

# International Marketing

**Block**

**3**

## **INTERNATIONAL MARKETING MIX**

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**UNT 9**

<b>Product Decisions</b>	<b>1-33</b>
--------------------------	-------------

---

**UNIT 10**

<b>International Branding</b>	<b>34-55</b>
-------------------------------	--------------

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**UNIT 11**

<b>International Marketing of Services</b>	<b>56-91</b>
--------------------------------------------	--------------

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**UNIT 12**

<b>Pricing in International Markets</b>	<b>92-112</b>
-----------------------------------------	---------------

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**UNIT 13**

<b>Marketing Channel and Place Decisions</b>	<b>113-136</b>
----------------------------------------------	----------------

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**UNIT 14**

<b>Promotional Decisions</b>	<b>137-156</b>
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## BLOCK 3: INTERNATIONAL MARKETING MIX

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The 3<sup>rd</sup> Block of the course on International Marketing, '*International Marketing Mix*', deals with the elements of Marketing Mix, famously known as the 4Ps. A firm needs to have a strong hold on these 4 Ps to adopt one of the two main marketing plans, namely, to standardize or customise their products and services. The block contains six units. Unit 9 of this block discusses product decisions. Unit 10 focuses on international branding. Unit 11 is about pricing in international markets. Unit 12 focuses on pricing in international markets. Unit 13 deals with marketing channel and place decisions. Unit 14 deals with promotional decisions.

The product is the epitome of a marketing plan or a marketing decision. It directly satisfies the consumers' wants. It is the spine of the firm since it is the revenue-generator. Unit 9, *Product Decisions*, discusses the definition of a product, its classifications, and characteristics. It throws light on product design decisions while marketing in different countries. It also explains the ways of evaluating different international markets as per the needs of the various market segments across the world and modify the product mix accordingly. The factors that help in effective marketing of services in the international level are detailed further in this unit. The unit also explains the concepts of product diffusion, product adoption, product adaptation, and product standardization. It discusses the process of international product life cycle. The unit ends with a discussion on the international product program.

Branding is closely linked to product positioning. It communicates the brand's core value while operating in a culturally different atmosphere. Unit 10, *International Branding*, discusses brand origin and selection. It then elucidates the difference between private brands and global brands, single brands and multiple brands. How global branding helps companies in gaining global leadership is explained in the later section of this unit with a concluding touch on the concept, 'brand piracy'.

Marketing of services by an international firm is not for gaining competitive advantage alone. It helps in cost-efficiency and risk-sharing, and at the same time aiding in product positioning too. Unit 11, *International Marketing of Services*, discusses the characteristics of services and their implications for international marketing. It further probes into the challenges faced by companies while marketing services like providing international professional services. The professional skills required to perform the herculean task of providing seamless service, notwithstanding the challenges, is also elaborated in this unit. Scanning the role of an international retailer is also simultaneously dealt in this unit. The banking, financial and insurance services that are a part of international services are also covered elaborately.

Decisions on pricing the product and services are critical for an international firm. It marks the success or failure of the firm's cash generating process. Unit 12, *Pricing in International Markets*, deals with the international pricing systems. It discusses the global pricing strategies. The unit also discusses the environmental influence on pricing decisions.

It examines the constraints and challenges faced in making pricing decisions. Finally, the unit ends with a discussion on the global pricing alternatives that predominantly consist of ethno-centric, poly-centric, and geo-centric approaches.

Channels are integrative components to a marketer. A proper distribution system give customers, place and time utilities. Unit 13, *Marketing Channel, and Place Decisions*, begins with the objectives of international distribution channels and then proceeds to the constraints and challenges faced in deciding on the media mix and making channel decisions while reaching out to global customers. Since less developed countries are dominated by local intermediaries, the need for entering into distribution agreements with local distributors is emphasized while discussing distribution channels in these countries. The level of economic development helping in innovations is also browsed upon in this unit with an end note on channel strategy for new market entry.

Promotional decisions in different foreign markets are compartmentalized based on the product and place decisions yet confining to the marketing budget. It is a mix of communication avenues to reach the right market at the right time with the right product. Unit 14, *Promotional Decisions*, discusses in detail, the international promotional mix and its components. The barriers like language, culture, socio-economic differences, legal and regulatory differences are discussed extensively in this unit.



## Unit 9

# Product Decisions

### Structure

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- 9.1 Introduction
- 9.2 Objectives
- 9.3 Product Definition and Classification
- 9.4 Product Characteristics
- 9.5 Product Design
- 9.6 International Product Mix
- 9.7 Services
- 9.8 International Marketing of Services
- 9.9 Managing International Research and Development
- 9.10 Product Diffusion and Adoption
- 9.11 Product Adaptation
- 9.12 Product Standardization
- 9.13 International Product Life Cycle
- 9.14 International Product Program
- 9.15 Summary
- 9.16 Glossary
- 9.17 Self- Assessment Test
- 9.18 Suggested Readings / Reference Material
- 9.19 Answers to Check Your Progress Questions

*“Great companies are built on great products. When the product starts to become shoddy and uncompetitive, so does the company.”*

- Elon Musk

### 9.1 Introduction

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Musk is right when he says so and is confident about Tesla’s best vehicle engineering and design team on board, building an extremely good product.

In the previous unit, we discussed the process of planning that goes into new product launch in the organization. In this unit, we shall discuss product decisions.

### **Block 3: International Marketing Mix**

It is important to understand customer's insight and develop product which matches 360-degree expectation of consumers.

In this unit, we will first discuss the definition of a product, and the various classifications and characteristics of products. We shall then move on to discuss the definition of product design, and how to evaluate the international product mix. We shall also discuss about services, the international marketing of services, and how to manage international research and development. The unit will also discuss the concepts of product diffusion, product adoption, product adaptation, and product standardization. We shall also discuss the international product life cycle. Finally, the unit will end with a discussion on the international product program.

## **9.2 Objectives**

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

- Define, design and classify a product to make it successful in the international market
- Identify the characteristics of international marketing services that form an integral part of the international product
- Examine the role of R&D for fulfilling customer needs through innovation and diffusion
- Explain the concept of International Product Life Cycle that decides the production pattern
- Enunciate the elements of International Product Program to chart the company's marketing program while operating in the foreign market

## **9.3 Product Definition and Classification**

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Markets deal with products. Identifying the need of a consumer helps the marketing team to finalize the product range of the company. A product can be a service or an item. Using buying behavior, product classification helps the marketing team to focus their marketing efforts. Understanding features of product is an important aspect.

A product can be defined in terms of its physical attributes such as weight, dimensions, and material. For example, an automobile is a composition of 3,000 pounds of metal, plastic, or fiberglass. The same product can be defined in terms of color, texture, style, shape, or contour. However, marketers consider such definitions incomplete. They consider it incomplete because the definition must state what needs a product fulfills. An automobile's main purpose is transportation, but it also fulfills recreation, status, power needs & desires of its owner. In fact, the major segments of the automobile market are built around

these consumer desires. Finally, a product can be defined as a collection of physical, service, and symbolic attributes that yield satisfaction or benefits to a user or buyer.

Products have been traditionally classified based on their characteristics like usage, durability, and tangibility. Marketers use various marketing mix strategies for each product type.

### 9.3.1 Durability and Tangibility

Based on durability and tangibility, products can be classified into three groups (i) non-durables, (ii) durables and (iii) services.

- **Non-durables:** Non-durable goods are tangible in nature. They are consumed over a short period, either in a single use or a couple of uses. For example, all FMCG (fast moving consumer goods) like soaps, toothpaste, and petrol. These goods are consumed at a fast rate, and hence are purchased frequently by customers.
- **Durables:** Durable goods are tangible in nature. They are consumed over a relatively longer period, usually two to three years or more. They include products like video cameras, building material, and home appliances.
- **Services:** Services are intangible and perishable in nature. Services can be either independent, e.g. a haircut, or an inseparable part of the product, e.g. repair and home delivery service offered with the main product.

A marketer must devise different strategies to market durables and non-durables because customers' needs and perceptions differ based on the durability of the product. In the case of non-durable goods, marketers adopt strategies like providing the goods at a larger number of locations, advertising heavily, and charging a smaller markup to induce customers to buy the goods. Customers perceive durables as an investment. Therefore, customers think in terms of operating cost and resale value of the product when making a purchase decision. Marketers try to highlight the value factor, and to provide after sales services, guarantees and warranties with durable goods, to attract customers.

### 9.3.2 Usage

Products can be classified depending on who the final consumer is and how he uses them. Based on use, products are divided into (i) consumer products and (ii) industrial products.

#### Consumer Products

Consumer products are products that are bought by a consumer for personal, family, or household use. They are bought with the intention of satisfying individual or personal needs. Consumer products can be further divided into (a) convenience products (b) shopping products (c) specialty products and

### **Block 3: International Marketing Mix**

(d) unsought products, based on the purchasing habits of the consumer. However, no two consumers behave in the same way while purchasing a product because every consumer thinks differently in terms of the time, money, and risks (social, functional, financial, and physical), involved in buying the product. Therefore, a single product cannot fit into several categories at the same time.

**Convenience products:** Convenience products are products that are relatively inexpensive and are bought frequently. These products are usually bought with a minimum of thought and effort. Consumer goods are typically less bulky, are sold at a lower price and are not easily affected by fashion and fad. Convenience products can be categorized into staple goods (milk, bread, and newspapers), and impulse goods (not intended to be purchased before the shopping trip e.g. magazines, chewing gum, and lead-batteries). The buyer spends minimal time in planning the purchase or selecting the brands. Customers who prefer a specific brand may switch easily to any other brand when the preferred brand is not available. Marketers sell convenience products through retail stores and try to restock the products as frequently as possible. Packaging plays an important role in the promotion of these products as most retail stores stock them in self-service shelves. Marketers use strategies, such as better positioning and shelf space for their product. For example, products like Wrigley's chewing gum, Femina magazine, Gillette sensor, Chips magazine, and Computers Today, are placed at counters and shelves near the check-out points at supermarkets, so that a customer is bound to look at them while waiting for his turn at the check-out counter. Marketers also try to use screen displays at the entrance of large stores.

**Shopping products:** Shopping products are products for which a buyer is willing to spend time and effort in planning and making purchase decisions. These products are expected to have a longer life and are purchased less frequently. Shopping products are relatively more expensive and are sold at fewer retail outlets in comparison with convenience products. Buyers are not particularly loyal to any brand but often take considerable time to compare and evaluate the brands. They evaluate features like price, product features, warranties, quality, and after sales services in a brand. Examples of shopping products are home appliances, stereos, and cameras.

Marketers use personal selling and advertising for promoting these products. They try to highlight the product's attributes because customers compare and evaluate the brands. In case the product has almost the same attributes as its competitor products, then marketers focus on promotion based on price. Manufacturers and intermediaries cooperate mutually to provide servicing and repairs for these products.

**Specialty products:** Specialty products are products that have one or more unique characteristic features. These products are available through a few select

outlets or only through a single outlet. Customers are aware of what they want and will not accept a substitute for these products even though they may have to wait for a considerable time to get the product. Customers do not compare alternative products but plan the purchase carefully as the product is relatively more expensive. They are extremely brand, store- or person- loyal and are willing to pay a premium for the product, e.g., an original painting, an antique car, a Mercedes-Benz car, and a Mont Blanc pen.

**Unsought products:** Unsought products are products that a customer purchases when he / she encounters a sudden problem. Customers are not always aware of the need and they do not find it necessary to purchase the product, e.g. umbrellas and repair services. Marketers use personal selling and advertising to market these products. They indulge in aggressive selling tactics for promoting these products e.g. insurance policies.

### **Industrial Products**

Industrial products are products that are purchased to produce other products or facilitate the smooth functioning of an organization. They are purchased to satisfy the organization's needs. The functional aspect of these products is perceived to be more important than the psychological rewards associated with them. Based on their characteristics and intended use, organizational products can be classified as:

- (i) Production Goods
- (ii) Support Goods

#### ***Production Goods***

Production goods are goods that are used solely to produce a manufacturer's products. They are further divided into (a) Raw material (b) Component parts and (c) Process materials.

*Raw material:* Raw material is the basic material used in manufacturing a product. Raw materials are perishable in nature. They are bought in large quantities according to their grade and specifications. These products are simple but they are required in bulk and hence their total purchase price can run into millions of rupees, for example, pig iron, crude oil, fabric, chemicals, and farm products.

*Component parts:* A component is a finished product or a product that needs a little processing before becoming a part of the main product. A component can be easily distinguished from the main product although it is a part of that product. Industrial customers use components to assemble their products. They purchase the components according to their own specifications or the industry standards. They expect the component parts to be of good quality and want them delivered

### **Block 3: International Marketing Mix**

on time so as to avoid any delay in the manufacturing process. For example, the engine, carburetor, wheels, seats, and glass panes are the components of a car and the car manufacturer depends heavily on these components to manufacture a car.

*Process material:* Process materials are also used directly in the production of the final product. However, these products are not easily identified as part of the production of final products. For example, a company producing perfumes uses alcohol as a base for its product, although this cannot be directly identified in the main product. Just like components, these products are also purchased on the basis of user specifications or industry standards.

#### ***Support Goods***

Support products are products that facilitate the process of production. They are not a part of the final product. They are further divided into (a) Capital equipment (b) Accessory equipment (c) Consumable supplies and (d) business services.

*Capital equipment:* Capital equipment comprises the large tools and machines that are used to produce goods or for providing services. Such equipment is usually expensive. Companies purchase capital equipment with the intention of using them for a long time. Some of this equipment is customized to suit the individual needs of the firm in producing its products. Purchase decisions for capital products are often made by the high-level management as they call for a long-term investment. Companies usually negotiate and bargain on the price of capital goods. Marketers of these products usually provide services like installation, training, repair and maintenance, and financial assistance to the buyers.

*Accessory equipment:* Accessories are those products that help in production or office activities. They are not a part of the final product. For example, mechanical tools, computers, calculators, and furniture. Accessories are relatively less expensive, demand less services and maintenance and are purchased more frequently when compared to capital equipment.

*Consumable supplies:* Consumable supplies are products that are consumed during production and delivery of the product but they do not become part of the final product, e.g. paper, pencil, oils, and paints. They are often referred to as MRO items i.e. Maintenance items (brooms and other equipment), Repair items (replacement parts, handy tools) and Operating items (office stationery, electricity, and water.). Industrial customers buy consumable supplies for the smooth functioning of their operations. Consumables are usually bought routinely and are available through various outlets. Buyers often prefer purchasing consumables from more than one seller to ensure supplies are available as and when required.

*Business services:* Business services are intangible in nature. Organizations require services for the smooth functioning of their operations. Such services include financial services, legal services, marketing research, temporary workers, and janitor services. For instance, a firm can hire the services of McKinsey Consultants for management consultancy problems, UPS for package delivery, and various auditors for accounting. Based on the frequency of service needs and cost to the company, a firm decides whether to hire the services of service consultants or maintain its own service staff.

### **9.3.3 Limitations of Product Classification Models**

Product classification models are not without limitations. Some of them are enumerated below.

- A single product can be a consumer product as well as an industrial product. For example, when the Eureka Forbes' fire extinguisher is used in homes, it is deemed as a consumer product whereas when it is used in offices and hotels it becomes an industrial product. Therefore, products cannot be classified exclusively as consumer products or industrial products.
- The perception of every customer is different from the other one and so they do not categorize the products in the same manner, e.g., an umbrella may be perceived as a shopping product by one customer and an unsought product by another customer.
- Customers do not behave rationally all the time, for instance a person who takes a lot of time in evaluating brands may sometimes end up buying impulsively.

Although there are certain limitations to product classification models, classifying products often helps marketers in devising marketing mix strategies.

## **9.4 Product Characteristics**

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Identifying the requirement of the target customer groups and understanding the characteristics of the products help the marketer in deciding the product mix.

Product characteristics are attributes that describe a product. International marketing product decisions need to take five important characteristics into consideration. They are primary functional purpose, secondary purpose, durability and quality, method of operation, and maintenance.

The primary function of a refrigerator in an industrialized and high-income country is to store frozen foods for more than a week, to preserve perishable food (like vegetables, milk, and meat), to cool bottled drinks for consumption at short-notice. The primary function in a low-income country is to preserve small quantities of perishable food for one day, to preserve leftovers for slightly longer periods.

### **Block 3: International Marketing Mix**

The secondary purpose in a developing country is to fulfill the need for prestige. In such countries, there will be a demand for the largest models to be displayed in the living room and not in kitchen.

Durability and quality is another characteristic an international marketer has to keep in mind. It must be appropriate for the proposed market. In the home appliances market, in certain countries, servicing facility is necessary. For example, in lower-income markets, appliances sold must be repairable. In these markets, repairable appliances are seen as products with better quality. In advanced countries, however, this does not hold good. Cost of labor for repairing appliances is quite high, and is ruled out for any product that costs less than \$ 40. In these advanced markets, building reparability into appliances adds no higher value for consumer.

An effort to sell a product meant for high-income markets, in a low-income market is bound to fail. The method of operation and maintenance are other important characteristics. Voltage and cycle requirements in the case of electrical appliances, and driving conditions in the case of automobiles are aspects that come under the method of operation. Availability and cost are different in different parts of the world. These aspects come under the maintenance characteristic. All these five characteristics have to be taken into consideration while taking product decisions.

## **9.5 Product Design**

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Let us look into Personal Computers. Desktops and Laptops render same features. In fact, they are just two types of personal computers. But, the market share for Desktops has nose-dived and that of Laptops increased drastically. This shows the significance of product design that speaks on behalf of the brand. Product design plays a key role in the success of global marketing.

Product design decisions address questions such as, whether to design different products for different national markets or to design a single product for the global market. A design change can increase or decrease sales. The benefits of such changes have to be weighed against the cost of changing a product design.

Four factors influence the product design decisions of international marketers: preferences, cost, laws & regulations, and compatibility.

### **9.5.1 Preferences**

Customers living in different parts of the world have different preferences in terms of color and taste. Marketers must not ignore these preferences. Unlike the developed nations that changed cars after few years, Indians preferred a car that would last for many years. It is treated more as a luxury product in India. The high cost of maintenance of Chevrolet models was perceived to be one of the factors for this firm to exit India. Chevrolet thought that the upper-middle income



class would align themselves to the foreign culture of changing the products after a span of time.

### **9.5.2 Cost**

In designing a product, the cost factor is a major consideration. Cost determination must take into consideration cost of production incurred by the manufacturer as well as cost incurred by the end user. The following example shows how labor cost can affect product decisions. This cost factor explains contrasting approaches to aircraft design taken by the British & the Americans.

British manufacturers prefer to keep the engine inside the wing. They do this to minimize wind resistance, and to ensure fuel economy. One problem with this arrangement is that engines are less accessible compared to externally mounted ones and their maintenance and repair takes more time than otherwise.

On the other hand, American manufacturers hang engines outside the wing, compromising on efficiency & fuel economy. The advantage with this design is that the engine is more accessible and this reduces the time spent on maintenance & repair. Although both approaches are good, the British chose their design because the cost of labor is less in Britain. While Americans traded fuel economy for labor cost, because cost of labor is high in the US.

### **9.5.3 Laws & Regulations**

Laws and regulations in different countries can be different and can have a direct impact on product design decisions. Adapting product designs to these laws and regulations can increase costs.

### **9.5.4 Compatibility**

International marketing managers have to pay attention to product compatibility with the environment. For example, electrical systems in various countries range from 50 to 230 volts and from 50 to 60 cycles. An electrical appliance manufactured for use in one country may not be usable in another country. In such a case the international marketer has to think about power systems in the country in which he is trying to market his products.

Not only man-made systems, but climate also creates these compatibility problems. Products manufactured for operation in a tropical environment must be able to withstand humidity. Similarly, products manufactured for winter conditions must withstand extreme cold.

#### **Activity 9.1**

Stanton Electronics Ltd., a US-based firm, provides a wide range of automation equipment. Recently, the company decided to produce stereo systems and wants to target the urban population in low and middle-income countries. What aspects should it keep in mind while designing the product?

### Block 3: International Marketing Mix

<b>Answer:</b>

## 9.6 International Product Mix

The product mix of Procter & Gamble, the American Public Limited Company, in India, is closely knitted. It concentrates more on skin care, hair care, cooking oil, washing powders and liquids and the like. For the Indian market, to capture all segments, it has Lifebuoy toilet soap available in 125 grams, 100 grams and 60 grams cakes. Thus, the crucial decision of a business entity is to decide what should be the product range of their company. We delve into some of the important aspects in this perspective.

International product mix is a set of all product lines and items meant for sale in overseas markets. The issues that need to be addressed while taking decisions on international product mix are the number of product lines, degree of consistency in these product lines, and their length and depth. A product line may need adjustment for reasons such as:

- Falling sales
- Competitive products
- Product acquisitions
- Internal product developments & innovation
- Changes in consumer needs & behavior
- New international objectives
- Marketing strategies

A constant ongoing product-line analysis is necessary to maintain a flexible, adaptable product line. This is all the more necessary in international markets that are characterized by a mass of conflicting data. This conflicting data may throw up various questions for international marketers. The problems they may face are:

- Whether to drop products in markets where they are not doing well or to make basic changes needed for the products
- Lack of clarity on the impact of these changes on overall strategy
- Whether to ignore or not to ignore the significant opportunities because of expensive product inversion and development.

Because of diversity, complexity, and higher rate of change in international markets, firms are including more number of product mix items, and multiple

product variants. This is increasing their production costs and resulting in unwieldy product lines that have no commonality from one market to another.

Products that form the product mix can be dropped when they show poor profit performance, when there is insufficient capacity to manufacture these products, and when the management believes that other products offer higher potential and they need to be manufactured. However, before dropping these products from the product line, the management must identify the reasons for unsatisfactory product performance and understand their impact on the firm's actions.

**Example: Coca-Cola India's Offering**

Coca-Cola India makes the fifth largest market for Atlanta based global beverage company. It offers beverages Coca-Cola Classic, Diet Coke, Coca Cola Zero Sugar, Thums-Up, Fanta, Fanta Apple Delite, Sprite, Limca and Rim Zim. Under Hydration, Juices, Tea and coffee category, it offers — Kinley, Smart Water, Minute Maid (apple, Orange, mixed fruit), Maaza, Rani Float, Georgia, and Costa Coffee. Rim Zim is Jeera (cumin) flavoured drink which gives spicy tinge catering to Indian taste buds. Rani Float is a fusion of fruit drink and real fruit pieces available in Strawberry-banana, peach and pineapple flavours. Immunity boosting Minute Maid -Vita punch was launched in 2020. With preference of less sugary drinks which has been on rise, Coca Cola relaunched Coca -Cola Zero Sugar in 2022.

Source: <https://www.coca-colaindia.com/brands>, Retrieved August 23, 2022

**9.7 Services**

Providing services as an activity has a very wide market in any economy. Services allows a marketer to make his presence abroad by (i) broadening his international networks and (ii) building close relationships with customers. It forms an integral part of product delivery.

Adrian Payne, (The Essence of Services Marketing, 1993), has defined service as an activity that has an element of intangibility associated with it and which involves the service provider's interaction either with the customers or with the property belonging to the customer. The service activity does not involve the transfer of ownership of the output.

According to Philip Kotler, (1984), service is “any activity of benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.”

Therefore, it can be said that services are those activities that satisfy wants. Certain services are offered individually while others are offered as a supplement to a product purchased or a major service consumed by the customer. Essentially,

### **Block 3: International Marketing Mix**

services are intangible but sometimes they may involve the use of certain tangible goods. In such case, the title of goods doesn't change from the service provider to the customer.

The above definitions emphasize on the intangible character of services. However, some services do have a tangible component. For example, retailing is a service in which tangible products are offered for sale in the retail stores. Restaurants are another example of tangible service in which food (tangible) is served to customers.

The major characteristics of services are intangibility, inseparability, heterogeneity, and perishability. They are discussed below:

#### **9.7.1 Intangibility**

A product is a physical entity, which can be touched. It can be seen, heard, touched, smelt, tasted, and tested even before purchasing it or consuming it. For example, when a consumer decides to buy a bike, he can see it, touch it, and test-drive it to understand its performance. Therefore, he has a better idea of the product before deciding whether to buy it or not. However, a service is not tangible unless it is experienced or consumed. The quality of a service cannot be established as clearly as it could be done in the case of a product. For example, when a customer decides to employ the services of a bank in obtaining a loan for the first time, he does have an idea about the services offered by the bank, but he can assess the services only after he avails them. A bike can be defined in terms of its HP and mileage, but a service cannot always be defined in absolute terms.

Different people have different expectations about the same service. Further, since the quality of the service is not always strictly measurable owing to its intangible nature, it is sometimes difficult for service organizations to determine quality markers and market their services accordingly. For example, in the case of banking services, certain customers may consider being given personal attention by customer service executives as a vital aspect of service quality while others may consider faster transactions more important. As all customers do not have the same preferences, the service provider does not know what exactly should be offered to ensure complete customer satisfaction.

Compared to product manufacturers, service organizations find it more difficult to ensure consistency in service delivery. For example, HUL can ensure that all the soaps manufactured by it are of the same quality but a service organization such as HDFC Bank may not be able to ensure the same quality of service to every customer or each time a customer approaches the organization. However, increasingly service organizations are employing stringent measures to ensure that the quality of their services is standardized. Another point to be noted here is that it is not always possible for the manufacturing firms either, to maintain hundred per cent consistency in their product quality.

**9.7.2 Heterogeneity**

A machine can produce units identical in size, shape, and quality. However, a human being cannot work as uniformly and consistently throughout the day. As a service is offered by a human being, there is a high probability that the same level of service may not be delivered all the time. The service offered by one employee may differ from the service offered by another although they may belong to the same company. Even the service offered by the same employee may be different at different times of the day. After serving customers continuously for several hours during the day, an employee may not be able to offer the same level of service towards the end of the day. Also, the quality of service offered by employees at one branch of a service organization may differ greatly from the service offered at another branch. However, if the variation in service quality becomes extremely obvious, customers may become dissatisfied and switch to a competing firm. Further, the customers may not be able to predict the level of service they would obtain from the firm, the next time they visit it. Therefore, service organizations should try to maintain consistency in the services they offer by taking special care in recruitment, selection, and training of employees.

In certain cases, however, heterogeneity can benefit the organization. Some customers want specific services that may not be needed by other customers. In such cases, the organization can offer customized service to customers and charge a premium from them. For example, a manufacturing firm may purchase limited or customized services from an IT service provider. Some other firm may hire the end-to-end solutions of the services company for its operations.

**9.7.3 Perishability**

Unlike products, services cannot be stored for future consumption. Suppose an airliner has 250 seats on its aircraft. On its flight, only 200 seats are occupied. The company flies with 50 seats idle capacity on the given date. This is a lost business opportunity for the airliner. The fact that it may be fully booked the next day does not compensate for the idle capacity on that day. It cannot be recovered, as it is lost for all time. Suppose a showroom recruited five additional sales people during the festival season to serve customers efficiently. However, for some reason, customers did not show up in the large numbers expected. The showroom owner incurred a loss by having excess service capacity. In both the cases mentioned above, the organizations lost opportunities to earn revenue, when the services were on offer. Thus, the perishability of services is another factor that leads to complexity in management in the service sector. Service organizations need to be extremely cautious while formulating their demand and supply plans. They need to consider all the possible factors that can affect the demand for their service and strive to avoid excess or shortage of capacity to meet demand.

### **Block 3: International Marketing Mix**

#### **9.7.4 Simultaneous Production and Consumption**

A customer consumes a service as soon as an employee delivers it. Thus, production and consumption occur simultaneously in the case of services as opposed to products, which are manufactured, stored, and then consumed. As the delivery and consumption of a service are inseparable, there must be interaction between customers and employees of a service organization. For example, the interaction between patient and doctor is essential if the patient should be treated for an illness. In the case of a hotel, the interaction between a server and a customer is essential for the former to take the order for food and serve it to the customer for consumption. Thus, customers tend to equate the quality of service offered by the organization with their interaction with its front-line employees. Therefore, service organizations should take special care in training and motivating employees. Front-line employees should be trained to be professional in their approach, courteous in the way they talk to customers and patient in dealing with queries.

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#### **Check Your Progress - 1**

1. Which of the following can be defined as products bought for personal, family, or household use?
  - a. Industrial products
  - b. Durable products
  - c. Consumer products
  - d. Non-durable products
  - e. Consumption product
2. Under which product category do staple goods and impulse goods come?
  - a. Specialty products
  - b. Shopping products
  - c. Unsought products
  - d. Convenience products
  - e. Regular product
3. Which of the following are the products that help in production of office activities?
  - a. Capital equipment
  - b. Consumable supplies
  - c. Accessory equipment
  - d. Business services
  - e. Production equipment

4. Which of the following may be defined as a set of all product lines and items meant for sale in overseas markets?
  - a. International product length
  - b. International product mix
  - c. International product consistency
  - d. International product width
  - e. International product depth
5. Which of the following can be defined as any activity that has an element of intangibility associated with it and which involves the service provider's interaction either with the customers or with the property belonging to the customer?
  - a. Service
  - b. Production
  - c. Manufacturing
  - d. Delivery of goods
  - e. Demonstration

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## **9.8 International Marketing of Services**

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Services are another form of activity and generate revenue sources to the marketer. It helps in maintaining close relationship with the customers by providing supplementary (eg. insurance) /complimentary (eg. computer networking) intangible products, thereby creating added awareness about the firm's business activities.

While entering a foreign market, a service firm needs to conduct a complete SWOT analysis before taking any major strategic decision. The success and survival of a company depends on its understanding of the differences among its countries of operation in terms of culture and consumer behavior, and its ability to accommodate the differences.

Before entering a foreign country, a service organization needs to check if it has sufficient resources to venture into the market, if the mode of entry is appropriate, if the demand in the market is adequate, if the management style is appropriate, and if it has the right people to deal with suppliers and the local authorities.

### **9.8.1 Select the Right Entry Mode**

An organization can enter a foreign market through several modes, as discussed earlier. However, it should choose its entry mode carefully so that it does not affect its competitive advantage. If it chooses to enter through a strategic alliance, for example, it should ensure that the partner has a strong hold on the market and can support it in gaining a strong foothold. Moreover, the partnership should not

### **Block 3: International Marketing Mix**

conflict with the business interests of either party and should benefit both. If the partnership terms favor one party, then the relationship may not last long because the losing partner will be on the constant lookout for exiting from the partnership. Similarly, if an organization decides to enter a foreign market through a merger or acquisition, it may face innumerable difficulties. It may face difficulties in merging the operations of both firms, changing the culture of the workforce, and leveraging synergies. If an organization wants to establish a wholly-owned subsidiary in a foreign country, it should look for the right location to gain benefits like cheap infrastructure, government support, educated workforce, low salaries, political stability, security, and favorable laws and regulations.

#### **9.8.2 Select the Right Marketing Research Methods**

In certain countries, people do not want to answer personal questions and dislike being monitored. It would be difficult for organizations to conduct marketing research in such countries. Therefore, service organizations should use indirect measurement techniques, which do not involve approaching customers directly. Rather, they may have to collect information from service providers who can provide reliable data and information on consumer behavior.

#### **9.8.3 Customize the Service Offering**

Global service providers should customize their services to suit the tastes and preferences of customers in different countries. For example, in certain countries, people do not like invasion of privacy. In such situations, service organizations such as those in the hospitality industry should ensure that their service personnel do not take the initiative to try and entertain customers. However, in other countries people may expect the service personnel to keep enquiring about their needs and taking care of them. In such cases, the front-line personnel should be pro-active and approach customers before they feel they are not being attended to. Similarly, during an economic downturn, companies may need to customize their service offering to suit the existing needs of the customers. This can help the firms create a demand for their services and improve their business even during a period of recession.

##### **Example: Burger King near Mata Vaishno Devi Shrine, Katra**

Burger King Corporation is an American-based multinational chain of hamburger Quick Service Restaurant (QSR) and has over 18,700 locations in 100 countries. Everstone Group, a Singapore-registered private equity outfit with a 25-year master franchise for Burger King in India operates 325 outlets and believes 'menu is the king'. The new restaurant (August 2022) opened at Katra is 100% vegetarian with no onion or garlic and is in line with pilgrimages' expectations.

*Contd....*



Locations such as pilgrimages (Shirdi, Kamakhya, Ayodhya, Golden temple etc.), highways and tourist places offer captive markets and most of the QSR chains are in no mood to ignore such lucrative markets. Abiding by the religious dictate is the key to operate near pilgrimages which Burger King is doing by customizing their offerings.

*Source: Bhushan, R. (2022, August 20). Restaurant, cafe chains on Temple Run: Places of Worship top draws for Big Food Services firms. Retrieved August 24, 2022, from <https://economictimes.indiatimes.com/industry/services/hotels/-restaurants/restaurant-cafe-chains-on-temple-run-places-of-worship-top-draws-for-big-food-services-firms/articleshow/93668905.cms>*

#### 9.8.4 Train the Service Personnel

Service personnel should be educated about the differences in the cultures of the customers they serve. For example, the service personnel in a Chinese restaurant need to realize that they have to treat an Indian customer and an American customer differently. The service personnel should be trained to customize their service offering and delivery to suit the customer's preference. In certain countries, people are not comfortable talking to a salesperson on the phone. They expect the salesperson to visit their home/office and explain the service offer to them in person. Service personnel need to be trained to catch the pulse of the customer immediately and change their approach strategy accordingly.

#### 9.8.5 Select the Right Promotion Strategy

In certain countries like Japan, comparative and aggressive advertising is unacceptable. So, in these countries, service firms should emphasize the benefits of their service offering rather than point out the drawbacks of the competitors' service offerings. In countries like the US and India, where such advertising is allowed, at least in some sectors, service organizations should use the opportunity to explain to customers how their service offers outweigh those of their competitors.

#### Activity 9.2

The US based fast-food giant, McDonald's entry into the Indian market has been very successful. McDonald's success can be attributed to a set of factors like the right entry mode strategy, marketing methods, customized services, etc. Discuss the factors that facilitate the success of the firms in the service industry.

**Answer:**


## **9.9 Managing International Research and Development**

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R&D is an important tool for the business entity for identifying new products and services required in the market for various target groups. R&D spanning multiple locations in the globe will bring in the challenge of dispersed innovation to a marketer. If not managed efficiently, the unique benefits of a global initiative would not be harnessed - (HBR, 2012). The requirement of products and services for various segments of customer base is very dynamic and vibrant. Innovation, new product designs, exploring new markets, etc. are the part of a growing international business. R&D is a component of international business.

