company that ventures to create different hair coloring products aimed at women of different ages.

On the other hand, customer demands, and taste preferences may vary from country to country or from one geographic area to another. For example, in the case of food, taste preferences are substantially different in different countries and regions. The market for products such as frozen main dishes or micro-wave based soups may vary from region to region. An international marketer must pay attention to all these aspects while formulating marketing strategies.

Example: Consumers @ Walmart

World's largest retailer Walmart which had achieved a full-year revenue of $572.8 bn for the FY 2022 and grew by 2.4%, was negatively affected by around $32.7bn due to divestitures. In many international markets like Brazil, it failed because it did not completely understand the consumer needs & interests like unique shopping habits of consumers, store locations not liked by consumers, and failed to attract consumers by not providing competitive pricing. Due to its inability to understand its international customers it witnessed international failures. Due to this it had to divest from many markets which was affecting its revenues.

Sources: News (February 18, 2022), "Walmart registers 2.4% increase in full-year revenue for FY22", https://www.retail-insight-network.com/news/walmart-results-2022/#/ (accessed on 28/10/22)

8.11 Government Actions

"Government is likelier to affect companies' economic value than any other group of stakeholders except customers[43]" – McKinsey & Company.

Government actions pertaining to regulation of advertising and promotion are different in different countries. For example, in some European countries governments regulate advertising content strictly, particularly in the case of television ads. Governments in these countries perceive television primarily as an important educational medium, and try to monitor it carefully. Even other promotional activities in stores and other locations are thoroughly regulated, under the justification of protecting consumers and ensuring fair competition. There is hardly any regulation of such activities in most developing countries. The reason is that in these countries mass media is not well developed and consumer protection is hardly an important issue.

There are different ways in which governments regulate promotional activity. One such way is to regulate the access to different media. Governments can regulate access by limiting the time available for commercials on television channels. Regulation becomes easier for governments when the television channels they own are leading channels in their respective countries. In countries such as Norway, Sweden, and Switzerland, advertising is not allowed on television. Some other countries limit the time available for advertising and determine the time when the commercials are aired.

Example: Government Actions@ Google India

The Indian government competition regulatory body CCI (Competition Commission of India) fined Google $162 million for abusing its Android monopoly in the Indian market. Google was abusing its dominant position in multiple markets in the Android Mobile device ecosystem during 21 October 2022. Also, on 27 October 2022 CCI again imposed fine of $114 million against the anti-competitive practices regarding its android app 'Play Store'. These government actions against Google might not have affected it initially but in future these might affect it on a big scale. The company had to understand and abide by the legal aspects of India Competition Act 2002 for smooth operations.

Sources: Simon Sharwood (October 27, 2022), "India fines Google another $114 million, demands Play open to third party payments", https://www.theregister.com/2022/10/27/india_fines_google_again/ (accessed on 28/10/22)

[43] André Dua, Kerrin Heil, and Jon Wilkins, "How Business interacts with Government: McKinesy Global Survey Results", January 2010.

8.12 Production Resources

Production resources are resources meant for production of goods. These include human resources, materials, and machines. Human resources manage the part of the production process that comprises materials and machines. Human resources can be classified into skilled resources who use recently developed technology, and semi-skilled resources who are not so highly skilled. However, production resources are not confined to the above mentioned economic factors alone but include ‘advanced production resources’ that makes a company successful. Apple Inc. has world-class ‘process knowledge’ while developing and marketing its products. Similarly Coca-Cola possesses both ‘organizational architecture’ and ‘process knowledge’ to successfully market its carbonated beverage across many countries. Hence it is just not availability and access of resources that are deciding factors for an international marketer but also the inherent intellectual property that becomes significant. Today, countries like India and China are favorite destinations of MNCs because of the availability of cheap manpower. This is the reason why many companies based all over the world are outsourcing their work to companies based in India.

Materials are inputs into machines whose desired output is a product. At the time of setting up a manufacturing plant, a company must take into consideration the availability of raw materials, cost, and the nearest location where resources are available. Machines used in manufacturing play an important role in determining the quality of the product. Machines can be either automated or operated manually. For example, in Japan, robots are widely used. Automation is also widely used in USA and UK. In India, where manpower costs are not as high as in developed countries, automation is not used in all manufacturing processes.

Example: Production Resources @ Unilever

Unilever, is one of the world’s leading FMCG Company. Its Food, Home Care, Personal Care and Refreshment products are sold at more than 190 countries in the World. In the Indian market its subsidiary HUL is having a presence for more than 90 years. It has excellence in process knowledge and sourcing of raw materials from numerous suppliers. It is successfully managing its production resources of 21000 employees, 29 factories, 1150 suppliers and 4500 distributors for its 50 plus brands in the Indian market as of 2021.