Research and Development forms the core to attract and win the attention of customers. R&D can be done either in-house or through collaborations and takeovers. There are certain advantages when firms adopt an in-house approach to R&D. The advantages are full control over the R&D effort, confidentiality, and no conflict of interests. However, when consumers are fickle minded and competitive pressures are high, firms cannot afford to make huge investments single handedly. They can rarely withstand the pressure when those investments result in failed products. Hence, they have to make alternative provisions for undertaking R&D. The alternatives are takeover, contractual agreements and joint ventures.

### **9.9.1 Takeover**

One way to acquire R&D capabilities is to purchase firms with that capability. Through such takeovers or acquisitions, a company could double the size of its product line, and strengthen its R&D capability.

### **9.9.2 Contractual Agreements**

Innovation and quick response to the innovation of one's competitors are important for survival in the market-place. This is making presence of firms in the all the markets a necessity. However, high costs make presence in all markets expensive and impractical. Only a few firms have enough resources to duplicate their value-chains in different locations. This necessitates collaborative activity.

As a result of these changes in the marketplace, primarily owing to globalization, collaboration is seen as the first best option rather than the last. Further, innovation is becoming more expensive. For example, designing a new car today costs hundreds of millions of dollars for an automobile manufacturer. Few companies can make such huge investments without any guarantee of return. R&D is thus a prospective area for collaborations. R&D collaborations form 10 to 15% of all agreements that are being entered currently. And more R&D collaborations today involve overseas partners than ever.

Although there are increasing similarities among consumption patterns, and types of technologies deployed in each country, there is an increasing specialization

among locations and firms. The technologies developed in different locations are becoming more distinct from one another. To exploit these technologies, collaboration remains the best alternative.

Increasing inter-dependence among technologies & industries is another phenomenon that is increasingly driving R&D collaborations. For example, advances in automobile production do not involve just mastery of mechanical technologies. It needs inter-disciplinary expertise: expertise in new materials technology, telecom technology, and semiconductor development. However, acquiring competence in so many areas undoubtedly increases costs. Thus, firms will not be able to gain economies of scale and scope that are so necessary to be competitive in the global market-place.

In new “core” technologies, technological change is rapid, products obsolete quickly, and thus firms have to recover their investment faster. As some studies show, in certain industries patenting is no longer useful in protecting an invention because, the product will be obsolete, by the time a patent is granted. Firms in such industries have to find ways & means to recover the costs of innovation if they want to be innovative.

### **9.9.3 Joint Venture Strategies**

Joint venture is a broader strategic alliance aimed at collaborating in areas, such as R&D, production, and distribution. Advantages and disadvantages of this type of strategy are shown in Table 9.1:

**Table 9.1: Advantages & Disadvantages of Entering a Joint Venture**

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Minimization and sharing of R&amp;D expenses and risk</li> <li>• Companies following this strategy get access to the special product and market knowledge of their respective partners</li> </ul>	<ul style="list-style-type: none"> <li>• No single partner has absolute control over the R&amp;D process, which might be necessary sometimes</li> <li>• No partner has an exclusive right to the results of the research conducted as a part of the joint venture</li> <li>• Partners may be forced to reveal confidential information, which they generally should not.</li> </ul>

*Source: ICFAI Research Center*

Joint venture strategy is preferable when a firm has no knowledge of the foreign market, has limited resources, and faces high R&D risk and cost.

### Block 3: International Marketing Mix

#### 9.9.4 Locating International R&D Activities

Of all the activities conducted in an organization, R&D activities are the most centralized. Most firms operating in international markets prefer centralized R&D facilities. Table 9.2 shows the advantages and disadvantages of having centralized R&D facilities:

**Table 9.2: Advantages & Disadvantages of Centralized R&D Facilities**

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• A single location ensures critical mass and bestows economies of scale</li><li>• Secrecy of confidential information can be maintained. The firm can also reduce the level of exposure of its vital R&amp;D skills and assets</li><li>• Facilitates easier coordination and control</li></ul>	<ul style="list-style-type: none"><li>• No transfer of technology</li><li>• The firm may not exploit valuable, cheap, foreign R&amp;D skills. General Electric, the US based MNC set up its R&amp;D facility in Bangalore, India, especially to capitalize on the valuable, cheap, and well-trained manpower available in India. Without its center in India, GE may never take advantage of the advantages India has to offer</li><li>• The firm may forego public relations benefits that may accrue when the firm starts its R&amp;D center in a host country. (Public relations benefits result to the citizens when the firm invests capital and provides employment to the local citizens)</li></ul>

*Source: ICFAI Research Center*

Whenever a firm decides to start its R&D center in a foreign country, the firm starts it in a country that has skilled scientists and researchers. Even after the recent globalization, most of the R&D work is done in rich, developed, and industrialized countries, because, these countries are the major markets and home bases for most internationally operating companies.

#### **Activity 9.3**

The joint venture between Walmart and Flipkart has big plans for India. The size and potential of the market, makes it very attractive for the company. It wants to build a new Research and Development Center in India. Suggest a

few entry mode strategies available to the company for establishing its R&D center in India.

**Answer:**

### 9.10 Product Diffusion and Adoption

Diffusion is the process by which a new idea or new product is accepted by the market. International market always welcomes new ideas and new products. While product diffusion explains how trends happen, product adoption explains why a product succeeds or fails in the market. The combination of two working in tandem explains where the ‘rubber meets the road’.

The international diffusion process involves shifting of products meant for consumption, overseas. Product diffusion can be seen from two perspectives: production lag and market lag. Market lag is the time gap between initial marketing of a new product and introduction of the product in a foreign market. Production lag is the time gap between initial output of a new product and launch of the product in a foreign market.

Certain factors influence the speed with which diffusion takes place, and the time that is taken for the diffusion. The factors are:

- Nature of the product
- Characteristics of the overseas markets
- Strategy of the firm
- Competition
- Degree of product adaptation necessary
- Propensity of consumers to change from the current pattern of consumption to a new pattern of consumption

The adoption process comprises five stages. The five stages are awareness, interest, evaluation, trial, and adoption. In the awareness stage, a prospective customer gets the initial exposure to the product. In the interest stage, the consumer shows interest in the product and searches for additional information. In the evaluation stage, the customer forms an opinion about the product. He decides as to try or not to try the product. In the trial stage, he tries the product and assesses its usefulness. In the adoption stage, he accepts the product for use.

### Block 3: International Marketing Mix

#### Example: EV Cars growing Popularity

According to Bloomberg report, sale of Electric Vehicle (EV) follows the s-shaped adoption curve like that of smart phones. US joined Europe in the last quarter of 2021, achieving the 5% new car sales threshold for EVs (fully electric). For Norway, South Korea, the U.K., and Germany, EV sales account for as much as 83% of all cars sold. Regulatory changes and financial incentives have helped EV adoption in many countries. The trend is catching up in emerging markets as well. Tesla sold 78,906 cars in June 2022, its highest monthly sales of China-made vehicles since opening its Shanghai plant in 2019. Canada, Australia and Spain may be next markets to approach the tipping point.

Sources: i) Randall, T. (2022, July 09). *US crosses the electric-car tipping point for mass adoption* - BNN Bloomberg. Retrieved August 25, 2022, from <https://www.bnnbloomberg.ca/us-crosses-the-electric-car-tipping-point-for-mass-adoption-1.1789671>

ii) <https://www.reuters.com/business/autos-transportation/tesla-sold-78906-china-made-vehicles-may-cpca-2022-07-08/>, Retrieved August 24, 2022

#### 9.11 Product Adaptation

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A product suitable for one market may not be suitable for other markets. For example, a manufacturer of men's suits may face problems pertaining to size if it uses the same body size proportions in different countries because the body structure of men differs from country to country. Circumstances like these insist on product adaptation based on the requirements. Thus, product adaptation ensures that the product meets the needs of the local customers, and aligning to the country's social, economic, cultural and regulatory environments. Factors that encourage or restrain product adaptation in different countries are: different use conditions, other market factors, and influence of government.

##### 9.11.1 Different Use Conditions

The utility of a product may be the same in different countries but the conditions in which the product is used can change from country to country. For example, the climate of a country can affect products that are sensitive to temperature. Such products should be modified to suit the markets to which they are supplied. Similarly, difference in skill levels of users may necessitate product adaptation. In industrialized countries and less developed countries, the skill levels, road conditions, and traffic conditions are different. Manufacturers of cars, trucks, and tyres must take these aspects into consideration while designing their products.

##### 9.11.2 Other Market Factors

Factors such as per capita income may also force product adaptation. The level of per capita income determines the size, nature, and packaging of goods. As mentioned earlier, consumers with lower income buy goods in smaller quantities, and more often. Therefore, the manufacturer need not use high quality, expensive

packaging material to preserve such goods (sold in small quantities). Consumers with higher income buy goods in larger quantities and less often. Therefore, the manufacturer needs to use quality packaging material to preserve the goods. Consumer tastes are also different in various markets across the world. For example, the French prefer cars that have four doors whereas the Germans prefer cars that have two doors, for no obvious reason!

### **9.11.3 Influence of Government**

Government regulations also lead to product variation. In various countries across the world, governments regulate products, their packaging, and labeling. This intervention is not limited just to consumer goods. It extends to industrial goods as well.

## **9.12 Product Standardization**

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“More and more companies are standardizing functions across people, processes and technology. Such “standardization at the core” positions them to achieve cost savings, increased customer satisfaction and improved competitiveness.” (Knowledge @Wharton, 2013).

Product adaptation is necessary in many cases. However, when a single product without modification can be sold across different markets in the world, the firm gets benefited by taking advantage of economies of scale. When the same product can be sold in all the markets, economies of scale can be obtained through lesser spending on sales literature, and after sales service requirements. Similarly, the firm need not invest in R&D to create products that cater to the special needs of customers in different markets. This can reduce the money spent on R&D. Thus, standardization strategy can yield cost benefits, yet it can be rigid and the firm attempting this may be less successful in market penetration.

## **9.13 International Product Life Cycle (IPLC)**

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Countries differ in their timing of demand for various products. IPLC demonstrates the succession of strategies to be adopted at different phases of a product’s lifecycle so as to postpone its maturity stage. IPLC describes international trade and production patterns. According to this concept, products have to go through a trade cycle where a country is initially an exporter, then loses its export markets, and then becomes an importer of the product.

There are four phases in the production & trade cycle. In the first phase, only a single firm has the innovative product. Hence, if a firm wants the product, it must buy it from this firm only and import from the country in which the firm is based. Thus, the country in which the firm is based is an exporter in the first phase. Product innovation and development in this stage are focused on needs of the home market. The firm (with the innovative product) serves the home market first and then exports the product to foreign markets.

### Block 3: International Marketing Mix

In the second phase, production starts in foreign countries either through licensing or re-engineering of the product. Importing countries (in the initial stages, generally, wealthy countries import innovative products) gain product familiarity. As the product familiarity increases, demand in the foreign markets expands. This attracts more players, and results in manufacturing in foreign countries. This production in the foreign countries slowly replaces exports of the innovative firm.

In the third phase, firms manufacturing in foreign countries gain production experience and move down the cost curve. Sometimes they manage to produce the goods at lower cost than is possible for the innovative firm. Then these firms export their products to third-country markets. There they replace innovator's exports through their cost advantage.

In the fourth phase, these foreign firms have adequate product experience and economies of scale to export their products to the innovator's home country.

Looking at these four phases, one can deduce that in the first phase the product was new. In the second phase, the product was maturing. In the third and fourth phases, the product gets standardized. In phase four, the product becomes a commodity. In this phase, the product is manufactured in less-developed countries and exported to developed countries. Understanding this cycle helps international marketing managers to understand the patterns of international trade & production, and helps them in preparing a logistics plan.

#### **Example: Apple now Tastes Sweet in India**

Apple has come a long way since 2008 when it first introduced its smart phone-iPhone 3G in Mumbai and struggled since long to make its way in a price sensitive market and high import tariffs. iPhone SE was the first model to be made in India in 2017. With rising popularity and acceptance of pricey smartphone in the local market, things began to change. The winning strategy which started since 2017 is reaping fruits now of manufacturing and assembling iPhone in India. Foxconn, Wistron and Pegatron have invested heavily in building manufacturing units. Share of 'made in India' iPhones is planned to be 80% for 2022. Apple products are now available well over 10,000 outlets run by premium resellers and distributors - Unicorn, Redington and Ingram Micro and through its own online store. With iPhone -14 slated to launch in September '2022, iPhone from India is likely to be finished in October or November closing the technology gap.

*Sources: From Various sources and*

i) Phartiyal, S., & Rai, S. (2022, August 23). *Apple's new iPhone to show India Closing Tech Gap with China*. Retrieved August 24, 2022, from <https://www.bloomberg.com/news/articles/2022-08-23/apple-s-new-iphone-14-to-show-india-closing-tech-gap-with-china>

ii) Dutta, A. (2022, January). *How Apple cracked the Indian market*. Retrieved August 24, 2022, from <https://www.businesstoday.in/interactive/longread/how-apple-cracked-the-indian-market-86-14-01-2022>



**Activity 9.4**

Many automobile firms based in developed nations try to sell their products in developing countries once the product reaches the saturation stage in their home country. Usually, these automobile products pass from developed nations to developing nations, and finally reach underdeveloped nations. Discuss the concept that supports this view-point of a product moving from the country of its origin (developed nations) to finally reach underdeveloped nations.

**Answer:**

### 9.14 International Product Program

Businesses must create strategies that would appeal broader demographics spread across continents. This helps them in achieving market penetration and maintaining global standardization. The elements of international product program include product attributes, packaging, labeling, service policies, and warranties.

#### 9.14.1 Product Attributes

Some of the key characteristics and features of a product are its quality, styling, and performance. These characteristics are affected by consumer needs, conditions of product use, and ability to buy. The factors that affect product attributes change from country to country. For example, in the US, bicycling is a recreational activity. So, buyers want their cycles to be lightweight and have speed that is essential for rapid touring. However, in Nigeria, bicycle is often a means of transportation and customers prefer cycles that are heavy and durable. In Nigeria, speed and lightness are not the criteria for purchase decision-making.

#### 9.14.2 Packaging

The main concerns in packaging a product are product protection and promotion. For example, in a hot & humid climate, products deteriorate rapidly. Special packaging is necessary to minimize the deterioration of the product. An international marketer has to pay attention to this aspect in designing the packaging material for the product.

In designing the packaging material for promotion, an international marketer has to consider different aspects, such as color, size, appearance, disposable income, and shopping habits. When designing packaging for a low-income market, it must be ensured that packaging costs less and the goods are packaged in smaller amounts and sizes. When the product is meant for a high-income market the packaging must be in large amounts and must be durable. The high-income buyers, in general, go for shopping very infrequently.

### **Block 3: International Marketing Mix**

#### **9.14.3 Labeling**

The primary role of labeling is to provide information. Often the host governments determine the information requirements. The information, the manufacturer may be asked to provide includes description of weight, contents, ingredients, product dating, name of the manufacturer, and unit price information. Language difference is a barrier for a firm operating in international markets. When it is operating in overseas markets the labels must be translated into local languages. Alternatively, the firm can use internationally recognized symbols or multi-lingual labels.

#### **9.14.4 Service Policies**

Services of physical products can be classified into pre-sale services and post-sale services. Pre-sale services include, delivery, technical advice, and postal services. Post-sale services include, repair services, maintenance, and operating advice. The level of service necessary depends upon the complexity of the product. The more complex the product is, the greater the demand for pre and post sales service. When an international firm appoints foreign distributors and agents for providing service it must train them adequately to meet its after sales needs. The emphasis it lays on service support must be proportionate to the value the customer attaches to the service support. For example, purchasers of industrial machinery are willing to pay higher price for the sort of service backup that minimizes the machine downtime. The firm should give utmost priority in service to this type of customers.

#### **9.14.5 Warranties**

A warranty is a written assurance of a manufacturer's responsibility when a product fails to perform. Through warranties a firm takes responsibility for repair and replacement of defective products. Warranties must conform to local laws both in terms of product standards and a manufacturer's liability. Local consumers in many countries view the products manufactured by a foreign firm as less dependable. Providing a strong warranty can go a long way in assuring the local consumers about the trust-worthiness of the product. The international firm can in fact use the superior warranty protection as a promotional tool.

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### **Check Your Progress - 2**

6. Which of the following statements given below is not the advantage of entering a joint venture?
  - a. Minimization and sharing of R&D expenses and risk
  - b. Companies get access to the special product and market knowledge of their respective partners.
  - c. Partners may have to reveal confidential information to the other partners.

- d. Maximizing and sharing of R&D expenses and risk
  - e. Both firms benefit from each other's competencies
7. In which of the following stages of the adoption process, does a prospective customer get initial exposure to the product?
- a. Interest stage
  - b. Awareness stage
  - c. Evolution stage
  - d. Adoption stage
  - e. Negotiation stage
8. According to which of the following concepts do products must go through a trade cycle, where a country is initially an exporter, then loses its export markets, and becomes an importer of the product?
- a. Theory of absolute advantage
  - b. Imitation-gap theory
  - c. International product life cycle
  - d. Theory of comparative advantage
  - e. International trade cycle
9. In which of the following phases of the international product life cycle, does firms manufacturing in foreign countries gain production experience and move down the cost curve?
- a. First phase
  - b. Second phase
  - c. Third phase
  - d. Fourth phase
  - e. First and second phase
10. Complete the following sentence by selecting the suitable option. Which of the following statements is correct wrt the second phase of the international product life cycle?
- a. Firms manufacturing in foreign countries gain production experience and move down the cost curve.
  - b. Production starts in foreign countries either through licensing or re-engineering of the product.
  - c. Foreign firms have adequate product experience and economies of scale to export their products to the innovator's home country.
  - d. Firms manufacturing in foreign countries loose production experience and move down the cost curve
  - e. Production starts in foreign countries through their subsidiaries.
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### **9.15 Summary**

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- A product can be defined in terms of its physical attributes such as weight, dimension, or material. It can also be defined in terms of color, texture, style, shape, or contour. However, marketers consider these definitions to be incomplete because the definition must also clarify what needs a product fulfills.
- Products are, in general, classified based on their characteristics like usage, durability, and tangibility. Marketers use various marketing mix strategies for each product type.
- Products are also classified depending on who the final purchaser is and how he uses them. Thus, they are divided into consumer products and industrial products.
- Consumer products are products that are bought by a consumer for personal, family, or household use. Industrial products are products that are purchased to produce other products or facilitate the smooth functioning of an organization. They are purchased to satisfy organizational needs.
- International marketing product decisions need to take important characteristics into consideration. They are: primary functional purpose, secondary purpose, durability and quality, method of operation, and maintenance.
- Product design plays a key role in the success of global marketing. Product design decisions address questions, such as whether to design different products for different national markets or to design a single product for the global market.
- Four factors influence the product design decisions of international marketers: preferences, cost, laws & regulations, and compatibility.
- International product mix is a set of all product lines & items meant for sale in overseas markets. The issues that need to be addressed while taking decisions on the international product mix are, the number of product lines, the degree of consistency in these product lines, and their length and depth.
- The major characteristics of services are intangibility, inseparability, heterogeneity, and perishability.
- Many factors, such as innovation, excellence in customer service, and efficient operations contribute to the success of an organization at the global level.
- Before entering a foreign country, a service organization needs to check if it has sufficient resources to venture into the market, whether the mode of entry is appropriate, the demand in the market is adequate, the management style is appropriate, and it has the right people to deal with suppliers and the local authorities.

- Takeovers, joint ventures, and contractual agreements are some of the ways in which international R&D capabilities can be acquired. International diffusion process involves shifting of products to overseas markets.
- Several factors influence the speed with which diffusion takes place. These are --nature of the product, characteristics of the overseas markets, strategy of the firm, competition, degree of product adaptation necessary, and propensity of consumers to change from the current pattern of consumption to a new pattern of consumption.
- A product suitable for one market may not be suitable for other markets. Factors that encourage or restrain product adaptation in different countries are: different use conditions, other market factors, and influence of government.
- International product life cycle describes international trade and production patterns. According to this concept, products must go through a trade cycle where a country is initially an exporter, then loses its export markets, and then becomes an importer of the product.
- Product attributes, packaging, labeling, service policies, and warranties are the elements in an international product program.

### 9.16 Glossary

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**Accessories:** Products that help in production or office activities. They are not a part of the final product.

**Business Services:** These services are intangible in nature and are used by organizations for the smooth functioning of their operations. Such services include, financial services, legal services, marketing research, temporary workers, and janitor services.

**Capital Equipment:** These comprise the large tools and machines that are used to produce goods or for providing services. Such equipment is usually expensive.

**Component:** A component is a finished product or a product that needs a little processing before becoming a part of the main product. A component can be easily distinguished from the main product although it is a part of that product.

**Consumable Supplies:** Products that are consumed during production and delivery of the product but do not become part of the final product, e.g. paper, pencil, oils, and paints.

**Consumer Products:** Products that are bought by a consumer for personal, family, or household use. They are bought with the intention of satisfying individual or personal needs.

**Convenience Products:** Products that are relatively inexpensive and are bought frequently. These products are usually bought with a minimum of thought and effort.

### **Block 3: International Marketing Mix**

**Durables:** Durable goods are tangible in nature. They are consumed over a relatively longer period, usually two to three years or more. They include products like video cameras, building material, and home appliances.

**Industrial Products:** Products that are purchased to produce other products or facilitate the smooth functioning of an organization. They are purchased to satisfy the organization's needs.

**International Diffusion Process:** It involves shifting of products meant for consumption, overseas.

**International Product Life Cycle (IPLC):** According to this concept, products must go through a trade cycle where a country is initially an exporter, then loses its export markets, and then becomes an importer of the product.

**International Product Mix:** It is a set of all product lines and items meant for sale in overseas markets. The issues that need to be addressed while taking decisions on international product mix are the number of product lines, degree of consistency in these product lines, and their length and depth.

**Market Lag and Production Lag:** Product diffusion can be seen from two perspectives: production lag and market lag. Market lag is the time gap between initial marketing of a new product and introduction of the product in a foreign market. Production lag is the time gap between initial output of a new product and launch of the product in a foreign market.

**Non-durables:** Non-durable goods are tangible in nature. They are consumed over a short period, either in a single use or a couple of uses.

**Post-sale Services:** These include repair services, maintenance, and operating advice.

**Pre-sale Services:** These include delivery, technical advice, and postal services.

**Process Materials:** These are used directly in the production of the final product. However, these products are not easily identified as part of the production of final products.

**Product:** A physical entity, which can be touched. It can be seen, heard, touched, smelt, tasted, and tested even before purchasing it or consuming it.

**Raw Material:** The basic material used in manufacturing a product. Raw materials are perishable in nature. They are bought in large quantities according to their grade and specifications.

**Services:** Any activity of benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.

**Shopping Products:** Products for which a buyer is willing to spend time and effort in planning and making purchase decisions. These products are expected to have a longer life and are purchased less frequently.

**Specialty Products:** Products that have one or more unique characteristic features. These products are available through a few select outlets or only through a single outlet.

**Unsought Products:** Products that a customer purchases when he is faced with a sudden problem. Customers are not greatly aware of the need and they do not think it vitally necessary to purchase the product, e.g. umbrellas and repair services.

**Warranty:** Is a written guarantee of a manufacturer's responsibility when a product fails to perform.

### **9.17 Self-Assessment Test**

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1. Define product. Explain various classifications of products. What are its characteristics?
2. What is product design, and how important is it for a firm operating globally? Discuss the international product mix, and the issues that need to be addressed while taking decisions on it.
3. What are the characteristics of services? What factors need to be considered by a foreign organization before entering a foreign country?
4. In what ways, can firms manage research and development while operating internationally?
5. Explain the international product life cycle. What are the elements of the international product program?

### **9.18 Suggested Readings / Reference Material**

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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.

### **9.19 Answers to Check Your Progress Questions**

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#### **1. (c) Consumer products**

Consumer products are products that are bought by a consumer for personal, family, or household use. They are bought with the intention of satisfying individual or personal needs.

### **Block 3: International Marketing Mix**

#### **2. (d) Convenience products**

Convenience products are products that are relatively inexpensive and are bought frequently with a minimum of thought and effort. These products can be categorized into staple goods (like milk, bread, and newspapers), and impulse goods (not intended to be purchased before the shopping trip like magazines, chewing gum, and lead batteries).

#### **3. (c) Accessory equipment**

Accessories are those products that help in production or office activities. They are not a part of the final product. For example, mechanical tools, computers, calculators, and furniture. Accessories are relatively less expensive, demand less services and maintenance, and are purchased more frequently when compared to capital equipment.

#### **4. (b) International product mix**

International product mix is a set of all product lines and items meant for sale in overseas markets. The issues that need to be addressed while taking decisions on international product mix are, the number of product lines, degree of consistency in these product lines, and their length and depth.

#### **5. (a) Service**

Adrian Payne has defined service as an activity that has an element of intangibility associated with it. It involves the service provider's interaction either with the customers or with the property belonging to the customer. Service is any activity of benefit that one party can offer to another that is essentially intangible. It does not result in the ownership of anything. Its production may or may not be tied to a physical product.

#### **6. (c) Partners may have to reveal confidential information to the other partners**

Joint venture is a broader strategic alliance aimed at collaborating in areas, such as R&D, production, and distribution. Options (a) and (b) are the advantages of entering a joint venture, while option (c) is a disadvantage. In a joint venture, a partner may be forced to reveal confidential information to the other partner as they have to work together in a joint venture.

#### **7. (b) Awareness stage**

The adoption process comprises five stages --- awareness, interest, evaluation, trial, and adoption. In the awareness stage, a prospective customer gets the initial exposure to the product.



**8. (c) International product life cycle**

International Product Life Cycle (IPLC) describes international trade and production patterns. According to this concept, products must go through a trade cycle where a country is initially an exporter, then loses its export markets, and then becomes an importer of the product.

**9. (c) Third phase**

In the third phase of the international product life cycle, firms manufacturing in foreign countries gain production experience and move down the cost curve. Sometimes they manage to produce the goods at lower cost than is possible for the innovative firm. Then these firms export their products to third-country markets. There they replace innovator's exports through their cost advantage.

**10. (b) Production starts in foreign countries either through licensing or re-engineering of the product.**

In the second phase, production starts in foreign countries either through licensing or re-engineering of the product. As the product familiarity increases, demand in the foreign markets expands. This attracts more players, and results in manufacturing in foreign countries. This production in the foreign countries slowly replaces exports of the innovative firm.

## Unit 10

# International Branding

### Structure

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- 10.1 Introduction
- 10.2 Objectives
- 10.3 Branding
- 10.4 Brand Origin and Selection
- 10.5 Private Brands
- 10.6 Global Brands
- 10.7 Single Brands vs. Multiple Brands
- 10.8 Global Brand Leadership
- 10.9 Brand Piracy
- 10.10 Summary
- 10.11 Glossary
- 10.12 Self- Assessment Test
- 10.13 Suggested Readings / Reference Material
- 10.14 Answers to Check Your Progress Questions

*“Branding adds spirit and a soul to what would otherwise be a robotic, automated, generic price-value proposition.”*

- David A. Aaker

### 10.1 Introduction

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As quoted aptly by David A. Aaker, a brand gives essence and life to an otherwise lifeless commodity and companies are forever in search for that ‘elixir’ named ‘brand’ to see an enduring life of their products.

In the previous unit, we discussed product in the international marketing mix. In this unit, we shall discuss branding in international marketing.

In this unit, we will first discuss branding. We shall then move on to discuss brand origin and selection. We shall also discuss private brands and global brands. The unit will also differentiate between single brands and multiple brands. We shall also discuss global brand leadership. Finally, the unit ends with a discussion on the brand piracy.

## **10.2 Objectives**

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

- Define the concept of branding and describe its types to satisfy consumers' needs
- Recognize the importance of brand value that determines the company's value
- Outline the origin and selection of brand name that forms the backbone to marketing initiatives of the firm
- Distinguish between private brands and global brands to frame marketing tactics
- Differentiate single brand from multiple brands that helps in formulating marketing strategy for heterogeneous markets
- Appraise the significance of Global Brand Leadership that facilitates economies of scale in international operation
- Specify ways and means a brand should adopt to protect itself from brand piracy

## **10.3 Branding**

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“Brands are a financial asset on the balance sheet”. – Neil Barrie, Chief Strategy Officer at Airbnb.

A good ‘branding’ gives a corporate its identity and increases its brand value. Airbnb, the online marketplace and hospitality service provider, is a classic example.

Brand is a combination of name, words, symbols, or design that identifies the product and its source, and distinguishes it from competing products. A brand once created can last long. Great brands like Coca-Cola and Gillette have been popular for more than 70 years now.

A good brand name meets the following criteria:

- It is short
- It is unique and easy to remember
- It indicates an important quality or image of the product
- It can be protected and owned by a company

### **10.3.1 Types of Branding**

Brand speaks volumes about the company. It precedes and underlies a marketing effort. Hence knowing its types is essential before opting for one. Branding is practiced in many ways.

### Block 3: International Marketing Mix

They are:

- **Individual brand names:** Firms adopting this strategy promote their products as stand-alone brands. When promoting such brands, the firm rarely highlights its association with that particular brand.
- **Blanket family name for all products:** A firm following this strategy markets all its products under a single umbrella. Sony sells all its products under a single family name.
- **Separate family names for all products:** Departmental stores practice this type of branding strategy. They give different in-house brand names to different types of merchandise.
- **Company name and individual product name:** Ford adopts this branding strategy. It advertises company's name prominently along with the products. Kellogg's is another company which follows a similar strategy.
- **'No-name,' unbranded merchandise:** Grocery stores adopt this strategy when they sell a range of generic 'no-name' products at discounted prices.

#### 10.3.2 Brand Value

Brand value is of immense importance to a firm. Most companies spend a lot of time, money and energy in brand building. It would be difficult for a company to exist without a brand name. Companies have to understand that branding is at the heart of any business activity. Therefore, a company has to exercise full control over its brands. Christine Arden, the director of marketing and strategy at DNA Communications<sup>1</sup> feels that most companies have a constrained perception about their brands. They tend to feel that a brand is just a logo or a symbol of an organization. Companies need to have an all-round perception of their brands and understand that brands are much more than logos or symbols. They are in fact a combination of the company's marketing, promotional, distribution and service efforts. So, before branding a product, a company should be clear about what it wants to convey to its customers through the brand.

#### Example: Top 5 Global Brands

According to Kantar BrandZ most valuable global brands 2022 ranking, Apple sits on top followed by Google, Amazon, Microsoft and Tencent as shown in the table below. The annual ranking by BrandFinance, also lists Apple as the top global brand. Apple recorded highest brand value ever, thanks to its quality, innovation and high brand loyalty. Apple is followed by Amazon, Google, Microsoft and Walmart. However, there seems to be a difference in the brand value and other top global brands by both the reports.

*Contd....*

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<sup>1</sup> An Atlanta (US) based consultancy firm, which provides consultancy for developing effective communication programs and brands.

The process of calculating brand value may differ by BrandZ model and BrandFinance but what is clear is that the brand value reflects financial strength of a brand. According to BrandZ the combined value of top 100 most valuable global brands has increased by 23%, underlining the importance of brand strength in the turbulent times.

**Table: Kantar BrandZ Top 5 Most Valuable Global Brands 2022**

Rank	Company	Country of origin	Brand Value 2022 (in USD \$ M)
1	Apple	USA	947,062
2	Google	USA	819,573
3	Amazon	USA	705,646
4	Microsoft	USA	611,460
5	Tencent	China	214,023

Sources: i) 'Kantar BrandZ Most Valuable Global Brands' 15 June 2022, <https://www.kantar.com/en-cn/inspiration/brands/2022-kantar-brandz-top-100-most-valuable-global-brands>, Accessed on 11th September 2022

ii) Global 500 2022, The annual report on the world's most valuable and strongest brands, January 2022, [https://brandirectory.com/rankings/global/table\\_](https://brandirectory.com/rankings/global/table_) Accessed on 11th September 2022

### Activity 10.1

Procter and Gamble (P&G) is a very successful fast moving consumer goods (FMCG) company operating in 140 countries. Since its inception, P&G has been using individual brand names for its products. It has become quite successful. What is individual branding? Discuss the advantages and disadvantages of this kind of branding for P&G.

**Answer:**

### 10.4 Brand Origin and Selection

Brand origin and brand selection plays a vital role in purchasing decisions of customers. Brand origin is associated with judging the quality of a product that culminates into a purchase or dissonance decision. The following sections give some insight on the background of brand origin and selection.

### **Block 3: International Marketing Mix**

#### **10.4.1 Evolution of Brand Name**

Giving names to products began in the late 1800s. Some such names of this era that stand out are Campbell's Soup, H.J. Heinz Pickles, and Quaker Oats Cereal. Historians J. Abbot Miller and Ellen Lupton describe the evolution as: "A nationwide vocabulary of brand names replaced the small local shop-keeper as the interface between consumer and product".

Names of families or people were the oldest form of brand names. Integrity of a family name such as Smucker's or Levi Strauss & Co assured a certain level of quality. Even place names were a form of brand name. Singapore Airlines was one such company. Its name indicated that the company was based in the Singapore. Descriptive names such as International Business Machines (IBM) also formed brand names. Even made up names such as Kodak, became popular brand name.

#### **10.4.2 Selecting Global Brand Names**

Today brand name selection is more a science than an art. Some firms are into the business of creating brand and corporate names. These companies often use computer programs to create a name. These programs run suffixes, prefixes, and other word combinations. Then they conduct market research to pick one of the names so designed.

#### **10.4.3 Brand Characteristics**

According to David Aaker, a Professor at the University of California (Berkeley's) Haas School of Business, a company's brand is its primary source of competitive advantage. A brand is a company's strategic asset. Yet few companies convey the brand message clearly. It is often weak, confused, irrelevant, and indistinguishable from competitor offerings. Some aspects have to be taken into consideration while deciding on a brand name for the global market. They are:

- The brand name should not have any negative connotation
- It should differentiate the product from other similar products
- The name should be easy to pronounce, spell and recall, particularly by customers in host countries
- The name must indicate the product's major benefits
- Must be compatible with other products in the product line

Creation of a brand must involve creation of a brand identity that makes a brand something more than a set of attributes. If a brand is nothing but a set of attributes, some other companies can imitate the brand easily. Hence, a brand must be more than that. Aaker suggests that a company must see its brand as an organization, and a person.

This brand-as-organization perspective emphasizes the association of company's people, culture, programs, and values—highlighting innovation, quality, or customer focus or leadership. When the brand reflects these associations it tends to reflect its personality. This personality of a brand is unique and more difficult to copy than a set of attributes.

#### **Example: # KeepTheGrey**

A lot of social buzz happened when Lisa La Flamme, an anchor of CTV National news was dismissed after working for 35 years, winning various awards for reporting in her career. It sparked debate about grey hair at work and ageism at workplace. Dove Canada jumped at the right moment and following its “Real Beauty pledge” and ‘Lets change beauty’ came with a quick time social media campaign “Keep the Grey” and ‘Grey is beautiful’, emphasizing that women should be allowed to age on their own terms. Not only this, Dove went ahead with announcing donation of \$100,000 to Catalyst, a Canadian Not for Profit Organization to build inclusive workplaces for women. The brand “Dove” is synonymous with inspiring women to be their real self. Dove took the stand and showed up as an advocate for women at the right time. Such moments define how brands evolve and depicts how Dove is more inclusive of beauty across the board. When the brand reflects these associations, it tends to reflect its personality and that what Dove reflects—beauty is for everyone. No doubt, Dove has conveyed this message whether it is ‘Reverse Selfie’ or ‘detox your feed’ campaigns launched in early quarter of 2022 to take the real beauty pledge forward.

Sources: i) Mallick, M. (2022, September 1), ‘KeepTheGrey campaign is a brilliant example of showing up’. Adweek. <https://www.adweek.com/brand-marketing/dove-keepthegrey-campaign-is-a-brilliant-example-of-how-to-show-up/> Accessed on September 16, 2022

ii) Powell, Chris. “Dove Goes Grey to Fight Beauty Stereotypes.” *The Message - A New Voice for a New Age of Canadian Marketing*, 23rd August, 2022, <https://the-message.ca/2022/08/22/dove-goes-grey-to-fight-beauty-stereotypes/> Accessed on September 16, 2022

iii) <https://www.dove.com/us/en/stories/about-dove/dove-real-beauty-pledge.html>, Accessed on September 16, 2022

### **10.5 Private Brands**

Private branding is a business approach that distinguishes a business unit from its competitors. Private branding is a prevalent practice in the consumer goods segment. In this type of branding, the manufacturer just manufactures the product and supplies it to retailer or distributor. The retailer or distributor markets the product under his/her own brand name. When a firm is new to international markets, and has no knowledge of these markets, private branding is the safest alternative. But, once private brands become popular, the retailers or distributors will gain more bargaining power. As a result, the manufacturer may be forced to live with lower margins. Further, he will have no say in the prices charged on the product, and also receive hardly any feedback on the trends in market-place.

### Block 3: International Marketing Mix

Private brands can sometimes become potential competitors to leading brands.

Kmart's former CEO, Chuck Conaway felt that private labels can play an important role as opening-price-point products with a value equation that can make consumers visit Kmart stores regularly. Conaway said, "The foundation of the house has to be frequency." The stores must try to ensure more number of customer visits to succeed in the market-place. This, he says, is possible when customers get enough value for their purchase. Offering private labels in stores was one of the ways to offer value to the customer.

The factors that contribute to the rise of private brands are:

- Substantial price increases by major brand manufacturers
- Lack of variety in the quality of brands available in the market-place
- Increasing power of retailers
- As customers gain more knowledge of products in the market-place, they become more careful and intelligent buyers. And when they find that private brands offer them the best value, they invariably buy them

#### **Example: Nykaa keen to Explore International Markets with Focus on its Private Label**

Nykaa (Parent company: FSN E -Commerce ventures Ltd.), an e-retailer of beauty and personal care in India is taking baby steps to grow its international presence in UAE, Mauritius and the US. Its private label portfolio includes 10 in-house brands. As global consumers are ready to experiment with national brands of different countries, it is a perfect opportunity for Nykaa to explore middle east and other markets. Strong private labels like Nykaa Cosmetics, Kay Beauty, Nykaa Naturals, Nykaa Pro essentials, Likha, RSVP and IYKYK by Nykaa fashions, Nykd by Nykaa and Nykaa Skin RX etc. may find attractive market overseas. The portfolio of private label brands have boosted the confidence of Nykaa to explore international markets. According to the company, "Nykaa's house of brands grew 95% year on year in the first quarter ending June 22".

Sources: i) Lim, Amanda, "Baby Steps", Nykaa set to take brand portfolio overseas to Mauritius-UAE-US", 02nd September, 2022 <https://www.cosmeticsdesign-asia.com/Article/2022/09/02/nykaa-set-to-take-brand-portfolio-overseas-to-mauritius-uae-us> Accessed on 10th September, 2022

ii) <https://www.nykaa.com>, Accessed on 10th September, 2022

#### **Activity 10.2**

Trent is the retail hand of Tata Group. It operates Westside, one of the fastest growing retail chains in India. From apparel, footwear, accessories to cosmetics, it offers in its own Westside banner along with other branded items.



Discuss the type of branding followed by Westside in this case. Comment on the move made by Westside and its impact on other branded products.

**Answer:**

### 10.6 Global Brands

Creating a strong brand culture by communicating consistent messages across countries is one of the cost-effective ways of multinational firms striving for creating a global brand. Pringles, Visa, Marlboro, Sony, McDonald's, Nike, IBM, Gillette Sensor, Heineken, Pantene, and Disney are some of the better known brands in the world. These are global brands because they show similarity across countries in terms of brand identity, position, advertising strategy, personality, product, packaging, look and feel. For example, Pringles<sup>2</sup> is synonymous with fun, a social setting, freshness, less greasiness everywhere in the world. And its package, symbols, and advertising are same across all the countries. This does not mean that these brands are identical across the globe. Pringles offers its beers with different flavors in different countries. Similarly, Coke offers a sweeter Coke in some parts of the world such as southern Europe.

Global brands offer significant advantages. One such advantage is economies of scale.

A single campaign also results in enhanced effectiveness as better resources are deployed to promote organizational goals.

Efficiencies also result due to cross-market exposure. Global brands get more exposure due to media coverage. Also global brands are easier to manage than a set of different national brands that hardly have any commonality. Often the main challenge for an international brand manager is to create clear, well-articulated brand identity, and then ensure that that it drives all brand-building activities. It is less difficult to manage a global brand. For example, Visa's "Worldwide acceptance" campaign proved to be easier to manage than dozens of country-specific campaigns.

The key to the creation of a global brand is creating a position that works in all markets.

<sup>2</sup> Pringles is a leading potato chips manufacturer with global operations.

### Block 3: International Marketing Mix

Companies can also position their brands as the best in the category, or the upscale choice. This way they can cross the national boundaries easily. High-end premium brands such as Mercedes, Mont Blanc, Heineken, and Tiffany have overcome the national or cultural barriers by fulfilling the desire of self-expression inherent in most cultures.

Some companies position their brands as true representatives of their countries. Brands such as Coke, Levi's, Baskin-Robbins, KFC and Harley-Davidson are positioned that way. This type of positioning helps companies sell their products in international markets.

#### 10.7 Single Brands vs. Multiple Brands

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A company can market a single brand or multiple brands at the same time. It chooses to market a single brand when the brand needs full attention, and multiple brands when the market is heterogeneous and needs to be segmented. Each brand is then targeted at a separate segment. A company uses the strategy of multiple brands when it wants to move up or down the segment it is serving. A firm with multiple brands can position some brands in lower price segments and some brands in premium segments.

##### **Example: Snack a Bit, Snack Right!**

Mondelēz International, based in Chicago, US is a house of snacking brands present in 150 countries. Its various brands provide competitive advantage as a global snacking leader in different categories and price tiers. Mondelēz International is reshaping its portfolio, with a focus on chocolate and biscuits, including baked snacks, advancing towards their agenda of '*Snacking Made Right*'. The multiple brands include Bournvita and Tang (in beverages), cookie brand - Oreo, Barni, belVita, Honey Maid, Chips Ahoy, Lu, Ritz, Tiger, Triscuit, TUC, Wheat Thins, Prince, Tate's Bake Shop, Club Social, Enjoy Life Foods and Kinh Do (in biscuits and cookies). 5 Star, Cadbury, Cadbury Dairy Milk and Toblerone are its iconic chocolate brands along with-Alpen Gold, Milka, Marabou and Lacta. Hu's chocolate – vegan and paleo friendly chocolate bar is a fastest growing brand in premium vegan chocolates category in the US. Clorets, Stride, Trident and Sour Patch Kids are its popular brands under Gums and Candies. Philadelphia cream cheese and Royal brand baking powder are other high growth brands. Mondelēz aims to lead the future of snacking by investing in multiple brands in its portfolio at various price tiers and segments.

Sources: i) <https://ir.mondelezinternational.com/news-releases/news-release-details/mondelez-international-provides-update-long-term-growth-strategy>, May 10, 2022, Accessed on 14th September, 2022

ii) <https://www.mondelezinternational.com/Our-Brands>, Accessed on 14th September, 2022

**Activity 10.3**

Hindustan Unilever Limited (HUL), one of the largest and most successful firms in the FMCG industry in India, targets various segments of the market through its multiple brands. The company's brands range from personal care products to home care products to beverages. In this context, briefly explain the concept of multiple branding and its advantages and disadvantages to the company.

**Answer:**

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**Check Your Progress -1**

1. When a firm sells all its products under a single umbrella brand it is said to be using which of the following?
  - a. Individual brand names
  - b. Unique family brand name
  - c. Separate family brand names
  - d. Unbranded merchandise
  - e. Blanket family brand names
2. Which of the following branding strategies is mostly adopted by the departmental stores?
  - a. Individual brand names
  - b. Separate family names for all products
  - c. 'No-name,' unbranded merchandise
  - d. Blanket family name for all products
  - e. Co-branding strategies
3. Which of the following aspects should be considered while deciding a brand name for the global market?
  - i. The brand name should not have any negative connotation.
  - ii. It should differentiate the product from other similar products.
  - iii. The name should be easy to pronounce, spell and recall, particularly by customers in host countries.
  - iv. The name must indicate the product's major benefits.

### Block 3: International Marketing Mix

- a. Only i, ii, and iii
  - b. Only ii and iii
  - c. Only iii and iv
  - d. i, ii, iii, and iv
  - e. Only i & ii
4. When a retailer or a distributor markets the manufacturer's product under his own brand name, then it is known as which of the following?
- a. Global brands
  - b. Public brand name
  - c. Retailer brand
  - d. Single brands
  - e. Private brand name
5. Which of the following does a company use when it wants to move up/ down the segment it is serving?
- a. Multiple brands
  - b. Global brand
  - c. Single brand
  - d. Private brand
  - e. Premium brand

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## 10.8 Global Brand Leadership

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Take some global leaders that sets them apart from others. What makes people throng Apple products despite its premium prices? Why do people flock IKEA or McDonald's outlets when others offer similar products? These firms offer unique value propositions by not only being sensitive to customer needs but also deliver products and services by anticipating their needs. Global brand leadership is a way to show that a product is customer-oriented and not customer-led. As mentioned earlier, firms practicing global branding enjoy economies of scale. Global branding also offers other benefits such as bargaining power and organizational clout, when the firm uses its strengths intelligently.

Companies like IBM, Visa, and Heineken succeeded in building enduring global brands. That does not mean that all companies can succeed in such an effort. There could be many obstacles in the global brand building process. Employing a single advertising agency, like IBM did, and developing a global advertising theme which is a crucial aspect of global advertising, can cause more problems than benefits. Managers who attempt to create a global brand without giving a further thought to its compatibility with their company and their markets are bound to fail.

The reasons are:

- Sometimes, it may cost less to create advertisements locally, than to get them created abroad as global advertisements and customize them to the local market. Language barriers and cultural differences may lessen the effectiveness of advertising. As a result, promised economies of scale may never materialize.
- Creating a successful global brand team may prove impossible. Creating a successful brand strategy for a single country itself is a very demanding task. Creating a strategy that can be applied successfully at a global level without much adaptation is an extremely daunting task. Creating teams that can accomplish such a task may prove impossible. Added to these are problems of execution. Only a few teams would be equipped to overcome these challenges.
- Only rarely does a global brand project the same image in different countries. For example, Honda stands for quality and reliability in the US, while in Japan, it means speed, youth, and energy. Honda will face problems if it tries to have a single global brand strategy.

When developing global brands is not the best alternative, firms can adopt another effective brand strategy. The firms can attempt to create strong brands in all markets through global brand leadership.

#### **10.8.1 Definition of Global Brand Leadership**

According to Aaker and Joachimsthaler, global brand leadership involves using organizational structures, processes, and cultures to allocate brand-building resources globally. It is to create global synergies, and to develop a global brand strategy that coordinates and leverages country brand strategies.

Most of the companies allocate resources to countries where they operate on the basis of the revenues generated by these countries. While doing so they ignore the potential opportunities in emerging countries that could have huge markets in the future. However, there are some companies which have right global brand management strategies in place. According to Aaker and Joachimsthaler, companies must do the following to realize the benefits of global brand leadership:

- Ensure exchange of insights and best practices across their business units in different countries
- Employ a common global brand-planning process
- Give managerial responsibility on the basis of brands. This helps create cross-country synergies and fight local bias
- Implement brilliant brand-building strategies

### **Block 3: International Marketing Mix**

#### **Exchange of insights and best practices**

A company-wide communication system is essential to share knowledge about programs that have worked or failed elsewhere. Similarly, the system also will help managers in sharing knowledge about their customers and help attain global brand leadership. Creating such a communication system may be difficult. Busy executives rarely have the time or motivation to explain why some of their efforts were successful while others were not. There are other reasons as well for their unwillingness to disclose information. These executives fear that disclosing information would expose them to criticism. Another problem is information overload. And many executives often believe that a solution that worked in a particular situation need not work in other situations.

In order to overcome these problems, firms must try to create a culture that facilitates free communication of ideas. Firms must also keep in place people and procedures that can bring together a rich knowledge base that is relevant and easy to access. Firms can also ensure the transfer of knowledge by providing incentives.

Regular meetings, informal conversations and gatherings also can help in the sharing of insights and best practices. Personal relationships that grow between people during these informal gatherings are more beneficial than the information they share. These relationships and exchanges can help foster brand-building programs. Firms can ensure exchange of insights by encouraging the use of intranets. Field visits also can help. In few global companies, the CEO travels to different markets to motivate the country teams and see best practices in action.

#### **Employ global brand-planning process**

Companies that follow good global brand management practices, use a well-defined planning process. The planning process is similar for global markets and products. The similarity can be seen in terms of vocabulary, strategic analysis inputs such as competitor positions and strategies and brand strategy models, and outputs such as brand building programs.

A brand strategy model must make clear which person or group is responsible for the brand and brand strategy. The strategy model must also involve a process template (or outline). The process template must mention the target segment, the brand identity or vision, brand equity goals and measures, and brand-building programs. Effective brand planning programs must:

- Involve an analysis of customers, competitors, and the brand
- Avoid an exclusive focus on product attributes
- Involve programs that communicate the brand's identity
- Include brand equity measurement and goals
- Include a mechanism to tie global brand strategies to country brand strategies

### Example: IBM's 'Let's Create'

IBM's 'Let's Create' platform and global brand campaign ties together IBM's new mission and marketing strategy, focusing on how technologists are the new creators. IBM sold off its infrastructure unit Kyndryl in 2021, with a renewed focus on cloud, hybrid and Artificial Intelligence (AI) and marking a new phase of simplification and collaboration. IBM is one of the world's most iconic brands, one that has pioneered new eras of innovation and moved ahead with the times. Ogilvy appointed Matthew Curry as global creative lead for IBM in August, 2022 for driving the global creative vision for Eight Bar. (Eight Bar is a collective of WPP, Ogilvy, Group M talent dedicated to IBM and focused on making IBM's brand matter and its business perform). Ogilvy launched 'Let's Create' campaign in February, 2022, using "creativity as the defining currency- to do the unimaginable and do it together". The campaign is divided into 3 segments. The first part focuses on IBM's strengths and the second segment will explain how IBM assists clients in realizing their visions. The client stories will differ from region to region emphasising locality. The third part will look at how "new creators" can bring change in business through technology, again having priority to localised connection to clients, partners and employees. According to IBM, regions for the campaign include "the U.S, U.K., Japan, Canada, Germany, France, Italy, India, China, Australia, Brazil, Spain and other markets around the world."

Sources: i) 'With "Let's create," IBM Launches Brand Campaign to Accelerate Innovation with Clients and Partners', 16 February 2022, <https://www.multivu.com/players/English/9002051-ibm-lets-create-brand-campaign/>, Accessed on 15<sup>th</sup> September, 2022

ii) 'Ogilvy Appoints Matthew Curry Global Creative Lead for IBM', 15th August 2022, <https://www.ogilvy.com/ideas/ogilvy-appoints-matthew-curry-global-creative-lead-ibm>, Accessed on 15th September, 2022

iii) <https://www.ibm.com/lets-create/in-en/?lnk=hpmc>, Accessed on 15th September, 2022

### Assigning responsibility and brand consolidation

A decentralized structure is seen in most organizations today. As a result, it is difficult for firms to make country teams<sup>3</sup> accept a global best practice quickly and voluntarily. In order to ensure that country teams adopt the best practices, an individual or a team given responsibility for a global brand. Four possible ways of giving responsibility are:

- **Business Management Team:** This approach is appropriate when the company's top managers consider brands their key assets. P&G is a good example. The company has 10 product categories, and each category is run by a global category team. Each team consists of four managers. These managers have line responsibility for R&D, manufacturing, marketing for the

<sup>3</sup> Teams that look after the company's brands for a specific country.

### Block 3: International Marketing Mix

category within their region. Each team is headed by an executive vice president who also takes care of a line job. As the teams are made up of top-level executives, and P&G's brand and advertising managers implement brand strategy at the national level, national barriers do not hinder decisions.

- **Brand champion:** This approach is suitable for companies where the top executives have adequate brand knowledge and can formulate brand strategy. In companies like Sony, Gap, Beiersdorf (Nivea), and Nestle, this is the preferred approach. The brand champion holds the authority for brand-stretching decisions. He monitors the building and maintenance of the brand worldwide. The brand champion must be familiar with local contexts and managers working there, and identify best practices employed there so that they can be introduced elsewhere in the world. The brand champion approach has been highly successful at Nestle.
- **Global Brand Manager:** This approach is suitable in firms that operate in high-tech and service industries. Sometimes, top managers in these companies lack a branding or marketing background. These companies have powerful decentralized, regional, and country line-management systems. Dedicated global brand managers are necessary to overcome local bias and stimulate unified efforts across countries. A global brand manager creates a planning process or manages an existing process. And then ensures that all country managers use a similar process. Global brand manager needs to have global experience, product background, energy, credibility, and people skills to handle country brand specialists.
- **Global Brand Team:** When a global brand manager is seen as an outsider by country teams, creating a global brand team to assist him would be appropriate. These teams comprise brand representatives from different parts of the world, different stages of brand development, and different competitive contexts. It is possible that these representatives come from functional areas such as advertising, market research, sponsorship, and promotions.

#### Brilliant brand building strategies

Attaining global brand leadership needs appropriate brand building strategies. The firm has to first consider what type of brand building strategy to adopt. It can follow advertising, sponsorship, increasing retail presence, and promotions for its brand building efforts. The firm has to decide which one best serves its requirements.

Another way to stimulate creative ideas is to have more than one advertising agency as the service provider. As mentioned earlier, a single agency can better oversee a campaign. But that also means relying on a single agency for the success of the campaign. Employing more than one agency can result in more creative ideas. But it might also result in inconsistency and strategic anarchy.



Brand measurement is necessary to see that brand building is actually going on. The measurement system must be designed in such a way that it measures not only financial performance but also customer awareness, customer loyalty, the brand's personality, and the brand associations that resonate with the public.

## **10.9 Brand Piracy**

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The unauthorized use or prototyping the popular brands is an illegal activity. A marketer should be aware whether his product is being pirated as it will have a damaging effect on the brand, image of the company and innovation. Mobile App industry is an example that falls a prey to pirated items. Pirates steal the mobile game or app, modify them and republish to a third-party app store for some payment from an illegitimate party.

Hence, creation of brand in itself is not enough. The brand also should be protected from piracy through registrations. Various forms of piracy are: outright piracy, reverse engineering, counterfeiting, and passing off. Let us go into the details of these terms.

### **10.9.1 Counterfeiting**

Counterfeiting means diluting the product quality and selling under the same trademark. This is quite prevalent in clothing industry. For example, counterfeited version of Levi's branded jeans is available in market at ₹ 250 when the original product costs more than three times this price.

### **10.9.2 Passing Off**

Sometimes products are modified or adapted. The pirated product is similar in appearance, phonetic quality or meaning (of its name) to the original product. At the industry level, music industry can be quoted as an example. According to Global Recorded Music Industry Group IFPI, 30% users are accessing to unlicensed music through the internet<sup>4</sup>.

### **10.9.3 Reverse Engineering**

Reverse engineering involves dismantling another firm's product to learn about its special features. This form of piracy is prevalent in the electronic goods industry.

### **10.9.4 Outright Piracy**

When a false product is sold in the same form and same trademark as the original, it is referred to as Outright Piracy. Music records and tapes are also often sold in this way.

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<sup>4</sup> <https://www.statista.com/chart/15764/prevalence-of-music-piracy/>, April 8<sup>th</sup> 2022 (accessed on December 26<sup>th</sup> 2022).

### Block 3: International Marketing Mix

#### Activity 10.4

Discuss the various forms of piracy and explain the type of piracy that occurred in your country. Also comment on the impact of piracy on international business.

**Answer:**

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#### Check Your Progress - 2

6. A company chooses to market which of the following when the market is heterogeneous and needs to be segmented?
  - a. Single brand
  - b. Global brand
  - c. Multiple brand
  - d. Private brand
  - e. Premium brand
7. An effective brand planning program should not include which of the following?
  - a. An analysis of customers, competitors, and the brand
  - b. An inclusive focus on product attributes
  - c. Brand equity measurement and goals
  - d. A mechanism to tie global brand strategies to country brand strategies
  - e. An exclusive focus on product attributes
8. Match the following teams with their respective responsibility areas to which they are appropriate.

i	Business management team	p.	Suitable when a global brand manager is seen as an outsider by country teams
ii	Brand champion	q.	Suitable when the company's top managers consider brands their key assets
iii	Global brand manager	r.	Suitable where the top executives have adequate brand knowledge and can formulate brand strategy
iv	Global brand team	s.	Suitable for firms that are operating in high-tech and service industries

- a. i/p; ii/q; iii/r; iv/s
  - b. i/q; ii/r; iii/s; iv/p
  - c. i/r; ii/s; iii/p; iv/q
  - d. i/s; ii/p; iii/q; iv/r
  - e. i/r; ii/q; iii/s; iv/p
9. When a false product is sold in the same form and with the same trademark as the original, it is referred to as which of the following?
- a. Reverse engineering
  - b. Passing off
  - c. Outright piracy
  - d. Counterfeiting
  - e. Re-engineering
10. Which of the following means diluting the product quality and selling under the same trademark?
- a. Passing off
  - b. Outright piracy
  - c. Reverse engineering
  - d. Counterfeiting
  - e. Re-engineering

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### 10.10 Summary

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- Brand is a combination of name, words, symbols, or design that identifies the product and its source, and distinguishes it from competing products.
- A good brand name is short. It is unique and easy to remember. It indicates an important quality or image of the product. It can be protected and owned by a company.
- Brand value is of immense importance to a firm. Branding is at the heart of any business activity. Therefore, a company has to exercise full control over its brands.
- Brand names have their origin in different sources. Names of the families, persons, places, descriptive names, and even made-up names have been the sources of brand names in the past.
- Identifying brand names is a long and laborious process. The process has become more a science than an art.
- When a manufacturer just manufactures the product and leaves the branding decisions to the retailer, then the brands developed by such retailers are referred as private brands. Private branding is a safe alternative for a firm operating internationally for the first time.

### Block 3: International Marketing Mix

- Global branding offers some significant advantages such as economies of scale.
- A company can market a single brand or multiple brands at the same time. It chooses to market a single brand when the brand needs exclusive attention; and multiple brands when the market is heterogeneous and needs to be segmented.
- Creating global brands may not always be possible. Even when it can be done, the expected benefits might not materialize due to practical difficulties. In such cases, the firm has to adopt other strategies like global brand leadership.
- Global brand leadership involves using organizational structures, processes, and cultures to allocate brand-building resources globally, to create global synergies, and to develop a global brand strategy that coordinates and leverages country brand strategies.
- Attaining global brand leadership needs exchange of insights and best practices, a global brand planning process, good brand building strategies, assigning responsibility, and brand consolidation.
- The creation of a brand is not enough. It should also be protected from various forms of piracy such as outright piracy, reverse engineering, counterfeiting, and passing off.

#### 10.11 Glossary

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**Brand:** It is a combination of name, words, symbols, or design that identifies the product and its source and distinguishes it from competing products.

**Counterfeiting (type of brand piracy):** It refers to diluting the product quality and selling under the same trademark.

**Global Brand Leadership:** This involves using organizational structures, processes, and cultures to allocate brand-building resources globally, to create global synergies, and to develop a global brand strategy that coordinates and leverages country brand strategies.

**Global Branding:** In this type of branding, companies have brands that show similarity across countries in terms of brand identity, position, advertising strategy, personality, product, packaging, look, and feel.

**Outright Piracy:** When a false product is sold in the same form and same trademark as the original, it is referred to as outright piracy.

**Passing off:** Sometimes products are modified by retaining the trademark. The pirated product is similar in appearance, phonetic quality or meaning (of its name) to the original product.

**Private Branding:** In this type of branding, the manufacturer just manufactures the product and supplies it to retailer or distributor.

**Reverse Engineering:** It is the process of duplicating a design by dismantling and examining the existing product.

### 10.12 Self-Assessment Test

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1. Define branding. Discuss evolution of brands. How are brands selected?
2. What are private brands and global brands? Explain the differences between single brands and multiple brands.
3. Define global brand leadership. How can an organization achieve it?
4. What is brand piracy? What are its various forms?

### 10.13 Suggested Readings / Reference Material

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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.

### 10.14 Answers to Check Your Progress Questions

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**1. (e) Blanket family brand names**

Brand is a combination of name, words, symbols, or design that identifies the product and its source and distinguishes it from competing products. Branding can be practised in many ways. A firm following the blanket family brand names strategy, markets all its products under a single umbrella.

**2. (b) Separate family names for all products**

Branding can be of various types like --- individual brand names, blanket family name for all products, separate family names for all products, company name and individual product name, and ‘no-name’ unbranded merchandise. Departmental stores give different in-house brand names to different types of merchandise, that is, they give separate family names for all products.

**3. (d) i, ii, iii, and iv**

A company’s brand is its primary source of competitive advantage and strategic asset. Some aspects have to be taken into consideration while

### **Block 3: International Marketing Mix**

deciding on a brand name for the global market. These are --- the brand name should not have any negative connotation; it should differentiate the product from other similar products; the name should be easy to pronounce, spell and recall, particularly by customers in host countries; the name must indicate the product's major benefits; and must be compatible with other products in the product line.

#### **4. (e) Private brand name**

In private branding, the manufacturer just manufactures the product and supplies it to retailer or distributor. The retailer or distributor markets the product under his own brand name. When a firm is new to international markets, and has no knowledge of these markets, private branding is the safest alternative.

#### **5. (a) Multiple brands**

A company can market a single brand or multiple brands at the same time. A company uses the strategy of multiple brands when it wants to move up or down the segment it is serving. It chooses to market multiple brands when the market is heterogeneous and needs to be segmented.

#### **6. (c) Multiple brand**

A company can market a single brand or multiple brands at the same time. A company uses the strategy of multiple brands when it wants to move up or down the segment it is serving. It chooses to market multiple brands when the market is heterogeneous and needs to be segmented.

#### **7. (b) An inclusive focus on product attributes**

Except options b, remaining are must for effective brand planning programs.

#### **8. (b) i/q; ii/r; iii/s; iv/p**

In order to ensure that country teams adopt the best practices, an individual or a team is given responsibility for a global brand. Four possible ways of giving responsibility are: business management team, brand champion, global brand manager, and global brand team. The business management team approach is appropriate when the company's top managers consider brands their key assets. The brand champion approach is suitable for companies where the top executives have adequate brand knowledge and can formulate brand strategy. The global brand manager approach is suitable in firms that operate in high-tech and service industries. When a global brand manager is seen as an outsider by country teams, creating a global brand team to assist him would be appropriate.

**9. (c) Outright piracy**

Brand piracy can be in various forms like outright piracy, reverse engineering, counterfeiting, and passing off. When a false product is sold in the same form and same trademark as the original, it is referred to as outright piracy.

**10. (d) Counterfeiting**

Brand piracy can be in various forms like outright piracy, reverse engineering, counterfeiting, and passing off. Counterfeiting means diluting the product quality and selling under the same trademark.

## Unit 11

# International Marketing of Services

### Structure

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- 11.1 Introduction
- 11.2 Objectives
- 11.3 Characteristics of Services and their Implications for International Marketing
- 11.4 Challenges in Marketing Services Globally
- 11.5 International Professional Services
- 11.6 International Retailing
- 11.7 International Financial Services
- 11.8 International Banking Services
- 11.9 International Insurance Services
- 11.10 Summary
- 11.11 Glossary
- 11.12 Self- Assessment Test
- 11.13 Suggested Readings / Reference Material
- 11.14 Answers to Check Your Progress Questions

*“Service, in short, is not what you do, but who you are. It's a way of living that you need to bring to everything you do if you're to bring it to your customer interactions.”*

- Betsy Sanders

### 11.1 Introduction

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Once a Nordstrom (a brand known for ‘upscale’ and ‘high service’ store chain in the US) veteran, Betsy Sanders scaled great heights from store clerk to becoming first women store manager to Vice President in her 18 years long career at Nordstrom. She is right when she says it is quintessential to put customer’s voice at the core while taking any business decision.

In the previous unit, we discussed promotional decision regarding international marketing. In this unit, we shall discuss the international marketing of services.

Most service providers seek to expand overseas when their domestic markets mature. For example, banks, insurance companies, financial service providers, law firms, medical services, and retail outlets - all try to open an overseas branch in another country to tap overseas customers. It is easier for a service provider to



initially expand to a country which is culturally like the home country. For example, for an American bank, it will be easy to understand a Canadian customer than to understand a Chinese customer, because Canada is culturally closer to America.

Having expanded successfully overseas, many service providers have become large multinational companies today.

This unit will first discuss the characteristics of services and their implications for international marketing. We shall then move on to discuss the challenges in marketing services globally. Finally, we shall discuss marketing strategies of services such as professional services, retailing services, financial services, banking services, and insurance services in the international markets.

## **11.2 Objectives**

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

- List out the characteristics of services that have implications on international marketing
- State the challenges of global services marketing and identify obstacles that may arise
- Discuss the marketing strategies of international professional services pertaining to foreign clients
- Interpret the concept of International Retailing for maintaining links with customers
- Explore the role of International Financial Services that uses technology and aids selling process
- Assess the value of some global players in the Insurance Market for checking business loss during transit of goods

## **11.3 Characteristics of Services and their Implications for International Marketing**

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A consumer of a product or service always looks for the additional comfort he gets from the vendor, and the quality of post purchase service. Services are the value-additions given by the marketer that makes him stand apart and recognized as a valuable service provider. They have certain unique characteristics. They are as follows:

### **11.3.1 Intangibility**

A service is intangible in nature. Consequently, marketing of something that cannot be seen, touched, or felt is difficult. A service cannot be stored or inventoried and must be performed whenever the consumer demands it. Therefore, a service organization that plans to expand overseas, must transfer skilled employees overseas or train employees in the foreign country to perform the service.

### **Block 3: International Marketing Mix**

It is also difficult for the service provider to communicate the benefits of his services in a new market. For example, in India, most Indians were accustomed to shopping from the local grocery stores. When big international retail outlets opened shops in India, they initially found it difficult to attract the Indian customer, who were unwilling to shift from the known local grocery store to the large retail outlet. The Indian customer assumed that these stores would be expensive and was initially unwilling to shop at an international store. Take the case of online retailers in India. Initially, the consumers showed their skepticism to shop from these service providers, because they initially believed that, the nature of the products displayed might be different from the actual ones. In such a scenario convincing consumers to shop at these service sites proved to be challenging. If these trends had continued, then this might have resulted in huge losses for the service firms, as consumers could not assess their value proposition from such purchase mediums.

#### **11.3.2 Heterogeneity**

Maintaining homogeneity in the delivery of services is a difficult task. Every time a service provider performs a service, there may be slight variations in it. But the service provider must ensure that quality standards of the service are maintained and that it is delivered in accordance with the consumer's requirements. Different consumers in different cultures will have different needs. For example, a haircut in America will include a hair wash, haircut and hair drying but in a country like India, a haircut will include an oil massage, hair wash and a haircut. In recent times many services are automatic, they do not require human interventions. Many services like banking, internet are different in developed markets as compared to emerging markets because of the developed infrastructure in those countries. This helps in making systems more equipped with artificial intelligence which eventually helps consumers in availing their services themselves and thus generating more value for them. This is not the case for such services in developing markets as they still require human intervention and value assessment is different than the way services are delivered by their developed market counterparts.

So, a service provider must train his employees carefully to adapt to the customers' needs. The success of a service industry depends largely on consumer satisfaction. In different countries, consumers may have different parameters to judge how good or bad a service is. Therefore, any service organization that seeks to export its service must pay great attention to the cultural requirements of that country.

#### **11.3.3 Inseparability**

For a service, its production and consumption are simultaneous. Therefore, both, the service provider and the customer need to be present for the delivery of the service. This makes exporting a service, difficult. A service can only be exported

to another country or market through franchising, licensing, directly investing or by acquisition of similar foreign businesses. Using advanced technology is also helpful in expansion. For example, when banks open their overseas branches, they carry on a lot of transactions between two branches in two different countries via the internet. If required, a consumer can also connect to a bank's overseas branch through the internet. Consider the case of restaurant like Kofuku, which is a Japanese culture theme, based restaurant, offering the cuisines based on Japanese culture recipes. It does well in customer experience by delivering on the customer expectation of experiencing the authentic Japanese cuisine. The service is delivered in the form of freshly prepared customized food and consumed there itself by the consumers. The value of the service can be ascertained by the consumer along with the service provider depending on the quality of food delivered at a certain period of time.