Sources: HUL (2021), “performance-highlights-fy-2020-21”, https://hul-performance-highlights.hul.co.in/performance-highlights-fy-2020-21/home.html (accessed on 28/10/22)

8.13 Controlling the Marketing Effort

Controlling involves monitoring and evaluating the implementation of the chosen strategy. It assumes more importance in international markets. ‘Management’ becomes the foremost objective when markets expand.

The control process involves the following steps:

- Establishing standards
- Measuring performance against standards
- Correcting deviations from standards and plans

Establishing of standards is an important part of control process. How standards are used influence human relations and the effectiveness of corporate control. Standards are effective when they are clearly defined, and when they are accepted by the people whom they are meant to control. The management must set appropriate standards to improve marketing performance in the company's subsidiaries and monitor actual performance against the standards. To meet corporate goals, the management must correct the performance whenever it deviates from the standards set.

Example: Controlling the Marketing Effort @ Daimler-Mercedes Benz

Correcting deviations from standards and plans is a very important step in marketing controlling. Consider the case of Daimler AG which was alleged of emissions cheating scandal for its Mercedes-Benz brand vehicles and was proved guilty. It was fined $1.5 billion by different government bodies and it also had to pay another $700 million to car owners as it failed in its marketing effort by not finding out about the scandal while conducting the marketing audit. In 2020 this scandal was revealed that it illegally manipulated emission tests for Mercedes-Benz vehicles sold during 2009 to 2016. After the scam came into limelight, the company took measures to have better control over its marketing effort. It also took measures to correct the deviations from standards through review of marketing audit by third-party compliance consultations.

Sources: Justin Walton (June 24, 2021), "Top 6 Companies Owned by Daimler AG (DDAIF)", https://www.investopedia.com/articles/company-insights/092716/top-6-companies-owned-daimler-ag-ddaif.asp & https://www.cars.com/articles/mercedes-benz-diesel-recall-what-owners-need-to-know-427826/ (accessed on 28/10/22)

Check Your Progress -2

6. Which of the following can be defined as the total number of product lines a company carries?
   a. Product length
   b. Product depth
   c. Product consistency
   d. Product width
   e. Product mix

7. The closeness exhibited by the product lines in production requirements, distribution, and end usage is known as which of the following?
   a. Product depth
   b. Product consistency
   c. Product width
   d. Product length
   e. Product mix
8. Which of the following demands construction of efficient scale facilities, tight overhead controls, avoidance of small customer accounts, and minimization of expenditure in areas such as service, research and development, advertisement, and sales force?
   a. Focus strategy
   b. Differentiation strategy
   c. Cost leadership strategy
   d. Segmenting strategy
   e. Value strategy
9. Which of the following strategies aims at creating a product that is perceived as unique in the market place?
   a. Promotion strategy
   b. Marketing mix strategy
   c. Focus strategy
   d. Differentiation strategy
   e. Niche strategy
10. Which of the following strategies is used when a firm focuses on a particular buyer group, segment of the product line, or geographic market?
   a. Focus strategy
   b. Differentiation strategy
   c. Cost leadership strategy
   d. Promotion strategy
   e. Concentrated strategy

8.14 Summary

- The market planning process is concerned with identifying what products are sold and to whom sales are made in the long-term in order to meet sales targets

- Most companies equate planning systems with forecasting and budgeting systems. Though these systems address the operational problems of the existing business, yet they cannot be used to indicate suitable avenues for future growth
- The planning process involves defining the pricing strategy, which is aimed at setting an optimum price. There are two approaches to setting price: the cost approach, and the market approach
- The planning process also involves determining the promotion strategy. International promotion is concerned principally with advertising, personal selling, and sales promotion
- Product life cycle (PLC) analysis is a valuable tool in the hands of an international marketer who is preparing a market plan
- Firms operating internationally adopt different strategies such as cost leadership, differentiation, and focus strategies, depending on their capabilities and objectives
- While operating in international markets, a firm must try to identify similarities among different consumer segments based on demographic characteristics, economic characteristics, or interests
- Government actions pertaining to regulation of advertising and promotion vary from country to country. There are different ways in which governments regulate promotional activity. One such way is to regulate the access to segments of the media
- Controlling involves monitoring and evaluating the implementation of the chosen strategy. It assumes great importance in international markets
- The control process involves the following steps -- establishing standards, measuring performance against standards, and correcting deviations from standards and plans.

8.15 Glossary

Consumer: A person who buys goods or services for his/her owns needs and not for resale or for use in the production of other goods for resale.

Controlling: It involves monitoring and evaluating the implementation of the chosen strategy. The control process involves steps like establishing standards, measuring performance against standards, and correcting deviations from standards and plans.

Cost Approach to Determine Total Cost: The cost approach is used in computing relevant costs. The desired profit mark-up is added to relevant costs to identify total cost.