#### **11.3.4 Perishability**

Services, unlike products, cannot be stored for future sales nor can they be carried over for consumption at a future date. This restricts the scope of the service provider. He cannot store a service to use it when the demand is high in the peak season.

When services are marketed internationally, different markets will have different rates of demand at different times. A service provider must try to forecast the future demand for his services for each market accurately, so that he can plan to cater to the additional demand in a market. For example, for an events management company, Christmas will be the peak season for Europe with parties and events to organize, but for India, the peak season will be Diwali, as it is a major Indian festival. So, during Diwali, the company can concentrate on its activities in India and can shift the focus to Europe during Christmas. The big billions sale or the various online sales of the m-commerce websites or mobile apps can better illustrate this characteristic. The sale period lasts for a couple of hours to some limited time of days, within which consumers have to make their choices. The discounts on various items will last only for that period of time and after that this discount service provided by the m-commerce retailer would cease to exist. The consumers have to make their decisions within this stipulated time period in order to derive value from their purchases.

#### **Example: Delta's Innovation - Centric Approach to Deliver Seamless Customer Experiences**

It is essential for services to innovate and counter the challenges posed by the characteristics of services successfully just like Delta Airways did. Delta geared up against such challenges with the help of proper use of technology and innovation.

*Contd....*

### Block 3: International Marketing Mix

Delta's innovation centre named 'the Hangar' saw opportunities to leverage its innovations to transform customer's airport experience. COVID-19 pandemic deepened the importance of touchless experience and listening to customer's voice, Delta offered facial recognition option partnering with US TSA (Transportation Security Administration) in Atlanta in early 2021 after biometrics boarding experience. Digital identity aims towards seamless and touchless travel experience. In June 2022, Delta offered beta experience of 'The Parallel Reality Experience' in partnership with Misapplied Sciences for customers at Detroit Metropolitan Airport.

The technology simplified customers' journey from curb to gate and allowed multiple customers to see personalized flight information, even as they stood next to each other. Through this technology customers no longer had to search for flight and gate information. Collaboration and innovation are the drivers of change, applied effectively by Delta. Technology can provide seamless, standardized experiences taking care of the inseparability and heterogeneity aspect of services.

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## 11.4 Challenges in Marketing Services Globally

An international service provider must always be creative in providing added value, service differentiation and offer specialized services to survive competition and develop trust of customers.

When service organizations plan global marketing of their services, they may face challenges such as:

- Protectionism
- Cultural differences
- Difficulties in measuring customer satisfaction overseas

### 11.4.1 Protectionism

Most countries have a protective policy towards 'services' rendered by them and would like to limit and control the entry of foreign companies in them. So, a company that wants to market its services abroad may face restrictions and government interference. Some of the challenges that international service organizations face are:

- **Restrictions on rights of establishment-** In many countries, a foreign company may not be allowed to own and establish a setup. For example, many countries ban television stations owned by foreigners.

- **Trade barriers-** In some countries a foreign company may be allowed to serve only a limited market or may be subjected to discriminatory taxation.
- **Foreign exchange controls-** Countries may enforce foreign exchange controls such as a limit on remitting profits from the service organization.
- **Government procurement barriers-** Governments in a lot of countries follow the “buy national” policy and will only purchase the services of a domestic company; this makes the market less competitive for the foreign service organization.
- **Technical issues -** To restrict foreign companies’ entry into the domestic services industry, the government of a country may also demand high standards and certification conditions to be fulfilled, which all service providers may not be able to comply with.
- **Tariff barriers -** In many countries, a foreign service provider must face tariff barriers such as high duties on its services. The service provider cannot operate on a “level playing field” because of factors such as government subsidies to domestic companies.
- **Licensing regulations-** A government may impose unreasonable terms of entry for foreign participants or insist on licensing as the only form of entry into their domestic markets.
- **Restriction on professionals-** To restrict foreign service providers, countries may also restrict or impose a ban on the entry of qualified personnel from abroad
- **Commercial counterfeiting-** Some governments do not impose counterfeiting laws strictly, so a foreign company may have to tolerate infringement of trademarks or violation of copyrights by local firms.

To have free trade of services between countries, a lot of countries, especially the developed nations, want the basic framework of WTO<sup>5</sup> to be applied to services also. Within the WTO, the General Agreement on Trade in Services (GATS) seeks to provide a free and competitive environment for the development of services industry amongst the member nations. GATS is aimed at slowly removing discriminatory and non-discriminatory barriers to trade of services. A discriminatory barrier is one which involves one policy for a domestic company and a different policy for a foreign company, while non-discriminatory barriers are fundamental differences in the rules that are followed for a service by a government. For example, in the USA, any affiliation between a bank and an insurance company is prohibited, so no insurance company, be it American or European can enter an alliance with a bank, where as in Europe, affiliation between a bank and an insurance company is the usual feature.

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<sup>5</sup> WTO-World Trade Organization is an international organization that deals with rules of trade between nations, and aims to develop free trade between nations.

### **Block 3: International Marketing Mix**

GATS covers several services such as Education Business, Communications, Construction and Engineering, Distribution, Environment, Financial services, Health, Tourism and travel, Recreation, Cultural, and Sports, and Transportation. Each sector also has several subsectors.

In fact, the only two service sectors that GATS excludes are -

1. "Services supplied in the exercise of governmental authority", i.e. GATS does not cover services that are not supplied on commercial basis, such as, social security, public health, and education.
2. Air transport services - a country's air traffic rights control these services. They are not covered by GATS.

GATS is a voluntary agreement designed to facilitate trade in services. The cost of not signing GATS is that a country outside the agreement may not have equal access to the markets of member nations and will experience barriers to its trade of services.

GATS has 140 participant countries (all members of WTO are signatories to the GATS), and they agree to abide by the basic general obligations of GATS members to do away with trade barriers in services.

#### **11.4.2 Cultural Differences**

A service is different from a physical product because it requires more human contact between the buyer and the seller, who is also the producer of the goods. Services are performed, so they require a people-to-people contact.

When services are being marketed in a different country, a great deal of attention must be paid to aligning the service with the cultural requirements of that country. Cultural barriers arise from differences in language, customs and beliefs, values and attitudes, lifestyles, etc. Understanding the cultural values and norms of the local market is essential for the success of a company offering services in international markets.

Services are mostly localized, as most of the times, they have to be fine-tuned with the requirements of the local culture so as to impact consumers in an effective manner. This is evidenced by the major foreign multinationals like McDonald's or KFC to adjust their services as per the requirements of the local Indian culture. The changes in the product assortment along with the service delivery mode, made it possible to profitably operate in the Indian market with their product offerings. Similar adjustments were also made across product categories which were entirely foreign, like pizza, where product was tailored to the need of the local taste and preferences. Service industry on the whole is varied, as services range from highly standardized services like mobile applications based services, internet services etc., to the cultural categories, where they are highly customized, for e.g. food. Some offer a hybrid experience like restaurants or airlines where some components are standardized and some components are customized.

The service provider must adapt his service to the requirements of the host country. It must train his/her staff accordingly. But while adapting his service, quality must be preserved and strict quality control measures must be insisted on. Many developed markets have moved to automated means of service delivery. This standardization has proven effective to minimize cost and monitor the effectiveness of the service process. In the area of grievance handling, the companies have resorted to address the consumer complaints through standardized automated procedures. There is also evidence in the emerging economies like India, where service providers are also using chat-bots to handle the grievances of the consumers. In this manner, the variation in the service failure handling is minimized and firms can adopt to this mechanism of replicating the service systems for some of the service areas. On the other hand, the labor intensive services like themed restaurants require the balancing of local and global flavors. As such the themes, layouts, process can be standardized yet delivery of the systems can be adopted according to local cultures. For e.g., language changes, and symbolic arrangements can be made at the subtle level but overall feel of the service delivery remains the same in term of service quality and customer experience.

#### **11.4.3 Difficulties in Measuring Customer Satisfaction Overseas**

Achieving customer satisfaction is vital to the success of a service industry. A service provider must carefully monitor how efficiently services are being delivered in international markets. Monitoring can be done by measuring customer satisfaction in a country. Conducting market research surveys to understand the level of satisfaction of overseas customers is difficult. The measure of consumer satisfaction is often subjective and requires the relevant and accurate calibration of psychometric properties. The dimensions of consumer satisfaction and their relative weights can vary across cultures and hence makes comparisons for the international as well as local firms difficult. In many countries, customers may not be exposed to such surveys and may not be able to share opinions, give suggestions or answer marketing research queries as expected. This hampers the comparison as well as interpretation of the finding of the data. This is accompanied by data collection procedures of firms, especially belonging to emerging markets where the processes are not stringent and firmly documented. The quality of the data leads to the quality of insights generated from the analysis. Data collection errors can make estimation of satisfaction surveys biased and unreliable. Further, it is also important to keep in mind the cultural differences between countries while processing the data collected in this manner. Accurate data and correct processing can help a service provider to improve services in the overseas markets and to establish his business overseas. Many firms have automated software such as machine learning algorithms to provide finer and subtle analysis of the collected data. But most emerging market firms are yet to adopt such system leading to errors in the data collection, analysis,

### Block 3: International Marketing Mix

interpretations, eventually making comparison of many such unobservable variables difficult.

#### Example: Say ‘Yes’ or ‘No’ to China?

Chinese Markets operate faster than many mature markets. New regulations and overnight competitors can surprise businesses, digital payments and livestreamed shopping is in vogue in China. Standardized global strategies won't work in China and fast decision making is required at every step. Sequoia Capital, a venture capital firm, did the same with its China team and ditched its centralized strategy. It endowed local team with developing its own strategies and allowed it to take its own investment decisions, with little or no interference from headquarters.

While China seems to be the breeding ground for many multinational companies, Chinese technology firms are pushing overseas as local demand dampens due to China's zero covid policy. Chinese e-commerce Pinduoduo launched its US online shopping site 'Temu' in early September of 2022, marking a new challenge to US's Amazon. The biggest Challenge of Temu will be to cultivate trust in the US. However, it can compete on price due to its relationship with low-cost manufacturers in China.

China passed protectionist laws and regulations designed to control the internet and cross-border data flow in the beginning of 2022. Regulations related to data flow has led companies to adopt low commitment policies with respect to innovation and collaboration in China. Geo-political tensions can pose great challenge to international marketing of services. For example, it has resulted in the US government banning NVIDIA from "selling some high-end GPU chips that are used in data centers and AI applications to China".

Despite challenges, China remains a vibrant market for the global business community.

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ii) Kharpal, A. (2022, September 2). China's e-commerce giant Pinduoduo quietly launches U.S. shopping site in Amazon Challenge. *CNBC*. Retrieved September 30, 2022, from

<https://www.cnbc.com/2022/09/02/chinas-e-commerce-giant-pinduoduo-launches-us-shopping-site-temu.html>

iii) Nambisan, Satish, and Yadong Luo. "Think Globally, Innovate Locally." *MIT Sloan Management Review*, 23rd February. 2022. Retrieved September 29, 2022, from

<https://www.cnbc.com/2022/09/02/chinas-e-commerce-giant-pinduoduo-launches-us-shopping-site-temu.html>

iv) Shenshen, Zhu. "Chip giant seeks growth in China despite export ban challenge". 28th September, 2022. Retrieved September 29, 2022, from <https://www.shine.cn/news/in-focus/2209280989/>



### **11.5 International Professional Services**

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Marketing of professional services is a difficult task, primarily because it requires a high level of involvement of the profession on one side and the user on the other side. The success of this industry depends on the skill and training of the professional. Hence a continuous updating of skills is required. A professional cannot standardize his/her services stringently, yet the service company must lay down certain strict rules and regulations within which the professional must work. Everything cannot be left to the discretion of the professional. For many professional service organizations, overseas expansion occurs because of overseas growth of their clients. As clients establish new operations in different countries, they want management consultation, accounting and legal advice from professionals and often prefer to turn to their existing consultants. This encourages the professional consulting firms also to establish an overseas branch.

Any professional services organization that plans to expand internationally must consider all the cultural and socio-legal constraints it may face in the new environment. It may need to modify and adapt its services accordingly. For example, in many countries, like the USA, a doctor is strictly answerable to the patient and all his advice and recommendations must be strictly documented and recorded. In India, on the other hand, restrictions on the medical professionals are not enforced strictly and many doctors give a lot of advice verbally while only the prescription or medication is written down. So, an Indian doctor who seeks to provide his services in the USA must adopt the American system of prescriptions.

### **11.6 International Retailing**

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“International expansion is tempting for retailers eager for hot markets to sustain their growth rates” - (Fortune, 2015).

Retailing is one of the most significant methods of selling goods from manufacturers to end-consumers. A retailer assumes great importance in the distribution channel, because he is the only person who comes into direct contact with the customer. He knows the customer's preferences, dislikes, tastes and changing moods. A good retailer will adapt to the customer and will strive to fulfill customer needs to the fullest. He/she must realize that more than the tangible product that he is selling to the customer, he/she is actually fulfilling a customer's intangible needs, which the customer himself/herself may not be able to spell out. For example, a customer who seeks to buy a “good shirt” from a retail outlet, is not simply buying a shirt, but is actually buying a means to look better and smarter because he feels the need to sport a certain look.

#### **11.6.1 Internationalization of Retailing**

Most successful retailers explore foreign markets and eventually expand overseas. Walmart, an American retailer has opened stores in Argentina, Brazil, Canada, Germany, Mexico, Puerto Rico, China, and South Korea.

### Block 3: International Marketing Mix

Retailers can expand overseas by the following two methods:

1. A retailer can directly invest in establishing a retail outlet in a foreign country, or he may form a joint venture with a local company in that country, or give out his franchise to another local retailer in that country. By following these entry strategies, the retailer manages to have some control over the new retail outlets in the new countries. He can therefore set guidelines and define the strategy that he wants all his new stores to follow.
2. A retailer may also explore overseas markets without setting up a brick and mortar store - he can use advanced technologies like the internet to cater to his customers. Computerized electronic shopping facilitates long distance retailing as it reduces the need to have a face-to-face contact with the customer. It also dissolves boundaries. A company based in Britain can sell goods online all over the world, without having a single physical store in any of the countries. It does not matter whether it has to deliver goods to a user in America, China, Nigeria, or India. Also, since no other party is involved, i.e. there is no joint venture, franchise or partnership agreement with any other party, the company can ensure that its own strategies and rules on product and service quality are strictly followed.

International retailing has expanded greatly in recent years. The facilitating factors for this have been:

1. **Use of technology** - Advancements in technology has made retailing global. There is no need for a retailer to have a physical outlet in a country in which he wants to sell his products. A retailer can avoid the costs involved in maintaining an expensive store by being available to his customers online.
2. Computer technology has also helped retailers exert stronger control over their overseas outlets. Using advanced computer software systems, a retailer can control and monitor the working of his overseas stores from the comfort of his head office. For example, installing a RIS (Retail Information System) software, a retail manager can identify and monitor issues such as a retail outlet's financial status, inventory status, marketing channels, supplier networks and logistics. Constant communication and coordination can be maintained between different stores, stores and the head office and stores and the suppliers.
3. **Reduction in government regulations** - Most countries are seeking to remove tariff and non-tariff barriers to trade in services. With this more liberalized attitude, governments are encouraging investments by foreign companies. Retail companies from developed nations are exploring lucrative foreign markets in developing countries. For example, India is a potential market for many retailers because it has a large growing middle class, which wants to adopt foreign products. At the same time, Indian government is also encouraging participation of foreign direct investment into the country; so many retailers consider India as a potential market to set up their retail outlets.

4. **Homogenization of customer tastes** - In the last decade, the audio-visual media have grown phenomenally. Multiple TV channels from across the world are beaming pictures of foreign countries, their life styles, and their tastes into the drawing rooms of middle class consumers. These images naturally affect consumers. They are exposed to international brands and labels and want to buy these. Changing lifestyles have cut the traditional bonds and consumers are willing to experiment with new products.
5. **Consumer tastes and preferences** for products are also becoming similar. For example, teenagers all over the world, whether in America, Europe, India, or Japan, like wearing T-shirts of United Colors.
6. **Improvement in economy** - The higher income levels in the middle classes of most developing countries means that consumers have more spending power. High rates of GDP of countries ensure that consumers have more to spend. Average salaries in many countries, such as India and China have improved, while the average age at which these salaries are earned has also come down. Also, availability of credit facilities and availability of credit and debit cards has changed the shopping patterns worldwide.
7. With more money to spend, consumers are becoming increasingly demanding and want better products and improved services. Consumers are even willing to pay extra for associated services such as home delivery, etc. They are increasingly looking to international retail chains to give them international levels of services and products.

#### **11.6.2 The Changing Face of Retailing**

The increased use of technology is going to be the main driving force in retailing in the years to come. Buyers are looking for better deals, more variety and good service delivered at a competitive price in a very courteous and congenial atmosphere. Retailers can afford to give buyers better deals either by cutting down their own margins or by running their retail outlets in a more cost controlled manner. For example, Big Billion Day of Flipkart is the online retailer's annual event that is generally conducted at the start of the year. By cutting down on its margins, Flipkart was able to increase its revenue by increasing the customer base.

Competitive prices are definitely a major driving force for most buyers. It has been observed, that many buyers value their shopping experience, as a factor while choosing their retail outlets. They shift to a retail outlet from their local grocery shop because they get a superior shopping experience and a wide range of goods under one roof. Global retailing is expected to grow at a very high pace in the coming years. But most of the retail market will be in the hands of a few large retailers, who can fight and survive the competition and can manage to retain consumers with lucrative offers. PwC and Kantar Retail, in their

### **Block 3: International Marketing Mix**

comprehensive report on “Retail 2020”, reported that the future retails will witness more non-store retailing i.e., the online world will capture an increasing share of planned shopping trips.

To survive this tough competition, most retailers must differentiate themselves from their competitors. Differentiating in retailing is a difficult task, since the products and services are fairly similar. Most retailers try to build strong private label goods to establish their individual identities. They also control quality strictly and buy only from suppliers who can fulfill their requirements to the exact specifications.

Buying goods online by consumers will also be on an increase, as more people will become “cash-rich time-poor”. Soon, a buyer may never have to leave his office and may order everything from a computer to milk from his favorite retail website, sitting in the comfort of his home or office. The number of online buyers is expected to increase with increase in internet users. According to comScore Inc. report, 50% of younger generations in India do online shopping. Most large retailers are aware of the immense potential that the e-commerce has to offer and they are already rushing in to grab this big opportunity. Retailers like Walmart, Tesco, and Amazon Books are already doing a roaring business online and are planning to introduce more products and services on their websites. The new Indian firms like Flipkart, Snapdeal, Jabong are also doing great business and growing in the retail market.

While all sectors are expected to benefit from online buying, certain sectors are expected to grow and benefit to a greater extent through online sales. Fashion-related products, travel products or services, books, music and stationery, IT & mobile, Event tickets, consumer electronics are some of the sectors are expected to grow strongly. The new areas such as beauty and personal care, restaurant & meal kits, packaged grocery food, flowers & gift sets, baby care will catch up fast with online buyers.

Online sales will increase further in the years to come as more users become familiar with computers and the internet. A consumer who is comfortable on the internet is more likely to order a product online than one who is not as familiar with the new technology. Online sales are also expected to increase as more women become computer literate and net savvy, and as they use computers in the workplace and the home to an increasing extent. Online retailing will also be encouraged by increased availability of credit cards to consumers. In some countries, like the UK, where consumers have been familiar with credit card usage for a long time, online shoppers do not hesitate to disclose their credit card numbers online, while in many countries users are still apprehensive about doing so. One pressing concern for online retailing is the consumer privacy issue. The age of data brings challenges for keeping the consumer personal information related to their purchase habits confidential and secure from being used by any

third parties for influencing their opinions and attitudes subconsciously. Many consumers are not keen on moving to online modes of shopping as their digital footprints are tracked by many other related companies. This concern is more evident in developed market yet can be a major challenge in emerging markets as in when these markets mature.

As consumers get familiar with online purchases, they will also become more demanding and retailers will have to offer new attractions to retain their regular customers. Some of the key features for the success of online retailing will be:

- Website design is critical to attract and retain consumers. A user friendly, easily located and recently updated site will be most preferred.
- Product range will be the key feature in deciding a potential consumer's willingness to use a site. If a potential consumer must search another site to locate a particular product, he is most likely never to return to the first site.
- Fulfillment of on-line orders is the most critical issue. If the goods fail to arrive as and when promised, the user will never go back to the site.

**Example: Good Glamm's Different Strategy for International Markets**

Direct to Consumer (D2C) company Good Glamm planned to sell four of its brands internationally with a changed strategy. Brands like - feminine hygiene brand- 'Sirona', natural premium cosmetics- 'St Botanica', organic beauty products- 'Organic Harvest' and natural toxin free beauty products by The Moms Co would be sold in international market with a different strategy. In order to compete with traditional FMCG companies, brands would be retailed in big stores like – Carrefour, Lulu Mall and BabyShop in Dubai, Qatar and Saudi Arabia. These international markets are big in physical retail for beauty and personal care segment and therefore to crack such markets, it is a good strategy to deviate from online to physical stores as offline sales are over 90% in such markets. In India, however, the push will remain online for these brands.

*Source: Bhushan, Ratna. "Good GLAMM Changes Strategy for International Markets, to take 4 Brands Offline." The Economic Times, 29th September, 2022, Retrieved September 29, 2022 from <https://economictimes.indiatimes.com/industry/cons-products/fmcg/good-glamm-changes-strategy-for-international-markets-to-take-4-brands-offline/articleshow/94542757.cms>*

**Activity 11.1**

The future of the global retailing industry seems to be very exciting. Apart from old players like Walmart, Staples, Kmart, Target, Carrefour, Tesco, etc., a number of new players are entering the industry. Explain the factors that have facilitated the growth of the global retailing industry and discuss the retail industry scenario in India.

### Block 3: International Marketing Mix

<b>Answer:</b>

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#### **Check Your Progress - 1**

1. Which of the following is not a characteristic feature of services?
  - a. Intangibility
  - b. Inseparability
  - c. Homogeneity
  - d. Perishability
  - e. Tangibility
2. While planning to market their services globally, which of the following challenges do the service organizations face?
  - a. Protectionism
  - b. Difficulties in segmentation
  - c. Difficulties in measuring customer satisfaction overseas
  - d. Following WTO norms and rules
  - e. a, b & c
3. Identify the statements that hold true regarding the WTO framework of General Agreement on Trade and Services (GATS).
  - i. It seeks to provide a free and competitive environment for the development of services industry among the member nations.
  - ii. It is aimed at removing only the discriminatory barriers to trade of services.
  - iii. It covers several services like education business, communications, construction, and engineering; and air transport services.
  - iv. A country outside the GATS agreement may not have equal access to the markets of member nations and will experience barriers to its trade of services.
  - a. Only i and ii
  - b. Only i and iv
  - c. Only ii and iii
  - d. Only iii and iv
  - e. Both i & iii

4. Which of the following methods can be used by retailers to expand overseas?
  - i. Directly investing in establishing a retail outlet in a foreign country
  - ii. Forming a joint venture with a local company in the foreign country
  - iii. Giving the franchising options to local retailers in the foreign country
  - iv. Using advanced technologies like the Internet to cater to overseas customers
  - 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. Both i & ii
5. All the factors given below have facilitated the growth in international retailing, except which of the following
  - a. Advancements in technology
  - b. Heterogeneity in consumer tastes and preferences
  - c. Removal of tariff barriers
  - d. Changing lifestyles of consumers
  - e. Removal of non-tariff barriers

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### **11.7 International Financial Services**

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“New forces and increased international competition are driving the development of established and emerging financial centres. International financial services must be addressed to reflect these changes” – Strategy for the International Financial Services Industry in Ireland.

Financial services have grown rapidly in the past decade. The term “financial services” is no longer limited to simple banking operations such as depositing cash or taking a loan or getting a draft cleared. Innovative products have hit the market in financial services.

Major segment of the financial services, Banks, offer a wider spectrum of products and services than ever before. A customer can take a loan for a car or a house or his education, get some shopping done using a credit or a debit card, manage his money with a fixed deposit or instruct the bank to pay all his utility bills for electricity, rent, telephone and water. With the opening up of financial sector to private parties and to foreign players, the financial services industry has become highly competitive. New technologies are being used, new players are entering the market and entirely new products and services are being created.

### **Block 3: International Marketing Mix**

Financial institutions are not facing competition just from other institutions in their field but also from many non-financial institutions. For example, in the UK, Sainsbury, and Tesco, two leading supermarket chains are also selling financial products and giving financial services to customers.

One aspect of financial services is the development of mobile payments market. Mobile devices are ubiquitous and with the rise of internet proliferation in emerging markets, the better services by telecom providers, government systems and consumer digital literacy has given a momentous shift to this industry. For instance, mobile based payment systems are changing the landscape of many related industries. The way consumer shop has direct implication for the international retail markets. The point of sale terminals are now hassle free and consumer movements across the retail formats has become smooth. Consumers derive more value from making payments from their mobiles as they result in cash backs which enhances the value of their purchases. The day to day transactions with the business or person to person monetary exchanges all have added to the habit cultivation of the modern consumers. This has wide range of implications for business worldwide. Most benefit is seen in the retail segment as these instruments aid the rural entrepreneurs to become part of the main stream digital developments. The rural retailers, having local shops suffered from the pains arising from physical cash availability but this development has added to the value offering of their business. The integration of this platform has definitely added to the business across the globe in providing consumer convenience.

Markets for financial institutions in the developed countries have matured and financial institutions are under increased pressure to diversify, explore new markets, use more technology or merge with other similar organizations. To survive, banks need to utilize their traditional infrastructure to the maximum, reduce costs drastically, improve service quality and deal with changing global situations- such as the emergence of Euro.

Two other critical survival tools are innovation and technology. Innovation is required so that financial institutions can continuously come up with new products and new services to keep their existing customers happy. And technology is required to deliver the new innovation to the consumer at low costs and with high quality and efficiency. Banks are already offering customers the advantage of net banking, phone banking, mobile banking, ATM, mobile ATM banking and home banking. They are trying to make the whole experience of banking more pleasurable and convenient.

#### **11.7.1 Types of Credit Cards**

Although most credit cards appear similar, there are generally a lot of differences in the way they work.



Banks generally offer four kinds of cards. These are:

**Credit cards**

A credit card is like an expensive loan made by a bank, a gasoline company, or a departmental store. The card issuer issues the consumer a card with a predefined limit. The consumer can use the card to make purchases till a certain credit limit is reached. The store in which the consumer uses the card, collects its payment from the card issuer. Later, the consumer pays back the card issuer. The consumer needs to pay back at least a certain minimum amount each month and is charged interest on the balance that it owes to the card issuer. The interest charged on the cards is generally high and can even be as high as 26% per annum for credit cards.

A credit card issuer earns the bulk of its profits from the high interest it gets from the consumer. Earnings also include the fixed monthly charge that the consumer has to pay the card issuer. The card issuer also charges a fee from all stores for every transaction that is made using their card. Further, there may be late fees, over-the-limit fees, or other miscellaneous charges.

**Charge cards**

Charge cards are also called travel and entertainment cards. These cards have no credit limit. A consumer can spend as much as he likes using this card and pay the card issuer back when the bill arrives at the end of the month. There is however an exception made for certain expenditures such as airfares, cruise fees or hotel fees. If the card has been used to make these payments, a consumer can pay back the card issuer in a period of 36 months. He will be charged a certain minimum fixed rate per month and an interest of 19% to 21% will be charged on the remaining amount.

A charge card issuer charges high annual fixed fees and charges a high rate from all the stores and merchants who accept his card. Generally, a consumer gets a one to three-month grace period for making his outstanding payments, after which the consumer's account is closed and the card issuer's collection department is given the responsibility of collecting the payment from the customer.

**ATM<sup>6</sup> cards**

An ATM card is issued by a bank against a customer's account in the bank. This card can be used at any of the bank's ATM centers to withdraw cash, make deposits, transfer money between accounts, find out details about the account, make a loan payment or get a cash advance from the bank.

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<sup>6</sup> An ATM is an Automatic Teller Machine that may be installed in different locations in a city, country, or the world. A customer does not have to go to the bank premises to make any of his banking operations; he can do so at any time using one of the 24-hour teller machines.

### **Block 3: International Marketing Mix**

#### **Debit cards**

Debit cards combine the benefits of an ATM card and cheques. These cards are issued by a bank against a customer's bank account. A customer can use a debit card to pay for any purchases that he makes at stores. When a customer pays using a debit card, the amount is automatically deducted from his bank account.

Many banks issue a combined Debit cum ATM card that looks and apparently functions just like a credit card. The difference is that in a debit card the amount gets automatically deducted from a customer's account, whereas in the case of a credit card, the card issuer temporarily makes the payment for a customer's purchases.

#### **11.7.2 International Credit Card Market**

Credit cards were first introduced in the USA in the late 1950s. However, until 1970, because of security reasons their usage remained limited, until specific standards for the magnetic strip that is used in credit cards, were introduced.

By the 1990s, credit cards and their usage had become extremely popular. In developed countries, and especially in the USA, credit cards became the most favored and convenient mode of payment. But at the same time, the American market got saturated fast and credit card companies looked towards Europe for expanding their services. Europe took easily to this new form of money and by the early 2000s, the American MasterCard became the most popular card in Europe.

Credit card companies then focused on expanding in the Asia Pacific region. Asian countries appeared especially attractive because of the huge and expanding middle class in these countries. There are also other cards that are trying to penetrate the industry but credit cards are still the most popular for e-commerce transactions.

Apart from this, co-branded cards are more popular now. Cobranding started in the USA in 1986 and in Europe in 1994. A co-branded card is issued by two institutions; both combine to increase the benefits and services provided by each individually. For example, some popular ones are from SBI (State Bank of India) that offers SimplyCLICK, YatraSBI, IRCTC SBI Platinum Credit Card, etc; HDFC's HDFC Snapdeal Credit Card, JetPrivilege HDFC Bank World Credit Card, etc.

Credit cards have revolutionized purchasing habits of people. But as customers get more card savvy, they are also becoming more demanding about the facilities that their cards provide them. A new concept that is now picking up is that of Smart cards. Smart cards were first introduced in France in 1984. A Smart card is a credit card sized plastic card containing an integrated circuit chip, with a memory chip and has a high computing ability. A smart card serves many purposes-- it can serve as an identity card for a card holder, a medical card that contains the medical history of the card holder and also as a debit/ credit card. It is even referred to as an electronic purse or wallet.

Credit card companies sold their product on the points that using a credit card is better, because firstly, the card issuer handles all the currency conversion troubles. Secondly, because a customer does not overdraw on his account by misjudging the converted rate of a good or service. Also, many departmental stores and even the toll tax booths on highways in Europe have separate credit card lines which move faster because a customer does not have to struggle with conversion of currency. So, using a credit card is a great convenience for the consumer.

Within the credit card industry, there is stiff competition between different players. Each card issuer tries to give a better deal to the consumer in order to maintain consumer loyalty. They are cutting down their fixed fees and their interest rates and are also trying to give the consumer benefits, such as a free air ticket on a minimum transaction limit. These strategies keep the consumer happy and loyal till another card company comes up with a better offer.

### **11.7.3 Credit Card Market in the Asia Pacific Region**

Credit cards were slow in getting accepted in the Asia Pacific region. A majority of the population in this region believed in making payments with cash and was wary of credit card usage. Many retailers in this region were also unwilling to trust the plastic money. It was the younger generation in the Asia Pacific countries which was willing to experiment and use the credit cards and started popularizing its use.

Credit card companies however see great potential in this region, mainly because of its large and growing middle class.

Within the credit cards segment, regular credit cards are more popular than other variations.

In India too, credit cards were initially slow to catch consumer interest. But by the early 2000s, they had become increasingly popular. But apart from price, factors such as reward programs, insurance availability and card acceptance are also important card selection criteria.

#### **Example: Tokenisation of debit and credit cards in India**

As per the Reserve Bank of India (RBI)'s mandate, sensitive information like full card number, CVV etc. cannot be stored by merchants with effect from October 1, 2022 in order to secure card data. To secure card data, vendors need to clear out card data from their systems and tokenize cards. To make online transactions more secure, tokenization process will replace card details by a unique code/ token generated by an algorithm without revealing card details.

*Contd....*

### Block 3: International Marketing Mix

The stress test, however would be what happens when the product is returned as card data will not be stored on traders' servers. In Europe, tokenization is encouraged while in India, it has been made mandatory. With increase in cyber frauds, it will be a great shift to make online transactions more secure.

Source: "India's Massive Card Security Deadline Unlikely to Be Extended." *The Economic Times*, 28th September, 2022, Retrieved September 29, 2022 from <https://economictimes.indiatimes.com/industry/banking/finance/banking/indias-massive-card-security-deadline-unlikely-to-be-extended/articleshow/94516451.cms>

#### Activity 11.2

How do you think that co-branded cards will bring in value-addition to the regular products and services provided by banks to their customers?

**Answer:**

### 11.8 International Banking Services

Online international marketing drives business growth of many products in the new markets. Because of this online marketing, e-procurement became part and parcel of their online transactions- (Richard Fletcher, 2014). Providing international banking services helps a marketer have smooth business transactions. Banking is defined as an activity in which a financial institution, that is, a bank, accepts deposits and channels the money into other lending activities. But in the international scenario, banking activities are not limited to simply accepting deposits or lending. Banks are now performing a whole range of activities from 24-hour trading, global foreign exchange trading, and providing hedging products, to managing interest and currency exposure, investment banking, etc.

International trade and investment has grown remarkably in the last few decades. Consequently, the need to manage international accounts of multinational firms and to provide services to multinational firms across the country borders has sprung up, leading to the overseas expansion of most banks.

To provide banking services to their clients abroad, a bank must have a presence in the foreign country. This can be undertaken in four ways:

1. Banks may open their own branches in foreign countries.
2. They may form agreements or have a stock interest in a foreign bank abroad.

3. They may set up a foreign department in their bank (even if they don't set up a foreign branch) and operate through their foreign correspondent.
4. A bank which does not even have a foreign department could route its foreign international financing through a foreign correspondent bank (with which it can enter into an understanding) which has such facilities.

By adopting any of these methods, banks can make their services available for their international customers.

Banking services differ from other services as they are both product and process focused. Like professional services, banks need to design their services and to customize them to suit the requirements of their customers. But at the same time, most of the products they offer are similar in nature and are meant to be used as mass services, where little or no customization is required.

Another unique feature of banking services is that they are both people and equipment oriented. So, while they need advanced technologies and the latest computers and teller machines to handle their transactions in the most efficient and quick manner, they also need highly skilled professionals to handle most of their activities. These highly trained employees of the bank play a crucial role in its success or failure. While outdated technology can ruin a bank's service, discourteous and unhelpful employees can also turn customers away.

Another distinguishing feature of banking services is that it requires both front and back office support. A bank requires good and efficient front office support, because that is the point where a customer interacts with the bank, through the bank employee or through the bank's technology such as an ATM. Back office support is required to finalize, record, and settle a customer's transaction. For example, a customer might withdraw cash at a bank's ATM- that would be the front office support that the bank provides to the customer. Later, that amount needs to be deducted from the customer's account and his proper balance needs to be recorded and posted to his ledger. At the end of the month, an account statement is also to be sent to the customer. The bank's back office support will perform all this.

### **11.8.1 Investment Banking**

Investment banking is a banking activity specializing in the formation of capital. This is done by outright purchase and sale of securities offered by the issuer, standby underwriting<sup>7</sup> or "best efforts selling." It covers issues, trading, and corporate and takeover financing. Investment banking firms act as underwriters or agents for companies issuing securities, and advising the company on the issuance and placement of its stock.

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<sup>7</sup> Underwriting is the process of evaluating a loan application to determine the risk involved for the lender. It involves an analysis of the borrower's creditworthiness and the property itself.

### **Block 3: International Marketing Mix**

An investment banker helps to:

#### **Raising finance**

An investment banker assists his clients to raise money in the most feasible manner from the markets. He advises the customer on issues such as designing of financial instruments, their pricing, listing on stock exchanges and their marketing.

#### **Project Advisory**

The investment banker may also guide the client in the early stages of a new project. On behalf of the client, he may conduct feasibility studies to understand the viability of the client's new projects and may suggest improvements and changes.

#### **Financial Restructuring**

The most important role that any investment banker plays is when a firm has to be financially restructured. A client's firm may require financial restructuring if the firm is facing financial troubles or wants to raise more finances for implementing new plans.

An investment banker will study the existing financial structure and will try to improve on the company's debt equity ratio and on the asset turnover ratios. It may suggest changes to improve the company's working capital policies. In case of sick units, an investment banker may design a revival package in consultation with other banks and financial institutions to save the unit.

#### **Mergers and Acquisitions**

Across all industries, mergers and acquisitions have become the order of the day.

The reasons for the increase in mergers and acquisitions are varied. In many cases, a multinational giant may want to focus on its core competencies and may decide to spin off its other unrelated businesses that it may have acquired over a period. These businesses may be acquired by another company in the same industry. In some cases, it becomes crucial for a company to acquire a competitor to have access to the competitor's markets. Mergers and acquisitions are also a consequence of divestment by governments of public sector units, making these units available for sale.

An investment banker helps his client by understanding his needs and then suggesting the best options for the client whether for the purpose of merging with another company or acquiring another company. The investment banker will even scout the market for the client to assess which are the best possible companies that a client can acquire and at what price he can expect to pay. Basically, an investment banker will assess a company based on its financial condition,

its corporate strategy, and its operational considerations, including culture, competition, management, and employees. He will then manage the entire process efficiently to:

- Maximize shareholder value
- Optimize negotiations
- Minimize opportunity cost
- Make deals more appealing
- Ensure successful integration

**Example: Japan's largest bank infusing funds in India**

MUFG bank is Japan's largest bank and one of the world's leading financial groups, formed after the merger of Tokyo-Mitsubishi, Ltd. and UFJ Bank Ltd. It is one of the three Japanese mega banks and offers services in investment, commercial and consumer banking and other financial services in 40 other countries. Eying on the Indian market, in 2020, they established MUFG Enterprise solutions India (MES India) as their global capability centre. MUFG has infused ₹ 3,000 crore capital to their Indian franchise and also marked their first investment in MUFG Ganesha Fund in September 2022. MUFG's investment arm- MUFG innovation Partners invests in early and mid-stage start-ups with their \$400 million corporate venture capital fund. It will strengthen their financial position in India and respond to various segments' needs. MUFG expanded their presence by opening a branch in July 2022 at Gujarat International Finance Tec-City (GIFT City). India's growing market, infrastructure opportunities like high speed Bullet train, investment opportunities and digital innovations are few of the reasons among the many, which has attracted MUFG bank's new focus towards India.

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ii) "JP Morgan, Deutsche and MUFG's entry to give Gift City a big Boost". *The Economic Times*, 28 Sept.2022, Retrieved September 30, 2022 from <https://economictimes.indiatimes.com/news/economy/finance/jpmorgan-deutsche-and-mufgs-entry-to-give-gift-city-a-big-boost/articleshow/92663771.cms>

## 11.9 International Insurance Services

A push product works on the promotional strategy and creates customer demand for the product or service through promotion. Insurance is considered as a 'push-product'. Cross-border marketing of insurance has become a necessity for the survival of organizations, irrespective of being big or small. Insurance has been

### Block 3: International Marketing Mix

defined as “a promise of reimbursement in the case of loss; paid to people or companies so concerned about hazards, that they have made prepayments to an insurance company”. The loss that has incurred may be a loss of life, health or property and it may have been incurred because of various reasons such as, fire, burglary, accident, natural disasters or even due to war.

Insurance is basically of two kinds- life/health and property/casualty or general insurance. Life insurance is one of the first insurance products that was ever offered and it basically pertains to providing protection to an individual against the risk of loss of life. General insurance covers a whole variety of insurance services such as insurance against fire, marine risks, social risks, natural disasters, war, loss of crop, loss of cattle and livestock, etc. In fact, insurance companies now offer a wide variety of services to suit the changing needs of their customers.

Like the other services industries, the insurance industry too has shown remarkable growth in product diversification. Innovation and use of new technology is the driving force in the insurance industry. Customer needs have grown and they are looking for products that fulfill their exact requirements; hence to survive the competition, it is important for insurance companies to continuously innovate new services and to maintain an element of flexibility in these services so that they can be customized for individuals.

#### **Example: Allstate: you're in Good Hands!**

Allstate Insurance, an American insurance company offers app to track driving behaviour, assess risks, and rewards safety. Interactive data can help companies not to fall for product traps. Allstate offers 'Drivewise' program to promote safe driving. According to company website- “Drivewise is a free feature available with all auto policies that provides feedback on driving behaviours to give customers personalized, real-time insights into how they can drive more safely”. The safer users drive, the more can they save with lower insurance premiums. Drivewise app detects crash detection and offers for roadside assistance or if users need to call 911. This feature creates consumption ecosystem by extending value chain into digital platforms. One can say - you're in good hands with Allstate, with their real time interactive data approach.

Sources: i) Subramaniam, Mohan. “Is Your Company Squandering Digital Opportunities?” *Harvard Business Review*, 15 Aug. 2022, Retrieved September 27, 2022 from <https://hbr.org/2022/08/is-your-company-squandering-digital-opportunities>

ii) Ritter, Nancy. “Allstate Drivewise Review”. *Value Penguin*, September 6, 2022. Retrieved September 27, 2022 from <https://www.valuepenguin.com/allstate-drivewise-insurance-review>

iii) <https://www.allstate.com/drivewise>, Retrieved September 27, 2022

iv) <https://www.allstatecorporation.com/stories/drivewise-crash-detection-helps-after-accident.aspx>, Retrieved September 27, 2022



### **11.9.1 International Insurance Markets**

Internationally, the insurance market has shown great progress. There are basically two reasons for this growth. Firstly, insurance companies have rapidly expanded overseas due to the opening up of insurance segments in countries like China and India. In fact, overseas expansion was probably the only survival tactic that insurance companies in developed countries had. This was because domestic markets in countries like America, Canada and Australia were already saturated and with the low population growth rates in these countries, insurance markets also grew at a slow rate.

The second reason for the development of the international insurance market lies in the insurance companies' ability to come up with innovative products to suit the changing global scenario.

In many countries, a domestic insurance company has an advantage in that it understands the local culture, language, and the hidden and obvious fears of citizens as well as the risk-taking ability of people in that country. Hence, a domestic company may outperform a multinational foreign company. For example, in India, Life Insurance Corporation of India, an Indian company, has a good trusted reputation.

Apart from using the traditional direct marketing methods for the marketing of their insurance services, companies are also exploring the possibility of harnessing the advantages of the internet to attract new customers. The internet is expected to become a strong medium for the sales of insurance services. Apart from selling, the internet can also be used by a customer to analyze the various insurance options that he has, and can choose the one that suits him best. A customer can also use the internet to follow up on his policy and to find out the status of his investments. However, many companies are fearful that since the internet will make the consumer more aware of the comparative offers and services that are available to him, it will be more difficult to retain a consumer and he is more likely to shift loyalties from one company to another.

Technological advancements in software, networking and computers are also helping to build the global insurance business. Insurance companies are exploring the possibilities of outsourcing their back-office operations to countries like India to save costs and to concentrate on their core competencies. Many companies in USA have shifted their service centers to Canada to reduce their processing costs. Similarly, companies may shift their labor-intensive tasks to low wage countries through the internet.

Not only is there a change in the way insurance companies are functioning now, there is also a change in the products and services that most of the companies are offering. Due to improvements in health care facilities, the average life span in most countries has increased. Many governments are also gradually withdrawing from the provision of social security for their citizens. These factors are forcing

### **Block 3: International Marketing Mix**

people to look for those financial services which will serve as retirement saving plans or will cover their medical bills and support their health and welfare in their old age. Similarly, the nature of the insurance services companies are offering is also affected by social changes requiring the provision of education for the girl child or arranging for higher education for children.

With so many new developments, consumers are becoming more vigilant about their investments and are demanding greater transparency and more information disclosure regarding the financial market activities of their insurance companies. This, they say, will help them understand the extent and profile of the risks taken by the companies. A need is also felt for stringent regulation of the financial activities of insurance companies to keep the customer's investment secure.

#### **11.9.2 Global Players in the Insurance Market**

The global insurance market has grown remarkably.

#### **11.9.3 Insurance Market in India**

For four decades after the 1950s, the insurance sector in India was completely controlled by the state-owned Life Insurance Corporation for life insurance coverage and by the state-owned General Insurance Corporation for property and casualty insurance coverage. There was absolutely no private participation. In the early 1990s, as per the WTO agreement, there was a demand for India to open sectors like telecom, insurance and power for private participation.

In 1999, the Indian insurance market was made accessible to foreign and domestic private insurance companies. IRDA, Insurance Regulatory and Development Authority, was also set up to grant licences to private companies and to formulate rules and regulations for their operations.

The opening up of the insurance sector gave the user a wider choice of services and at the same time, it was hoped that private companies would reach out to more people and provide insurance cover and benefits to many more Indians. The major players in the Indian insurance market are LIC, SBI, ICICI, HDFC, Bajaj Allianz and Max Life.

The Indian consumer has benefited greatly from the liberalization of the insurance sector. For the first time, he has been offered a choice of a range of products and services at international standards and at the most competitive prices too.

Apart from bringing in new products, the private insurance companies also adopted new marketing strategies to exploit the Indian market. The distribution strategies adopted by private insurance companies played a crucial role in their success. Even though LIC had been in the insurance business for nearly 50 years, it had covered less than 25% of Indian insurable population. One of the main reasons was that LIC depended solely on individual agents. Though the company had a vast network of these agents, many of them were not qualified or even

trained to sell insurance. When the private companies came in, they did not depend upon individual agents alone. They used all available channels of distribution, from individual agents and corporate agents to banc assurance. Banc assurance is the selling of insurance through the distribution networks of banks or other financial institutions. Banc assurance soon emerged to be one of the most lucrative distribution channels in India.

Another development that happened post liberalization was that many of the private insurance companies realized the potential for selling insurance in rural markets. In a country like India, where a majority of the one billion population lives in rural areas, a major share of business is expected to come from the rural and semi-rural insurance market. Rural India offers a great opportunity to private companies. But to use this opportunity, insurance companies had to design simpler services and products that were easily understood by the Indian masses. Also, in this case, competition between companies is based on volumes rather than on individual policy amounts. This is because the policies designed for the rural Indian must have smaller policy amounts, which the rural customer should be able to pay.

Birla Sun Life, a private insurance company in India has appointed Village Extension Workers (VEWs) to help create awareness about insurance in villages. Each VEW was in charge of 10-15 villages. It launched products meant for the rural population in order to capture a larger market share.

Another private company, AMP Sanmar (now Reliance Life) targeted semi-urban and small towns by having simple and straight-forward products. It kept its product strategy simple-life insurance solutions to individuals primarily aiming at wealth creation and risk protection.

Apart from these strategies, insurance companies are also turning to the Internet for selling products in India.

The emergence of digital platform in insurance was expected to bring about safety and convenience to the buyers along with a reduction in premium. Regulations were also relaxed to allow discounts to be offered.

### **Current Status of the Indian Insurance Industry**

India is ranked 11th in global insurance business. India's share in global insurance market was 1.72% during 2020 and total insurance premium volume in India increased by 0.1%.<sup>8</sup>

India's insurance penetration was pegged at 4.2% in the FY21 (from 3.76% in 2019-20), with life insurance penetration at 3.2% and non-life insurance penetration at 1%. In recent years the industry was experiencing fierce competition among its peers which has led to new and innovative products within

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<sup>8</sup> <https://www.investindia.gov.in/sector/bfsi-insurance>, 2022 (accessed on December 30, 2022).

### Block 3: International Marketing Mix

the industry. The market share of the private sector companies in the non-life insurance market rose from 15% in the FY2004 to 49.3% in the FY2021.

The insurance industry of India has 57 insurance companies. In addition to these, there is a sole national re-insurer, namely General Insurance Corporation of India (GIC Re). Other stakeholders in the Indian insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.<sup>9</sup>

The following are some of the major developments in the Indian insurance sector:

- The COVID pandemic emphasized the importance of healthcare on the economy and health insurance witnessed 13.3% growth in GDPI in the FY21. Health insurance would play a critical role in the effort to strengthen the healthcare ecosystem.
- Insurance companies partnered with NPCI Bharat BillPay, a subsidiary of National Payments Corporation of India (NPCI), to offer ClickPay feature to its customers.
- In August 2021, PhonePe announced that it received preliminary approval from IRDAI to act as a broker for life and general insurance products. As a result, the company can now offer insurance advice to its 300+ million users.
- In August 2021, the Parliament passed the General Insurance Business (Nationalisation) Amendment Bill that allowed privatisation of state-run general insurance companies.
- Union Budget 2021 increased FDI limit in insurance from 49% to 74%. India's Insurance Regulatory and Development Authority (IRDAI) has announced the issuance, through Digilocker, of digital insurance policies by insurance firms.
- ICICI Lombard and Airtel Payments bank have entered into a partnership for providing cyber insurance in February 2022.
- As of August 2022, there are 110+ InsurTech start-ups operating in India. These start-ups are expected to provide a major boost to the industry and help increase India's insurance penetration.

#### **Example: Insurance Market in India 2022: A Brief Outlook**

- Indian life insurance industry was said to grow at 6.6% in 2022
- India to become 6<sup>th</sup> largest insurance market in the world in the next 10 years

*Contd....*

<sup>9</sup> <https://www.ibef.org/industry/insurance-sector-india>, August 2022 (accessed on December 30<sup>th</sup> 2022)

- Insurance market stands at \$131 Billion (as of Financial year 2022)
- 58 insurance companies of which 34 non-life insurers (as of September 2022)
- Life insurance premium is set to cross \$100 Billion mark in 2022
- Total written premium (Life Insurance) \$81.3 Billion (as of September 2022)
- In life insurance, LIC was a leader with 68.57% market share (as of August 2022), followed by SBI life with 7% market share
- Insurance penetration in India moved to 4.2% in 2021 from 3.76% in 2020
- Among general insurance, New India Assurance maintained its leadership position with 21% market share followed by ICICI Lombard, the second largest general insurance company with 11% market share
- Consolidation is likely to happen in the Insurance industry through mergers and acquisitions (Example –acquisition of Exide Life insurance by HDFC life insurance in January 2022 to gain presence in South India.).

Sources: i) Rebello, Joel. "LIC consolidates its leadership position with 68.57% market share". *The Economic Times*, August 10, 2022. Retrieved September 30, 2022 from <https://economictimes.indiatimes.com/industry/banking/finance/insure/lic-consolidates-its-leadership-position-with-68-57-market-share/articleshow/93463459.cms>

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iv) "India to become 6<sup>th</sup> largest insurance market in the next 10 years". *Hindustan Times*, September 1, 2022. Retrieved September 30, 2022 from <https://www.hindustantimes.com/business/india-to-become-6th-largest-insurance-market-in-the-next-ten-years-report-101662033925045.html>

v) "Insuring India". *Invest India*, September 7, 2022, Retrieved September 30, 2022 from <https://www.investindia.gov.in/sector/bfsi-insurance>

### Activity 11.3

Mark Insurance is a private insurance company. It is planning to enter the Indian market. The company's products are very strong. However, its distribution channel is weak compared to the well-established insurance players. Do you agree that the success of the firm not only depends on the products it is offering but also on the kind of distribution channels used to reach the ultimate customers? Why or why not? Discuss the various forms of distribution channels available to Indian insurance companies to reach the final customer.

### Block 3: International Marketing Mix

<b>Answer:</b>

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#### **Check Your Progress - 2**

6. Which of the following types of cards do not have any credit limit?
  - a. Credit cards
  - b. Charge cards
  - c. ATM cards
  - d. Debit cards
  - e. Payment cards
7. Which of the following can be defined as an activity in which a financial institution accepts deposits and channels the money into other lending activities?
  - a. Trade
  - b. Transaction
  - c. Insurance
  - d. Investment
  - e. Banking
8. In which of the following ways can banks make their services available for their international customers?
  - i. By opening their own branches in foreign countries
  - ii. By forming agreements or having a stock interest in a foreign bank abroad
  - iii. By setting up a foreign department in their bank and operating it through their foreign correspondent
  - iv. By routing its foreign international financing through a foreign correspondent bank which has such facilities
  - 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 ii & iv

9. Which of the following may be explained as selling of insurance through the distribution networks of banks or financial institutions?
    - a. Brokerage
    - b. Financial retailing
    - c. Investment banking
    - d. Hedging
    - e. Bancassurance
  10. Identify the statement that holds true regarding the types of insurance.
    - a. General insurance was one of the first insurance products that was ever offered.
    - b. Life insurance basically pertains to providing protection to an individual against the risk of loss of property, crop, cattle, and livestock, etc.
    - c. General insurance covers a whole variety of insurance services such as insurance against fire, marine risks, social risks, natural disasters, and war.
    - d. Life insurance is also called as property/casualty insurance.
    - e. General insurance is called affordable insurance.
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### **11.10 Summary**

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- Services play a major role in the economy today.
- Earlier, exporting of services was considered to be a very difficult, if not an impossible task, and there was little overseas expansion by service-based industries.
- Of late, all the handicaps of services, of being intangible, perishable, heterogeneous and inseparable in nature, are being overcome.
- The use of the latest technology and innovative product development are crucial for the development of the service industry.
- Any service industry, whether banking, insurance, retailing or professional services, will have to identify its strengths and its weaknesses before expansion into global markets. They will also have to develop products that are easily exportable.
- As the service industry is highly dependent on efficient and skilled staff and employees, a service provider will have to attach primary importance to the training and skill up gradation of its staff.
- Competition in the service industry is increasing day by day. To survive, a service-based company must think of innovative ways to improve on its products and services and to reach out to more people.

### Block 3: International Marketing Mix

#### 11.11 Glossary

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**Bancassurance:** The selling of insurance through the distribution networks of banks or other financial institutions.

**Banking:** An activity in which a financial institution, that is a bank, accepts deposits and channels the money into other lending activities.

**Financial Re-Structuring:** It refers to the reshuffling of the finance structure of the organization that helps the business to sustain in an unpredictable market

**Insurance:** A promise of reimbursement in the case of loss; paid to people or companies so concerned about hazards, that they have made prepayments to an insurance company.

**Investment Banking:** Investment banking is a banking activity specializing in the formation of capital.

**Protectionism:** The protective policy through trade and tariff adopted by a country

**Retailing:** A set of business activities that adds value to the products and services sold to the final consumers for their personal, family or household use. Return on net worth, Net profit after taxes divided by owner's equity (net worth).

**Services:** Intangible products that offer financial, legal, medical, recreational, or other benefits to the consumer.

#### 11.12 Self-Assessment Test

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1. What do you mean by the term 'services'? What are the characteristics of services? What are their implications on international marketing?
2. What are the problems faced by a service organization while marketing its services in the international markets?
3. Discuss in detail the strategies for marketing various services such as professional services, retailing, financial services, banking services, and insurance services.

#### 11.13 Suggested Readings / Reference Material

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1. J. Daniels, L. Radebaugh, and D. Sullivan, "*International Business: Environment and Operations*", 17th Edition, Pearson, 2021.
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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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### 11.14 Answers to Check Your Progress Questions

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**1. (c) Homogeneity**

A service is intangible, inseparable, heterogeneous, and perishable in nature. That is, a service cannot be stored or inventoried and has to be performed whenever the consumer demands it. This refers to the intangibility feature of a service. The production and consumption of a service is inseparable. And thus, both the service provider and the customer need to be present for the delivery of the service. Thus, services are inseparable. Each time a service provider provides a service, there are variations in it. Thus, homogeneity in the delivery of services cannot be maintained. Thus, services are heterogeneous in nature. Unlike products, services cannot be stored for future sales nor can they be carried over for consumption at a future date, thus, making them perishable in nature.

**2. (a) Protectionism**

When service organizations plan global marketing of their services, they may face challenges such as: protectionism; cultural differences; and difficulties in measuring customer satisfaction overseas. Most countries have a protectionist policy towards their service industries and would limit and control the entry of foreign companies in them. Cultural barriers may arise due to differences in language, customs and beliefs, values and attitudes, lifestyles, etc. In most countries, customers may not be exposed to market research surveys that help organizations to understand the level of customer satisfaction. Thus, customers in such countries may not be able to share opinions, give suggestions or answer marketing research queries as expected.

**3. (b) Only i and iv**

Options i and iv are true regarding GATS, while options ii and iii are false. GATS is aimed at slowly removing both discriminatory and non-discriminatory barriers to trade of services. GATS cover several services such as: education business; communications; construction and engineering; distribution; environment; financial services; health; tourism and travel; recreation, cultural, and sporting; and transportation. However, it excludes two service sectors, viz., services supplied in the exercise of governmental authority and air transport services.

**4. (d) i, ii, iii, and iv**

To expand overseas, retailers can use two methods --- (a) a retailer can directly invest in establishing a retail outlet in a foreign country, or he

### **Block 3: International Marketing Mix**

may form a joint venture with a local company in that country, or give out his franchise to another local retailer in that country; and (b) explore overseas markets using advanced technologies like the internet to cater to his customers without setting up a brick and mortar store.

#### **5. (b) Heterogeneity in consumer tastes and preferences**

Factors like advancements in technology, removal of tariff and non-tariff barriers, changing lifestyles of consumers, and homogeneity in consumer tastes and preferences have facilitated the growth in international retailing. Due to growth in the audio-visual media, consumers are exposed to international brands and labels. Changing lifestyles have cut the traditional bonds and consumers are willing to experiment with new products. Consumer tastes and preferences for products are also becoming similar.

#### **6. (b) Charge cards**

Also, called as travel and entertainment cards, charge cards do not have any credit limit. A consumer can spend as much as he/she likes using this card and pay the card issuer back when the bill arrives at the end of the month.

#### **7. (e) Banking**

Banking is defined as an activity in which a financial institution, that is, a bank, accepts deposits and channels the money into other lending activities. In the international scenario, banking activities are not limited to simply accepting deposits or lending. They also perform a whole range of activities from 24-hour trading, global foreign exchange trading, and providing hedging products, to managing interest and currency exposure, investment banking, etc.

#### **8. (a) Insurance**

Insurance has been defined as “a promise of reimbursement in the case of loss; paid to people or companies so concerned about hazards, that they have made prepayments to an insurance company.” The loss that has incurred may be a loss of life, health or property and it may have been incurred because of various reasons such as, fire, burglary, accident, natural disasters or even due to war.

#### **9. (e) Bancassurance**

Bancassurance is the selling of insurance through the distribution networks of banks or other financial institutions. It is one of the most lucrative insurance distribution channels in India.

- 10. (c) General insurance covers a whole variety of insurance services such as insurance against fire, marine risks, social risks, natural disasters, and war.**

All the statements are false regarding the types of insurance, except statement (c). Life insurance is one of the first insurance products that were ever offered and it basically pertains to providing protection to an individual against the risk of loss of life. General insurance is also known as property/casualty insurance.

## Unit 12

# Pricing in International Markets

### Structure

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- 12.1 Introduction
- 12.2 Objectives
- 12.3 International Pricing Systems
- 12.4 Global Pricing Strategies
- 12.5 Environmental Influence on Pricing Decisions
- 12.6 Other Constraints on International Pricing
- 12.7 Global Pricing Alternatives
- 12.8 Summary
- 12.9 Glossary
- 12.10 Self- Assessment Test
- 12.11 Suggested Readings / Reference Material
- 12.12 Answers to Check Your Progress Questions

*“If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.”*

-Warren Buffett

### 12.1 Introduction

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Warren Buffett, investor, philanthropist and the chairman of Berkshire Hathaway believes that the single most powerful criteria for appraising a business is its pricing power. Pricing plays a crucial role in the success and survival of a firm and more so for an international firm.

In the previous unit, we have discussed International Marketing of Services. In this unit, we shall discuss pricing in the international marketing mix.

In this unit, we will first discuss the international pricing systems. We shall then move on to discuss the global pricing strategies. We shall also discuss the environmental influence on pricing decisions. The unit will also discuss the constraints on international pricing. Finally, the unit ends with a discussion on the global pricing alternatives.

## **12.2 Objectives**

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

- Restate the variables involved in international pricing mechanism that surrounds pricing decisions
- Record the right pricing objectives and adopt appropriate pricing methods to optimize profits
- Simulate a pricing policy by considering the various environmental influences to arrive at a stable price level
- Outline the constraints involved in international pricing to overcome conflicts that may arise during international marketing of products
- Propose a suitable global pricing alternative for penetrating the international market with potential revenue generation

## **12.3 International Pricing Systems**

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Pricing of a product or service is dependent on various factors. More so in the case of products sold in international markets. Pricing a product overseas is critical for a business to have profitable expansion in foreign markets. Pricing refers to the value determination process for a good or service, and encompasses the determination of interest rates for loans, charges for rentals, fees for services, and prices for goods. Pricing decisions are difficult to make even when a company operates only in a domestic market, and the difficulty is still greater in international markets. Multiple currencies, trade barriers, additional cost considerations, and longer distribution channels make price determination more complex in international markets.

Globalization of business has put increased pressure on the pricing systems of companies which enter international markets. These companies have to adapt their pricing structures as they graduate from being purely domestic players to exporters, and then to overseas manufacturers. The earlier pricing structures used by them may no longer be appropriate in the complex international environment characterized by high competition, more global players, rapid changes in the technology, and high-speed communication between markets.

Companies operating in international markets have a role to play by identifying:

- The best approach for setting prices worldwide
- The variables which are important in determining prices in international markets
- The degree and level of importance which has to be given to each variable
- The variance in prices across markets
- The variance in prices across customer types
- The factors to be considered while determining transfer prices

### Block 3: International Marketing Mix

Pricing decisions cannot be made in isolation because pricing affects other marketing decision variables and determines:

1. The customer's perception of value
2. Intermediaries' motivational level
3. Promotional spending and strategy

#### **Example: Live Life King-size!**

Since 'you only live once', why not live life king-size? Post Covid, millennials, Generation z and especially young entrepreneurs are keen to own a luxury car at an early age. These young buyers are not only from metros but also from tier 2 and 3 cities. The mind set of Indians is changing and they want to save for bad days but not for the next generation. With ultra-high net-worth individuals (having net assets of \$30 million or more) expecting to grow at 39% between 2021 and 2026, super luxury car market is all set to see a record growth. Porsche AG sold 413 units in 2022 (till September) compared to 251 in 2021, 62 Lamborghinis were sold in 2022 as compared to 28 units in 2021. Audi sold 1088 units in 2022 (till September) compared to 409 units in 2021. International luxury carmakers, however, do face challenges in India. With GST and additional tax totaling to 50%, the only way to counteract this challenge, is to manufacture the automobiles in India.

Mercedes Benz has been successful in India due to its network of Completely Knocked Down (CKD) cars instead of Completely Built Units (CBU) which garner more import tax (100% duty if Cost, Insurance and Freight (CIF) value is above \$40,000). With 13 CKD products, Mercedes Benz has one of the largest portfolios of locally manufactured luxury cars in India. The company sold 11,469 units in the Jan- Sept 2022 period and 30% of their sales are from cars above ₹ 1 crore price. Another key strategy is to launch new models faster in India. Lamborghini launched Huracan Technica which is priced at ₹ 4.04 crore, four months after its global launch.

Sources: i) Mercedes-Benz India sees accelerated growth in top-end car sales. *The Economic Times*. (2022, October 16). Retrieved October 16, 2022, from

<https://economictimes.indiatimes.com/industry/auto/auto-news/mercedes-benz-india-sees-accelerated-growth-in-top-end-car-sales/articleshow/94892095.cms>

ii) Lidhoo, P. (2022, September 30). The Yolo wave. *Business Today*, 16th October, 2022, Pg 110–113. Retrieved October 17, 2022 <https://www.businesstoday.in/interactive/longread/luxury-carmakers-are-singing-the-yolo-tune-to-lure-younger-buyers-and-it-seems-to-be-working-180-11-10-2022>

## **12.4 Global Pricing Strategies**

How does a professional fix the price of his services? How will a manufacturer fix the price for his product in the international markets? The pricing strategy considers all factors like: To which segment the product is targeted?

What is the ability of the prospective consumers to pay? What are the market conditions? What is the competition he has to face? and many more such criteria. Such a strategy will help to reflect the value proposition of his firm in the eyes of a consumer. One-size-fits all does not hold good and therefore different pricing strategies become important when expanding globally. A pricing strategy refers to the process of pricing the products and services by a firm. A firm might have to follow a different pricing strategy to different market it enters into, depending on various factors surrounding the nation's market. This is what this section, 'global pricing strategy' is trying to probe upon.

#### **12.4.1 Pricing Objectives**

Before setting the pricing objectives, a marketer should decide the target market as well as the positioning strategies for its product or service. Once the target market is clear, it becomes easy for the marketer to fix the price of the product. The pricing objectives should actually be in line with the company's overall objectives. The objective behind setting the price of a product or service may be to achieve maximum market share, or long-term sustainability in the market, and so on. If a company has multiple objectives, they should be consistent with one another.

#### **12.4.2 Market Skimming**

Some firms introduce their products in the marketplace by charging a high price. They charge a high price for the uniqueness of their products. As the competition grows, they lower their price. This strategy is appropriate when the product is truly innovative.

In the initial stages, the product is targeted at trendsetters who are eager to experiment with the new products, and have the inclination and resources to experiment. Later, the firm targets early adopters. Then the firm concentrates on an early majority. After focusing on the early majority, the firm focuses on the late majority. Laggards are the last group to adopt the product when the product has almost reached the stage of maturity.

The basic principle of the market skimming strategy is to gain the maximum price from each segment mentioned above. As the ability of the segment to pay the price reaches saturation, the firm moves on to attract the next segment. To attract the next segment, the firm reduces the price to a certain extent.

##### **Example: Price Drop of Samsung Galaxy S22 Ultra Smartphone**

South Korean smart phone maker, Samsung launched its Galaxy S22 series in February and 10 innovative devices in 2022. Samsung launched its super premium S 22 ultra model with quad camera and 40 MP selfie camera in March 22 at whopping ₹ 1,09,999 for 12GB and 256 GB storage option.

*Contd....*

### Block 3: International Marketing Mix

In September, it announced a massive price drop of ₹ 9000. On HDFC card, ₹ 5,000 cashback was offered and new Samsung Shop App users were able to avail additional ₹ 4,500 on their first purchase along with no cost EMI option starting at ₹ 8,328 per month. To compete with Apple and other smart phones, Samsung offered tempting discounts. Samsung announced its No Mo' FOMO festival sale in September' 22 and offered up to 57% discount on Galaxy S22 and S22 plus smartphones.

*Source: Samsung Galaxy S22 ultra now cheaper by RS 9K! Smartphone brand announces massive Price Drop. The Economic Times. (2022, September 19). Retrieved October 18, 2022, from*

*<https://economictimes.indiatimes.com/magazines/panache/samsung-galaxy-s22-ultra-now-cheaper-by-rs-9k-smartphone-brand-announces-massive-price-drop/articleshow/94298867.cms>*

#### 12.4.3 Market Penetration

It is only a few products that can be called truly innovative products. Such products come into the market at less frequency. Most of the times, products introduced are copies of existing products with slight modifications. The market skimming strategy does not work with this type of product. Firms try new approaches to attract customers, who have many similar products to choose from. They employ sales promotions, sponsorships, etc., to attract customers. Firms resort to price cuts, and offer products below their competitors' prices to take away a large number of customers from their competitors.

The expectations of a retailer while offering products at low prices, is that once customers use the product, they will develop an interest in the product and will be ready to pay a price that is equal to the competitors' prices. Over time, customers may develop loyalty for the product and would be ready to pay a premium price. This strategy, known as penetration pricing strategy, is fraught with dangers. The much expected customer loyalty might never develop. Even when it develops, a new player might enter the market with lower prices and wean away customers. The success of a penetration pricing strategy depends upon the assumption that customers are well aware of the prices in the marketplace. But research conducted in many markets showed that customers have poor knowledge of prices. Hence, a firm may not gain market share just by offering products at a lower price.

#### 12.4.4 Market Holding

Companies that want to retain their market share adopt this strategy. They set their prices based on competitive situation in each market and the willingness of the customers to pay. Exchange rates influence the success (or failure) of a firm's ability to retain (or lose) its market share. Firms with a strong home currency may be forced to reduce prices thereby reducing their profit margins, or to resort to offshore manufacturing, licensing agreements to maintain their cost structure and retain their market share.



**Activity 12.1**

After the deregulation of the Indian telecom sector, a number of private players entered the market. These players offered little choice to customers in terms of tariffs. In such a scenario, Reliance Infocomm entered the Indian telecom market offering very cheap tariffs. It changed the rules of the game in the industry and adopted an aggressive pricing strategy. Discuss various pricing strategies available and the strategy Reliance adopted.