Cost Leadership: A firm with a cost leadership strategy aims to outperform competitors by producing products or services at a low cost.

Differentiation: This strategy aims at creating a product that is perceived as unique in the market-place. A product can be differentiated on the basis of (among others) design or brand image, technology, customer service, dealer network, or features.

Focus: A firm focusing on a particular buyer group, segment of the product line, or geographic market, is following a focus strategy.

Market Approach to Determine Total Cost: Price is determined based on the market.

Market planning: A logical sequence and a series of activities, leading to the setting of marketing objectives and the formulation of plans for achieving them.

Product Consistency: It refers to the closeness exhibited by the products lines in production requirements, distribution, end usage, etc.

Product Depth: The depth of a product mix is the assortment of sizes, colors and variations offered for each product in the product line.

Product Length: The length of the product mix is the total number of items in that mix. The average length of a line is obtained by dividing the total length by the number of lines.

Product Life Cycle (PLC): PLC analysis is a valuable tool in the hands of an international marketer. A typical product goes through four stages at the national level or the international level, in its life, namely (a) introduction (b) growth (c) maturity and (d) decline. And the pattern varies from product to product.

Product Mix: The set of all the products that an organization offers to its customers. It consists of all the product mix lines and categories. It has certain characteristic features like product width, length, depth and consistency.

Product Width: This is the total number of product lines a company carries.

Production Resources: Resources meant for production of goods. These include, human resources, materials, and machines.

Promotion: Communication by the firm to its various audiences, with a view to informing and influencing them.

Strategic Market Plan: The strategic market plan in general, comprises decisions related to defining the business, determining the goals and objectives of the business, formulating functional strategies, and budgeting.

8.16 Self-Assessment Test

1. Define and discuss strategic market planning in detail.
2. Explain the international pricing, distribution, and promotion strategies.
3. What are the stages involved in the product life cycle? Explain in detail.

4. Describe the international product policy, and marketing strategies. How can companies operating internationally use these strategies to compete against the other companies?
5. Define consumers. What aspects need to be considered by an international marketer while formulating marketing strategies?
6. In what way can governments of different countries regulate advertising and promotional activities of organizations? How can organizations control their marketing efforts in international markets?

8.17 Suggested Readings/Reference Material

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3. Cateora, P.R., Money, R. B., Gilly, M.C. and Graham, J.L., "International Marketing", McGraw-Hill, 18th Edition, 2019.
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8.18 Answers to Check Your Progress Questions

1. (a) Market planning

Market planning is a logical sequence and a series of activities, leading to the setting of marketing objectives and the formulation of plans for achieving them. The market planning process is concerned with identifying what and to whom sales are to be made in the long-term in order to meet sales targets.

2. (e) Strategic plan

The strategic market plan in general, comprises decisions related to defining the business, determining the goals and objectives of the business, formulating functional strategies, and budgeting.

3. (b) Market Approach

In the market approach of pricing used by marketers to determine the price, the acceptable price in the target segment is estimated first. Then this price is analyzed to see whether it can meet the company's profit objectives. If the price does allow the company meet its profit objectives, then the alternatives are either to give up the business or to increase the price. Adjustments in price are made to cope with competitors, host country government demands, and other eventualities. The final price is determined based on the market.

4. (d) Promotion

Promotion can be defined as communication by the firm to its various audiences, with a view to informing and influencing them.

5. (e) Growth

A typical product goes through four stages, in its life, namely, (a) introduction (b) growth (c) maturity and (d) decline. The second stage, i.e., the growth stage, is characterized by increase in sales, heavy demand for the product, and peaking of profits. New firms enter the market in this stage, attracted by the promising opportunities in the market. They introduce new product features and a wider distribution network.

6. (d) Product Width

The product mix is the set of all the products that an organization offers to its customers. Product width refers to the total number of product lines a company carries.

7. (b) Product Consistency

Product consistency refers to the closeness exhibited by the products lines in production requirements, distribution, end usage, etc.

8. (c) Cost Leadership Strategy

A firm with a cost leadership strategy aims to outperform competitors by producing and marketing products and/or services at a low cost, without ignoring quality. Cost leadership demands construction of efficient-scale facilities, tight cost and overhead controls, avoidance of small customer accounts, and minimization of costs in areas such as service, advertising, research and development, and sales force.

9. (d) Differentiation Strategy

The differentiation strategy aims at creating a product that is perceived as unique in the market-place. A product can be differentiated on the basis of (among others) design or brand image; technology; customer service; dealer network; or features.

10. (a) Focus Strategy

A firm focusing on a particular buyer group, segment of the product line, or geographic market, is following a focus strategy. A firm following focus strategy selects target markets where the firm is least vulnerable to substitutes or where competitors are the weakest.

International Marketing

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