**Answer:**

## 12.5 Environmental Influence on Pricing Decisions

Decisions on pricing is highly complex in international marketing. It is a tactical weapon used by firms to generate revenues and reflect the value of the product in consumer's perception. They are influenced by numerous factors. For example, the US and European customers are showing preference towards gas water heaters than the electric waters due to environmental concerns. However, the cost of producing the former is higher than the latter. The cost of producing gas water heaters in both countries also differ. Hence pricing of such water heaters depend on the degree of demand, type of government regulations, etc. in both countries. Global marketing managers accept that price plays a crucial role in the success of a firm in international markets. Prices influence sales, and affect profitability as well. Price cuts can escalate into price wars, and price hikes can reach an untenable level when tariffs and taxes are thrust upon the organizations. Price variations between different markets can lead to gray-market imports. Hence firms operating in international markets must take adequate care while establishing pricing policies and determining prices.

Of all the elements in the marketing mix, price is the most flexible one because it can be changed more quickly compared to the other elements. While fixing prices, factors such as exchange rate fluctuations and duties, external costs such as documentation, freight and insurance costs must be taken into consideration, along with production cost, demand and competition. These factors are explained below:

### 12.5.1 Inflation

Inflation is nothing but a continuous rise in price levels. Rising costs force firms to raise their sales prices. During periods of inflation, the essential objective of pricing is to maintain operating profit margins. Traditional costing methods such as FIFO (first-in, first-out) cannot be an appropriate method to follow during the periods of inflation. LIFO (last-in, first-out) method would be more appropriate.

### **Block 3: International Marketing Mix**

Firms following this method take into consideration the most recent raw material acquisition price and use it as a basis for determining the price of the product. When there is inflation, and raw material prices are high, the same prices are used to determine the product price.

#### **12.5.2 Nature of Product or Industry and Competitive Behavior**

When a product is specialized, or when it has a technological edge over other products in a similar category, then the firm producing the product has flexibility in setting the price. When some firms are importing such a product, government-imposed import barriers are low, and price escalation factors are same for all importing firms, the producer of the product can remain competitive without any change in the price. As the competition increases, and technological edge of a product disappears, specialized and highly technical firms may be forced to adopt market-based prices instead of uniform prices. Prices are also influenced by changes in the prices and availability of raw materials. To avoid uncertainty pertaining to prices of raw materials, firms often enter into fixed-price agreements with suppliers of raw materials before bidding for large projects.

#### **12.5.3 Devaluation and Revaluation**

Factors such as exchange rate fluctuations are a major concern for most firms that operate internationally. In particular, shifts in the value of the US dollar vis-a-vis other currencies like the Yen or Euro are observed with care. Companies operating internationally must be creative and pursue appropriate pricing strategies during times of devaluation and revaluation.

#### **12.5.4 Market Demand**

Supply and demand in the marketplace together determine the market price of the product. This concept was first explained by Alfred Marshall in 1890 in his book “Principles of Economics”. In general when there is high demand for a particular product, the price of the product automatically rises higher. However, Anil Kashyap and Peter E. Rossi (Professors at University of Chicago), have found in their research that sometimes prices can actually fall during periods of peak demand. In their recent study, Kashyap and Rossi, together with Judith Chevalier of the Yale School of Management, say that in industries such as retailing, retailers spend a fixed amount on advertising certain popular brands and lowering the prices of products sold under these brand names, irrespective of the overall shopping climate. This explains how low prices and peak demand can co-exist together.

#### **12.5.5 Transfer Pricing**

Transfer pricing is the process of setting prices that will be charged by one unit (for example, a foreign subsidiary) of a multi-unit corporation to another unit (say, the parent corporation) for goods or services sold between such related units”.

Transfer pricing is also referred to as intercompany pricing. Transfer pricing is an issue of major concern for companies operating internationally. The fixing of transfer prices is crucial because the prices at which units of the same company sell to each other significantly influence the success of the organization. Transfer pricing determines the success of the organization by influencing the performance of the subsidiary, the executive compensation, and the taxes paid.

On 23/05/2016, the Organization for Economic Cooperation and Development (OECD), headquartered in France, approved certain amendments in the Transfer Pricing guidelines for Multinational Enterprises and Tax Administrations. The OECD Transfer Pricing guidelines provide guidance about the application of the ‘arm’s length principle’, which is the international consensus on transfer pricing, precisely on valuation of cross-border transactions among the associated enterprises. Transfer pricing is prominent in a global economy where multinational enterprises have active role to play.

### Example: Medtronic’s Case of Transfer Pricing

Medtronic’s case of transfer pricing came into news after the Tax court issued its decision on long case (filed in 2011) in August 2022. This case is also classic as it depicts the conflict between tax payers and IRS (Internal Revenue Service, US) regarding the selection of transfer pricing method.

Medtronic US manufactures implantable medical devices and is best known for its cardiovascular and neurological devices business. The case was related to Medtronic US’s license (covering patents and technical know-how) to manufacture implantable devices to its Puerto Rico based subsidiary. The question was what should be the royalty which Puerto Rican subsidiary should be paying to Medtronic US to use the patent to manufacture devices.

Medtronic used CUT (Comparable Uncontrolled Transaction) transfer pricing method. Tax court found that CUT method was not truly comparable and there exists too many differences and yields lower royalty rate for the licensor. In its judgement, Tax court rejected Comparable profit method by IRS and CUT method by Medtronic US and applied “unspecified method” of transfer pricing to determine the wholesale royalty rate of 48.8% for implantable devices. Tax court’s decision would raise Medtronic tax bill by billions depending on the tax years under consideration.

Sources: i) Tax Notes Staff (2022, September 29). Transfer pricing litigation update II. Forbes. Retrieved October 19, 2022, <https://www.forbes.com/sites/taxnotes/2022/09/28/transfer-pricing-litigation-update-ii/?sh=43610f175b84>

ii) US Tax Court increases Medtronic royalty rate under unspecified method. EY. (2022, August 25). Ernst & Young LLP (United States), International Tax and Transactions Services, Transfer Pricing, Washington, DC. Retrieved October 19, 2022, from [https://www.ey.com/en\\_gl/tax-alerts/us-tax-court-increases-medtronic-royalty-rate-under-unspecified-method](https://www.ey.com/en_gl/tax-alerts/us-tax-court-increases-medtronic-royalty-rate-under-unspecified-method)

### **Block 3: International Marketing Mix**

#### **12.5.6 Why do firms attempt transfer pricing?**

Firms set internal prices primarily to repatriate profits from those countries that have remittance controls, and to shift profits from high-tax countries to low-tax countries. The objective of transfer pricing (from the point of view of the firm) is to ensure corporation-wide efficiency. The organization as a whole can benefit through transfer pricing, though on paper some units seem to perform poorly.

For a long time, governments all over the world were either ignorant or negligent of the real effects of transfer pricing. As they came to realize they were losing substantial tax revenues, and that transfer pricing had a negative effect on strictly local producers, they started imposing tougher regulations on transfer pricing. Now there is an increased emphasis on the “fairness” of the transfer price. Governments are redefining regulations that specify market prices. According to governments, fair market prices are those that are determined by two unaffiliated parties. And they want these fair market prices to be the basis of transfer pricing. On the other hand, global firms are used to cost-based pricing and other methods. The increasing concern and surveillance of the governments over the transfer pricing practiced by global firms creates challenges for the operations of global firms. There are various approaches for transfer pricing. Some of them are explained below:

##### **Market-based transfer price**

Prices prevailing in the market can be used as the basis for transfer pricing. Firms following this approach cannot be deemed as taking unfair advantage of transfer pricing mechanism. This method also appeals to tax authorities.

##### **Transfer at cost**

Firms following this approach treat manufacturing facilities as cost centers instead of treating them as profit centers. This method resolves many internal disputes over allocation of profits. But tax authorities object to companies using this method. It is because no profit is allocated to the supplying unit. The supplying division, too, is not happy following this approach. It feels that it is subsidizing the international division and foregoing its profits which may not be so with other profit centers.

##### **Cost-plus pricing**

Cost-plus pricing involves adding some percentage to cost to make it acceptable to both supplying and international divisions. The “plus” is generally computed either as a percentage of production division overhead or as a percentage returns on production division investment.

An appropriate transfer pricing approach must focus on total corporate profit and must enhance cooperation between different divisions. It must also reduce the time spent by executives on addressing transfer price disagreements, and tax burden.

### Tax regulation and transfer pricing

Multinational companies today pay as much tax in the host country as they pay in the home country. This explains why transfer pricing is such an important issue for tax directors, boards of directors and government fiscal authorities worldwide. Transfer pricing is a political issue. And it is expected to be more important with increasing globalization and outsourcing.

Generally, more than half of the trade among developed nations involves related parties. MNCs operating in different parts of the world are increasingly facing more tax regulations and scrutiny over transactions between related parties.

Multinational companies operating in OECD countries are expected to stick to “arm’s-length principle” in allocating income and expenses for tax purpose. In this principle, the behavior of independent parties is considered as a benchmark when a firm is attempting transfer pricing.

### Sales of tangible property

“Arm’s-length” pricing rule is generally followed in determining the sale price of tangible property to an affiliate. There are three methods to determine arm’s-length price, which are explained below:

- **Comparable uncontrolled price method:** When the property and circumstances involved are identical, sales between unrelated seller and buyer (uncontrolled sales) are considered comparable to sales between related parties (controlled sales). And uncontrolled sales are taken as the basis in the sale of tangible property to an affiliate.
- **Resale price method:** Important factors that are taken into consideration in this method are level of costs, value addition at each stage, time-frame of resale, computation of gross margin. When a company purchases a product from an associated company and sells the same to another unrelated or independent company, that sales price is called as resale price. Arm’s length price is determined from this resale price by deducting the profit the company made by selling to an independent company. For example, Company A sold a product to its associated company B at ₹ 1000. And Company B sold the same product to Company X, an independent or unrelated company at ₹ 2000. And by selling at ₹ 2000, Company B made a profit of ₹ 500. The Arm’s length price in this case is ₹ 1500 (₹ 2000 - ₹ 500).
- **Cost-plus method:** This method is the most practical method of the three. A majority of US organizations follow this method. In this method, the cost incurred by the supplier (an associated company) in manufacturing the good is determined. Then based on the functions performed and market conditions, mark-up is added to the cost. The method is appropriate when pricing semi-finished goods.

### Block 3: International Marketing Mix

#### Activity 12.2

As a member of the Organization for Economic Co-operation and Development (OECD), India follows the 'Arm's-length' principle, an internationally accepted transfer pricing method in determining the sale of tangible property to an affiliate. Explain various methods of determining 'Arm's-length' transfer pricing that India follows?

**Answer:**


#### **Check Your Progress - 1**

1. In which of the following strategies, the price of the product will be very high in the initial stages of its launch and then decline with the increase in the competition?
  - a. Market penetration strategy
  - b. Premium pricing method
  - c. Market holding strategy
  - d. Full-cost pricing strategy
  - e. Market skimming strategy
2. Which of the following strategy assumes that customers are well aware of the prices in the marketplace?
  - a. Market holding strategy
  - b. Market skimming strategy
  - c. Market penetration strategy
  - d. Full-cost pricing strategy
  - e. Both a & b
3. When the price is set on the basis of the competitive situation in each market and willingness of the customers to buy, then it is called as which of the following?
  - a. Full-cost pricing strategy
  - b. Market skimming strategy
  - c. Market penetration strategy
  - d. Market holding strategy
  - e. Market driven pricing strategy

4. The setting of prices to be charged by one unit (such as a foreign subsidiary) of a multi-unit corporation to another unit (such as a parent corporation) for goods and services sold between such related units is known as which of the following?
  - a. Transfer pricing
  - b. Penetration pricing
  - c. Competitive pricing
  - d. Skimming pricing method
  - e. Both a & b
5. In which of the following pricing methods to determine arm's-length price, does a company purchase a product from an associated company, and sell that to another unrelated or independent company?
  - a. Cost-plus method
  - b. Comparable uncontrolled pricing
  - c. Resale price method
  - d. Competition based pricing method
  - e. Sale Price method

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## **12.6 Other Constraints on International Pricing**

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Companies need to plan and adapt their products to certain other constraints other than price competition in foreign markets that could affect profitability. International pricing is also influenced by factors such as the size of the company and the cultural background of parent company executives.

### **12.6.1 Size of the Company**

Large multinational companies generally use cost-based systems. They enjoy the advantages of size and reach. The more their operations or activities spread across different countries, the higher the opportunities they have in manipulating prices. Operating in markets that are either monopolistic or oligopolistic in nature can lend a protective shield to these companies from competitive pressures, which can bring down their profitability levels. The benefits these companies enjoy by operating in such markets allow them to offer their products at low prices in some other markets, and gain market shares. Thus their size turns out to be a huge advantage in comparison to smaller sized companies during competition.

### **12.6.2 Cultural Background of Firms**

Pricing decisions are also influenced by the cultural background of the parent company. For example, firms based in the US or functioning from the US use cost as the basis in determining the prices. Similarly, firms from Britain, France,

### **Block 3: International Marketing Mix**

and Japan prefer a cost-based approach in deciding the prices. On the other hand, firms with a Scandinavian or Canadian background use market-based prices<sup>10</sup>. The Germans, Dutch, and Italian firms use a combination of these.

The French firms prefer cost-based transfer prices<sup>11</sup>. This form of transfer pricing permits them to transfer their income to regions where the tax rates are lower. The British firms prefer a cost-based approach to prices because the British banking community expects a specific return on the investment made by them in the firms, and also they pay great attention to real rate of return at the year-end. The Germans are more concerned about the fixed asset position and stability of the firm in the long run. Their pricing decisions reflect this concern.

#### **12.6.3 Company Controls and Information Systems**

Transfer pricing mechanism has to be well understood by people managing control and evaluation functions. Lack of clear understanding might lead to unexpected and undesired distortions. Managers might show exceptional performance on account of the benefits incurred through transfer pricing rather than the real growth they generated for their company. Thus the transfer pricing mechanism should not distort the control system and evaluation criteria. Properly designed information systems can ensure this.

#### **12.6.4 Duty and Tariff Constraints**

High duty and tariff rates provide an incentive to reduce transfer prices. On the other hand, low tax rate motivates the firm to increase transfer price to show income in the low-tax environment. Thus the level of duty, tariff and tax rate influence the transfer price levels.

#### **12.6.5 Government Controls**

Government controls often influence the transfer-pricing levels. Governments also force importers to make cash deposits. This type of controls makes companies reduce the price of their products. They reduce the price because, lower price means they can get away by making smaller mandatory deposits. Governments also restrict the way firms transfer their profits.

#### **12.6.6 Joint Ventures**

Companies participating in joint ventures have to reach transfer pricing agreements on different aspects such as:

- Fixing transfer prices when there is a change in exchange rate
- Changes in transfer prices when manufacturing costs come down due to the learning-curve effect

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<sup>10</sup> The prices determined in marketplace based on the demand and supply for the products.

<sup>11</sup> Companies have different subsidiaries within which goods and services are transferred back and forth. In cost-based transfer pricing method, when a subsidiary purchases the good/service from another subsidiary, the cost of producing the good is borne by the purchasing subsidiary.



- Fixing of royalty rates when the parties of the joint venture build new technology or source it from other sources
- When the competition impacts volume and overall margins

Such agreements would avoid conflict between joint venture partners and promote coordination.

**Example: API Players in India Versus China**

Active Pharmaceutical Ingredient (API) is a key raw material in manufacturing of pharmaceutical formulations and India has around 1500 manufacturing plants. Large firms cater to international market and mid to small players export and operate in the domestic market. In spite of many players, India imports 70% of its APIs from China and is more dependent for antibiotics and high burden diseases APIs. For some of the drugs, China is the only supplier and enjoys near monopoly. In developed countries, when international companies change their suppliers, they must get regulator's permission after various tests, which takes around 12- 18 months to get approval. Changing supplier base isn't easy. Even if India's API players qualify, the meaningful shift from Chinese players to Indians can only happen if India can offer cost advantage and low prices. India's raw material cost is 25% higher, electricity cost is 20% higher and other costs are also 30% higher than that of China. However, India enjoys cheap labour and Government has also extended financial support through Production Linked Incentive (PLI) scheme for 53 crucial APIs in India. The government has also established world class infrastructural facilities to promote bulk drug industry. For generic pharma companies, API accounts for 40- 50% cost for most of generic oral tablets and capsules and price plays the most important role. The supplier who can deliver at low cost in this competitive market would emerge as winner. Since the transfer of intellectual property is not much of concern for APIs as compared to that for finished drugs manufacturing, choosing a cost competitive supplier can increase the profit margin. Backward integration is another option for such companies

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ii) Active Pharmaceutical Ingredients (API) Market: APAC to Occupy 66% Market Share (2022, June 14), Retrieved October 21, 2022 <https://finance.yahoo.com/news/active-pharmaceutical-ingredients-api-market-073000253.html>

## 12.7 Global Pricing Alternatives

Pricing of a commodity or the services is dependent on many variants. Adjustments in pricing decisions is inevitable for an enterprise to achieve its goals and objectives. Therefore, pricing alternatives based on a country's demographic

### **Block 3: International Marketing Mix**

features are determined by the goals of the enterprise. Firms operating in international markets follow three pricing approaches, predominantly: ethnocentric, polycentric and geocentric.

#### **12.7.1 Ethnocentric Approach**

A company following an ethnocentric approach follows the same pricing policy throughout the world. The importer of the product will bear the freight and import duties. This approach is convenient to adopt because there is no need to make any modifications to price based on competitive or market conditions. The firm need not put in efforts in order to gather information on these market conditions. But by adopting this approach, a firm might fail to make optimum profits by not fixing the prices of the products based on regional market conditions.

#### **12.7.2 Polycentric Approach**

A firm following Polycentric approach allows its regional managers to fix the product prices based on the circumstances in which they operate. This approach might prove to be not so good, when the disparity in product prices from one region to another is higher than transportation costs and duties. Under such conditions, customers will purchase the products in markets where they are available at low price and ship them to where the prices are relatively high. This will result in loss of revenue for the firm following this approach.

#### **12.7.3 Geocentric Approach**

A firm adopting geocentric approach takes a medium position between fixing a single price worldwide and fixing different prices based on the requirements of subsidiaries. The basic assumption underlying this approach is that markets are unique, and specific factors related to them have to be considered while making a pricing decision. Moreover, the approach takes into consideration the price coordination necessary at headquarters to deal with international accounts and product arbitrage. This is one of the most practical approaches of all other approaches because it takes into consideration both global competition and local rivalry in establishing prices.

#### **Example: iPhone 14 prices in different countries- A regional approach?**

Apple launched iPhone 14 series in September 2022. The price of iPhone 14 varies and is different in different countries. The custom duties, local conditions and taxes also make the final price differ from country to country. Like in India, the Apple iPhone 14's starting price was ₹ 79,900 (September 14, 2022) and it included 22% custom duty and 18% GST. China is a highly competitive market and its starting price (as on September 14, 2022) was ₹ 69,000.

*Contd....*

In Japan, Apple iPhone enjoys 50% market share and hence it has strategically kept the prices low to maintain its market share taking account of Yen's depreciation. Tokyo based research firm MM Research institute surveyed prices of Apple's online stores and found that "the 128-gigabyte model was sold at ¥119,800 (\$830) (based on exchange rate of September 12, 2022) in Japan" and starting price was ₹ 67,000, one of the lowest prices as compared to other Asian countries. The starting price in the US and Canada was ₹ 63,601 and ₹ 67,068 respectively. In UAE, the model is sold at ₹73,711. (Note: The prices in other countries mentioned here, exclude the regional taxes).

Sources: i) Buy iPhone 14 at cheaper rates in these nine nations. Check out list. *The Economic Times*. (2022, September 14). Retrieved October 24, 2022  
<https://economictimes.indiatimes.com/magazines/panache/buzz/buy-iphone-14-at-cheaper-rates-in-these-nine-nations-check-out-the-list/articleshow/94131440.cms>  
ii) iPhone 14 the cheapest in Japan among 37 countries: survey, *the Japan times*, October 6, 2022, Retrieved October 24, 2022 from  
<https://www.japantimes.co.jp/news/2022/10/06/business/tech/iphone-cheapest-in-japan/>

### Activity 12.3

Abbot Laboratories, manufacturer of Similac, an infant nutrient, sets different prices in different regions across the world. Similac is priced around US\$ 6 in the Netherlands while it is around US\$ 22 in the US. The huge disparity in the prices that was higher than the transportation costs incurred in getting the product from the Netherlands to the US. This prompted many people in the US to get the products from the Netherlands. Explain the different types of pricing approaches available to a firm operating in international markets. Which approach did Abbot Laboratories adopt?

**Answer:**


### Check Your Progress - 2

6. In this type of pricing methodology, over and above the cost incurred by the supplier, a fixed percentage is added. Identify the pricing method.
  - a. Resale price method
  - b. Skimming price method
  - c. Comparable uncontrolled pricing
  - d. Mark-Up pricing method
  - e. Cost-plus method

### **Block 3: International Marketing Mix**

7. In which of the following global pricing alternatives do firms allow their regional managers to fix the product prices based on the circumstances in which they operate?
  - a. Ethnocentric approach
  - b. Polycentric approach
  - c. Geocentric approach
  - d. Geo-polycentric approach
  - e. Geo-ethnocentric
8. In which of the following global pricing alternatives do firms adopt the same pricing policy throughout the world?
  - a. Polycentric approach
  - b. Ethnocentric approach
  - c. Geocentric approach
  - d. Ethno-geocentric approach
  - e. Ethno-polycentric
9. A firm adopting which of the following approaches takes a medium position between fixing a single price worldwide and fixing different prices based on the requirements of subsidiaries?
  - a. Ethnocentric approach
  - b. Polycentric approach
  - c. Geocentric approach
  - d. Both Ethnocentric and Geocentric
  - e. Both Geocentric and Polycentric
10. Which of the following aspect is not considered when companies participate in joint venture to reach transfer pricing?
  - a. Fixing transfer prices when there is an exchange rate fluctuation
  - b. Transfer prices changes when the production costs come down.
  - c. Changing transfer price when the trends of the consumers change
  - d. Fixing royalty rates when the companies make new technologies
  - e. When the competition influences the overall margins

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### **12.8 Summary**

- Pricing is a value determination process for the product or service that will be offered for sale.
- Making pricing decisions in international markets is ridden with difficulties as it involves multiple currencies, trade barriers, additional cost considerations, and longer distribution channels.

- Before setting the prices, the marketer must know the target market well. When the marketer is clear about the market it is serving, it can determine the price appropriately.
- The pricing policy must be consistent with the company's overall objectives. Generally, the pricing objectives are -- survival, profit, return on investment, market share, status quo, and product quality.
- International pricing strategies can be classified into three forms -- market skimming, market penetration, and market holding.
- Pricing decisions are influenced by different factors such as inflation, nature of product or industry and competitive behavior, devaluation and revaluation, market demand, and transfer pricing.
- Transfer pricing is the setting of prices to be charged by one unit (such as a foreign subsidiary) of a multi-unit corporation to another unit (such as the parent corporation) for goods or services sold between such related units.
- Transfer pricing is an important issue for a company operating internationally. It is done in three ways -- market based pricing, transfer at cost, and cost-plus pricing.
- "Arm's-length" pricing rule is generally followed in determining the sale price of tangible property to an affiliate. There are three methods to determine arm's-length price -- comparable uncontrolled price method, resale price method, and cost-plus method.
- The size of the corporate, cultural background of firms, company controls and information systems, duty and tariff constraints, and government controls are some of the constraints that determine the transfer pricing mechanism.
- Firms operating in international markets follow ethnocentric, polycentric, and geocentric approaches in pricing.

## 12.9 Glossary

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**Cost-plus Pricing:** It involves adding some percentage to cost.

**Ethnocentric Approach of Pricing:** It refers to the policy of maintaining the same price across different markets.

**Geocentric Approach:** A firm adopting geocentric approach takes a medium position between fixing a single price worldwide and fixing different prices based on the requirements of subsidiaries.

**Inflation:** Inflation is nothing but a continuous rise in price levels, with the value of money becoming lesser.

**Market Holding:** Firms set their prices based on competitive situation in each market and the willingness of the customers to pay.

### Block 3: International Marketing Mix

**Market Penetration:** Prices of products are kept at a very low level in order to gain entry into the market and capture the market share.

**Market Skimming:** A firm charging very high prices for its product(s) to gain maximum revenue.

**Polycentric Approach:** It allows its regional managers to fix the product prices based on the circumstances in which they operate.

**Pricing:** It refers to the value determination process for a good or service, and encompasses the determination of interest rates for loans, charges for rentals, fees for services, and prices for goods.

**Transfer Pricing (or Intra-company Pricing):** It is the setting of prices to be charged by one unit (such as a foreign subsidiary) of a multi-unit corporation to another unit (such as the parent corporation) for goods or services sold between such related units.

#### 12.10 Self-Assessment Test

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1. What is pricing? Discuss the international pricing systems in detail.
2. What are the various global pricing strategies?
3. In what way can pricing decisions be influenced by environmental conditions? What are other constraints (that affect) or factors that have an influence on international pricing?
4. What are the various approaches that firms operating in international markets can follow?

#### 12.11 Suggested Readings / Reference Material

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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.

#### 12.12 Answers to Check Your Progress Questions

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##### 1. (e) Market skimming strategy

Some firms introduce their products in the marketplace by charging a high price. They charge a high price for the uniqueness of their products. As the competition grows, they lower their price. This pricing strategy is known as market skimming strategy.

**2. (c) Market penetration strategy**

According to the market penetration strategy, products are offered at low prices so that once customers use the product, they will develop an interest in the product. They would be ready to pay a price that is equal to the competitors' prices. The success of this strategy depends upon the assumption that customers are well aware of the prices in the marketplace.

**3. (d) Market holding strategy**

Market holding strategy is used by companies that want to retain their market share. Such companies have to set their prices on the basis of the competitive situation in each market and the willingness of the customers to pay.

**4. (a) Transfer pricing**

Transfer pricing is the setting of prices to be charged by one unit (such as a foreign subsidiary) of a multi-unit corporation to another unit (such as the parent corporation), for goods or services sold between such related units. Also known as intra-company pricing, transfer pricing determines the success of the organization by influencing the performance of the subsidiary, the executive compensation, and the taxes paid.

**5. (c) Resale price method**

When a company purchases goods from an associated company and sells that to another unrelated or independent company, that sales price is called as resale price. Arm's length price is determined from this resale price by deducting the profit the company made by selling to an independent company.

**6. (e) Cost-plus method**

In the cost-plus method, the cost incurred by the supplier (an associated company) in manufacturing the good is determined. Then based on the functions performed and market conditions, mark-up is added to the cost. The method is appropriate when pricing semi-finished goods.

**7. (b) Polycentric approach**

A firm following the polycentric approach allows its regional managers to fix the product prices based on the circumstances in which they operate. This approach might not be applicable when the disparity in product prices from one region to another is higher than transportation costs and duties.

### **Block 3: International Marketing Mix**

#### **8. (b) Ethnocentric approach**

A company following an ethnocentric approach follows the same pricing policy throughout the world. This approach is convenient to adopt as there is no need to make any modifications to price based on competitive or market conditions.

#### **9. (c) Geocentric approach**

A firm adopting the geocentric approach takes a medium position between fixing a single price worldwide and fixing different prices based on the requirements of subsidiaries. This approach is the most practical among all the approaches because it considers both global competition and local rivalry in establishing prices.

#### **10. (c) Changing transfer price when the trends of the consumers change**

The changing consumer trends and fashion cannot be a reason for the changing transfer price arrived at by the concerned companies. Joint venture agreements are reached at by the companies to avoid costly mistakes and conflicts and the factors like production cost and fierce competition are the bases on which transfer prices are fixed.



## Unit 13

# Marketing Channel and Place Decisions

### Structure

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- 13.1 Introduction
- 13.2 Objectives
- 13.3 Channel Objectives and Constraints
- 13.4 Channels in Less Developed Countries
- 13.5 Innovations in International Channels
- 13.6 Channel Structure
- 13.7 Channel Strategy for New Market Entry
- 13.8 Summary
- 13.9 Glossary
- 13.10 Self-Assessment Test
- 13.11 Suggested Readings / Reference Material
- 13.12 Answers to Check Your Progress Questions

*“A Product with better distribution will always win over a superior product with poor distribution or customer access. It’s not fair. It’s not right. But it is reality.”*

- Stephen Davis, Managing Director, AXO Advisory Group

### 13.1 Introduction

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The author of the quote underlines the importance of ‘place’ (marketing channels) in the product mix of a company. A great product will win if a company gets its channel decisions right.

In the previous unit, we discussed pricing in international marketing. In this unit, we shall discuss marketing channel and place decisions in the international marketing scenario.

Companies all over the world are increasingly adopting new marketing strategies to cut costs and expand market share. One strategy to achieve this is to add new marketing channels such as direct sales, direct mail and retail sales to existing distribution channels. Companies which use both direct and indirect marketing channels have hybrid marketing channels.

The trend towards hybrid marketing channels began in the 1990s and they are now being extensively used in industries like textiles, office supplies and metal

### **Block 3: International Marketing Mix**

fabricators, apart from computer-related industries. The insurance industry too has begun using hybrid marketing channels.

The adoption of hybrid marketing channels sometimes gives rise to conflicts between channel members and difficulties in control. Conflicts between channel members arise because all of them compete for the same customer revenue and control becomes difficult because indirect channel members are not under complete management control. On the positive side, hybrid channels help the company increase market share and lower costs.

In this unit, we shall first discuss channel objectives and constraints. We shall then move on to discuss channels in less developed countries and innovations in international channels. Finally, the unit shall end with a discussion on the channel structure and the channel strategy for new market entry.

#### **13.2 Objectives**

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

- Underline the constraints and paraphrase the marketing channel's objectives to carve a niche market in the foreign country
- Devise distribution channels in less developed countries while entering these markets
- Identify the marketing channels available to the business units while venturing into international markets to avoid early saturation of product life cycle
- Demonstrate how innovations help in expanding international marketing and distribution channels while operating in markets with varied degrees of economic development
- Design the 'distribution channel structure' to gain competitive edge
- Discuss the channel strategy alternatives that helps in knowing the firm's capacity to adapt and be flexible while entering a new market.

#### **13.3 Channel Objectives and Constraints**

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Marketing channel's objectives outline the long run goals of the firm. They become essential when a firm tries to carve out a niche market. The objectives of marketing channels can be understood better by analyzing their four functions – facilitating the exchange process, alleviating discrepancies, standardizing transactions, and providing customer service.

A marketing channel's most important aim is to facilitate a smooth exchange process between a firm and an individual. As marketing is a process of exchange between a buyer and a seller, channel members are considered exchange facilitators.

When a marketing channel fails to deliver goods that match customer expectations, discrepancies occur. These can be corrected through activities such as sorting, accumulating, allocating, and assorting. Organizations produce a variety of products for several reasons. Some reasons are: to target a bigger market segment and because of increase in the utilization of resources. Distributors facilitate the task of sorting products so that their identification becomes easier and they can be delivered fast. Accumulating is the process of collecting the same product in large quantities. Distributors help both buyers and sellers protect themselves against price and supply fluctuations. Allocating is the process by which larger quantities of homogeneous products are broken down into smaller quantities. Manufacturers sell their products in bulk to wholesalers, who in turn, sell these in bulk to distributors. The distributors sell these products in smaller quantities to customers. Assorting is the process by which the customer's exact requirement is ascertained for a target group of customers. Distributors facilitate the marketers' task of assorting the products for different consumers, according to their tastes and preferences.

Standardizing transactions is another objective of marketing channels. Take the case of the milk delivery system. Here, the distribution is standardized throughout the marketing channel so that consumers do not need to negotiate with sellers on any aspect, whether price, quantity, payment method, or product location.

Customer service includes, installation, training and maintenance of the product and other forms of services required by customers. Distributors too offer these services.

In a typical distribution system, there are two tiers between the manufacturer and the final consumer – the wholesale distributor and retailer. Sometimes, the distribution channel may have additional tiers or fewer tiers than this. An MNC may sell directly to wholesale distributors or retailers or even consumers in some countries, while in others it may employ a full length channel.

#### **Example: How Hilton Improved Direct Bookings by Focusing on Brand Building and Loyalty Programs**

An OTA (Online Travel Agencies) site like Expedia or Bookings.com attracted millions of visitors from all over the world and therefore, 'OTAs' become an inevitable channel partner for Airline companies and hotel chains. Advertising in an OTA site gave greater visibility and higher reach in markets where hotels had no access.

Hilton, a US-based multinational hospitality chain, preferred to promote direct bookings through its web-direct channels. It wanted to overcome the loss of control and erosion in profit margins (due to high commissions on each booking) caused due to over-dependence on OTA channels.

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### Block 3: International Marketing Mix

Hilton began to promote direct bookings by beefing up loyalty programs, price guarantees and making personalized offerings for premium customers. It promoted its web-direct channels and extended all direct booking benefits to the travel agent channel as well. By focusing on customer engagement and promotion of direct relationships and direct business, Hilton's revenue generated through web-directed channels increased at a faster pace than that of OTA channels in 2019.

Hilton's ad campaign that featured Anna Kendrick highlighted the hotel's loyalty programs benefits like discounts while making direct bookings through website or mobile app. Its promotion of 'Honors membership' also contributed to increase in direct bookings.

Hilton's direct-booking strategy was driven by clarity of objectives and the need to overcome the constraints posed by dependence on third-party channels like OTA.

Sources: Michal Christine Escobar, "Hilton hits the mark on direct bookings, loyalty", 22/2/2019

i) <https://hospitalitytech.com/hilton-hits-mark-direct-bookings-loyalty>

ii) <https://hospitalitytech.com/hilton-hits-mark-direct-bookings-loyalty>

iii) <https://www.travelweekly.com/Travel-News/Hotel-News/Hotels-direct-bookings-making-up-ground-on-OTAs> Accessed on 14/09/2022

#### 13.3.1 Differences between Countries in Distribution Channels

Distribution channels play a vital role in delivering the goods and services of the international marketer to the intended 'place' (one of the 4 Ps in marketing mix). Choosing a reliable channel is one of the most challenging task. Distribution channels in various countries differ in terms of retail system, channel length and channel accessibility.

##### Retail system

The retail system in some countries is highly concentrated while in others it is highly fragmented. In a fragmented system, no one retailer caters to a significant portion of the market. In a concentrated system, a small number of retailers serve a majority of consumers. In the US and Germany, a small number of retail chains control a majority of the market for food products and groceries. In India, retail distribution is highly fragmented and no particular chain caters to a significant percentage of the market. While one reason for differences in the retail system could be the level of economic development, history and tradition also contribute to differences. In countries where people lead busy lives, they spend weekends shopping. To serve such customers, large shopping malls with all facilities are located at a select few places where customers can drive in and spend some time. Therefore, the retail outlet concentration is high in such countries. Retail outlets are highly dispersed in countries like China, Japan and India, where the lifestyle is different.

The efficiency of distribution channels also varies from country to country. The channels of distribution in developing countries are not well developed. The channel length and its accessibility also influence a company's distribution strategy.

**Channel length**

Channel length is the number of intermediaries between the producer and the final consumer of the product. If a firm sells its products directly to consumer, the channel is short, i.e. there is only the producer and the consumer. If a product passes through intermediaries like the import agent, wholesaler and retailer before reaching the customer, the channel is long. The choice of channel is a strategic decision for a firm. The decision depends on the type of retail system in the country. In a location where the retail system is highly fragmented, firms cannot afford to make sales calls to each retailer. Firms prefer to deal with a few wholesalers rather than employ a huge sales force to supply to widely scattered retailers. For example, in India, there are two or more layers of wholesalers between the firm and retail outlets. In advanced countries like the US, Germany and Great Britain, the retail sector is concentrated, making it profitable for firms to deal directly with retailers.

**Channel accessibility**

This refers to the ease with which a new firm can access shelf space in retail outlets. Major supermarket chains as well as small retail outlets prefer to carry products of well-known companies and are hesitant about stocking new and unknown products. Sometimes, manufacturers and distributors may have been trading for a long period of time. Often, the manufacturer promises attractive margins to the distributor for not stocking a competitor's product. Such mutual agreements are common in Japan, making it difficult for foreign firms to access distribution channels.

**13.3.2 Constraints**

There are various constraints in the designing of international channels so that they fit the company's objectives. These include customers, product, intermediaries, and the environment. Given below are the characteristics of each of these:

**Customers**

The number of customers, geographical distribution, income, shopping habits, and reaction to different selling methods vary from country to country. They are crucial in determining the channel design. Irrespective of the stage of market development, the need for multiple channel intermediaries is proportionate to the number of customers. The higher the number of customers, the higher will be the number of multiple channel intermediaries.

### **Block 3: International Marketing Mix**

#### **Product**

Product attributes such as degree of standardization, perishable nature, bulk, service requirements, and unit price influence the channel design and strategy. For example, products with high unit price are generally sold using a direct company sales force. One obvious explanation is that the cost of selling through the sales force, though higher compared to other distribution methods, forms only a small part of the total sales price. Also, expensive products, in most cases, have complex features. Detailed explanation of these product features is necessary for the user to derive maximum value. A sales force is in a better position to provide such an explanation.

#### **Intermediaries**

It is feared that intermediaries are interested in maximizing their own profits and are not concerned about manufacturer's profits. To further this end, they prefer manufacturers with products and brands in high demand. Though this may be considered rational, it creates problems for manufacturers who are introducing new products in a new market. This forces the manufacturer to setup a direct-distribution channel in international markets.

#### **Environment**

The characteristics of the total environment should be considered while deciding on the channels. An international environment comprises a variety of economic, social and political factors. To operate in such environments successfully, adequate freedom has to be given to local operating managements or agents. Taking a super-market as an example, factors such as income level, whether the customer owns a large-capacity refrigerator with a large freezer unit, whether customers accept frozen and convenience foods, and their attitude towards food preparation are crucial aspects in deciding whether the supermarket or self-service one-stop food store will be a success. If these factors are all acceptable, then the supermarket can become the basic food retailing unit in that country. In contrast, in a country like India, preferences of the people tend towards freshly cooked food.

#### **Activity 13.1**

US-based All-Fresh Fruits and Syrups Inc., (All-Fresh Fruits), manufactures beverage concentrates. The CEO of the company wants to expand into the European and Asian markets. He, therefore, wants to know the possible constraints the company might encounter in designing international channels. Discuss some of the typical constraints All-Fresh Fruits has to consider while designing an international channel.

<b>Answer:</b>

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**Check Your Progress - 1**

1. Which of the following refers to the process of collecting the same product in large quantities?
  - a. Sorting
  - b. Assorting
  - c. Allocating
  - d. Accounting
  - e. Accumulating
2. Which of the following refers to the process by which the customer's exact requirement is ascertained for a target group of customers?
  - a. Assorting
  - b. Sorting
  - c. Accumulating
  - d. Allocating
  - e. Accounting
3. 'A single retailer cannot cater to a significant portion of the market'. To which of the following retail systems does this sentence refer to?
  - a. Integrated system
  - b. Fragmented system
  - c. Concentrated system
  - d. Diluted system
  - e. Disintegrated system
4. The number of intermediaries between the producer and the consumer is known as which of the following?
  - a. Channel depth
  - b. Channel width
  - c. Channel length
  - d. Channel consistency
  - e. Channel height

### Block 3: International Marketing Mix

5. The choice of channel is a strategic decision for an organization, and it is mostly dependent on which of the following?
- Type of customers
  - Channel length
  - Channel accessibility
  - Channel height
  - Type of retail system in the country

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#### 13.4 Channels in Less Developed Countries

Established companies, when entering international markets, choose emerging and less-developed markets when they saturate in developed economies. They are often lucrative for international business expansion. To avoid risk of loss in these markets, they sell their products through various distribution channels like choosing independent local distributors or through joint ventures. In the beginning, sales grow fast. Gradually, stagnation sets in. Sales growth slows down. Company managers start blaming others for this. For example, they find fault with local distributors, who were the ones who helped the company grow in the entry stage.

Generally, local markets in less developed countries are regulated or dominated by networks of local intermediaries. Internationally operating companies have to partner with these distributors to gain access to their unique expertise and knowledge. Knowledge includes understanding of local business practices and regulations. These distributors also have expertise in hiring and managing local personnel and have access to potential customers. To capitalize on this knowledge and expertise, global companies enter into distribution agreements with local distributors. In this process, companies cede some control over strategic marketing decisions to local distributors, compared to what they do in their home markets.

##### **Example: How Drones Delivered Covid-19 Vaccines in India to Save Lives**

The World Economic Forum's 'Medicine from the Sky' initiative has been using drones to deliver vaccines and life-saving medicines to remote areas in India and other countries. Earlier WEF used drones to deliver tuberculosis medicines in Papua New Guinea and Ebola medicines in Liberia. Drones are an effective means of delivery of medicines to remote and hilly places that lack infrastructure and conventional transportation facilities.

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Indian Government faced major hurdles in delivering Covid-19 vaccines in remote and hilly areas. Supplies got damaged and stranded enroute and difficult weather conditions also posed major challenges. The GOI used drones to enable faster delivery of life-saving vaccines to vulnerable populations. Drones are particularly useful where road infrastructure is lacking and where transporting vaccines through refrigerated vans could pose a major challenge. Jyotiraditya Scindia, India's Civil Aviation Minister launched this program in Telangana on 14<sup>th</sup> September 2021. WEF's 'Medicine from the Sky' initiative was launched in Arunachal Pradesh on 15<sup>th</sup> August 2022.

The drone delivery initiative has the potential to improve healthcare equity in remote areas. It helps reduce wastage and improve health outcomes. The pilot projects launched in India would help the Government develop guidelines for decision makers and health systems to identify opportunities and overcome challenges in delivering lifesaving medicines and vaccines through drones.

Sources: "How Drones delivering vaccines are saving lives in India", World Economic Forum, 15/08/2022

i) <https://www.weforum.org/impact/drones-delivering-vaccines/>

ii) <https://currentaffairs.adda247.com/medicine-from-the-sky-initiative-launched-in-telangana/>

ii) <https://timesofindia.indiatimes.com/business/india-business/drone-delivery-wefts-medicine-from-the-sky-to-be-launched-in-arunachal/articleshow/93570973.cms>

Accessed on 14/09/2022

### 13.4.1 Complaints of Managers

Some common complaints of managers working for global companies are:

- Distributors have no clue how to increase sales
- Distributors do not invest in business growth
- Distributors are not ambitious enough

Let us discuss each of these.

#### **Distributors have no clue how to increase sales**

Companies operating in international markets get their initial sales when local distributors sell the companies' proven, core products to existing customers. As time passes, the nature of the challenge also changes. Distributors may have to introduce new products and distribute old products in new segments. This is when distributors begin struggling to generate sales. Managers complain grumbling that distributors do not have the necessary skills to bring in adequate sales for the company.

#### **Distributors do not invest in business growth**

In the entry stage, firms operating in international markets give exclusive distribution rights to distributors. This is meant to encourage investment by

### Block 3: International Marketing Mix

distributors. Sometimes, they enter into agreements with local distributors to ensure a minimum level of investment by the latter. Yet, company managers often are not satisfied with the level of investment distributors make to promote their products.

#### **Distributors are not ambitious enough**

Managers of international companies also attribute slowdown in sales to lack of ambition on the part of distributors. They feel distributors do not want to dominate the marketplace, but prefer stability. In other words, they aim at building mid-size businesses that generate enough wealth and do not create problems related to control.

#### **13.4.2 Complaints of Distributors**

If these are the complaints of managers, distributors too have their own set of grievances. Distributors feel that they do not get adequate support from the company to increase sales. Distributors also complain that companies have too much expectations and that it is difficult to deal with them owing to internal politics.

In reality, the problem is neither with the company nor the distributors alone. Once a company enters into the international markets, both the company and the distributors tend to neglect making adequate investments in strategic marketing. They do not put adequate efforts into business development. This can be considered the crux of the problem.

#### **Activity 13.2**

Tsuang Inc., is a Japanese electronic toy manufacturing firm. The firm expanded its business to the Middle East and employed local distributors there. In the initial stages of its entry, the company experienced good sales but soon the sales declined. The drop in sales in the Middle East market was attributed to the strained relationship between the company and its distributors. The management of the company blamed the distributors and they (distributors) in turn blamed the management of the company. Discuss some of the usual complaints made by the managers against local distributors.

#### **Answer:**


### 13.5 Innovations in International Channels

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Marketing channels across the world are highly differentiated. Innovations in channels are considered as ‘webs of capabilities embedded in an extended enterprise’ by managers of firms. – Harvard Business Review<sup>12</sup>.

The following points explain innovations in international channel distribution.

Innovations generally happen in highly developed markets. In economically less developed countries, usually only adaptations can be seen. Marketing channels in less developed countries are often those that were tried and tested in more developed environments

The level of economic development determines the ability to successfully innovate.

Even when the economic environment is conducive to innovations in channels, the process of adaptation is hindered by local demographic/geographic factors, social norms, government actions, and competitive pressures

The innovation and adaptation process is accelerated by aggressive individual firms.

Let us take self-service as an example of innovation. Self-service<sup>13</sup> is a major channel innovation in the 20th century. Self-service as a practice is prevalent in developed countries. In economically less-developed countries, it is not so common. After its introduction and success in developed countries, the practice took on in less developed countries. However, it is still not so widespread in developing/less developed countries. The economic reason behind this might be that in underdeveloped countries, there is more need to give jobs to a large number of people. The concept of self-service denies people jobs.

When markets reach a suitable level of economic development where they can support channel innovation, the actions of well-managed firms can promote diffused channel innovation. Firms like McDonald’s have improved, refined and expanded channel innovations outside their home countries.

**Example: Tractor Junction: India’s Innovative Digital Marketplace for Buying and Selling Tractors**

Tractor Junction (TJ), A Noida-based E-Commerce Market Place for Tractors and associated products was founded in 2019 by Animesh Agarwas, Rajat Gupta and Shivani Gupta.

*Contd....*

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<sup>12</sup> Adapted from James A. Narus & James C. Anderson, “Re-thinking Distribution: Adaptive Channels”, HBR, 1996.

<sup>13</sup> Self-service is a type of service where customers handle and select merchandise themselves in a store without much involvement of sales personnel.

### Block 3: International Marketing Mix

TJ facilitates buying, selling, financing, and insuring of new and used tractors. It has revolutionized the rural vehicle space by giving required information on farm machinery, vetted reviews and further enabling comparison of shortlisted purchase options and ushering price transparency.

TJ, an innovative startup, is helping rural customers overcome challenges like information opacity and unfair pricing. It helps well known MNC and Indian tractor brands and their dealers to reach out to targeted audience willing to buy advanced models. The marketplace features more than 20 brands that have a variety of features to appeal to the farmers' needs. In the site's tractor segment, a customer can gather information about mini tractors, upcoming tractors, popular tractors and used tractors at desired price range. Users can identify the tractors of their choice by filtering price, HP Power and brand. Under the used tractor section, customers can select the State, District and Brands to buy tractors at the best price without getting cheated.

TJ's 'Compare Tractors' section, allows users to compare tractor brands, models, and price aspects with little difficulty.

*Source: "Rural vehicle marketplace Tractor Junction raises \$5.7 mn in seed funding", Business Standard, 28/04/2022*

i) [https://www.business-standard.com/article/companies/rural-vehicle-marketplace-tractor-junction-raises-5-7-mn-in-seed-funding-122042800292\\_1.html](https://www.business-standard.com/article/companies/rural-vehicle-marketplace-tractor-junction-raises-5-7-mn-in-seed-funding-122042800292_1.html)

ii) <https://yourstory.com/2022/04/funding-alert-rural-vehicle-tractor-junction-seed-info-edge-omnivore/amp> Date of Access: 14/09/2022

### 13.6 Channel Structure

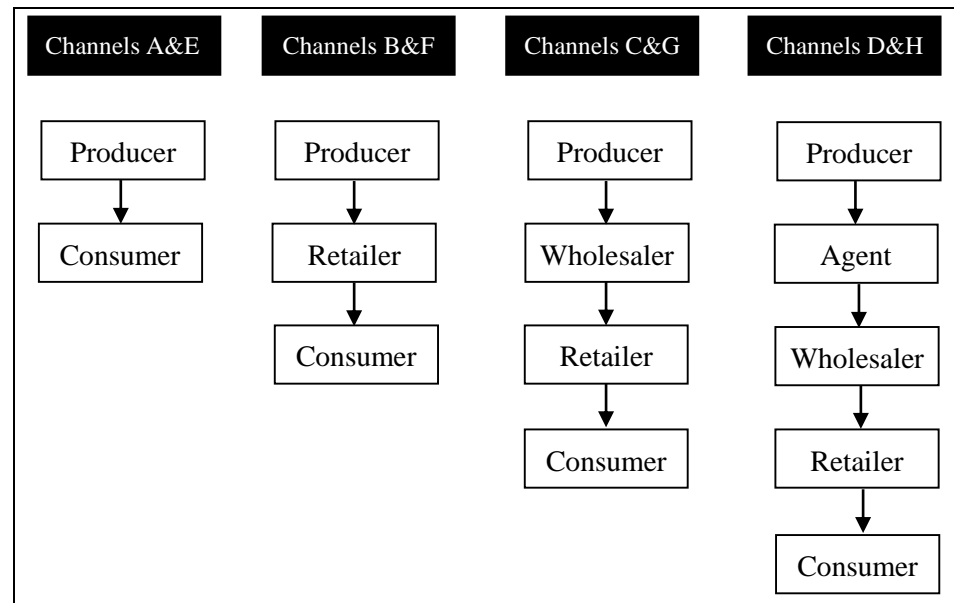
A properly designed distribution channel helps a company achieve sustainable competitive advantage. Channel structure varies depending on the customer.

The structure of a channel meant to distribute consumer goods will differ from that used to distribute industrial goods. Refer Figure 13.1 for the various channel structures.

Channel structure A is the simplest of all structures. However, it may not be most effective in reaching the intended customer. Service channels generally follow this structure, because to provide the service, they have to be located where the service is needed. Channel structure B includes retailers too. This model increases transportation and inventory costs. The structure is popular in categories such as shopping products, clothing and automobiles. Channel structure C includes wholesalers in the list of intermediaries. Retailers' part of this structure is usually small in size. They offer widely distributed and convenience products. In Channel structure D, it is seen that the agent too can be an intermediary. This structure is most efficient for the consumer foods category, where there are a number of small producers. Channel structure E is suitable for expensive items that need after-sales support. When Channel structure F is followed, the distributor takes the title

of the goods. This is suitable when there are a large number of customers. Channel structure G is suitable for firms that cannot afford a marketing department or sales force. In their place, an agent performs these tasks. Similarly, structure H is useful when there are a large number of customers.

**Figure 13.1: Consumer Channels**



Source: ICFAI Research Center

### Example: D2C Business Models are Disrupting India's Consumer Markets

Multi-million-dollar Indian startups are disrupting the Indian consumer market by reaching and selling their products directly to consumers. 'Mamaearth', a company that started off by selling safe, cruelty free and organic baby products has expanded to become a household name in the personal care industry. 'boAt' (a fast-growing audio and wearables brand), Lenskart (optical prescription eyewear chain) and Sugar Cosmetics and many others are all D2C business models that have simplified channel structure by eliminating middlemen. These new age brands have improved efficiency in their internal processes and created value for customers and pose challenges to MNC countries.

Internet technology enables new age brands to launch and directly sell their products to consumers. Direct contact with customers provides these companies opportunities to engage and connect with customers directly, improve customer satisfaction and loyalty. D2C model eliminates inefficiencies and delays in product delivery associated with traditional channels and thus the profit margins are high.

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### Block 3: International Marketing Mix

Most Indian D2C startups have chosen niche areas so that they are recognized in the specific market space. D2C brands across India were able to increase their sales during the Covid pandemic because of the safety and convenience of purchasing online. The D2C trend would continue to grow and would give rise to many unicorns in the future. Indian D2C brands are also selling to the Indian diaspora in foreign countries and to global buyers where their products enjoy popularity.

Source: "Top 24 leading D2C brands in India to watch out for in 2022", *Startuptalky.com*. 12/4/2021

<https://startuptalky.com/top-d2c-brands-india/>

<https://insider.finology.in/startups-india/d2c-brands-in-india>

Accessed on 14/09/2022

#### 13.6.1 Wholesale Intermediaries

Transactions between parties that do not involve the ultimate consumer are considered wholesale transactions. There is a clear difference between a wholesaler and a retailer. A wholesaler sells more than 50% of goods to an intermediary. A retailer sells over 50% of goods to the ultimate consumer.

There are two types of wholesale intermediaries: merchant intermediaries and functional intermediaries.

#### 13.6.2 Merchant Intermediaries

Merchant intermediaries buy products and resell them. They can be further classified into full service wholesalers and limited service wholesalers.

Full service wholesalers offer the widest possible range of functions. They offer general merchandise, limited lines and specialty lines. General merchandise comes up with wide unrelated mix and limited depth. A limited line includes only a few products but an extensive assortment. A specialty line includes a narrow range of products.

Limited service merchant wholesalers provide only a few marketing support functions. Cash and carry wholesalers charge customers for providing transportation facilities. Truck wholesalers operate rolling warehouses and offer a limited line of products to customers. Customers can buy products from the trucks. The trucks follow regular routes and carry perishable products. Drop shippers are similar to desk jobbers. They take the title, negotiate sales but do not take possession of the goods. Mail order wholesaler's use catalogues to make their sales.

#### 13.6.3 Functional Intermediaries

Functional intermediaries do not buy. Instead, they negotiate and expedite exchange among producers and resellers, and charge fees and/or commission for services rendered. Some functional intermediaries are referred to as agents. They represent buyers and sellers on a permanent basis. Brokers also come under the functional intermediaries' category. Manufacturers' agents represent two or more

manufacturers. They handle non-competing or complementary products and offer customers a complete line. The selling agent sells either a specific line or the entire output of the manufacturer. The commission merchants concentrate mostly on selling. They receive goods on consignment from local sellers and negotiate their sale in large central markets. Brokers assume no risk. They negotiate exchanges and perform intermediary functions.

### 13.7 Channel Strategy for New Market Entry

A channel strategy is the technique of taking the products and services to the end users through the chain of commerce. Initially, while entering international markets, MNCs enter into partnerships with local distributors. At this stage, this strategy appears sound because distributors possess knowledge of distinctive characteristics of local markets. Customers too trust products sold by local partners. Changes might be necessary later. For example, an MNC can create its own subsidiary for distribution of products.

#### **Example: Walmart's Channel Strategy for Entry into Indian Market**

In all countries where Walmart operates, it sells its products directly to customers. However, in India, Walmart operates as a cash-and-carry operator or wholesaler selling its merchandise to smaller retailers, hotels, and catering firms. This channel strategy was adopted by Walmart to overcome the legal restrictions in India on investments by foreign companies. India permits only 51% FDI (Foreign Direct Investment) in multi-brand retail stores.

The cash-and-carry format stores operate on low margin incurring huge real estate costs. In India, over 90% of all retail sales happens through the 10 million kirana stores (small-size mom-and-pop stores) spread across India. While manufacturers sell products directly to kirana stores located in urban areas, they service rural customers through cash-and-carry format stores. This distribution strategy helps organized retail giants like Walmart to gain market share in the retail space. As of 2020, Walmart operated 24 Best Price Stores in India and it plans to open 50 more in the future.

Walmart acquired Flipkart in 2018 and through this move the company has entered other retail formats like digital e-commerce.

Walmart has thus gained entry and is expanding its presence in the retail space by serving Indian consumers, suppliers and kirana retailers through their wholesale cash-and-carry business (Best Stores) and e-commerce platforms.

Source: Zak Dychtwald, "How Wal-Mart is pivoting its strategy to win the Indian market", *Daily News, TVJ*, 19/06/2020

i) <https://www.tvj.co.in/how-walmart-is-pivoting-its-strategy-to-win-the-indian-market/>

ii) <https://www.forbes.com/sites/walterloeb/2019/06/04/walmart-expects-business-in-india-will-get-easier/?sh=40a0f6b83a76>

Accessed on 14/10/2022

### **Block 3: International Marketing Mix**

#### **13.7.1 Evaluating Channel Alternatives**

Before selecting a specific channel for distribution of products or services in international markets, a firm evaluates channel alternatives on the basis of three criteria – economic, control and adaptive.

##### **Economic criteria**

While evaluating channel alternatives, the first question a firm needs to ask is: which channel member can produce more sales? Although the company's sales force might be better equipped and trained to sell the company's products, it is possible that a specialized sales agency might be able to sell more. The reason can be the customers' willingness to deal with sales representatives dealing in several brands of the same product rather than a specialized sales representative dealing in a single brand. By giving commissions to specialized agencies, the company can increase sales.

The next question to be asked is: what are the relative costs involved in selling different amounts through the two intermediaries?

The fixed costs incurred in using a sales agency are lower than those for developing a company's sales force. However, these costs go up as sales increase, owing to higher commissions paid out. From the graph, it is evident that selling costs are the same for both channels at the level ( $S_e$ ). Therefore, we can infer from the graph that for sales volume that is below  $S_e$ , it is better to use a sales agency and for sales volume above  $S_e$ , it is better to use the company's sales force. In other words, companies should use an external sales force when the sales volume is lower.

##### **Control criteria**

Usually, firms are not self-sufficient. They need to depend on the services of external agencies. However, the more the dependence, the less it can control strategic planning. Therefore, while selecting an intermediary, a company has to strike a balance between the need to control important functions and to get market share with external agencies' help at a given expenditure level. Thus, control becomes a major issue while evaluating a channel alternative.

##### **Adaptive criteria**

The last criterion in evaluating channel alternatives is the adaptive nature of the relationship between manufacturer and distributor. There should be agreed commitment levels from both sides before business begins. If the channel member is committed, then he or she will try to maintain the relationship with the manufacturer. Channel members who operate in a turbulent atmosphere will try to structure the channel so that they can adapt to changes by altering the channel strategy.



The following principles will be useful to firms when entering into distribution relationships.

### **13.7.2 Select Distributors**

Entry into new international markets is a strategic decision. It needs objective market assessment and thorough planning. In general, this rarely happens. MNCs move into new countries at the initiative of potential distributors in those countries. These distributors approach the MNCs at trade fairs and the MNCs agree to give out distributorships because much of the risk is borne by the distributors.

However, these eager potential distributors may be wrong partners to start with. Most of the time, these distributors distribute the products of competitors too. From the MNCs' point of view, the distributors appear logical choices as they are already distributing similar products and understand the intricacies involved. In truth, by distributing most brands in a category, these distributors are trying to control the category. They are in a comfortable market position and want to maintain status quo and existing market structure. When a distributor is concerned only with maintaining current position, it is possible that risk taking will be avoided. This means the MNC's sales might not grow significantly after the initial quick growth.

### **13.7.3 Select Distributors Who Can Develop Markets**

It is important that companies select distributors who can develop markets and not those who just have consumer contacts. While choosing a distributor in an international market, an MNC must go for a long-term relationship. This is possible only when the distributor's culture and strategy is compatible with the MNCs. The MNC should be comfortable with the investment the distributor is willing to make and the training to be provided to employees. The company, on its part, must lend the necessary support. It is possible that a distributor chosen based on these criteria may have no experience in the relevant market. There is a risk in this, but it has been proved successful.

In other words, an MNC may have to say "no" to a distributor with the right customers who can generate quick sales and "yes" to an inexperienced partner willing to invest on market development.

### **13.7.4 Treat Local Distributors as Long-Term Partners**

An international company must treat distributors as marketing partners, to motivate them to invest in long-term market development. In return for investment from distributors, the company can grant exclusive national distribution rights. Another effective way to motivate distributors is to create an incentive structure for reaching appropriate goals such as customer acquisition and new product sales.

### **Block 3: International Marketing Mix**

However, this rarely happens. The majority of firms entering international markets convey to their local distributors, directly or indirectly, that the relationship is going to be short-term. They even enter into contracts to buy back distribution rights. Under short-term arrangements, local distributors have no incentive to undertake business development. Also, conflict can arise when firms look for short-term gains. To boost their re-acquisition price<sup>14</sup>, some distributors try to increase sales revenue by cutting prices, harming the market positioning of the company.

#### **13.7.5 Support Market Entry**

MNCs can support market entry by contributing money, managers and marketing ideas. To have strategic control, MNCs have to commit adequate corporate resources. This is necessary at the market entry stage, particularly when both MNCs and distributors are uncertain about prospects in new countries. Traditionally, MNCs have showed their commitment by providing technical and sales personnel and training distributor employees.

Nowadays, when MNCs are operating in strategically important markets, they are buying minority stakes in autonomous distribution companies. Though this can increase the risk (because the MNC is committing itself both as a manufacturer and a distributor) associated with entering the market, and might not give absolute control over distribution activities, it can lead to cooperative marketing based on shared information.

#### **13.7.6 Maintain Control over Marketing Strategy**

Distributors should have the freedom to adapt the multinational's strategy to local conditions. But, MNCs should convene and lead planning sessions and exercise authority over which products to sell and how to position them. By this, an MNC can realize the full potential of its global marketing network.

There are other ways to control distributors. Sending their employees to distributor sites is one method MNCs frequently adopt. Some MNCs also appoint country/regional managers to watch distributor performance and customer service closely. This helps guard against distributors' tendency to cut prices instead of using the right methods to generate sales.

#### **13.7.7 Get Detailed Market and Financial Performance Data from Distributors**

An MNC has to get quality information from the marketplace. Mainly, distributors are the source for quality information on consumer tastes and preferences. MNCs can enter into agreements with distributors to get access to their detailed market and financial performance data. Data is also important because it reveals the distributor's way of operating.

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<sup>14</sup> Re-acquisition price is the amount required to repay previously issued debt in a refunding transaction

### **Create link among national distributors**

An MNC should create links among its national distributors. To facilitate this, it can create a regional corporate office or independent network like a distributors' council. The formation of such a body can lead to transfer of ideas in local markets. Performance levels will improve. It can also result in better execution of international strategies.

### **13.7.8 Strategic Decisions Pertaining to Distribution Channels**

Before an MNC distributes its products in foreign markets, it has to make strategic decisions on the type of marketing channel it is going to adopt. Xiaomi, the China-based mobile phone manufacturer, entered India through online route and is slowly spreading its presence through offline channel as well.

Whether to choose a direct or an indirect channel of distribution or to adopt selective or intensive distribution are some important choices for senior management.

#### **Direct vs. Indirect Channels**

Sales volume determines the channel suitability. Firms prefer direct channels when the sales volume is high. Indirect channels are appropriate when markets are small and wholesaling is fragmented. However, if a firm wants to maintain a strong position consistently, it should go for a direct channel.

#### **Selective vs. Intensive Distribution**

When a firm adopts an intensive distribution approach, every distributor willing to distribute gets a chance to distribute the company's products. When a firm adopts a selective distribution approach, only a few selected distributors get the opportunity. Customarily, when an international firm enters a new country, it prefers to give distribution rights only to distribution firms operating at the national level. An MNC sometimes uses selective distribution to attract distributors. Distributors show interest because competition with other distributors is limited. Selective distribution is suitable in markets where the distribution of income is uneven and the firm wants to market only to a particular segment. For example, when a firm is selling industrial products in small markets, where targeted customers are concentrated in particular areas, it sells through selective channels.

#### **Activity 13.3**

U&V Co., is a cosmetic manufacturing company in France. The company wants to expand its business into international markets. It first wants to test other markets for its Sun-Tan lotion before getting into full-fledged business. The product is aimed at the premium segment and the company has to make certain strategic decisions pertaining to distribution channels before it goes into the international markets. Discuss in brief the various alternative distribution channels available to the company. Which one do you suggest for U&V?

### Block 3: International Marketing Mix

<b>Answer:</b>

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#### **Check Your Progress - 2**

6. Managers working for global companies have certain complaints against the company's distributors. These include which of the following?
  - i. Distributors do not have the necessary skills to bring in adequate sales for the company.
  - ii. The level of investment made by the distributors to promote their products.
  - iii. Distributors do not want stability, but want to dominate the market-place
  - a. Only i and ii
  - b. Only i and iii
  - c. Only ii and iii
  - d. i, ii, and iii
  - e. Only ii
7. Identify the complaints of distributors about companies that operate in international markets.
  - a. They feel that they do not get adequate support from the company to increase sales
  - b. They complain that companies have too many expectations
  - c. They feel that it is difficult to deal with the companies due to internal politics
  - d. They feel that they do not get adequate support from the marketing teams to increase sales
  - e. They complain that companies have too many expectations and feel that it is difficult to deal with the companies due to internal politics
8. Which of the following distribution is suitable in markets where the distribution of income is uneven and the firm wants to market only to a particular segment?
  - a. Fragmented
  - b. Multi-level channel
  - c. Selective
  - d. Intensive
  - e. Exclusive

9. Which of the following is a distribution approach, where every distributor willing to distribute gets a chance to distribute the company's products?
  - a. Selective distribution
  - b. Intensive distribution
  - c. Exclusive showrooms
  - d. Boutiques
  - e. Extensive distribution
10. Which of the following statements is false regarding functional intermediaries?
  - a. They negotiate and expedite exchange among producers and resellers.
  - b. Agents, brokers, cash and carry wholesalers are all functional intermediaries.
  - c. They do not buy goods.
  - d. They buy goods.
  - e. Agents and brokers are intermediaries.

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### **13.8 Summary**

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- Marketing channels are created to facilitate the exchange process, alleviate discrepancies, standardize transactions, and provide customer service.
- In a normal situation, a distribution system consists of two levels of players between the manufacturer and the consumer. These players are wholesale distributors and retailers.
- Distribution channels in different countries are dissimilar in terms of the retail system, channel length and channel accessibility.
- Characteristics of customers, product attributes, intermediaries, and the environment influence the mode of channels.
- The mode of channel is also affected by a variety of economic, social and political factors.
- Generally, local markets in less developed countries are regulated or dominated by networks of local intermediaries.
- Internationally operating companies have to partner with these distributors to gain access to their unique expertise and knowledge.
- Channel innovation depends on many factors like level of economic development of the country in which the firm is operating, local demographic/geographic factors, social norms, government actions, and competitive pressures.
- A properly designed distribution channel will help a company achieve a sustainable competitive advantage.

### Block 3: International Marketing Mix

- Channel structure varies depending on the customer. Transactions between parties that do not involve the ultimate consumer are considered wholesale transactions. There are two types of wholesale intermediaries: merchant intermediaries and functional intermediaries.
- An international firm must take adequate care when entering into agreements with distributors. This can make or mar its chances of success. A firm can choose direct or indirect channel based on requirements. It can similarly go for selective or intensive distribution depending on the need.

### 13.9 Glossary

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**Channel Accessibility:** This refers to the ease with which a new firm can access shelf space in retail outlets.

**Channel Length:** It is the number of intermediaries between the producer and the final consumer of the product.

**Channel structure:** A properly designed distribution channel.

**Intensive Distribution Approach:** Every distributor who is willing to distribute the company's product gets a chance to do so.

**Merchant Intermediaries:** They buy products and resell them. They can be further classified into full service wholesalers and limited service wholesalers.

**Selective Distribution Approach:** When a few selected distributors get an opportunity to distribute the company's product.

**Wholesale Transactions:** Transactions between parties that do not involve the ultimate consumer are considered wholesale transactions.

### 13.10 Self-Assessment Test

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1. Discuss the objectives of marketing channels. How do distribution channels in different countries differ? What are the constraints for a firm in the designing of international marketing channels?
2. How do the channels in less developed countries function? What are the complaints of managers and distributors working for global companies?
3. Explain the innovations that have taken place in the international channel distribution.
4. Discuss channel structure. What are the various channel structures that an organization can adopt?
5. What kind of channel strategies can organizations adopt while entering a new market? In what ways can a firm evaluate channel alternatives for the distribution of its products or services in international markets?

### 13.11 Suggested Readings / Reference Material

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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.
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### 13.12 Answers to Check Your Progress Questions

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**1. (e) Accumulating**

When a marketing channel fails to deliver goods that match customer expectations, discrepancies occur. These can be corrected through activities such as sorting, accumulating, allocating, and assorting. Accumulating is the process of collecting the same product in large quantities.

**2. (a) Assorting**

When a marketing channel fails to deliver goods that match customer expectations, discrepancies occur. These can be corrected through activities such as sorting, accumulating, allocating, and assorting. Assorting is the process by which the customer’s exact requirement is ascertained for a target group of customers. Distributors facilitate the marketers’ task of assorting the products for different consumers according to their tastes and preferences.

**3. (b) Fragmented system**

The retail system in some countries is highly concentrated, while in others, it is highly fragmented. In a fragmented system, no one retailer caters to a significant portion of the market. In a concentrated system, a small number of retailers serve a majority of consumers.

**4. (c) Channel length**

Channel length is the number of intermediaries between the producer and the final consumer of the product. If a firm sells its products directly to consumer, the channel is short, that is, there is only the producer and the consumer. If a product passes through intermediaries like the import agent, wholesaler, and retailer before reaching the customer, the channel is long.

### **Block 3: International Marketing Mix**

**5. (e) The type of retail system in the country.**

The choice of channel is a strategic decision for a firm. The decision depends on the type of retail system in the country. In a location where the retail system is highly fragmented, firms cannot afford to make sales calls to each retailer. Firms prefer to deal with a few whole-salers rather than employ a huge sales force to supply to widely scattered retailers.

**6. (a) Only i and ii**

Some common complaints of managers working for global companies are: distributors have no clue how to increase sales; distributors do not invest in business growth; and distributors are not ambitious enough. Managers of international companies attribute slowdown in sales to lack of ambition on the part of distributors. They feel distributors do not want to dominate the marketplace, but prefer stability.

**7. (d) They feel that they do not get adequate support from the marketing teams to increase sales.**

Distributors have their own set of grievances about companies operating internationally. They feel that they do not get adequate support from the company to increase sales. They also complain that companies have too much expectations and that it is difficult to deal with them owing to internal politics.

**8. (c) Selective**

When a firm adopts a selective distribution approach, only a few selected distributors get the opportunity. Distributors show interest because competition with other distributors is limited. Selective distribution is suitable in markets where the distribution of income is uneven and the firm wants to market only to a particular segment.

**9. (b) Intensive distribution**

Before an MNC distributes its products in foreign markets, it has to make strategic decisions on the type of marketing channel it is going to adopt, that is, direct or indirect channel of distribution, or selective or intensive distribution. When a firm adopts an intensive distribution approach, every distributor willing to distribute gets a chance to distribute the company's products.

**10. (b) Agents, brokers, cash and carry whole-sellers are all functional intermediaries.**

Options (a) and (c) are true regarding functional intermediaries. Option (b) is false. Agents and brokers are all functional intermediaries, while cash and carry whole-sellers are merchandise intermediaries.



## Unit 14

# Promotional Decisions

### Structure

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- 14.1 Introduction
- 14.2 Objectives
- 14.3 Promotional Mix
- 14.4 Barriers to Promotion and Communication
- 14.5 Summary
- 14.6 Glossary
- 14.7 Self-Assessment Test
- 14.8 Suggested Readings / Reference Material
- 14.9 Answers to Check Your Progress Questions

*“Integrated Marketing offers opportunities to break through to consumers in new markets”.*

- Betsy Holden, Senior Advisor, McKinsey

### 14.1 Introduction

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Integrated marketing is effective in new markets because it helps deliver consistent messages with same tone and feeling across various channels. When each marketing message complements and promotes the other, customer brand awareness spreads faster.

In the previous unit, we discussed marketing channel and place decisions in the international marketing scenario. In this unit, we shall discuss promotional decisions.

In this unit, we shall first discuss promotional mix. We shall then move on to discuss in detail the elements of the promotional mix. Finally, we shall end this unit with a discussion on the barriers to promotion and communication.

### 14.2 Objectives

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

- Spell out the efficacy of a well-defined promotional mix strategy to capture the target market
- State the principles of promotional operations undertaken by MNCs that helps in establishing a proper and effective communication with the target audience
- Know the distinction between the types of sales personnel to have a sustained market

### Block 3: International Marketing Mix

- Restate the elements that shape personal selling and its process to decipher business potential
- Decode the barriers that have a strong influence on promotion and communication to secure a smooth functioning of international business.

#### 14.3 Promotional Mix

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A promotional mix is a blend of advertising, personal selling, sales promotion, and public relations used by a firm to reach a target market. All these elements must mix harmoniously to meet the objectives of promotion and the communication strategy.

##### **Example: Indian Government's Communication and Promotion Mix Strategy to Fight COVID Pandemic**

The global outbreak of the Covid-19 pandemic posed a great challenge to India, which has the second largest population in the world. The government of India endeavored to disseminate clear, continuous, and consistent information to promote awareness, minimize associated health hazards/deaths, and facilitate the smooth roll out of the largest vaccination program. The communication strategy thus aimed at providing prompt, focused and simple messages to promote Covid-appropriate behavior, alleviate vaccine apprehensions and hesitancy and promote vaccine intake.

The Government-of-India used several promotional tools and channels to achieve the objectives of the communication mission. Advertisements in social media sites were extensively used to pass on information to the digitally active population.

Street plays, local folk songs, dance/drama storytelling and leaflet distribution were used to educate rural population. Advertisements through mass media such as televisions, cable TV Network, radio, mobile and print media were employed to create general awareness amongst Indians. Outdoor media such as wall paintings, hoardings, bus panels, posters, LED Scrolls and Banners were also used.

Each Promotional tool through a channel had specific objectives for activation and mobilization amongst target groups. An integrated communication approach put in place enabled the Government to overcome constraints of specific promotional tools (audience characteristics, geographic constraints, literacy levels of people etc.) and achieve the larger objective of stimulating a high level of awareness, engagement, and participation.

Source: "Covid-19 Vaccine Communication Strategy", Ministry of Health and Family Welfare, Government of India, 2020

<https://www.mohfw.gov.in/pdf/Covid19CommunicationStrategy2020.pdf>

Accessed on 15/10/2022

**14.3.1 Advertising**

Advertising can be defined as a paid form of non-personal communication about an organization or its products transmitted to a target audience through a mass/broadcast medium. Advertising offers unique benefits to the advertiser. There is flexibility that permits focus on a small, clearly defined segment of the market. It is also cost-efficient. An organization can communicate with many prospective customers at a minimal cost per person. Further, the receiver of the message gets an opportunity to compare various messages from different players operating in the market. An advertiser, offering value for money and communicating the offer, stands to benefit. Advertising has a lot of scope for expression and dramatization is possible. There is the danger that some companies might misuse this freedom and suffer consequently.

International advertising involves dissemination of commercial messages to varied target audiences. In the world context, communication is often complex. The difficulty can be ascribed to multiple contexts such as differences in language, differences in literacy levels and differences in culture. Cultural barriers can hamper effective communication.

Cultures can be broadly classified into high context cultures and low context cultures. High context refers to societies or groups where people have close connections over a long period. Low context refers to societies where people tend to have many connections but of shorter duration or for some specific reason. The cultures of Japan, China and other collectivist cultures of Asia come under the first category. Western societies are low-context cultures. The advertising content must be different for the two types. When an MNC is advertising in high context cultures, it must provide more information on product and services, than it would in low context cultures. In high context cultures, the advertising should be based more on image or mood appeal. In these cultures, prospective customers tend to rely more on personal networks for information and content. An international marketer must appreciate these differences in communication styles to ensure effective advertising.

This form of communication is ideal to generate quick sales and create a long-term image for the product. There are some disadvantages as well. There is rarely any generation of feedback. The communication is also less persuasive than personal selling. Though cost per potential customer is low, the absolute outlay needed for advertising is high.

An effective standardized campaign needs careful management and good communication. Non-standardized campaigns often miss corporate objectives. This happens when firms follow the *laissez-faire* philosophy. When adopting non-standardized campaigns, some MNCs relax all controls over foreign affiliates and let them decide how to advertise. These MNCs assume that an effective non-

### **Block 3: International Marketing Mix**

standardized campaign based on individual requirements of each foreign market will automatically happen once enough freedom is given to foreign affiliates. This is not always true. Following principles given below can help MNCs improve their promotional operations in foreign markets.

- Know the Market
- Know the Foreign Executives
- Work with a Single Network Agency
- Know the Foreign Advertising Account Executives
- Long Planning Lead Times
- Budget Approval Authority with the Home Office

Let us elaborate each of these.

#### **Know the market**

Both the international advertising executive situated at company headquarters and the local advertising executive should have good market knowledge. They should collect market data continuously on their products or the competitors,' regarding performance in international markets. Information like customer demographics (age, sex, income level and occupation), shopping behaviour and product usage should be on hand. Comparative analysis of this data, collected from different markets, highlights the differences between them. Such analysis can help decide whether to choose a standardized campaign or a differentiated one.

#### **Know the foreign executives**

It is important that MNC managers get to know the executives in their foreign affiliates, operating divisions, and independent distributorships. Getting cooperation is easier when managers know the strengths, weaknesses, competencies, and biases of their counterparts in other countries. This is equally true when they are working with executives from other companies.

#### **Work with a single network agency**

It is better to work with a large international advertising agency with branches in a foreign marketing area than with separate agencies in each area. Using a network agency makes for better coordination. Individual or separate agencies often mean poor cooperation, lack of communication and inter-agency jealousies. All these can hamper an effective advertising campaign.

#### **Know the foreign advertising account executives**

The MNC managers must also get to know the advertising agency they are going to work with, and the agency's personnel. This is important whether the company

employs a network agency or separate local agencies. Managers must insist on meeting local advertising agency executives. They should see samples of the advertising executives' past work on other accounts. Becoming familiar with their style, media biases, preferences and other unique factors help realistic assessment of campaign suggestions.

**Long planning lead times**

There are inherent advantages with a long planning horizon. It gives enough time to visit markets that need special attention. Longer lead times also allow foreign advertising managers to internalise stated campaign objectives. More lead time is particularly useful when a firm is going in for non-standardized campaigns. It will have enough time to develop a campaign suited to local conditions that is consistent with overall corporate goals.

**Budget approval authority with the home office**

Keeping budget approvals with the home office ensures that money is not sanctioned and disbursed till local campaigns are appropriately developed. It also sees to it that a standardized campaign theme is suitably developed.

**Activity 14.1**

France-based P&C, a consumer goods manufacturing firm, has introduced 'The Buzz', a stain-removing gadget, in the emerging markets of China and India. Both China and India have a high context culture, which is very different from the Western low context culture. What aspects, in general, should P&C consider while advertising?

**Answer:**

**14.3.2 Personal Selling**

Personal selling involves the communication of information to persuade a prospective customer to buy something. Personal selling is specific in nature. It is aimed at one or more individuals. Though this form of promotion is expensive, it is highly effective in influencing buyer preferences, convictions, and actions. The salesperson involved in the selling effort gets feedback immediately. The feedback allows marketers to adjust the message being communicated, in case it is necessary. Creating a sales force that can oversee the selling activity does take time and effort.

### **Block 3: International Marketing Mix**

Personal selling allows marketers to change their message according to the customers' informational needs. Compared to advertising, publicity and sales promotion, personal selling is more focused. Organizations usually spend most of their promotional budget on personal selling. The goals of a salesperson involved in personal selling is finding prospects, convincing them to buy the product and ensuring that they remain happy about their purchase.

#### **Types of sales personnel**

There are two types of sales personnel: order getters and order takers.

##### **Order getters**

Order getters do what is called creative selling. They sell to new customers and sell new products to existing customers. These salespeople generate customer leads, provide information to them and persuade them to go for the company's products. Order getters are the right choice when an organization is trying to promote high-priced, complex, and/or new products. These salespeople need intensive and specialized training, which might take time.

##### **Order takers**

These salespersons seek repeat sales. Their main task is to ensure that customers see enough quantities in sales outlets and other places, so that they can buy at any location they want. These salespeople do not spend much time on making sales. They rather arrange displays, supply goods to customers and attend to customer enquiries. Organizations do not pay high salaries to order takers and do not focus much on training them.

#### **14.3.3 Elements of the Personal Selling Process**

The personal selling process generally involves seven steps:

1. **Prospecting:** This involves identifying the names of prospects through sales records and references.
2. **Evaluating:** This step involves evaluating the capacity and willingness of the potential customer to buy the company's product.
3. **Preparing:** The sales people next review credit histories to identify key decision makers. They also identify product needs and based on that, prepare sales presentations.
4. **Approaching the customer:** The approach can be based on referrals, cold calls or repeat contacts. The first impression the sales person makes is a lasting one. Hence, whatever approach is followed, there should be an effort to build a relationship with the customer.
5. **Making the presentation:** Customers buy a product when they think they need it. To convince them of this, a sales person must stimulate interest and create desire for the product. By inviting the prospect to touch, feel or use the product, a sales person generates interest and stimulates desire.

6. **Closing:** In this stage, the sales person asks the prospect to buy the product. The financial terms are finalized and the preferred mode of delivery decided.
  7. **Follow up:** A sales person's job is not over after closing a sale. He or she should check whether the product is delivered on time and whether the installation is done properly. In doing this, a sales person gets to understand the future needs of the customer. Following up also ensures that customers gain short-term satisfaction. A satisfied customer may generate referrals and go for repurchase too. This method is a departure from the old method of "sell and leave quickly before the customer changes his mind."
- 

**Check Your Progress - 1**

1. In which of the following, people tend to have many connections but of shorter duration or for some specific reason?
  - i. High context cultures
  - ii. Low context cultures
  - iii. High context but low engagement
  - iv. Low context but high engagement
  - a. Only i
  - b. Only ii
  - c. i, ii & iii
  - d. Only i & ii
  - e. All the above.
2. Which of the following principles help MNCs improve their promotional operations in foreign markets?
  - i. By knowing the market and the foreign executives
  - ii. By planning long lead times
  - iii. By working with different network agencies
  - iv. By taking the budget approval authority from the head office
  - a. Only i and ii
  - b. Only i and iv
  - c. Only ii and iii
  - d. Only iii and iv
  - e. Only i & iii
3. Which of the following involves the communication of information to persuade a prospective customer to buy something?
  - a. Sales promotion
  - b. Public relations

### **Block 3: International Marketing Mix**

- c. Publicity
  - d. Advertising
  - e. Personal selling
4. Which of these salespeople do not spend much time on making sales, but by arranging displays, supplying goods to customers and attending to customer enquiries?
- a. Brokers
  - b. Agents
  - c. Order takers
  - d. Order getters
  - e. Order givers
5. Which of the following steps in the personal selling process involves the sales people reviewing the credit histories to identify key decision makers; identifying product needs; then create sales presentations?
- a. Preparing
  - b. Approaching the customer
  - c. Evaluating
  - d. Prospecting
  - e. Closing the sales
- 

#### **14.3.4 Sales Promotion**

This method is designed to ensure immediate increase in product sales. Sales promotion includes activities and materials that act as inducements. These materials add value to the product and provide an incentive to resellers, salespeople, or consumers. All over the world, the emphasis on sales promotion vis-a-vis other promotional methods like advertising is increasing. This is mainly due to the growing preference of corporates for short-term profits. Thus, funds meant for other promotional methods are directed towards sales promotion.

Gaining a competitive edge is an important objective of sales promotion. It has other motives as well, which induce firms to opt for this method. Quick returns, consumer expectations from sales promotions before purchase, and pressure on manufacturers from channel partners are three reasons. Advances in technology facilitate sales promotion activities. For example, coupon redemption<sup>15</sup> is no longer as time consuming and complicated as it was a few decades ago.

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<sup>15</sup> Sales promotion activities often involve issuing coupons.



Sales promotion techniques include, issuing coupons, arranging for demonstrations, giving user incentives, going for point of purchase displays, offering free samples, money refunds or rebates, offering premium items at less cost, and arranging consumer contests and sweepstakes.

Coupons offer products at reduced prices. When a firm is promoting sales through coupons, it needs to state the offer clearly and make it easy to recognize. Demonstrations get good attention, but labour costs involved in arranging them are large. Point of purchase displays comprise outside signs, window displays, counter pieces and display racks. These displays are necessary when a firm is introducing new products. Free sampling motivates prospective customers to test the product. This has the potential to enhance sales at the beginning stage of the product life cycle. Being the most expensive among sales promotion techniques, it is not advisable for mature products or slow turnover products. Money refunds or rebates are offered when buyers make multiple purchases. This is common in the Auto and Computer industry. The method can promote trial use. The inherent danger is that customers do not place much value on products that come with a rebate. Firms also offer premium products at less cost to draw the customers of competitors. This promotion usually involves established products. Consumer contests and sweepstakes test the analytical or creative skills of consumers. While using this promotion technique, manufacturers must be careful and accurate, or risk facing angry customers or retailers.

### Overseas Product Exhibitions

Overseas product exhibitions are an important part of the marketing mix. Participating in exhibitions & trade shows abroad are a highly cost-effective way of testing overseas markets. These events bring together people interested in an industry. They attract important visitors such as potential customers, distributors, agents, journalists, politicians, and competitors. The events provide an ideal opportunity to get attention. This promotion method is not time consuming. Investigating the needs of customers in the targeted overseas market is one advantage. The company can also get feedback on its products, rivals' products, and marketing methods. Visitors might even place orders on the spot when they are impressed with products. The company will certainly get promising leads and useful contacts at overseas exhibitions. The disadvantage is that, while attending a trade show might be cheaper than other marketing methods, a company still has to incur significant costs in preparing for the exhibition and running a stand.

A firm thinking of showcasing itself in an overseas exhibition must take into consideration the following aspects:

- **Target audience:** The firm must understand who makes up the target audience.
- **Information to be shared:** The firm must decide what information it is going to share with visitors to its stand, so that it will generate interest and convert

### Block 3: International Marketing Mix

them into customers. It should distinguish itself from other players in the same product or category.

- ***Desired image:*** Enough attention must be paid to the desired image the firm wants to project.
- ***Promotional materials:*** Participating firm must be careful about screens, boards, display stands, posters, leaflets, brochures, samples, and merchandise to be used as promotional materials. All the material must convey the intended message without ambiguity.

#### 14.3.5 Publicity

Publicity is an important variable of the promotional mix. It has a close link with public relations, but they are not the same. Public Relations (PR) is the management of all communication between a firm and the public. Publicity is the management of a product or brand-related communication between the firm and the public. Publicity is different from advertising in the following ways:

- Publicity is primarily informative, while advertising is both informative and persuasive
- Publicity is more subdued in tone compared to an advertisement
- Publicity does not identify the sponsor and mostly is free
- It is more objective than an advertisement
- Information provided as a part of publicity is not repetitive, while in advertising it is often iterative. A firm usually does not have control over the content and use of publicity material. In the case of advertising, the firm has control over content

#### Management of publicity

Publicity is an informative activity, with the goal of promoting products, services, and brands of companies. The publicity exercise involves a planned programme to obtain favourable press coverage for the company's products. A publicist's basic tool is the press release. Other tools include, telephone press conferences, in-studio media tours, multi-component video news releases, newswire stories, and Internet releases. The information released is determined based on the media vehicle. The publicist's main concern is to identify what news will arouse the reader's curiosity and make a good story. Successful publicity releases usually involve topics of current interest. They are referred to as news pegs. For example, when a major fire accident occurs, a shrewd publicist would release stories about technology that would avert or minimize fire accidents. Similarly, when people die of poisoning by contaminated water, a publicist from a water purifier manufacturing company would release stories on his company's technology for water purification.

A publicist does not always wait for news to break out to present his company information. Sometimes news is created by sponsoring events:

- Contests
- Walkathons
- Art exhibitions
- Event sponsorship
- Arrange a speech or talk
- Make an analysis or prediction
- Conduct a poll or survey
- Issue a report
- Take a stand on a controversial subject
- Arrange for a testimonial
- Announce an appointment
- Celebrate an anniversary
- Present an award
- Organize a debate
- Organize a tour of business or projects

Publicity is an effective promotional channel. It does not involve as high costs as advertisement, and has an overtone of credibility. However, a publicist does not have complete control over how the released information is used. Publicity efforts can be classified into the following categories:

- ***New product news releases:*** New products news releases are highly effective in generating sales leads. The news release generates enquiries from potential users of the product/service, potential resellers, distributors, agents, and representatives. To gain adequate publicity for the company, publicity officials must have a good rapport with people from business publications.
- ***Company Executive Action news releases:*** These news releases are useful in getting credibility, building a good image of the company, and enhancing financial status in the eyes of bankers and potential investors and suppliers. An effective marketing communication programme ensures that an organization benefits from free publicity value derived through employee promotions, new hiring, plant expansions, winning contracts, acquisitions, and new dealerships. Information on all these activities can generate interest at the local, national, and international levels.
- ***Case histories:*** A case study is slightly different from a news release. A case study contains information on how the company's product/service solved a user's problem. It (500-1000 words) is generally larger than a news release (200-300 words). In general, case histories are published in a single publication for an agreed period. Case histories are effective in projecting

### Block 3: International Marketing Mix

performance credibility. Though leads generated by case histories are fewer compared to those generated by new product news, they generate serious interest.

- **Feature articles:** These are the most effective credibility generators among the different forms of publicity. A technical paper published in a trade or professional journal by the company CEO or other engineers in the organization establishes the company or its people as authorities in that field. Feature articles (500-3000 words) are longer than case studies or news releases. An article can be illustrated by many photographs, while a case study or a news release usually contains a single photo.

#### Managing negative publicity

Bad news gets ready attention in the media. It can have a huge negative impact on the performance of companies, even MNCs. When firms must deal with negative publicity, the priority is to minimize rumours and misinformation. Next should come the efforts to expedite objective coverage, instead of blocking coverage. Having addressed the problem by paying compensation or some other means, companies should focus on ensuring that similar incidents are not repeated.

#### Activity 14.2

Few companies like Apple uses the publicity tool to introduce the product. Explain how publicity helps as a promotional tool and discuss its various forms.

**Answer:**

### 14.4 Barriers to Promotion and Communication

Promotional tools are necessary to communicate an idea or image. This communication consists of four elements: sender, receiver, message, and medium. The sender encodes the message and transmits it through the medium. The receiver then decodes the message. Feedback from the target market indicates the success of the communication. The communication process is influenced by external factors such as language, local economy, laws, socio-cultural factors, and competition.

#### 14.4.1 Language Differences

Language acts as a medium to communicate ideas. When an MNC is operating in a foreign country, where a different language is in use, technical analysis or

perfect translation is not enough for promotion. Promoters must use language effectively, to persuade target customers to buy the product. To use language effectively, promoters need to have an intimate knowledge of the local language, customs, and traditions. The message conveyed can be distorted when it is a literal translation. Trade names, brands, slogans, sales promotion materials, sales presentation materials and advertising content must be adapted based on the market where the firm is operating.

#### **14.4.2 Cultural Differences**

There are different dimensions to culture such as religion, beliefs, attitudes, education and so on. All these play an important role in communication. They influence an individual's perception of the surroundings, signals, and symbols. Culture influences likes & dislikes of customers and their attitudes towards people and things. They will have bias against or preferences for products and services. A firm must understand these and communicate accordingly.

#### **14.4.3 Social Differences**

Historical and social biases influence the attitude of business executives & consumers towards promotion. For example, Norwegian customers interpret statements more literally compared to customers in Italy and Spain. Hence, a firm advertising in the Norwegian market must communicate ideas more directly.

#### **14.4.4 Economic Differences**

Economic conditions in the target market influence communication. Factors such as literacy level & degree of urbanization can impact a firm's promotional efforts. When a target market is characterized by low literacy, an international firm operating in such a market must emphasize oral and visual communication more than written promotion. Some products are treated as necessities in some markets and as luxuries in others. This depends on the discretionary income of prospects. For example, in developed markets a refrigerator is a necessity, but in countries like India it is still perceived as a 'comfort'. This discrepancy is more due to difference in discretionary incomes. A firm promoting its products in international markets must take these aspects into consideration.

#### **Example: HUL's Promotion Strategy to Overcome Barriers in Rural India**

MNCs operating in India faced difficulties in reaching out to rural India where mass media were almost non-existent.

HUL (Hindustan Unilever Ltd.) initiated a marketing program, 'Kan Khajura Tesan' (KKT, which meant an earworm station) to reach rural consumers in highly remote places to promote 'Wheel' initially (2015) and later Lifebuoy and Lux brands.

*Contd....*

### Block 3: International Marketing Mix

The consumers only needed to leave a missed call on a toll-free-number. Since the mobile penetration was higher in rural areas as compared to television, this channel became the cornerstone of HUL's channel strategy. Missed calls through mobile phones was very effective because the thrift rural consumer recharged their pre-paid-mobiles with minimum talk-time balance. On receiving the missed call, the system identified the geographic location and prevailing prominent language/dialect in the region of the incoming call and sent automated voice messages. The content sent was in the form of jokes or amusing messages from celebrities/movie stars. The call ended with a brand message and the audience was invited to call again.

Buoyed by the success of KKT, this channel strategy was extended to brands like Lux, that was positioned as the favourite soap of film stars. With Rural India witnessing a surge in mobile and smartphone penetration, HUL's strategy that combined free and easy access and Bollywood stardom entertainment, continues to be a success (2020) and helps the company overcome barriers (economic) to promotion and communication in rural India.

*Source: "Missed Call Marketing in India", News and Events, Nanyang Business School, Nanyang Technological University, Singapore, 2020.*

*<https://www.ntu.edu.sg/business/news-events/news/story-detail/missed-call-marketing-in-india>  
Accessed on 15/10/2022*

#### 14.4.5 Legal & Regulatory Differences

Local advertising regulations influence media selection, content of promotional materials, choice of words, type of comparative statements used and coupons and samples. For example, samples are illegal in France, but acceptable in many other countries.

#### 14.4.6 Competitive Differences

The nature of competition at national, regional, and global levels can impact an MNC's promotion process. Promotional expenditure, frequency of communication and type of promotional approach depend on local factors like intensity of competition, the rate of introduction of innovative products, national, regional, and global communication strategies of competitors, the number of competitors, their size & their promotional strategies.

#### Activity 14.3

China-based Ching-chu Silks, is very famous for its quality of silks in the Shanghai region. Lee, the CEO of the company, wanted to expand the company's business to international markets. The company entered the European market but found it difficult to promote and communicate the product in the local market due to certain factors, which have acted as barriers

in promoting the product. Describe the factors that might have acted as barriers in promoting Ching-chu Silks in the western market?

**Answer:**


### **Check Your Progress - 2**

6. Which of the following includes, activities and materials that act as inducements and add value to the product and provide an incentive to resellers, salespeople, or consumers?
  - a. Personal selling
  - b. Publicity
  - c. Advertising
  - d. Public relations
  - e. Sales promotion
7. Issuing coupons, arranging for demonstrations and consumer contests and sweepstakes, giving user incentives, offering free samples, money refunds, rebates, etc., are techniques of which of the following?
  - a. Advertising
  - b. Sales promotion
  - c. Personal selling
  - d. Publicity
  - e. Sales discounts
8. Which of the following can be termed as the management of a product, or a brand related communication between the firm and the public?
  - a. Publicity
  - b. Advertisement
  - c. Public relations
  - d. Sales promotion
  - e. Sales advertising

### **Block 3: International Marketing Mix**

9. Telephone press conference, press release, in-studio media tours, multi-component video news releases, newswire stories, Internet releases etc., are the tools used by which of the following?
    - a. Advertiser
    - b. Sales personnel
    - c. Publicist
    - d. Sales promoter
    - e. Research
  10. Which of the following statements clearly state the difference between publicity and advertising?
    - a. Advertising is primarily informative, while publicity is both informative and persuasive.
    - b. Publicity does not identify the sponsor and mostly is free, unlike advertising.
    - c. Information provided as a part of publicity is often iterative in nature, while in advertising it is not repetitive.
    - d. Advertising is more subdued in tone and objective than publicity.
    - e. Publicity is more subdued in tone and objective than advertising.
- 

### **14.5 Summary**

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- Promotional mix is a blend of advertising, personal selling, sales promotion, and public relations, used by a firm to reach its target market.
- To meet the objectives of a communication strategy, a marketer must mix these ingredients harmoniously.
- Advertising is a paid form of non-personal communication about an organization or its products that is transmitted to a target audience through a mass/broadcast medium. This type of promotion allows a marketer to focus on a small, clearly defined market segment. The method is also cost efficient. An organization can communicate with many prospective customers at a minimal cost per person.
- Personal selling is a method of communication aimed at persuading a prospective customer to buy something, by providing suitable information. It offers unique benefits to marketers, like quick feedback. This allows a change of message based on situational demands.
- Generally, two types of salespeople are involved in personal selling -- order getters and order takers.



- The personal selling process involves seven steps: prospecting, evaluating, preparing, approaching the customer, making the presentation, closing, and follow up.
- Sales promotion involves activities and materials that are meant to catch the attention of prospects. Though gaining a competitive edge is an important objective of sales promotion, there are other motives, which induce firms to concentrate on this method. Quick returns are an obvious reason. Also, consumers look forward to sales promotions before purchase. Overseas product exhibitions bring together people interested in an industry. These events attract important visitors such as potential customers, distributors, agents, journalists, politicians, and competitors. The events provide an ideal opportunity to get attention.
- Publicity is an important method of promotion. It is primarily informative, objective, and more subdued in tone compared to an advertisement. Most big firms operating internationally have dedicated publicists. A publicist's basic tool is the press release. Other tools include telephone press conferences, in-studio media tours, multi-component video news releases, newswire stories, and Internet releases. When firms are forced to deal with negative publicity, they should first minimize rumours and misinformation. They should then make efforts to expedite objective coverage, instead of blocking it.
- The effectiveness of the communication process is determined by external factors such as language, local economy, laws, socio-cultural factors, and competition. These factors can act as barriers when not dealt with properly.

## 14.6 Glossary

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**Advertising:** A paid form of non-personal communication about an organization or its products transmitted to a target audience through a mass/broadcast medium.

**High Context Cultures:** These refer to societies or groups where people have close connections over a long period.

**Low Context Cultures:** These refer to societies where people tend to have many connections but of shorter duration or for some specific reason.

**Order Getters (Type of Sales Personnel):** These do what is called creative selling. They sell to new customers and sell new products to existing customers. These salespeople generate customer leads, provide information to them, and persuade them to go for the company's products.

**Order Takers (Type of Sales Personnel):** These salespersons seek repeat sales, and do not spend much time on making sales. Their main task is to ensure that customers see enough quantities in sales outlets and other places, so that they can buy at any location they want.

**Personal Selling:** It involves the communication of information to persuade a prospective customer to buy something.

### Block 3: International Marketing Mix

**Promotional Mix:** A blend of advertising, personal selling, sales promotion, and public relations used by a firm to reach a target market.

**Public Relations:** It is the management of all communication between a firm and the public.

**Publicity:** It is the management of a product or brand-related communication between the firm and the public.

**Sales Promotion:** This method is designed to ensure immediate increase in product sales. It includes activities and materials that act as inducements. These materials add value to the product and provide an incentive to resellers, salespeople, or consumers.

#### 14.7 Self- Assessment Test

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1. Define promotional mix. What are the elements of a promotional mix? Discuss each of them in detail.
2. What factors act as the barriers to promotion and communication?

#### 14.8 Suggested Readings / Reference Material

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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.

#### 14.9 Answers to Check Your Progress Questions

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**1. (b) Only ii**

Cultures can be broadly classified into high context cultures and low context cultures. High context refers to societies or groups where people have close connections over a long period. Low context refers to societies where people tend to have many connections but of shorter duration or for some specific reason.

**2. (a) Only i and ii**

MNCs can improve their promotional operations in foreign markets by following certain principles like --- knowing the market; knowing the foreign executives; working with a single network agency; planning for longer lead times; and keeping the budget approval authority with the head office.

**3. (e) Personal selling**

Personal selling involves the communication of information to persuade a prospective customer to buy something. It is specific in nature. It is aimed at one or more individuals. It is highly effective in influencing buyer preferences, convictions, and actions.

**4. (c) Order takers**

Order takers seek repeat sales. These salespeople do not spend much time on making sales. They rather arrange displays, supply goods to customers, and attend to customer enquiries. Their main task is to ensure that customers see enough quantities in sales outlets and other places, so that they can buy at any location they want.

**5. (a) Preparing**

The personal selling process generally involves seven steps --- prospecting, evaluating, preparing, approaching the customer, making the presentation, closing, and following up. In the preparing step, the sales people review credit histories to identify key decision makers. They also identify product needs and based on that, prepare sales presentations.

**6. (e) Sales promotion**

Sales promotion is a method designed to ensure immediate increase in product sales. It includes activities and materials that act as inducements. These materials add value to the product and provide an incentive to resellers, salespeople, or consumers.

**7. (b) Sales promotion**

Sales promotion is a method designed to ensure immediate increase in product sales. It includes activities and materials that act as inducements. Sales promotion techniques include issuing coupons, arranging for demonstrations, giving user incentives, going for point of purchase displays, offering free samples, money refunds or rebates, offering premium items at less cost, and arranging consumer contests and sweepstakes.

**8. (a) Publicity**

Publicity is an important variable of the promotional mix. It is the management of a product or brand-related communication between the firm and the public. It has a close link with public relations, but both are different. Public relations refer to the management of all communication between a firm and the public.

### **Block 3: International Marketing Mix**

#### **9. (c) Publicist**

Publicity is an informative activity, with the goal of promoting products, services, and brands of companies. The publicity exercise involves a planned programme to obtain favourable press coverage for the company's products. A publicist's basic tool is the press release. Other tools include telephone press conferences, in-studio media tours, multi-component video news releases, newswire stories, and Internet releases.

#### **10. (b) Publicity does not identify the sponsor and mostly is free, unlike advertising.**

Except option (b), all the options are false regarding the differences between publicity and advertising. Publicity is primarily informative, while advertising is both informative and persuasive. Information provided as a part of publicity is not repetitive, while in advertising it is often iterative. Publicity is more subdued in tone compared to an advertisement. Publicity is more objective than an advertisement.

# International Marketing

## Course Structure

Block 1: Basic Perspectives on International Marketing	
Unit 1	Basics of International Marketing
Unit 2	International Marketing Environment
Unit 3	International Consumer Behavior
Unit 4	International Marketing Opportunities in Emerging Markets
Block 2: International Marketing Strategy	
Unit 5	Entry Strategies in International Markets
Unit 6	Marketing Information System and Research
Unit 7	Segmentation, Targeting and Positioning
Unit 8	Planning Process
Block 3: International Marketing Mix	
Unit 9	Product Decisions
Unit 10	International Branding
Unit 11	International Marketing of Services
Unit 12	Pricing in International Marketing
Unit 13	Marketing Channel and Place Decisions
Unit 14	Promotional Decisions
Block 4: Other Issues in International Marketing	
Unit 15	Leading, Organizing and Controlling
Unit 16	Marketing in the Internet Environment
Unit 17	Ethics and Social Responsibility
Unit 18	Future Trends in International Marketing